Federal Spending on Labor Market Programs in Brazil

Background chapter of the 2018 Expenditure Review: A Fair Adjustment: Efficiency and Equity of Public Spending in Brazil.
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Table of Contents

SUMMARY OF MAIN MESSAGES .......................................................................................................................... 1
INTRODUCTION ....................................................................................................................................................... 2
FEDERAL SPENDING ON LABOR MARKET PROGRAMS ............................................................................................ 3
  Drivers of labor program spending ....................................................................................................................... 6
  Benchmarking Brazil’s spending on labor programs ............................................................................................ 11
ANALYSIS OF THE EFFICIENCY OF SPENDING ON LABOR MARKET PROGRAMS ........................................ 14
  Allocative efficiency ........................................................................................................................................... 14
  Administrative and technical efficiency ............................................................................................................ 16
ANALYSIS OF THE EQUITY OF SPENDING ON LABOR MARKET PROGRAMS ...................................................... 18
EFFECTIVENESS OF SPECIFIC PROGRAMS ......................................................................................................... 20
  Wage supplements: Abono Salarial and Salario Familia ..................................................................................... 20
  Income support for the unemployed: Seguro Desemprego and FGTS .............................................................. 24
THE STATUTORY MINIMUM WAGE ........................................................................................................................... 27
  Principal challenges created by Brazil’s federal minimum wage ...................................................................... 28
OPPORTUNITIES FOR EFFICIENCY GAINS AND FISCAL SAVINGS ................................................................... 35
  Simulations of Reforms to Labor Market Policies .............................................................................................. 40
CONCLUSIONS AND POLICY RECOMMENDATIONS FOR REFORM ................................................................. 47
ANNEX 1 ................................................................................................................................................................. 55
ANNEX 2 ................................................................................................................................................................. 65
ANNEX 3 ................................................................................................................................................................. 66
ANNEX 4: SISTEMA S AND PRONATEC FUNDING STRUCTURE ........................................................................... 67
ANNEX 5: OVERVIEW OF MAIN LABOR PROGRAMS IN BRAZIL (USING ASPIRE CLASSIFICATION) 68
ANNEX 6. RECENT REFORMS TO BRAZIL’S LABOR PROGRAMS ....................................................................... 71

Figures

FIGURE 1. BUDGET EXPENDITURES ON LABOR MARKET PROGRAMS IN 2018 .................................................... 7
FIGURE 2. SPENDING IN ACTIVE VERSUS PASSIVE LABOR MARKET PROGRAMS OVER TIME, 2000-2018, AS
PERCENTAGE OF GDP ........................................................................................................................................... 8
FIGURE A1.9 PRONATEC’S GROWTH IS SMALL COMPARED TO ABONO SALARIAL’S FOUR-FOLD INCREASE IN 10 YEARS................................................................. 59
FIGURE A1.10 ABONO SALARIAL STANDS OUT ALSO IN TERMS OF NUMBER OF BENEFICIARIES COMPARED TO ANY OTHER ACTIVE LABOR MARKET PROGRAM................................................................. 60
FIGURE A1.11: PER BENEFICIARY SPENDING OF ACTIVE LABOR MARKET PROGRAMS VARIES SIGNIFICANTLY...... 62
FIGURE A1.12: BRAZIL IS UNIQUE WHEN COMPARED TO OECD AND LAC COUNTRIES IN SPENDING ALMOST ITS ENTIRE ACTIVE LABOR MARKET PROGRAM BUDGET ON “EMPLOYMENT INCENTIVES” ......................................... 62
FIGURE A1.13: MIX OF ACTIVE LABOR MARKET POLICIES (ALMPs) BY COUNTRY: BRAZIL FOCUSES ON EMPLOYMENT INCENTIVES (INCLUDING WAGE SUPPLEMENTS) AND SPENDS THE LOWEST SHARE OF GDP IN ALMPs AMONG COMPARATOR COUNTRIES .................................................................................. 63
FIGURE A1.14 LABOR PROGRAMS AT A GLANCE: SPENDING, BENEFICIARIES AND PER BENEFICIARY COST. SMALLER LABOR PROGRAMS FILL SPECIFIC NICHES OF LABOR POLICY FOR SPECIFIC GROUPS .................. 64
FIGURE A1.15 SOCIAL AND LABOR PROGRAMS AT A GLANCE: SPENDING, BENEFICIARIES AND PER BENEFICIARY COST .................................................................................................................. 64

Tables
TABLE 1. LABOR PROGRAMS CATEGORIZATION ACCORDING TO FUNCTION AND THE SOURCE OF FINANCING....... 5
TABLE 2. SOCIAL AND LABOR PROGRAM OVERLAP (PERCENT) ................................................................. 16
TABLE 3. THE LINK BETWEEN THE MINIMUM WAGE AND SOCIAL PROTECTION BENEFITS’ VALUE AND ELIGIBILITY34
TABLE 4. BRAZIL’S PRINCIPAL LABOR PROGRAMS: CURRENT PROBLEMS, PROPOSED REFORMS AND ANTICIPATED IMPACTS .......................................................................................................................... 45
TABLE 5. SIMPLE SIMULATIONS: REFORM SCENARIOS FOR THE PRINCIPAL LABOR PROGRAMS ............ 46
TABLE A1.1 SPENDING IN LABOR MARKET PROGRAMS IS DOMINATED BY PASSIVE LABOR MARKET SUPPORT (PLMPs) WHICH CONSTITUTE 83 PERCENT OF EXPENDITURE ......................................................................... 55
TABLE A2.1: MAIN BENEFITS AND DESIGN FEATURES OF BOLSA FAMÍLIA, ABONO SALARIAL AND SALÁRIO FAMÍLIA............................................................................................................................................. 65
TABLE A3.1: UNEMPLOYMENT INSURANCE DESIGN FEATURES IN BRAZIL, OTHER COUNTRIES IN LATIN AMERICA AND STRUCTURAL COMPARATORS ................................................................................ 66
SUMMARY OF MAIN MESSAGES

This background chapter of the Brazil Expenditure Review analyzes the volume, trends and efficiency in labor program expenditures in Brazil. The objective of labor programs is to improve the efficiency of the labor market in matching labor demand with labor supply and reducing the risks associated with this process. One way of doing this is by reducing the cost born by workers during the transition between jobs using instruments such as unemployment insurance and job-search support. In Brazil some labor programs have the additional, explicit objective of supplementing the income of low-wage formal workers (e.g. Abono Salarial, Salario Familia). The chapter benchmarks labor program expenditure against comparable spending indicators from other countries, in terms of their function, magnitude and to the extent possible effectiveness.

The analysis shows that there is significant scope to improve the efficiency and effectiveness of spending on labor market programs. Brazil’s budget expenditure on labor market programs (0.9 percent of GDP) is slightly lower than in OECD countries, but higher than that of comparable economies in Latin America. Spending is significantly higher (2.2 percent of GDP) when off-budget programs mandated by the federal government are taken into account, largely due to the annual value of Fundo de Garantia por Tempo de Serviço (FGTS) outlays for unemployment.

The provision of labor programs in Brazil is carried out across different ministries and agencies. Unemployment insurance and Abono Salarial are administered by the Ministry of Labor. Salario Familia is provided by INSS. Labor intermediation is government by the Labor Ministry but largely implemented and co-financed by municipalities. Training programs are largely provided by the autonomous systems financed by employer organizations (Sistema S), while some smaller social programs with a labor support objective are managed by the Ministry of Social and Agrarian Development and Education Ministry. The institutional fragmentation contributes to the overall findings that these programs work largely in isolation, sometimes with unintended consequences on labor incentives.

Budget allocations are heavily skewed towards 'passive' income support programs, and almost entirely devoted to formal sector workers with a Consolidação das Leis do Trabalho (CLT) contract. The share of spending on ‘active’ programs rose for a few years, to fall again after 2016. The lack of emphasis on active labor market support—particularly job search assistance and intermediation—is a weakness that limits the government’s ability to respond effectively to rising levels of unemployment, contain spending on passive labor market support and more equitably distribute labor market expenditure across the labor force, regardless of their labor market status. Furthermore, there is an incoherent
overlapping of programs with similar functions which adds to perverse incentive. The chapter shows and simulates that significant efficiency gains and expenditure savings could be obtained from rationalizing programs with similar functions, notably Seguro Desemprego and FGTS, as well as Abono Salarial and Salario Familia. Finally, the adjustment formula and extensive use of the statutory minimum wage as a policy parameter has a ratchet effect on fiscal obligations from across the social protection ‘system’ (including pensions and social assistance).

INTRODUCTION

The objective of labor programs is to improve the efficiency of the labor market in matching labor demand with labor supply. One way of doing this is by reducing the cost born by workers during the transition between jobs with unemployment insurance and job-search support. In Brazil some labor programs have the additional, explicit objective of supplementing the income of low-wage workers. The provision of labor programs in Brazil is carried out across different ministries and agencies. The bulk of expenditures are made in the form of unemployment cash benefits. Wage supplements and other active labor market programs are administered by the Ministry of Labor. Training programs for the unemployed are financed by the Ministry of Education, while some smaller social programs with a labor support objective are managed by the Ministry of Social and Agrarian Development.

This chapter of the expenditure review analyzes the volume, trends and efficiency in labor program expenditures in Brazil. It also benchmarks labor program expenditure against comparable spending indicators from other countries, in terms of their function, magnitude and resource allocation. As part of a public expenditure review, the labor programs covered in this chapter are those that are financed directly from the Federal Government’s budget and tracked in budget execution reports from the Brazilian Treasury.1 So, for example, the chapter covers programs like the Seguro Desemprego, Abono Salarial and PRONATEC. Government mandated programs that are financed by employers without going through the state budget, such as the Fundo de Garantia por

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1Analysis is limited to federal level expenditure captured in the World Bank’s BOOST tool as calibrated with data from Brazil’s federal treasury system. The main federal labor market programs covered in this chapter are: Seguro Desemprego; Seguro Desemprego ao Pescador Artesanal – Seguro-Defeso; Seguro Desemprego ao Trabalhador Doméstico; Seguro Desemprego ao Trabalhador Resgatado de Condição Análoga à de Escravo; Abono salarial; Programa Nacional de Acesso ao Ensino Técnico e Emprego – Pronatec; Programa de Aquisição de Alimentos – PAA (MDS); Projovem Trabalhador - Financiamento dos Cursos; Programa de Fomento às Atividades Produtivas Rurais – Fomento; and Política Nacional de Assistência Técnica e Extensão Rural para a Agricultura Familiar e Reforma Agrária – PNATER.
Tempo de Serviço (FGTS), Salário Família and other programs are not analyzed in terms of expenditure trends.  

The chapter shows that there is significant scope to improve the efficiency and effectiveness of spending on labor market programs. Brazil’s budget expenditure on labor market programs is lower than in OECD countries, but higher than that of comparable economies in Latin America. Spending is significantly higher when off-budget programs mandated by the federal government are taken into account. Budget allocations are tilted towards ‘passive’ income support programs, although the share of spending on ‘active’ programs has been rising rapidly in recent years. The lack of emphasis on active labor market support—particularly job search assistance and intermediation—is a weakness that limits the government's ability to respond effectively to rising levels of unemployment and to contain spending on passive labor market support. Furthermore, there is an incoherent overlapping of programs with similar functions which adds to perverse incentive effects and fiscal pressures. Indeed, the adjustment formula and extensive use of the statutory minimum wage as a policy parameter has a ratchet effect on fiscal obligations from across the social protection ‘system’ (including pensions and social assistance). The chapter shows that significant efficiency gains and expenditure savings could be obtained from rationalizing programs with similar functions.

The rest of the chapter is organized as follows: Section 2 reviews spending the level and trends of expenditures on labor market programs; Section 3 provides an assessment of the efficiency of spending; Section 4 provides an analysis of the equity of spending; Section 5 focuses on the effectiveness of specific programs; section 6 focuses on the minimum wage policy and its implications; Section 7 explores opportunities for efficiency gains and fiscal savings; and section 8 provides some conclusions and policy recommendations for reform.

FEDERAL SPENDING ON LABOR MARKET PROGRAMS

Budgetary federal expenditures on labor programs amounted to 0.9 percent of GDP in 2018 (1.1 percent of GDP in 2015). This is a relatively small share of the federal government’s total expenditure on social protection (including pensions and social assistance) and labor market programs. In 2015, total federal spending on social protection and labor amounted to 11 percent of GDP. Of this, spending on pensions (“contributory” social insurance for old age, disability and survivors) dominated at 8.6 percent of GDP, and was followed by spending on social programs (“non-contributory” social assistance) at 1.3 percent of GDP. Publicly funded labor program expenditure

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2 Annual outlays of FGTS are estimated in R$86, what represented 1.54% of GDP in 2014. The only budgetary expenditure on FGTS are legislatively mandated subsidies to some individual accounts (Lei 110/2001).
amounted to 1.1 percent of GDP in 2015. To put this in further context, public spending on other human development sectors such as health and education in 2015 were 1.7 percent and 1.4 percent of GDP, respectively.

However, including some important labor programs which are not financed directly from the federal budget increases total spending to 2.2 percent of GDP in 2018. Even though these programs are mandated by federal law and in some cases generate fiscal costs, they are not financed through the budget, but directly by contributions from employers: The largest off-budget program is the **Fundo de Garantia do Tempo de Serviço** (FGTS), an instrument for mandatory saving with contributions paid by employers directly into individual accounts, which can be accessed in the case of job loss, serving as a form of unemployment insurance. With annual outlays of around R$67 billion, corresponding to 0.99 percent of GDP in 2018, workers’ withdrawals from their FGTS accounts are greater in volume than all budgetary labor program expenditures combined. A group of institutions providing skills training to formal sector workers, known as Sistema-S, is financed through earmarked levies paid by employers, accounting for 0.36 percent of GDP in 2018. Finally, **Salário Família** is a wage-subsidy paid directly by employers to eligible workers with children, and then deducted from employers’ social security (RGPS) contributions (at a cost of 0.03 percent of GDP in 2018).³

Although modest relative to other social functions such as pensions, public spending on labor programs has been rising in recent years (see Figure 2). While public spending on labor programs was historically low, at 0.4 percent of GDP in 2000, this expenditure has grown in hand with the relatively high levels of employment creation until 2014, reaching 0.85 percent of GDP in 2011 and 0.99 percent in 2014. In 2015, expenditure accelerated to 1.1 percent of GDP as the country slipped into economic crisis and unemployment began to surge. The trend slowed down and even decreased slightly during the years following 2015. In 2018, total public expenditure on labor programs was 0.9 percent of GDP.

The **Seguro Desemprego** and **Abono Salarial** dominate as the two largest budget-financed programs ranked by expenditure. As is the case for Brazil’s federal social programs, there are many different programs with specific objectives and target population groups, but a small number of programs dominate the portfolio of expenditures. **Seguro Desemprego** is the largest, representing nearly 59 percent of total labor program spending in 2018 (0.53 percent of GDP). The second largest program is **Abono Salarial**, a wage supplement paid directly to the worker and intended primarily as an income ‘top up’ for formal workers who earn up to twice the minimum wage.

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³ Since the reduced pensions contributions increase the pension deficit covered by the public sector, this program does create budgetary costs, even if it does not appear in budget spending figures.
which cost about 0.25 percent of GDP in 2018.\textsuperscript{4} *Seguro Desemprego* and *Abono Salarial* combined account for 87 percent of labor program spending from the federal budget. Public spending on the much-smaller PRONATEC follows as the third largest program (at 0.05 percent of GDP).\textsuperscript{5}

Table 1. Labor programs categorization according to function and the source of financing

<table>
<thead>
<tr>
<th>Program</th>
<th>Function</th>
<th>Financing mechanism</th>
<th>Institution</th>
<th>Cost (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seguro Desemprego</td>
<td>Income protection from unemployment</td>
<td>Budget</td>
<td>Ministry of Labor</td>
<td>0.64%</td>
</tr>
<tr>
<td>Seguro-Defeso\textsuperscript{6}</td>
<td>Income protection from unemployment</td>
<td>Budget</td>
<td>Ministry of Fisheries\textsuperscript{7}</td>
<td>0.04%</td>
</tr>
<tr>
<td>Abono Salarial</td>
<td>Income support for low-earning workers</td>
<td>Budget</td>
<td>Ministry of Labor</td>
<td>0.16%</td>
</tr>
<tr>
<td>Programa de Aquisição de Alimentos</td>
<td>Income support for low-earning workers</td>
<td>Budget</td>
<td>Ministry of Social and Agrarian Development</td>
<td>&lt;0.01%</td>
</tr>
<tr>
<td>PRONATEC</td>
<td>Skills and productivity support</td>
<td>Budget</td>
<td>Ministry of Education</td>
<td>0.04%</td>
</tr>
<tr>
<td>Projovem</td>
<td>Skills and productivity support</td>
<td>Budget</td>
<td>Ministry of Education</td>
<td>&lt;0.01%</td>
</tr>
<tr>
<td>Technical assistance Fomento /PNMPO/Crescer/Agroamigo</td>
<td>Skills and productivity support</td>
<td>Budget</td>
<td>Ministry of Social Development and Ministry of Labor (for PNMPO FAT)</td>
<td>&lt;0.01%</td>
</tr>
<tr>
<td>Technical assistance to farmers</td>
<td>Skills and productivity support</td>
<td>Budget</td>
<td>Ministry of Agriculture</td>
<td>&lt;0.01%</td>
</tr>
<tr>
<td>National Employment System -SINE</td>
<td>Labor intermediation</td>
<td>Budget</td>
<td>Ministry of Labor</td>
<td>&lt;0.01%</td>
</tr>
<tr>
<td>Fundo de Garantia por Tempo de Serviço</td>
<td>Income protection from unemployment (forced savings paid out in case of unemployment)</td>
<td>Off budget (mandated contributions)</td>
<td>Independent fund (tripartite board)</td>
<td>1.54%</td>
</tr>
<tr>
<td>Salário Família\textsuperscript{8}</td>
<td>Income support for low-earning workers</td>
<td>Off budget (employers pay)</td>
<td>Ministry of Pensions</td>
<td>0.05%</td>
</tr>
</tbody>
</table>

\textsuperscript{4} State contributions to some FGTS accounts also make up a large expense but since it is not a labor program it is disregarded in this overview. However, it will be discussed in some detail in the section dedicated to passive labor market spending.

\textsuperscript{5} This chapter only considers spending on PRONATEC that is financed by the Ministry of Education (MEC).

\textsuperscript{6} Spending as of year 2014.

\textsuperscript{7} Ministry of Labor is responsible for processing and payment while application and qualification are carried out by INSS (Ministry of Finance).

\textsuperscript{8} Estimated by Portela et al. (2016), spending as of year 2014.
<table>
<thead>
<tr>
<th>Program</th>
<th>Description</th>
<th>Funding</th>
<th>Ministry</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandated non-wage benefits</td>
<td>Various</td>
<td>Off budget (paid by employers)</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Individual Micro Entrepreneur-MEI</td>
<td>Microcredit for micro-entrepreneurs</td>
<td>Off Budget (Sistema-S)</td>
<td>Ministry of Development, Industry and Foreign Trade</td>
<td>&lt;0.01%</td>
</tr>
<tr>
<td>Youth apprenticeship</td>
<td>Skills and productivity support</td>
<td>Off Budget</td>
<td>Ministry of ELabor</td>
<td>&lt;0.01%</td>
</tr>
<tr>
<td>Sistema-S training</td>
<td>Skills and productivity support</td>
<td>Off budget (mandated contributions)</td>
<td>Institure of Industry associations</td>
<td>0.13%</td>
</tr>
</tbody>
</table>

Spending on labor markets in Brazil is heavily skewed towards passive labor market support, and benefits almost exclusively the formal segment of the labor force. Spending in labor markets is dominated by “passive” labor market programs (PLMPs), which constituted 82 percent of expenditure in 2018. In addition, the contributory nature of the labor programs, which were historically limited in scope to the large formal companies and the public sector, means that the system benefits almost exclusively relatively well-off formal workers: only 1.8 percent of labor market programs’ expenditure is accessible to workers who are not necessarily formalized that is, workers without a signed contract (referred to in Brazil as a “carteira assinada”) (see Table A1.1 in the Annex).

**Drivers of labor program spending**

Growth in employment and especially formal employment has driven the accelerated rise in labor program spending in recent years. This is particularly notable in spending on the Seguro Desemprego and Abono Salarial. Whereas spending on labor programs, and especially on passive programs -such as unemployment insurance- in many countries is often countercyclical and can even act as a key ‘automatic stabilizer’ of aggregate demand, this category of spending increased persistently rise during Brazil’s recent period of economic growth. As employment rose in the fast growth years of the commodity super cycle, the creation of formal covered jobs (i.e. employment with a signed labor contract, or ‘com carteira assinada’) was faster than the creation of

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9 The Labor Code and the Federal Constitution prescribe also a number of other rights of workers that imply a monetary cost (either to the employers or to the federal budget), and which are not covered in this chapter. These include the mandatory 13th wage, mandatory paid vacation, maternity leave, and temporary accident insurance.

10 Estimate of employer mandatory contributions to Sistema S. Sistema S also has revenues from fees, and in addition PRONATEC trainings receive a public subsidy, the latter two are not included in this figure.
informal jobs. The expansion of formal employment, real wage rises, and Brazil’s notoriously high rates of labor turnover are the likely drivers of the upward trend in spending, although the rise in formal employment also increased contribution revenue to finance these programs (World Bank, 2015). Further increases in spending since the economy’s deceleration and contraction in 2015 are attributed to job losses. In 2014-15 passive program (i.e. income support) expenditure picked up, driven by Seguro Desemprego (Figure 2); since 2005, spending on the Seguro Desemprego has outpaced the other flagship income support program of Brazil, Bolsa Família, which cost 0.43 percent of GDP in 2015 about two thirds of Seguro’s cost in the same year (see chapter on Social Assistance). Expenditure on passive labor market programs dropped after 2015, and in 2018 spending constituted only about 50 percent of the 2015 level. Expenditure on active labor market programs wage such as subsidies, training and job search assistance, has grown steadily from a very low base up to 2014, but fell sharply in 2015 in the wake of budget cuts (Figure 2). After 2015, expenditure on active labor market programs increased again, but never recovered to the 2014 level.

**Figure 1. Budget Expenditures On Labor Market Programs In 2018**

Source: Staff estimates using Brazil BOOST database Federal-level, based on data from SIOP (Sistema Integrado de Planejamento e Orçamento)

Note: The graph does not include off-budget programs, notably the FGTS (0.99 percent of GDP), Sistema S (0.36 percent of GDP (SEBRAE, SENAC, SENAI, SESC, SESI) which taken altogether amount to 1.3 percent of GDP in 2018. “FGTS Complemento” (Complemento da Atualização Monetária dos Recursos do FGTS)
Spending on passive labor market programs (PLMP) in Brazil mainly takes the form of income support for those who have lost a formal job. The unemployment benefit, Seguro Desemprego, a contributory program that requires at least 18 months of contribution history for eligibility, makes up the bulk of PLMP expenditure. The second largest segment of passive program spending are government contributions to the FGTS accounts of some categories of workers due to specific compensatory legislation, at 0.07 percent of GDP. This is followed by SEAF, PNPB and others, which are support to productive inclusion for family farmers. Little income support is provided for jobseekers without a formal contribution history. The only exceptions are very small, narrowly targeted, non-contributory unemployment benefit programs, namely: Seguro Desemprego ao Trabalhador Doméstico (unemployment benefits for domestic workers), and a program that targets individuals rescued from working in conditions ‘analogous to slavery’.

Between 2010 and 2015, growth in total expenditure on PLMP was driven largely by an increase in the number of workers that benefitted from Seguro Desemprego, and in

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The Seguro Desemprego is paid in 3, 4 or 5 installments to unemployed workers due to dismissal without just cause. The unemployed worker can receive 3 installments if the employment contract had duration between 6 and 11 months, 4 installments if the contract duration was between 12 and 23 months, and 5 installments if 24 months or more. The installment value is based on the average wage of the last 3 months prior to dismissal, calculated as the following (2016 values): for wage rate below R$899.66, the installment is 80% of the average wage; for wages between R$899.66 and R$1,499.58, the installment is R$719.12 plus 50% of what exceeds R$899.66; and for wages above R$1,499.58, the installment is a flat R$1,019.70 parcel. Payments are conditional on fulfilling two jointly criteria of eligibility and payment requirements.
furthermore by government compensatory contributions to some FGTS accounts (see Annex 1, Figure A1.2 and A1.7). In real terms, the average spending per beneficiary on 
*Seguro Desemprego* increased only moderately from 2010 to 2015 (about 6.7 percent) and in fact the main driver of costs was the increase in annual beneficiaries by more than 25 percent, from 6.8 to 8.5 million over the same period (see Figure A1.6 in Annex 1). Between 2016 and 2018 the trend went in the opposite direction as both average spending on *Seguro Desemprego* and number of beneficiaries decreased slightly.

Another driver of expenditure between 2010 and 2015 was the unusual increase in the number of beneficiaries of *Seguro Defeso*. From 2011 to 2015, the number of beneficiaries of the unemployment insurance for fishermen increased from 587,235 to nearly one million. In terms of expenditure, this program came to represent 6.5 percent of the total expenditure in unemployment insurance programs in 2014 before being reduced. The progressive increase in the number of beneficiaries coincides with changes in legislation over the last two decades widening eligibility.\(^{12}\) There have also been repeated claims of irregularities in the concession of *Seguro Defeso* benefits in the past decades (for details see below).

Spending in the category of active labor market programs in Brazil is dominated by the *Abono Salarial* wage supplement scheme.\(^{13}\) Until 2014, active labor market programs (ALMPs) have grown rapidly from a very low base. In 2015 spending on ALMPs dropped sharply due to labor market dynamics (Figures A1.9 and A1.10 in Annex 1). The evolution of expenditure on ALMPs by major categories illustrates how *Abono Salarial* has been the main driver of total expenditure in ALMPs. As the economy added millions of formal jobs at the bottom of the wage distribution, and minimum wage growth pushed up the eligibility threshold for the benefit, the number of workers eligible for *Abono Salarial* increased steadily. In 2015, ALMP expenditure dropped by as much as 40 percent compared to the previous year: this was the result both of a severe cut in the budget for training programs, and a significant fall in expenditure on *Abono*, possibly due to net destruction of formal jobs among lower-wage earners and tightening of eligibility criteria. During the years following 2014, ALMP expenditure increased and started to approach pre-crisis levels again.

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\(^{12}\) Law 10779, in 2003, relaxed the eligibility criteria of Seguro Desemprego ao Pescador Artesanal (*Seguro Defeso*) reducing from three to just one year the requirement of proof of prior and uninterrupted exercise of the fishing activity, and allowed eligible fishermen to count on the eventual help of a partner in their work activities. In 2009, Law 11959 expanded the concept of artisanal fishermen by including workers in the business of construction and repair of fishing tools and those in transportation of fishing products. Finally, in 2010 Resolution 657 from CODEFAT, who manages the fund that pays Seguro Desemprego, relaxed the contributory requirement: to at least one parcel in the previous year, instead of two-parcel requirement. It also started to accept as proof of uninterrupted work an auto declaration from the fisherman, eliminating the need of a document from the local fishing community.

\(^{13}\) This program has been classified as active expenditure due to its relative similarity to a wage subsidy, according to OECD definition.
Public expenditures on programs that actively promote labor market insertion of the job-less and economically inactive, remain very small, even after the increased spending on PRONATEC since the beginning of 2009 (see Figure A1.8 in Annex 1). *Abono Salarial* is meant to incentivize ‘formal’ (registered, regulated and taxed) employment. However, by design, it does not play an explicit role in activating the out-of-work, since it requires a five-year history of employment for eligibility. Other Brazilian programs that fall squarely in the classical, internationally used definition of ‘active labor market programs’ are training for vulnerable groups and unemployed (*Pronatec-BSM and Pronatec-Seguro Desemprego*, *Projovem*), Public Employment Services (*Mais EmpregoSINE*), and entrepreneurship (*Programa de Fomento de Atividades Produtivas Rurais, Asistência Técnica e Extensão Rural*). Another program that is relatively important in terms of expenditure is the *Programa de Aquisição de Alimentos*, which has the objective of supporting the livelihoods of poor rural communities by creating a sheltered market for food products, targeted to family farmers similar to labor intensive public works. In spite of receiving significant attention due to its rapid growth, PRONATEC, in terms of total spending, was a modest driver of expenditure, and it continues to represent only a small share of the total (3.8 percent of total spending in labor programs in 2015 and 9.8 percent in 2017). In 2018, spending on PRONATEC contracted to an insignificant amount (0.4 percent of total spending in labor market programs). Federal spending on labor market intermediation services represented by the *Sistema Nacional de Emprego* (*SINE*), remained persistently low and it is probably the least adequately financed labor function in the Brazilian social protection and labor policy architecture.

Spending per beneficiary of ALMPs varies considerably, and in-kind training programs have become overall less costly over time. There is a significant variation in expenditure per beneficiary across ALMPs (see Figure A1.11 in Annex 1): while *Abono* is relatively large in coverage, the benefit per capita has also increased steadily, but remains modest (R$ 753 per year in 2015). Public expenditure per beneficiary on PRONATEC (R$ 970 in 2014) is now closely approaching the value of *Abono Salarial*. This is in part explained by the fact that the Sistema-S is also contributing in-kind to the delivery of PRONATEC training programs (see more about PRONATEC and its financing scheme in Annex 4). Finally, in the *Programa de Aquisição de Alimentos* spending per beneficiary is higher than in all other ALMPs, but it should be noted that program cost includes the value of the goods that beneficiaries of the program sell to the state (which otherwise would need to be procured from the market).

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14 Part of the reason is that Sistema S, which offers many of the training courses that are now financed by PRONATEC, also now has to provide courses to the same type beneficiaries with its own revenues (levy-financed)]
Benchmarking Brazil’s spending on labor programs

Budget-funded labor market expenditure in Brazil as a percentage of GDP is now approaching the median level of spending among countries of the OECD. Expenditure on labor programs in Brazil tended to be higher than most countries in the rest of the Latin America, but was in line with the low spending countries of the OECD such as Turkey, Israel, and Korea. By 2015, however, budget spending on labor programs reached 1.1 percent of GDP. During the years following 2015, budget-funded labor market expenditure as a percentage of GDP decreased slightly reaching 0.9 percentage in 2018. Despite the decrease, Brazil has approached a level of labor program spending similar to that of upper middle-income countries in Eastern Europe, including Poland, Slovakia and the Czech Republic, and Anglo-Saxon countries (see Figure 3).

Once we account for mandatory employer-funded contributions to labor programs, Brazil spends above the OECD median. The sum of i) the annual outlays from FGTS accounts related to termination of labor contracts, ii) employers’ private contributions to the Sistema-S, and for Salario Familia for 2018 correspond to approximately 1.3 percent of GDP. Adding this to budgetary spending, total spending on labor programs reaches about 2.2 percent of GDP. Especially considered that a large share of the labor force is informally employed and does not access benefits, this level of spending is very high relative to other countries.

When compared to peers and member countries of the OECD, the allocation of Brazil public labor spending is skewed towards passive labor market programs (see spending in Table A1.1 in Annex 1). Passive income support – mainly the Seguro Desemprego, in its various forms – represents 59 percent of total spending in 2018. Highly skewed spending on passive labor programs is a commonly observed feature of labor program expenditure in several countries in Latin America e.g. Uruguay and Argentina). However, the allocation of labor program spending in Brazil appears significantly out of balance when benchmarked with member countries of the OECD. Among the group of ‘low spenders’, only the USA and Greece spend less than Brazil in relative terms on active labor market programs.
Spending on passive income support per unemployed person in Brazil is close to the median level of countries in the OECD. When measured by the total annual expenditure on passive and active income support per unemployed person (as a percentage of GDP per capita), Brazil’s level of spending on income support appears reasonable. This measure can be useful to identify the level of public investment in the protection of the unemployed population as a whole.\textsuperscript{15} Brazil figures right in the

\textsuperscript{15} Such benchmarking differs from a \textit{de-iure} comparison of generosity of unemployment benefits, which do not captures issues related to actual coverage. There are two main caveats to be made about this measure. First, the measure does not speak of the distribution of expenditure across the unemployed; second, everything else
middle of the distribution on public spending in passive programs per unemployed person at 18 percent of its GDP per capita.

However, once payouts from FGTS are taken into account, Brazil would figure among the highest spenders per unemployed person. The total resources for passive income support of the unemployed in 2014 is estimated to be around 1.9 percent of GDP, which corresponds to R$ 17,712 per unemployed person or 52 percent of per capita GDP. This percentage cannot be directly compared with the same category of spending in other countries. Nevertheless, it is a helpful indicator that the Brazilian system of income support for people who have lost jobs is fairly generous, and especially unbalanced when the limited investment of public resources on active labor market programs is taken into account. Annex 1’s Figure A1.4 shows FGTS outlays by category in nominal terms and as percent of GDP.

The heavy reliance on income wage supplements is a unique feature of Brazil’s approach to active labor market programs. Brazil spends about 90 percent of its ALMP resources on “employment incentives” (which is the best categorization in the OECD nomenclature for Abono Salarial). The highest ratio among OECD countries, Luxembourg, spends only 60 percent (see Annex 1, Figure A1.12). Hence, the composition of active labor market expenditures in Brazil is out of line with comparator countries in the OECD and Latin America (Figure 4). If Abono were excluded from the list of active labor programs - due to its limited functions as a work incentive - Brazil’s expenditure on active labor market programs would be the lowest when compared to the member countries of the OECD (Figure A1.13 in Annex 1).

Public spending on labor market intermediation and public employment services is very low compared to OECD countries but comparable to other countries in Latin America. Whether compared to countries that share similar labor policy institutional features (such as Portugal and Italy), similar levels of labor program spending (New Zealand and Poland), or to countries that are aspirational comparators Spain and France), the dominance of employment incentives in Brazil’s total labor program expenditure stands out (Figure 4). Intermediation is a critical component of labor market systems in advanced countries, where Public Employment Services (PES) connect job seekers to employers by offering different types of services (training, intermediation etc.). They also function as a gateway mechanism to control access -and prevent the abuse of- unemployment benefits and other social programs.

equal, countries with higher GDP are spending more in absolute terms per unemployed than countries with lower GDP.

This total includes all forms of Seguro Desemprego (0.64 percent of GDP), the share of FGTS distributed to account holders for dismissal (1 percent of GDP), and a conservative estimate of “multas” equivalent to 0.25 percent of the FGTS outlays for dismissal, or 0.25 percent of GDP.
Low emphasis on public employment services (PES) is common in Latin America. This can be explained by the institutional history of labor policy developments in the region. Among Brazil’s peers in Latin America only Mexico allocates a significant portion of expenditure (about 30 percent) to labor market intermediation. Another distinguishing feature of Latin American countries’ approach to active labor programs, including that taken by Brazil, is the significant investment in entrepreneurship programs, which remain limited in most member countries of the OECD.

**ANALYSIS OF THE EFFICIENCY OF SPENDING ON LABOR MARKET PROGRAMS**

**Allocative efficiency**

The allocation of resources across programs and beneficiaries is very uneven and suggests inefficient over-spending on some functions while others appear to be underfunded. Allocative efficiency refers to the allocation of scarce resources across areas or functions as to maximize their beneficial impact. Based on the analysis presented, concerns with allocative efficiency broadly fall into three areas:

- **Spending bias towards passive programs.** The largest labor market programs are aimed at supporting the unemployed through income transfers (mostly *Seguro Desemprego*, FGTS). Passive programs account for 83 percent of public spending...
on labor programs, a higher share then in peer countries (see above). High spending and the functional overlap between Seguro Desempenho and FGTS without sufficient coordination of the two programs, likely results in inefficient resource allocation. Moreover, return on FGTS is below market rates and even below the poupança, which is the most used risk-free rate.

- **High per-capita benefits but limited reach of programs.** Spending on passive programs is concentrated on a relatively small fraction of the population (those who have recently lost a formal job), with generous per capita and monthly benefits for those eligible. The short duration of unemployment insurance payments reduces resources available to the most vulnerable who are more likely to take a longer time to find their next job (see below for details on Seguro Desempenho). The limitation of eligibility for most active and passive programs to the formal sector excludes most of the poor and bottom 40 percent. As a result, spending on labor programs in Brazil is fairly regressive (see below).

- **Spending on wage top-up subsidies rather than labor activation support.** Among ALMP, spending is heavily concentrated on wage-top ups (mostly Abono Salarial but also Salario familia). This spending is inefficient, in the sense that there are large overlaps between these programs (see below). Further, Abono, the largest program has limited effectiveness for bringing workers into the formal labor force and also is inefficient in transferring income to the poor as most of it goes to households in the middle of the income distribution (see incidence analysis below). While spending on wage top-ups seems excessive, programs that actively help the unemployed or inactive prepare for and find work (training, job search assistance, intermediation) receive few resources (only about 4 percent of total labor spending).

- **Many households are eligible to receive multiple benefits.** Since labor programs are not conditional on household income, but rather on individual workers’ wages, accumulation of multiple benefits is both legal and common. This is the case for the same worker receiving Salario Familia and Abono Salarial (see below) as well we several household member receiving Abono. According to simulation based on PNAD, over 13 million Brazilians live in households receiving at least 2 Abonos, with most of them having household incomes at or above the middle of the national income distribution (Figure 5). Overlap between labor programs, pensions and social assistance programs is also fairly wide spread (Table 2).
Figure 5. People in families receiving more than one of each benefit by income decile

Table 2. Social and Labor Program Overlap (percent)

<table>
<thead>
<tr>
<th>Beneficiaries of program listed in each row that also receive program listed in column:</th>
<th>All social protection</th>
<th>All social insurance</th>
<th>Pensions - Subsidies</th>
<th>All labor market</th>
<th>Salario Familia</th>
<th>Unemploy. Insurance</th>
<th>Abono Salarial</th>
<th>All social assistance</th>
<th>Bolsa Familia</th>
<th>BPC</th>
</tr>
</thead>
<tbody>
<tr>
<td>All social protection</td>
<td>100.0</td>
<td>40.0</td>
<td>40.0</td>
<td>55.0</td>
<td>20.5</td>
<td>9.7</td>
<td>47.3</td>
<td>35.1</td>
<td>31.2</td>
<td>5.2</td>
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<tr>
<td>All social insurance</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>32.7</td>
<td>8.1</td>
<td>4.9</td>
<td>25.3</td>
<td>16.7</td>
<td>12.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Public Pensions - Subsidies</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>32.7</td>
<td>8.1</td>
<td>4.9</td>
<td>25.3</td>
<td>16.7</td>
<td>12.8</td>
<td>4.7</td>
</tr>
<tr>
<td>All labor market programs</td>
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<td>23.8</td>
<td>23.8</td>
<td>100.0</td>
<td>37.4</td>
<td>17.7</td>
<td>86.0</td>
<td>23.6</td>
<td>21.5</td>
<td>2.7</td>
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<td>Salario Familia</td>
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<td>15.7</td>
<td>100.0</td>
<td>100.0</td>
<td>8.2</td>
<td>87.9</td>
<td>34.3</td>
<td>33.3</td>
<td>1.5</td>
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<tr>
<td>Unemployment Insurance</td>
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<td>20.2</td>
<td>100.0</td>
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<td>100.0</td>
<td>45.0</td>
<td>23.2</td>
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<td>3.2</td>
</tr>
<tr>
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<td>21.4</td>
<td>100.0</td>
<td>38.2</td>
<td>9.3</td>
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<td>2.4</td>
</tr>
<tr>
<td>All social assistance</td>
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<td>19.0</td>
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<td>20.0</td>
<td>6.4</td>
<td>30.4</td>
<td>100.0</td>
<td>88.8</td>
<td>14.7</td>
</tr>
<tr>
<td>Bolsa Familia</td>
<td>100.0</td>
<td>16.4</td>
<td>16.4</td>
<td>37.9</td>
<td>21.9</td>
<td>6.4</td>
<td>31.3</td>
<td>100.0</td>
<td>100.0</td>
<td>4.0</td>
</tr>
<tr>
<td>BPC</td>
<td>100.0</td>
<td>36.3</td>
<td>36.3</td>
<td>28.1</td>
<td>6.0</td>
<td>6.0</td>
<td>22.2</td>
<td>100.0</td>
<td>24.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Staff analysis based on PNAD 2014.
Notes: Overlap is: percentage of households receiving transfer from program X (column) given that they have received transfers from program Y (row). Households are weighted using household weights multiplied by the household size. See annex for methodology used to identify programs in PNAD.

### Administrative and technical efficiency

A simple and widely used measure of administrative efficiency is the administrative and operational costs of a program, as a percentage of spending on cash benefits and in-kind services delivered to beneficiaries. However, computing administrative efficiency of labor programs and of the federal entities that govern them is challenging, mainly because it is difficult to disentangle administrative costs from the value of some services delivered. In particular, one set of well-defined outputs delivered by the Ministry of
Labor MTE) in the labor field relates to benefits (such as *Seguro Desemprego*), in-kind programs such as ALMPs), and enforcement of regulations on the ground such as labor inspections, social dialogue, and collective bargaining). But a second set of critical outputs relates to the governance and monitoring the labor market, under a wide array of aspects (such as labor regulations, labor taxation and contributions, and classifications for skills and occupations).

The administrative costs of the two largest labor programs are low. They amount to less than 0.1 percent of total benefits, while the overall administrative costs for the MTE are about 2.2 percent of the total value of outputs and services delivered. This review analyzes official budget execution data, and uses the definitions in the above paragraph to compute the overall administrative costs of the Ministry of Labor, as well as of its two major cash programs. Figure 13 below illustrates the main result of this exercise, and suggests that at the federal level the share of administrative costs compared to the total spending of programs and benefits delivered is rather small, at 2.2 percent for the Ministry of Labor and at 1 percent for the Ministry of Social and Agrarian Development (see chapter on Social Programs). These percentages of course exclude the cost incurred by subnational governments in co-administering specific programs. The budget also allowed identifying the spending units in the Ministry dedicated to the administration of *Seguro Desemprego* and *Abono Salarial*. These represent less than 0.1 percent of the value of benefits provided.

![Figure 6. Administrative and direct costs as a share of agency and program spending](image)

Note: (**) MDS direct admin costs for BPC underestimate the costs of implementation, which is carried out by MPS). Source: Staff estimates using Brazil BOOST database Federal-level, based on data from SIOP *Sistema Integrado de Planejamento e Orçamento*).

Budget execution for Brazil’s labor programs is high and stable. While the percentage of executed spending compared to approved budget is more volatile, but still consistently
above 90 percent. The volatile share to approved budget seems correlated with the big discrepancy between approved and committed budget.

**Figure 7. Labor program budget execution measures (using expenditure aggregate for labor programs)**

![Diagram](image)

Source: Staff estimates using Brazil BOOST database federal level, based on data from SIOP Sistema Integrado de Planejamento e Orçamento

The high spending on Seguro Defeso insurance (for artisanal fishermen) suggests administrative shortcomings. The program has grown to cover nearly one million people and represents 6.5 percent of the total expenditure in unemployment insurance programs. There are anecdotal as well as substantiated claims of irregularities in the concession of Seguro Defeso benefits. Reported irregularities refer mainly to beneficiaries having other sources of income, discovered by crossing the Seguro Defeso database with formal employment and administrative records. Verifying which beneficiaries are actually eligible, for example by crossing the Seguro Defeso database with formal employment database (RAIS) and the pension systems database could significantly reduce spending on this program.

**ANALYSIS OF THE EQUITY OF SPENDING ON LABOR MARKET PROGRAMS**

Among the three largest labor programs—Abono Salarial, Salário Família and Seguro Desemprego—Salário Família is the most progressive. Taking together all labor market expenditure in Brazil, nearly 90 percent of is spent on the richer half of the population. Within that envelope, some programs are more regressive than others. This section explores the incidence of the three largest cash transfers tied to prior and current

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employment in Brazil, by simulating their allocation using the PNAD 2014 and 2016.\textsuperscript{18} As much as 64 percent of the Salário Família beneficiaries belong to households in the bottom 40 percent of the national income distribution, which indicates that this program is overall relatively progressive (Figure 7). This can be explained by the fact that Salário Família targets workers who earn up to 1.4 minimum wages and have dependent children. In addition, the benefits’ generosity is proportional to the number of children in the household. So by design, benefits tend to accrue more to households with lower earned incomes and greater consumption needs. This makes the program more progressive compared to the other two large labor programs, both of which are paid on the basis of a working individual’s entitlement and without reference to their number of dependents.

Abono Salarial on the other hand is overall regressive. This is shown by the incidence indicators in in Figure 8. The more regressive distribution is explained by the fact that the benefit is accessible to workers earning up to two minimum wages, many of whom are found in the middle of the income distribution. Furthermore, the 5-years vesting period in formal employment favors people with more job stability and precludes the benefit from workers with less work experience who also tend to be paid less. As a result, only 38 percent of Abono beneficiaries are in the bottom 40 percent of the income distribution.

Seguro Desemprego is, by design, accessible to all formal sector workers. The program is not means tested and the size of benefits are proportional to wage levels. Nevertheless, it is surprising that its incidence is almost flat (that is, equally distributed across poor and middle income households) given the relatively higher likelihood of informal employment among people in households at lower deciles of the income distribution. About 45 percent of recipients are in the bottom 40, however given their low wages, the share of resources received is significantly lower. High income earners (top 20 percent) are somewhat underrepresented among Seguro Desemprego beneficiaries, representing only 13 percent of recipients. For instance, programs such as Bolsa Família is more progressive having almost 90 per cent of recipients in the bottom 40.

\textsuperscript{18} For 2016, PNAD Continua allows for the direct identification of participants in programs that had to be estimated with previous PNAD (Bolsa Familia and BPC). But it does not allow for the identification of unemployment benefits (Seguro de Desemprego). For 2014, simulations in the PNAD could only capture half of the number of recipients of the UB beneficiaries reported from administrative sources. Since the same simulation exercise could impute almost the same number of beneficiaries of Abono Salarial that is reported from administrative sources, the authors conclude that the PNAD may be underrepresenting the actual number of Brazilian formal employed. This leaves open a number of other hypotheses: (i) that UB recipients are dramatically underrepresented in the PNAD (which seems unlikely) or (ii) that many recipients of the UB do not want to report to have received or be receiving this benefit, or (iii) that administrative sources count the number of annual claims of UB processed, and not the number of unemployed (thus leading to some double counting of those who file twice in a year).
EFFECTIVENESS OF SPECIFIC PROGRAMS

Wage supplements: Abono Salarial and Salario Familia

Abono Salarial and Salario Familia have similar functions and significant overlap in terms of beneficiaries. Brazil’s wage *supplement* programs do not perform the same function as the more common wage *subsidies* adopted in other countries. Wage subsidies are paid to employers to compensate them for the risk of taking on individuals who have limited prior work experience (youth), with lower levels of education, or who have been looking for work for a longer than average search period. On the other hand, Abono Salarial and Salario Familia are paid directly to workers and have been defined as *wage* *supplements*. 

Source: Staff benefit incidence analysis, PNAD 2014.
supplements in this chapter, as they play an earnings supplement function rather than a hiring incentive function. Both are de facto noncontributory cash benefits designed to support the incomes of the relatively lower-paid among formal workers in Brazil.\(^\text{19}\) In addition to their redistributive function, these supplements are also intended to incentivize formal employment by increasing labor return above its level of productivity. Eligibility for Abono Salarial is broader (all formal employees earning up to twice the minimum wage) then that for Salário Família (formal workers earning up to 1.4 times the minimum wage who have children up to age 14). However, Abono is accessible only to workers that have met a prior 5 year vesting period in formal employment. Since the programs are administered independently, many workers receive both supplements. Effectively, almost all beneficiaries of Salário Família (an estimated 8.2 out of 8.5 million) also receive Abono, while about a third of Abono beneficiaries (8.2 out of 24 million) also receive Salário Família.

Both programs are publicly financed, though in different ways. While only Abono is paid directly from the budget (through the Fundo Amparo ao Trabalhador FAT), Salário Família is a mandatory benefit paid directly by employers to employees. For this reason, although substantial, Salário Família does not appear in treasury expenditure reports. However, employers are able to deduct the amount paid as Salário Família from their

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\(^{19}\) For the purpose of functional comparisons to programs in other countries, both of these programs are classified as “employment incentives wage subsidies” in the taxonomy used by the OECD (OECD Socx), since they implicitly reduce the cost of labor to employers by increasing net take-home wages of workers. This section draws from the background paper commissioned for the BER by Portela, et al. (2016) and a benefit incidence analysis by staff.
share of social insurance contribution obligations to RGPS/INSS for their employees. Hence this program is financed through tax expenditures.\textsuperscript{20}

While sharing similar functional objectives, there are a number of differences in eligibility criteria between the two programs. \textit{Abono Salarial} is accessible to all employees earning up to two minimum wages, while eligibility for \textit{Salário Família} is limited to those earning 1.4 times the minimum wage. In addition, \textit{Abono} is accessible only to workers that have met a prior 5 year vesting period in formal employment. \textit{Salário Família} is paid only to workers who have children up to age 14, provided that some health and education conditions are met. In this regard, the \textit{Salário Família} program—although tied to formal employment and thus a labor program—is similar to \textit{Bolsa Família}, albeit available to working people at significantly higher levels of earned income (For a detailed discussion of \textit{Bolsa Família} see chapter on Social Assistance; Annex 2 of this chapter also presents key program parameters alongside those of \textit{Bolsa Família} for contextual purposes).

In spite of its purpose as an income top up for low-earners, \textit{Abono Salarial} is out of the reach of many categories of vulnerable workers in Brazil’s labor market. Since the wage level is the main eligibility criteria to assign \textit{Abono Salarial} and \textit{Salário Família}, their progressivity depends on the distribution of lower-wage formal jobs along the \textit{household} income distribution in Brazil. The incidence analysis showed that a large percentage of workers who earn up to two minimum wages R$ 1,760) are actually at the middle of the household income distribution. This counterintuitive result can be explained by the fact that relatively few of the workers with low-wage formal jobs come from poor households, and many of them are secondary earners in a non-poor family. Moreover, \textit{Abono} benefits mostly workers with upper secondary education rather than those with any lower education levels, and it eludes almost all workers below the age of 25 (see Annex 2). This means that the typical set of workers that are at higher risk of suffering the conditions that \textit{Abono} is intended to mitigate, such as underemployment or in-work poverty—the low-educated, the informal and the young—are unable to benefit from the program.

\textsuperscript{20} Since the lower level of contributions by employers does not lead to a reduction in future pension rights of the same employee, \textit{Salario Familia} is implicitly also a budget-supported program since the state budget is making up for the reduction in social insurance contribution made by the employer.
Figure 13. Number of adults covered by Abono Salarial (millions), according to years of education

Source: Staff estimates based on PNAD data
See annex for methodology used to identify programs in PNAD.

Salário Família is likely to have a more effective influence on behavior. Workers are rewarded above their marginal productivity (net wage) through these top-ups, and this reward could serve as an incentive to take up formal employment, offsetting to an extent the burden of income tax (Portela, et al, 2016). However, the incentives to formalization inherent in Abono are significantly reduced by two design factors: (1) the five-year prior vesting requirement, and (2) payment of Abono in a single lump sum in the year following the period when eligibility is established, even if the individual has lost the job that made them eligible for the subsidy (Portela et al. 2016). These design features mean that a worker that has to make the decision between working formally or informally is unlikely to take Abono’s into account since it has no impact on net-wages in the first five years. In contrast, Salário Família is immediate and paid each month, thus visibly and continuously supplementing the worker’s income.

The generosity of wage supplements is also questionable when compared to the analogous income support program for lower income households, Bolsa Família. Bolsa Família reaches mostly families that do not have members working in the formal sector. But it shares many functional and design similarities as well as eligibility conditions with Salário Família. Since all three programs are de facto subsidized by the federal budget, from a public policy perspective, it is illustrative to also compare their generosity, targeting and design parameters (Annex 2). It is also important to note that these wage supplements cover 24 million workers, which is nearly the same number of families covered by Bolsa Família. An illustrative case is one of a family with two children and two adults. If neither adult was working formally, the family could expect to receive
R$78 per month from *Bolsa Familia* (or R$163 if they were extremely poor). However, if one member of the same family worked for a salary up to 1.4 minimum wages and had a *carteira assinada* for at least 5 years, the family would receive a combined subsidy of R$132 per month. This subsidy would rise to R$264 if both adults worked formally. Thus, overall wage supplements for low-wage formal workers, when combined, tend to be more generous than the benefit paid by the *Bolsa Familia* program to sustain the income of much poorer households. This reasoning strongly challenges the arguments that *Bolsa Familia* may cause disincentive to work, since there are significant non-wage gains to be made by taking up formal jobs even at the statutory minimum wage.

**Income support for the unemployed: Seguro Desemprego and FGTS**

Compared to the parameters of unemployment insurance in other countries, the design of Brazil’s *Seguro Desemprego* stands out in several important ways. Rules of eligibility, benefit levels, pay-out periods and conditions for continuation of benefits are the key design features of all unemployment insurance schemes. A large theoretical and empirical literature has shown that these rules matter. They condition the level of take up of benefits among the unemployed, the duration of job-search periods and, in turn, the preferences of the unemployed with regards to acceptable jobs, the reservation wage, and the level of turnover in the labor market. For these reasons, benchmarking Brazil’s *de jure* design (as in Annex 3) of unemployment benefits can identify unique characteristics that, in part, explain the program trends observed in the previous section, e.g. the growth in take up and beneficiary numbers even in times of booming employment creation.

*Seguro Desemprego*’s replacement rate—the benefit received relative to the unemployed person’s last wage—is high. Brazil’s *Seguro Desemprego* is quite generous, with replacement rates between 68 percent and 80 percent of the previous wage, even if these are capped at 2.1 times the statutory minimum wage; this stands in contrast to replacement rates of 50 percent in Argentina and 70 percent in Chile, and an average replacement rate of 60 percent among countries of the OECD (see Annex 3). Another unusual feature of Brazil’s unemployment insurance benefits is that these do not decline over the payout period. For instance, in Chile payments decline 10 percent per month. There is considerable empirical evidence that the generosity of unemployment benefits has an impact on search effort and a person’s likelihood of accepting a new job. The progressive decline of the benefit serves as an incentive to reduce the reservation wage of the unemployed, while preserving at least some of the protective function of benefits (Vodopivec 2004).

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21 Depending on whether they are below the poverty or the extreme poverty line, respectively (see Annex 2)
22 Individuals in Brazil’s labor market face a powerful incentive to take up formal employment. It is thus very difficult to understand how *Bolsa Familia* could per se act as a disincentive to formal work, given the meager amount of the benefit relative to the statutory minimum wage and the value of other wage top-ups.
Although benefits are high, the maximum payout period is relatively short, which disadvantages the most challenged job-seekers. All countries chosen to benchmark Brazil pay benefits for up to 6 months (Colombia, Chile, Turkey) or more (Argentina, France, China and Russia). For the same reasons discussed earlier, there are different considerations to determine the optimal duration of unemployment benefits. On the one hand, there is evidence that longer maximum pay-out periods push individuals to postpone job acceptance (Vodopivec 2004 and 2009); on the other hand, more vulnerable, less skilled workers with fewer options may be those most penalized by shorter maximum pay-out periods, particularly in times of crisis and reduced labor demand, as is currently the case in Brazil.

From a fiscal standpoint, there is a tradeoff between granting higher benefits, and increasing the length of the pay-out. Higher benefits protect incomes better and create a strong incentive for the unemployed to register with employment services and participate in programs if this is required. However, in a fiscally neutral scenario higher generosity implicitly comes at the expense of income protection of those - usually more vulnerable - unemployed that may require longer periods to find work or to reskill for work, especially during recessions. For these reasons, the existing combination of high generosity and short benefit duration tends to favor relatively better-off workers when they become unemployed. This is the segment of the unemployed who are more likely to find a new job quickly, and who also receive a higher average payment during their unemployment spell.

The vesting period to receive Seguro Desemprego decreases across application periods. While it is necessary to contribute at least 18 months in order to receive Seguro Desemprego for a first pay-out period of 4 months, the prior-contribution requirements to be eligible for a second claim declines to 9 months, and for the third and further claims it is 6 months, respectively. In fact, there is no limit on the number of claims.

Brazil’s Seguro Desemprego also stands out for the lack of linkages with intermediation and activation services. Until recently, the program lacked a job-search requirement, and the required job search is only weakly enforced. Intermediation, job search support and other activation measures are meant to counter some the disincentive effects of unemployment insurance benefits. Usually these are all organized in a coherent combination of mandatory activities, such as participation in active labor market measures, training or counselling. In leading practice countries, pairing of activation and intermediation services with income support has two purposes: (i) to increase the jobseeker’s chances to find a job; and (ii) reduce the moral hazard to intentionally remain unemployed. The specific form and combination of activation measures varies widely across countries in sophistication and level of enforcement. Brazil stands out for how little effort it requires of the recipients of unemployment income support. Brazil does not impose registration to public employment services. This said, upon making a
second claim for unemployment benefits, Brazilian jobseekers are requested to participate in training. Although some recipients might benefit from training and the incentives to accept a job, this blanket requirement is not suitable for all unemployed people, and may result in deadweight loss by providing training as a sanctioning method.

The size of Brazil’s unemployment savings mandate and how the forced savings program is administered can also shape incentives. As mentioned in previous sections, the FGTS, although not financed from the federal budget, also plays a critical role as a passive labor program to support workers that have lost their jobs. Reflecting the originally stated policy objectives of the FGTS - to support workers in case of termination of the employment contract – involuntary, non-disciplinary dismissal - “without just cause” (sem justa causa)- is the most frequent reason for withdrawals. However, over the course of the program’s history, the number of contingencies for which workers can draw on their mandatory savings has grown. But the program remains mainly focused on smoothing income in case of non-disciplinary, involuntary job loss. In 2014, total withdrawals from FGTS amounted to about R$ 86bn, or 1.6 percent of GDP. Of these, 62.9 percent were for dismissal without just cause, which was about 1 percent of GDP. An additional significant outlay relates to retirement age withdrawal, which is also related to work termination (see Annex 1, Figure A1.4). The manner in which an account holder lost their job matters. The law requires employers that dismiss workers without just cause to pay a penalty. This penalty, or ‘multa’, is intended as a deterrent to dismissals, and is analogous to the ‘risk rated’ contributions paid in the unemployment insurance program of the United States, that adjusts the ‘premium’ for the likelihood of dismissals in a particular sector. However, in Brazil instead of supplementing the finances of the risk-pooling Seguro Desemprego, the bulk of the penalty paid by employers is received by the dismissed employee at the time of dismissal. This additional penalty payment from employers can reach up to 40 percent of the total FGTS withdrawal.23

Although there appears to be functional overlap between FGTS and Seguro Desemprego, if intentionally articulated and coordinated, savings and risk pooling can be useful complements, as observed in leading practice countries. Both are mandatory forms of insurance – that is, effecting an intertemporal transfer- to help cover the losses that accompany unemployment, specifically involuntary, non-disciplinary separations. Whereas the Seguro Desemprego is designed to mimic market insurance by pooling these risks over covered workers, as a program of mandatory individual savings (or “self-insurance”), the FGTS helps workers transfer resources from good times to bad times

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23 The law requires to pay a penalty “multa” that is equivalent to 50% of the total amount of employer’s contributions to the worker FGTS account during the worker tenure in the specific job (Portela et al.). 80% of this multa is retained by the worker. While termination-related withdrawals from FGTS accounts in 2014 amounted to 1% of GDP, it is difficult to determine the amount of these withdrawals that was from “multas” since the tenure of the worker in the company at times of dismissal is unknown.
without risk pooling. Although risk pooling and individual saving are often substitute forms of insurance, when carefully designed they can also usefully complement one another, particularly to manage the differing incidence and costs of individuals’ transitions and structural churn in the labor market, from long spells of unemployment (Gill and Iliahi, 2000). Indeed, this combination of individual savings and risk pooling is a feature of Chile’s unemployment insurance program, widely considered to embody leading international practices. The problems stemming from the Seguro and FGTS are less a symptom of functional overlap, but that each of these passive labor programs is designed and administered almost entirely as if in isolation of the other (Vodopivec, 2009, Holzmann and Vodopivec, 2012). The general characteristics of a reform to these programs is included in the last section of this chapter.

THE STATUTORY MINIMUM WAGE

In the often-imperfect labor market, where the bargaining power of employers (the ‘purchasers’ of labor time and skills) and workers (who are seeking to sell their labor time and skills) is uneven, a statutory minimum wage is an important policy tool deployed to ensure a ‘fairer’ distribution of marginal product. This policy instrument can be even more important to the employment outcomes of people with relatively lower education levels and few skills who have even greater constraints on their bargaining power with employers. When firms have ‘buying power’ in the labor market, a statutory minimum wage lowers the risk of exploitation by helping people who would otherwise earn very low wages (that is, below their productivity).

However, a large body of evidence shows that as an instrument to alleviate poverty a statutory minimum wage has modest effects, since the working poor are in types of work that lie beyond the reach of regulatory enforcement24. Moreover, if the statutory minimum wage is set too high - that is, set above the productivity of workers at the lower end of the earnings distribution - minimum wages can hurt the lowest-productivity workers more than they help. The main effects of a minimum wage that is set too high are: increased evasion and undeclared working arrangements (either in under-reported hours, or in terms of reporting earnings); employers’ substitution of lower productivity with higher productivity workers; firms choosing to invest more in capital in order to reduce their use of labor; job-destruction and longer spells of unemployment, particularly for people with little prior work experience.25 While these adverse effects can be small for the labor market as a whole, they can hurt certain groups, including young people and those with relatively lower levels of education. In Brazil, there is evidence that the minimum wage lies significantly above both actual average wage and

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24 Cunningham (2007); Neumark, Cunningham and Siga, (2006); Papers from Sergei Soares, Ricardo Paes de Barros and Marcelo Neri for Brazil.
25 Neumark (2013)
labor productivity. World Bank (2016) shows that for 2014 minimum wage is around 30% higher than labor productivity and around 18% higher than average wages. In this particular context, the adverse effects of minimum wage could be enhanced.

In large countries where geographic disparities in social and economic conditions are substantial, setting a single, nation-wide minimum wage level that achieves its policy objectives with a minimum of distortions and unintended consequences, can be particularly difficult. In Brazil, the federal statutory minimum wage constitutes the legal floor on wages (see box). However, several states set the statutory minimum wage within their jurisdiction higher (Paraná, Rio de Janeiro, Rio Grande do Sul, Santa Catarina and São Paulo).

**Principal challenges created by Brazil’s federal minimum wage**

Having a federal minimum wage policy is not in of itself a problem for Brazil. Indeed, the World Bank’s Brazil Jobs Report published in 2002 pointed out how little evidence there was of labor market segmentation attributable to the minimum wage, citing an ‘efeito farol’ (the so-called ‘light-house’ effect) by which informal employment agreements appeared to be informed by the formal minimum wage.26 Indeed, analysis of the earnings distribution shows that the statutory minimum wage continues to shape the earnings of people working informally (see figure 14).

However, important legislative changes have occurred since, and Brazil’s minimum wage policy is now a growing cause for concern. There are two specific reasons for worry: first, the adjustment mechanism driving the rate and pattern of changes in the level of the minimum wage; second, how intensively and pervasively the level of the minimum wage is used as a policy and program parameter in the broader social protection system.

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Figure 14. Wage distribution of the formal and informally employed and the statutory minimum wage, 2001-2015

Source: Staff estimates using PNAD surveys

Figure 15. “Boom” and “bust” wage distribution of formal and informally employed and the statutory minimum wage, 2011 and 2015
The origin of a minimum wage policy in Brazil dates back to 1936. Law 185/1936 recognized the workers’ right to a minimum wage that should be sufficiently high to cover basic needs for, “... food, housing, clothing, hygiene and transportation”. President Getulio Vargas established Salary Committees which were responsible for studying and setting the minimum wage in each of the country’s 22 states. The committee members consisted of representatives of employers and employees within their area of jurisdiction, elected by employers’ associations and workers’ unions for two year periods. Once determined, the level of the minimum wage became the legal ‘floor’ on wages for a period of three years and could only be modified during that period by decision of the Salary Commission, which required at least ¾ majority vote that recognized that economic factors had significantly altered in the region to warrant the change. The minimum wage policy was further formalized in 1940 by Decreto-Lei 2162.

Since 2003, Brazil has followed a “Minimum Wage Valuation Policy” that consists in annual adjustments of the official value of the national minimum wage based on pre-determined rules, including an explicit formula. Law 12382/2011 further defines the annual adjustment of the national minimum wage that was applied from 2012 to 2015. Specifically, Brazil’s statutory minimum wage is adjusted by the inflation rate in the previous year, plus the real rate of GDP growth in the previous two years. As an illustration, in 2012 the nominal value of the minimum wage was updated based on 2011’s INPC inflation rate plus the 2010 GDP growth rate. The adjustment rule was extended for the period 2016-2019 by Law 13152/2015. These legislative steps translated to a real rise in the minimum wage of over 77% in the period 2002-2016 (the nominal value increased from R$200 in 2002 to R$880 in 2016. 27

http://legis.senado.leg.br/legislacao/ListaTextoIntegral.action?id=249569&norma=269071,
By international benchmarks, at 70% of the median wage, the minimum wage in Brazil appears high. The average level of statutory minimum wages among OECD-member countries has remained fairly stable at between 45% and 50% of median wages. Some other countries in Latin America (Colombia, Chile and Costa Rica) have higher minimum wages by this metric. Brazil’s minimum wage also appears high and on a more rapid upward trajectory when compared in hourly purchasing power parity terms with the same measure of the minimum wage in neighboring and peer countries. Since 2007 Brazil’s minimum wage has been above the mean level in OECD member countries, and it continues to rise (figures 16 and 17).

Figure 16. Statutory minimum wages, percentage of median wage, Brazil, OECD-members and peers

Source: OECD 2015 (Going for Growth). Values are for the year 2013 OECD 2016.
The minimum wage level need not be problematic if it is roughly kept in line with labor productivity. However, in Brazil the level of the minimum wage has been increasing at a faster pace than labor productivity for a long time. Indeed, the wage distribution also shows that 15 percent of workers today earn up to the minimum wage level. This most likely implies that there are workers in the informal sector or out of work because the minimum wage is higher than the wage that they would receive on the formal labor market.
Figure 18. Distribution by earnings as multiples of the minimum wage (reported primary job)

Minimum wage setting mechanism. There are several methods to set the minimum wage levels employed around the world, some more discretionary and others more formula-based. Brazil has one of the more rigid systems for setting the level of the minimum wage. The minimum wage is adjusted based on inflation of the previous year and real GDP growth of the year prior to that (if GDP growth was positive). Hence the real level of the minimum wage can only increase, based on annual adjustment indexed to the GDP growth rate recorded two years prior (if positive). As mentioned, this method has two fundamental problems. First, the formula allows minimum wages to rise faster than workers’ productivity, especially when economic growth and labor productivity growth rise at the same pace. As the minimum wage is frequently used as a benchmark for the earnings of all workers, this can push up labor costs up across the entire wage distribution or compress wages. Second, the adjustment formula creates the risk of countercyclical, upward adjustments. The time lag between the observed rates of economic growth and the adjustment required by the formula, create the possibility that the minimum wage can increase at times of economic slowdown (such as happened in 2015-2016), when demand for labor is lower and real labor costs would ideally adjust down in order to avoid unemployment. This is perhaps the most perverse outcome of Brazil’s current minimum wage regulations.

The widespread use of the minimum wage as a parameter of social protection policy. Almost all social protection benefits in Brazil are linked to the minimum wage in some form, either in terms of their generosity and, if means tested, also in terms of eligibility...
determination (Table 3). Many countries link the level of social insurance and social assistance benefits to the level and changes in the minimum wage. However, Brazil is exceptional in the extent and rigidity of these linkages. And while there are legitimate public policy reasons to ensure that the value of social insurance and social assistance benefits maintain some relation to the level of wages, few countries require that social assistance benefit amounts and the minimum amount paid by social insurance programs be *equal* to the minimum wage. The pervasive use of the minimum wage as a policy parameter in Brazil’s social protection system has driven a rapid rise in fiscal costs in the wake of the long period of economic growth (see Chapter on Pensions and Chapter on Social Assistance Programs; also see Carneiro et al., 2001).

The decision of whether to link, and the level at which benefit are linked to wages, should be supported by an underlying social policy objective and economic rationale. For instance, while it may be reasonable to set minimum pensions as a share of the minimum wage, the current value of 100% of the gross minimum wage makes retirement without a contributory history more rewarding than working formally and forgoing consumption by making contributions. Secondly, setting the minimum contributory and noncontributory ‘social’ pensions at the same level (also 100% of the MW) is a strong incentive for people to work informally.

Finally, the use of the minimum wage as a threshold to target certain means tested benefits in a rigid manner is also questionable practice. For instance, *Abono Salarial* is supposed to act as a wage supplement for low paid workers, and is provided to all workers that receive up to 2 minimum wages. But as the minimum wage has grown over the years and wages have compressed, 64% of workers in 2015 earned up to the threshold of twice the minimum wage (1760 R$, PNAD 2015), which is more than 10 times higher than the poverty line.

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Benefit generosity tied to minimum wage (MW)</th>
<th>Eligibility threshold tied to the minimum wage (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old age pensions</td>
<td>Minimum is 100% of MW</td>
<td>No</td>
</tr>
<tr>
<td><em>BPC (idoso, edade)</em></td>
<td>Value is 100% of MW</td>
<td>Yes (up to ¼ of MW per capita)</td>
</tr>
<tr>
<td>Disability Pensions</td>
<td>Minimum is 100% of MW</td>
<td>No</td>
</tr>
<tr>
<td>Unemployment benefit</td>
<td>Minimum is a % of MW</td>
<td>No</td>
</tr>
<tr>
<td><em>Seguro Defeso</em></td>
<td>Value is 100% of MW</td>
<td>No</td>
</tr>
<tr>
<td><em>Abono salarial</em></td>
<td>Value is 100% of MW</td>
<td>Yes (up to 2.0 MW)</td>
</tr>
<tr>
<td><em>Salario Familia</em></td>
<td>No</td>
<td>Yes (up to 1.4 MW)</td>
</tr>
<tr>
<td><em>Bolsa Familia</em></td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: BER chapter on pensions and social assistance
OPPORTUNITIES FOR EFFICIENCY GAINS AND FISCAL SAVINGS

Brazil’s labor market stands out for its high level of labor turnover or ‘churn’. This phenomenon is often cited as having contributed to the stagnant level of labor productivity over the last three decades. About 23 percent of working Brazilians have been in the same firm or institution for only a year or less; 38 percent for up to two years and over half of working Brazilians (58 percent) have been working in the same establishment for less than five years (CNI 2016). In fact, the average job tenure in Brazil is lower than all countries in the OECD with the exception of the United States (World Bank, 2015). Explanations for the high level of churn in the labor market have been actively debated for years (World Bank 2002, World Bank, 2015), but there is common concern that high job turnover compromises productivity. Given that multiple benefits are triggered when entering unemployment (Seguro Desemprego, FGTS savings and the share of the “multas” paid to the unemployed), turnover is also contributing to the fiscal costs of labor programs.

The peculiar design features of Seguro Desemprego could help explain the high level of rotation from employment to unemployment observed in Brazil. The relatively high replacement rates, the lack of stringent requirements to search and especially few requirements to accept job offers, and the relatively low vesting periods for this right, could explain the very high rotation rates in and out of formal employment that have been observed in Brazil (Portela et al. 2016, Corseuil C., Foguel, Gonzaga, & Ribeiro, 2014).

The perverse incentives towards seeking frequent job separations are enhanced by the regulations of FGTS and its poor coordination with Seguro Desemprego. First, the coverage conditions (e.g. the minimum period of contribution prior to job loss) and other eligibility requirements for the Seguro are light relative to similar programs in neighboring countries and among Brazil’s peers. And although the maximum period over which a benefit is paid out is shorter, the benefit amount is relatively generous. Second, FGTS accounts managed by Caixa Econômica Federal earn only a statutory – and below market - rate of interest. In an economy with a history of high inflation and prone to inflation spurts, relatively low returns on compulsory savings can raise the financial repression felt by households and create urgency to access their savings. And while the FGTS is designed with deterrents to employers laying workers off by requiring payment of a penalty (or ‘multa’), most of this penalty is paid to workers rather than back to the risk-pooling fund for Seguro Desemprego (Fundo de Amparo ao Trabalhador, FAT), which only receives a small fraction of the penalty amount. When combined with limited monitoring capacity, these features create a potential

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28 Since late 2014, there have been efforts to tighten eligibility criteria for some of the labor programs covered in this chapter. Given formidable political constraints, these have not been very extensive and have not necessarily followed the rationale laid out in this section. See Annex 6 for details on recent changes.
bonanza payment for those who lose formal jobs, and strong incentives for workers and employers to collude to game the programs.

Changes could be made to the parameters of FGTS and Seguro Desemprego to lower perverse incentives and improve their effectiveness. The most urgent and important measure that could be taken is to sequence workers’ access to the two programs. Rather than being entitled to simultaneously access their individual savings (FGTS) and the risk-pooling benefit (Seguro) upon involuntary separation, workers could be required to exhaust their savings before accessing their rights to Seguro. A limit on how much of their savings could be withdrawn for every month of the unemployment period could be imposed, and this maximum could decline over time. Most unemployment insurance programs feature a declining rate of replacement over total pay-out period. Requiring workers to draw-down their own savings creates urgency that can counter the ‘moral hazard’ of income support during unemployment.

Seguro Desemprego could underpin the FGTS and provide more support to lower-earners. The proposal also has the merit of reserving resources from the risk pool (i.e. the FAT, which like most social insurance can run ‘deficits’ between contributions and payments, which are underpinned by budget transfers) for those more likely to run down their savings before finding a job. These are the people with fewer sought-after skills, lower-income earners who aren’t able to accumulate large balances in an individual account, or people who have suffered repeated employment shocks. As is done in countries that combine individual savings with risk pooling, the number of times an individual can get access to benefits from the risk-pool could be limited in a given period; could be conditioned on the intensity of job search, accepting job offers, and take up of training, counseling or other support services, or a combination of these public employment services.

Coordinating FTGS and Seguro Desemprego would offer households a more resilient set of tools to manage a diverse set of risks to employment. In any country— even in times of economic stability and growth—there is an efficient level of turnover as workers move from one job to another, and as firms go out of and come into existence. As mentioned previously, Brazil stands out for a level of turnover that is higher than that observed among its peers, which may partly explain low levels of productivity. Because of the generosity created by the current overlap of passive income support programs, turnover may be faster than it should be. Sequencing access to FTGS and Seguro Desemprego would provide actuarial benefits and could contribute to productivity by providing support for individual mobility an idiosyncratic, even predictable shock, and augmenting this support further when unemployment spells are longer, or the shock to the economy is systemic, as is the case in the wake of a crisis or long recession. Chile’s mixed unemployment protection system includes triggers that can lengthen the total pay-out period when the country’s unemployment rate rises above a certain level.
The expected incentive and efficiency benefits from sequencing FTGS and Seguro Desemprego need to be augmented with administrative reforms. The penalties that employers pay for dismissals *sem justa causa*, could be paid in their entirety into the FAT, increasing the pool of resources available to finance both the Seguro and stronger labor market intermediation services. To eliminate motivations for employers and employees to game the system in order to access their FGTS savings, the Government could consider gradually raising the rate of return paid to savers to market levels. The volume of mandatory savings into the FGTS is greater than in similar systems, which could increase the financial repression and urgency felt by workers to access their savings.

Fiscal savings, greater equity and stronger incentive to formalize work could be achieved by consolidating *Salário Família* and *Abono Salarial* into a single progressive wage supplement. The two wage supplements, which in part cover the same beneficiaries, could be consolidated into one and redesigned supplement in order to better fulfil their original, common objectives: incentivizing participation in the formal labor market and reducing the risk of in-work poverty. Given the current cost of the programs (0.16 percent of GDP for *Abono* and 0.05 percent for *Salário Família*) and their wide overlap, some consolidating them could achieve notable fiscal savings.

The eligibility requirements for a new, consolidated wage supplement could be revisited to improve targeting of this benefit towards the working poor. There are multiple ways in which the reform of wages supplements could achieve this overall objective. An optimal, yet administratively demanding, eligibility requirement would be to offer the supplement only to workers that remain below or close to the poverty line even when working in a formal job. Such an approach would require using the overall income of the household, rather than only the individual worker’s wage, as a means test: in this way the Brazilian wage allowances would become akin to the in-work benefits that are increasingly common in the OECD (e.g. Universal Credit in the UK, earned income tax credit in the USA). An alternative, administratively simpler, method to target wage supplements better would be to eliminate *Abono Salarial* altogether as an entitlement, since it is more regressive, and preserve *Salário Família*, which is more progressive given that the benefit level is driven by the number of dependents in the household. This second approach would be less effective to alleviate in-work poverty in households without children, although households with non-child dependents such as the elderly are already protected by pension and disability benefits (covered in the social assistance and pensions chapters of this report).

Second, the wage supplement should be designed to reward people who take up formal jobs. Structuring the consolidated wage supplement similar to the current *Salário Família*, rather than the *Abono*, would support achieving this objective. First, the long, prior formal employment period required for eligibility of the current *Abono* could be scrapped. In this
way the wage supplement would act as an immediate incentive for currently informal workers to formalize. Second, the wage subsidy could be more visibly linked to the monthly salary of the worker in order to act as a behavioral incentive: the wage supplement should form part of the worker's regular salary payment rather than being paid in a lump sum at the end of the calendar year.

Finally, the rate at which the supplement is withdrawn could be made more gradual in order to avoid low-wage incentive 'traps'. As they are currently designed, both Abono and Salário Família, have sharp eligibility cut-off points and fixed benefit amounts. These design features make salary progression just above the eligibility line undesirable to covered workers, since the value of the lost benefit is greater than the additional earned salary (at small levels of wage increases). The risk is that workers are 'trapped' in low-wage jobs because employers cannot offer to provide significant wage increases one year to the next. Other countries have solved this incentive problem by setting a rate of gradual withdrawal—or “taper”—of benefits so that the lost benefit is maintained at a fraction of the gains from a higher earned wages net of taxes.

The reform of wage supplements would help free up resources to finance currently under-funded public employment services. The application of the reforms proposed above would reduce the number of beneficiaries of the wage subsidies (currently they are paid to 25 million workers in Brazil). Some of the fiscal savings that derive from the reforms proposed here, could be reinvested to other, currently-underfunded active labor market programs, such as training programs and labor market intermediation that are more effective at improving matches and thus better foster productivity.

Alternatively, Abono Salarial could be reformed to incentivize firms to take on first-time job seekers or those who otherwise find it difficult to get a job. As mentioned earlier, Brazil's system of labor market programs is missing an instrument employed by most OECD-member and peer countries: incentives paid to employers to compensate them for taking on likely lower-productivity workers. To improve the prospects of younger job seekers -particularly those transitioning out of full time education—Brazil mandates firms to offer apprenticeships through its Lei aprendiz. However, since it is paid to employers rather than to workers, a wage subsidy can increase incentives for firms to take on the most difficult to place, even if the accompanying non-wage labor costs of offering formal employment remain a formidable deterrent.
Box 2: Modeling reforms to Brazilian labor market policies with SimPLE

Simulations of policies in Labor Economics (SimPLE) is a labor market search and matching model with an informal sector. The theoretical foundations underlying the model are outlined in Albrecht, Navarro and Vroman (2009). The model simulates workers’ choices between four types of occupation: Formal wage employment, informal wage employment, self-employment and unemployment. Workers in the model are assumed to be risk neutral, infinitively lived and discount future earnings at a constant positive discount rate. Workers in the model are continuously heterogeneous. They vary in their productive capacity in the formal sector, however, all workers are assumed to be equally productive in the informal sector. Jobs are created through matching, with employers offering jobs and workers accepting or rejecting them based on their alternatives. A match occurs if and only if the worker’s and employer’s joint surplus from the match exceeds the sum of the values they would get if they remained unmatched. This joint surplus is then split via Nash bargaining. The model assigns each individual in the labor force specific human capital attributes and then, through this matching process, allocates individuals from a starting point of unemployment to different employment status through multiple iterations (months). As shown in the figure below, after 40 months the model fully stabilizes on labor shares that are very closed to those observed in the PME original data.

To establish a baseline, the model is calibrated with existing policies to mimic the labor market outcomes observed in the historical data. Subsequently, the model can be used to simulate changes in behavior of both employers and employees in response to labor market polices.

These simulations for Brazil were based on data from the Pesquisa Mensal de Emprego (PME), the only fully publicly available labor force data with the longitudinal dimension that is so critical to labor reform analysis. Ideally, data from a more nationally representative labor survey would be employed in order to give a more precise estimate of the expected reform outcomes. Such a survey currently exists (PNAD continua), however it only started in 2012, making for a relatively short time series. In addition, PNAD continue is not a monthly survey but rather conducted on a three-months rolling basis, making for a smaller number of observations. For these reasons the simulation here was conducted using PME data up to 2015. Even though the PME is drawn from a more limited sample of Brazil’s main metropolitan areas, these are the labor markets were programs are likely to have the most impact on individuals’ choice.
Simulations of Reforms to Labor Market Policies

Simulations of the reform proposals demonstrate positive impacts on labor market and fiscal outcomes. To demonstrate the impact that the proposed reforms could have on labor markets and public spending, the World Bank’s Simulations of policies in Labor Economics (SimPLE) model was calibrated using Brazilian labor market data (see box below for details on the SimPLE methodology). Table 4 summarizes the main problems with Brazil’s principal labor market programs discussed in this chapter, options for reforms to these programs that would reflect leading practices from other countries, and the impact that policy makers can reasonably expect from reforms. Table 5 details some of the policy reform scenarios that the World Bank has simulated, including specific parameters adopted, mainly in order to motivate further analysis in partnership with the Government of Brazil. Table 6 shows these simulation outcomes. While the model can be particularly useful to understand the predicted direction of different labor market outcomes as a result of labor market programs’ reforms, the results should interpreted with caution, particularly because they are based on a labor force survey that is not fully representative of the Brazilian labor force.

The reform scenario in the model has workers first draw down their FGTS savings, before accessing Seguro Desemprego, which would then be extended for additional months. In the chosen reform scenario, benefits are made available for a total of up to 7 months (compared to up to 5 currently), in order to better reflect lengthening unemployment spells during the crisis and to align duration with other middle income countries. Replacement rates for Seguro Desemprego as well as for FGTS withdrawals were reduced to 70 percent of the past wage and capped at two minimum wages, and no longer with a minimum floor of 1 minimum wage; in addition the benefit is subject to further reduction to 52% of the past wage after 3 months of unemployment. The severance payment (multa) which was previously received by the dismissed employee is paid in its entirety to the unemployment insurance pool (FAT). Finally, the maximum number of months an employer can contribute to FGTS is capped to 50, in order to prevent the formation of high idle balance.

The reform of Multas and Seguro Desemprego could reduce by more than 90% the number of monthly beneficiaries of the program, and the fiscal impact of the program on the budget. Since the unemployed would first withdraw from their individual FGTS

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29 A variable scale of benefits, with the replacement rate declining every month, would also be desirable in order to strengthen incentives to find new jobs. This is already practiced in some countries (e.g. Chile). However, it should be noted that under current rules the lower bound of unemployment benefits is the minimum wage, which would preclude lower replacement rates for many workers. Considering its impact on the reservation wage, removing this restriction seems advisable.

30 There are other changes which should be considered, such as raising the return on FGTS accounts to a market based interest rate, to reduce the financial repression of this forced savings instrument and possibly reducing the rate of contribution, which at 8 percent is high for an unemployment savings instrument.
accounts the monthly benefit, and many would find another job before exhausting their savings, the budget would need to provide financial support only for a small share of the unemployed. Second, the reform of the benefit generosity in terms of replacement rates as well as declining value after 3 months would lead to a reduction in the average benefit amount by almost 40% and a fall in total payouts by 95% percent. Finally, the payment of all severance fines (multas) into the reserve fund for unemployment (FAT), rather than to the dismissed worker, could almost entirely finance the fiscal cost of the Seguro Desemprego program.

Source: SimPLE Simulation based on PME 2015.

Note: The data used to construct SimPLE is not representative of the entire labor market of Brazil: aggregate results in terms of spending and coverage of a program are not accurate in nominal terms. These figures are indicative of likely trends under different reform scenarios, relative to the baseline.

At the same time, the caps on maximum withdrawal amounts of FGTS would half the total monthly payouts and the average payout. The cap in the number of monthly contributions leads to a very small (7%) decline in balance of individual FGTS accounts, and to a more important a decline by thirty percent in the total number of monthly contributions that employers must make to FGTS, which could stimulate employment further. In the long run the smaller total contributions of FGTS and a slight reduction in severance payment could also be ways to reduce the total cost of labor faced by employers.

Note that SimPLE does not capture the additional incentive faced by the unemployed to take up work when relying on individual savings accounts rather than on unemployment insurance payouts for the first months of unemployment, or the reduction in incentive to seek non disciplinary dismissal in order to cash-in their individual FGTS since this is constrained. Thus the model may be underestimating the benefits of the reform.

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31 Note that SimPLE does not capture the additional incentive faced by the unemployed to take up work when relying on individual savings accounts rather than on unemployment insurance payouts for the first months of unemployment, or the reduction in incentive to seek non disciplinary dismissal in order to cash-in their individual FGTS since this is constrained. Thus the model may be underestimating the benefits of the reform.
**Figure 20. Simulated impact of the reform of FGTS, Multas and wage supplements with SimPLE**

- FGTS Individual Savings and Payouts
  - Baseline Salario F. Reform
  - Salario F. Reform
  - Abono S. + FGTS Reform
  - All Reforms

- FGTS Total Monthly Reserves and Payouts
  - Baseline Salario F. Reform
  - Salario F. Reform + Abono S. Abono S. Seguro + Multas Reform

- Multas (Severance Pay)
  - Baseline Salario F. Reform
  - Salario F. Reform
  - Abono S. + FGTS Reform
  - All Reforms

- Wage Supplements Reform
  - Baseline Salario F. Reform
  - Abono S. Reform
  - Combined reform Abono S. + Salario F.

*Source: SimPLE Simulation based on PME 2015.*

*Note: The data used to construct SimPLE is not representative of the entire labor market of Brazil: aggregate results in terms of spending and coverage of a program are not accurate in nominal terms. These figures are indicative of likely trends under different reform scenarios, relative to the baseline.*
Converting *abono salarial* into a wage subsidy could have a small but positive impact on unemployment. The model also simulates, one of the possible reforms of *Abono Salarial* and *Salario Familia*\(^{32}\). As explained earlier, *Abono Salarial* was reconfigured to become a wage subsidy paid to the employer for hiring individuals without prior experience in the formal sector, or a long term unemployed (7 months or more). This subsidy was set at a modest 10 percent of the worker’s salary (so close to *Abono Salarial’s* current cost at MW) and paid for up to 12 months. Its rationale is to provide the employer a much stronger incentive for the creation of formal employment than the current benefit for disadvantaged workers. The results of the simulation show a sensitive reduction in unemployment duration (Figure 21), and an increased expenditure on the reformed wage subsidy (in spite of the removal of the abono salarial benefit from millions of workers). This is possibly due to the fact that many of the currently informal workers would become eligible and able to take advantage of the new program.

Aligning *Salario Familia* with *Bolsa Familia* in terms of generosity could mitigate the impact of the removal of *Abono Salarial* as proposed above. In parallel, *Salario Familia* could be strengthened in its original intent to support low-paid working families in the formal sector, which would be particularly important if other benefits (such as *Abono Salarial*) were to be curtailed. The program would be still paid to the current target group, but the benefit amounts could be aligned to *Bolsa Familia’s* variable benefit per child. In this way, the continuity between the two programs would become more explicit and informal workers would have more trust in the benefits of moving towards the formal sector. The simulations show that the total payouts for Salario Familia would marginally decrease.

With these changes, the model predicts a small fall in the average duration of unemployment spells. The changes in labor market programs also have noticeable effect on long-term labor market dynamics, for instance a slight reduction in total unemployment and a sensible reduction in long-term unemployment: these effects result from the combination of the new wage subsidy for vulnerable workers and from the reform of the unemployment support system. The simulated impacts of these reforms are explored in-depth in the forthcoming Labor chapter of the flagship report on *Productivity in Brazil*.

Note that, due to limitations in the PME dataset, the model does not encompass further proposed changes for Salario Familia, such as the use of household income, rather than individual wages, as criteria to improve the benefit’s targeting.

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\(^{32}\) Among various reform options presented in this chapter, the authors selected modalities that appear less demanding in terms of implementation.
Figure 21. Monthly flows into unemployment from formal employment according to different simulated reform scenarios

Source: SimPLE Simulation based on PME 2015. Note: The data used to construct SimPLE is not representative of the entire labor market of Brazil: aggregate results in terms of spending and coverage of a program are not accurate in nominal terms. These figures are indicative of likely trends under different reform scenarios, relative to the baseline.
Table 4. Brazil’s principal labor programs: Current problems, proposed reforms and anticipated impacts

<table>
<thead>
<tr>
<th>Programs</th>
<th>Current problems</th>
<th>Proposed reform</th>
<th>Anticipated impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage supplements (Abono salarial &amp; Salario familia)</td>
<td>• Abono Regressively distributed • Poor ‘formalization’ incentives • Overlap and duplication between programs =&gt; unnecessary overspending</td>
<td>• Abono Salarial converted into a wage subsidy paid to employers to encourage formal hiring of inexperienced/low skilled/ unemployed. • Salario familia Allowance paid to lower-earners, taking account of dependents in the household, and consistent with Bolsa Familia</td>
<td>• Improved distribution of transfers • Improved incentives to formalize and remain formally employed • Fiscal savings from eliminating spending on duplicated/overlapping programs</td>
</tr>
<tr>
<td>Mandated individual savings for income support during unemployment (FGTS)</td>
<td>• Strong incentive to access savings (large saving ratio, and low returns)</td>
<td>• Raise rate of return on FGTS accounts • Limit access to FGTS forced savings to involuntary, non-disciplinary separations • Require a structured draw-down of savings before accessing Seguro Desemprego</td>
<td>• Less incentives to become unemployed • Longer employment spells • Shorter unemployment spells</td>
</tr>
<tr>
<td>Risk pooling to mitigate losses from job separation during unemployment spells (Seguro Desemprego)</td>
<td>• Relatively easy to vest • Generous benefits • Short pay-out period • “Flat” benefit pay-out structure • Weak job-search requirements</td>
<td>• Lower initial benefits (replacement rate of salary lost) • Lengthen the maximum pay-out period • Declining benefit level (replacement rate of salary lost) • Stringent job-search &amp; training requirements, esp. for individuals who repeatedly require access to Seguro desemprego</td>
<td>• More progressive distribution of Fundo de Amparo ao Trabalhador (FAT) allocations • Stronger incentives to find new job • More and higher quality matches • Self-targeted job search assistance to the most difficult to place</td>
</tr>
<tr>
<td>Disincentivize / allocate the cost of dismissing workers to employer</td>
<td>• Large portion of taxes on individual, non-disciplinary dismissals (multas) are paid to the person dismissed • No way to capture external costs (public bads) of job destruction • Perverse penalties (multa) award structure</td>
<td>• Payment 100% of ‘multas’ to FAT</td>
<td>• Lower perverse incentives for employees to seek frequent involuntary dismissal • Longer duration of formal employment spells • More sustainable fiscal commitments to FAT, paid by employers that recur to dismissal more often</td>
</tr>
</tbody>
</table>
Table 5. SimPLE simulations: reform scenarios for the principal labor programs

<table>
<thead>
<tr>
<th>Policy Parameters</th>
<th>Reform Scenario A (reform of Salario Familia)</th>
<th>Reform Scenario B (substitute Abono Salarial with Wage Subsidy)</th>
<th>Reform Scenario C (Unemployment support system reform)</th>
<th>Reform Scenario D (A+B+C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abono Salarial</td>
<td>No change</td>
<td>Abono Salarial suppressed</td>
<td>No change</td>
<td>As in Simulation A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New wage subsidy paid to employers who hire first</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>time job seekers or unemployed for 7+ months</td>
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<td></td>
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<tr>
<td></td>
<td></td>
<td>Subsidy of 10% of worker’s earnings and lasting 12 months</td>
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</tr>
<tr>
<td>Salario Familia</td>
<td>Eligibility threshold and conditionality</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>unchanged (1.4 MW)</td>
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</tr>
<tr>
<td></td>
<td>Salario Familia’s amount is increased to</td>
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<tr>
<td></td>
<td>match Bolsa Familia’s payment of 39 reais per</td>
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<tr>
<td></td>
<td>child &lt; 18 per month.</td>
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<tr>
<td>FGTS</td>
<td>No change</td>
<td>No change</td>
<td>Initial withdrawal limited to 70% of last salary per</td>
<td>As in Simulation C</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>month, and only while unemployment status continues.</td>
<td></td>
</tr>
<tr>
<td>Seguro Desemprego</td>
<td>No change</td>
<td>No change</td>
<td>Access to Seguro only after FGTS savings are</td>
<td>As in Simulation C</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>depleted. Benefit is 70% of the last wage for the</td>
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<td></td>
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<td>first three months, and it is reduced to 52% of the</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>last wage for up to 4 additional months. The absolute</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>value of the benefit is capped at two MWs.</td>
<td></td>
</tr>
<tr>
<td>Multa (Severance</td>
<td>No change</td>
<td>No change</td>
<td>Equivalent of 40% of FGTS contributions paid to FAT</td>
<td>As in Simulation C</td>
</tr>
<tr>
<td>Pay)</td>
<td></td>
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</tr>
</tbody>
</table>
CONCLUSIONS AND POLICY RECOMMENDATIONS FOR REFORM

Brazil’s public expenditures on labor programs are not very large when compared to other areas of social policy or to labor program spending in other countries, yet they constitute a significant share of the federal budget. The review of expenditure in this chapter shows that when compared with OECD member countries, Brazil’s budgetary public expenditure on labor market programs, at 0.9 percent of GDP in 2018 (1.1 percent of GDP in 2015), is on the lower end of the ranking. In this regard, Brazil’s spending on labor programs resembles that of the United States, but is dwarfed by the volume of spending in countries like Denmark and Spain.

Further, when off-budget programs mandated by the federal government are taken into account, Brazil’s spending to assist job-seekers is a formidable 2.2 percent of GDP. Although not strictly comparable with public spending on passive labor programs, if withdrawals from workers FGTS mandatory individual savings accounts are taken into account, the total policy-instigated spending to assist jobseekers as a percentage of GDP, approximates the OECD average. Brazil’s labor program expenditure does, however, rank higher when compared to spending by governments in similar neighboring countries and other upper middle-income countries such as Turkey. Among the comparable economies in Latin America, Brazil is surpassed in its labor program spending only by Argentina. In addition, compared to the rest of the OECD, spending on labor programs is concentrated on the lower and middle end of the formal labor market, while the poorer half of the Brazilian workforce, which is mostly working informally, benefits only from a small fraction of public expenditure.

Budget allocations are tilted towards ‘passive’ income support programs, with 82 percent of budgetary spending on labor market programs finance passive programs in 2018. Brazil’s allocation of public spending across labor functions contrasts sharply with other countries. Budget allocations for labor favor ‘passive’ income support programs, such as unemployment insurance, over ‘active’ assistance to job seekers such as skills training for the unemployed and labor market intermediation. Indeed, even the largest ‘active’ program – using an internationally accepted categorization methodology – is primarily an income top up and a faulty device for formalization and redistribution, rather than a policy instrument to put more people into employment. The dominance of wage supplements over training and labor market intermediation also appears to be a unique feature of Brazil’s approach to assisting job seekers. Yet the largest of these wage supplement programs, the Abono Salarial, is not particularly progressive, nor is it effective as a work incentive. This allocation bias may interact with perverse incentives from the structure of programs and labor market regulation to accelerate spending.
The lack of emphasis on active labor market support—particularly job search assistance and intermediation—is a weakness of Brazil’s approach to labor programs. The low spending on ALMPs constrains the Government’s ability to respond effectively to rising levels of unemployment and to contain spending on passive labor market support. While the evidence of efficacy and efficiency of skills training programs for vulnerable job seekers is mixed at best (Dar and Gill 1998, Dar and Tzannatos 1999), public employment services intermediation, counseling, and coaching) have been found to be cost effective (Betcherman, 2012). The skewed approach taken by Brazil, and the institutional weakness of its intermediation institutions will constrain the Government's ability to respond effectively to rising levels of unemployment, and thus to contain spending on passive labor market support.

As in other areas of social policy covered in this review, Brazil suffers from an incoherent functional overlapping of labor programs with similar functions. There is an incoherent overlap of programs with similar functions which adds to perverse incentive effects and fiscal pressures. The most obvious case of this is the functional overlap between the Abono Salarial and Salário Família. In the current context of tightening fiscal constraints, this overlap begs close scrutiny. Some expenditure savings might be found from rationalizing programs with similar functions, in particular Abono Salarial, which underperforms both as a redistributive program and as an employment incentive. Portela, et al, 2016) examine options for reform of these two programs, by consolidating in a single program that takes the best features of both to support lower income workers and provide a more continuous incentive to remain formally employed.

Further, there exists significant fragmentation, duplication, and overlaps within labor programs, and especially when considering all social protection interventions. The level of expenditure bears little relation to the number of beneficiaries, and in fact there is no consistency in the level of benefits of each program, and are not part of a coherent design in terms of target population and levels of support. The relative generosity of the BPC stands out, as the benefits it provides to each beneficiary is nearly 15 times more generous than the monthly benefit per capita of Bolsa Família. Looking beyond social assistance, the level of the BPC social pension is higher than labor benefits and slightly higher than the average rural pension (which is nominally contributory). Importantly, the BPC benefit matches the minimum contributory pension (which also equals one minimum wage), and represents 70 percent of average pension outlays per recipient in the urban RGPS program.

The adjustment formula of the minimum wage has a ratchet effect on fiscal obligations. Extensive use of the statutory minimum wage as a policy parameter impacts fiscal obligations from across the social protection ‘system’ (including pensions and social assistance), in addition to not serving well the intended objective of adjusting MW levels to productivity.
There is a new urgency to reforming Brazil’s approach to labor programs, for although spending on has been and remains relatively low, it is rising fast. For much of the high growth period, the rise in labor program spending was driven mainly by the expansion entitlement with the rises in covered employment and upward adjustment of the statutory minimum wage to which programs are linked. However, rising unemployment is now the most important driver of spending increases. The growth in spending may be faster than would be the case if ‘passive’ unemployment income support programs were better coordinated and underpinned with greater job search support services.

The analysis in this report suggests several specific reforms to improve the design and targeting of labor market programs. Fiscal and economic gains are likely to come indirectly, from reforms to improve incentives and thus the efficiency of the labor market. A rebalancing of expenditures towards much needed active labor market programs provision, especially to benefit more vulnerable workers, could be obtained from rationalizing programs with similar functions, such as the Abono Salarial and Salário Família, as Abono Salarial underperforms both as a redistributive program and as a work incentive. However, more important gains in efficiency and Brazil’s productivity potential are likely to come from reforms designed to:

(i) improve incentives and the efficiency of the labor market (such as tightening access to Fundo de Garantia por Tempo de Serviço, FGTS, and the eligibility and receipt requirements for Seguro Desemprego);

(ii) strengthen the design and coordination of existing active labor programs,

(iii) raise the quality of matching between labor demand and supply; and

(iv) revise the adjustment formula of the federal minimum wage.

Preliminary simulation analysis of the likely impact of reforms to labor policies and programs suggests there could be significant efficiency gains from reforms.

Beyond piecemeal reforms, the core recommendation of this report is to redesign and integrate social protection and labor market programs into a coherent system with improved targeting and fiscal savings. The multiplicity of benefits with similar objectives, the consequent duplication of spending, distortions and regressive spending outcomes, are the result of decades of incremental and expedient policy making, rather than comprehensive and coherent thinking about what Brazilians should expect in a social contract. Reform of social protection programs should focus on rationalization, integration and coordination to scale back overly generous benefits, reduce overlaps and improve incentives. For instance, the reform should eliminate the duplication of functions and spending between BPC and ‘Rural Pensions’, and to consolidate these social pensions with the social assistance programs, notably Bolsa
*Família*, which stands out from the rest for highly progressive, pro-poor impact at a minimal fiscal cost. There is also a need to smooth the transition between social assistance and wage supplements to labor supply distortions, as well as to refocus labor market programs towards more active forms of job search assistance. More sustained investment and capacity building on activation measures can in turn generate savings on the passive expenditure front. Consolidating the FGTS and *Seguro Desemprego* for a better unemployment income protection system is an attainable reform objective that would greatly improve work incentives, and support reforms to the business environment to increase Brazil’s productivity potential (see Chapter on Labor Markets programs). This type of reform should consolidate programs, improve their targeting and align the incentives to graduate from social programs into formal labor market. It should proceed hand-in-hand with greater inter-operability of administration and delivery systems. Rationalization and de-indexation of the most generous benefits would also provide significant savings over time. A basic reform could reshape programs in three parts: (a) a means-tested wage supplement; (b) targeted wage subsidies; and (c) integrated unemployment insurance.

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**Salario Familia Reform:** *Bolsa Familia* and *Salario Familia* are de facto noncontributory allowances for households mostly composed by working-age adults and children. The former benefit focuses on households that are reliant on informal work (since the *Bolsa Familia* benefit is insufficient to support a family), while *Salario Familia* targets families with low-paid formal workers. Since *Salario Familia* is currently targeted in an outdated fashion, considering Brazil’s administrative capacity in targeting, this program could be explicitly coordinated, and eventually made part of, *Bolsa Familia*. Salario Familia could be means-tested at the household level for the existing beneficiaries, while explicitly incentivizing *Bolsa Familia* beneficiaries to transition into the formal labor market, by allowing them to maintain the benefit also while working in the formal sector up to a certain wage and per capita family income. Consistent with best practice in OECD countries, the benefit withdrawal would be gradual as income increases, in order to avoid steep marginal tax rates on additional labor earnings. The benefit structure could remain in line with *Bolsa Familia* in order to emphasize the behavioral effect given by the continuity in receipt of the program after a change in work status. This reform would entail significant administrative changes, and require a enhanced *Cadastro Unico* that is inter-operable with RAIS and INSS data. The value of the reform would especially be in terms of the long-term gains in labor productivity of formalized workers, since the fiscal savings from the improvement in targeting of this benefit. A transitory measure entailing reduced administrative cost could be to align (raise slightly) the Salario Familia payment per child to match those in *Bolsa Familia*, while investing in increasing awareness among *Bolsa Familia* beneficiaries that an equivalent benefit is available to them if they take up a formal job paying up to 1.4 MW.
Substitution of Abono Salarial with a targeted wage subsidy: The analysis also highlights that Abono Salarial and Salario Familia target largely the same population—formal workers earning less than two minimum wages. Slightly increasing the generosity of Salario Familia while removing the more regressive Abono Salarial could raise opportunity for savings without significant distributional impacts. In exchange, Abono Salarial could be substituted by a proper wage subsidy paid to the employer as an incentive to hire (i) long term unemployed, or (ii) first-time jobseekers in the formal labor market (which would be mostly young people and the informal working poor). The subsidy could be extended flexibly also to other categories of vulnerable workers based on labor market conditions (for instance, less educated youth, unemployed over 50, single mothers). The benefit would go to the employer in order to offset some of the labor costs, and be paid for a limited period (usually 12 to 24 months) and for a maximum number of times per worker. The savings deriving from the discontinuation of Abono for a large number of workers would be offset by the take up of the wage subsidy by relatively more vulnerable workers, so no significant fiscal savings is expected.

Third, there is also an opportunity to reform and combine Seguro Desemprego and FGTS to improve savings and incentives. Reform of passive labor market programs—i.e. income support for unemployed—would provide an opportunity to achieve superior outcomes with some fiscal savings. Seguro Desemprego and FGTS should be combined and reformed to improve incentives and reduce spending. There is abundant international experience of how to make these programs work better together as individual savings (FGTS) and solidarity risk-pooling (Seguro Desemprego). Simulations of the impact of integrating and sequencing FGTS and Seguro Desemprego, applied to a large subsample of the Brazilian urban labor market, suggest that the average length of unemployment spells could be reduced by up to a month and expenditures on unemployment insurance reduced by more than 90 percent, while improved incentives would increase formal employment. Although similar in their objectives, the problems arising from the apparent functional overlap between Seguro Desemprego and FGTS could be confronted with a review and reform of program parameters governing eligibility and access. Access to FGTS could be tightened, and limited to a smaller set of ‘shocks’ and circumstances. Withdrawals from individuals’ unemployment savings could be limited to a set amount per month, up to a limit. Eligibility requirements for the Seguro Desemprego could be sequenced with FGTS withdrawals—that is, the Seguro benefit would be paid out only if the job seeker’s FGTS account balance is exhausted within a reasonable period (about 5-8 months). In this way, a considerable degree of moral hazard created by how the two programs interact could be eliminated. An individual’s motivation to look for and accept employment would be stimulated, and the distribution of benefits from the publicly financed Seguro would shift to more vulnerable working people—those with
lower levels of human capital and earnings ability, who are less likely to have accumulated significant amounts of FGTS savings.

Finally, greater integration and interoperability of administrative delivery systems could improve social assistance programs while saving costs. Brazil should further strengthen its back-office administrative systems to improve the accuracy and quality of information, monitoring, coordination, and oversight of social programs. At present, the administrative systems between programs covering formal workers and the one for the mostly informal poor (Cadastro Unico) are completely separate. Integration of social programs would require inter-operability of administration and delivery systems. Improvements in coordination and administration could enhance efficiency and equity. Enhanced system-interoperability would allow for cross-checking between social programs and other databases and would therefore help to further improve targeting, eliminate overlaps, and raise the likelihood of progressive spending outcomes. Greater integration of information systems and benefits administration would not only improve efficiency and quality of spending, but it could also help unify Brazil’s dual social protection system, which has historically created a wedge between benefits for those in the formal sector and those targeted to the poorer segments of society. These administrative improvements would require time, resources, and improved capabilities (including mechanisms to safeguard information security). However, given the structural nature of Brazil’s fiscal situation, such opportunities to reduce leakage and inefficiencies and thereby improve the quality of public spending of Brazil’s social safety net—and broader SPL system—would be well worth the efforts. Examples of administrative improvements are detailed in the Social Assistance chapter.
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ANNEX 1

Table A1.1 Spending in labor market programs is dominated by passive labor market support (PLMPs) which constitute 83 percent of expenditure. By design the system benefits almost exclusively formal workers: only 1.8 percent of expenditures on labor market policies goes to workers who are not necessarily formalized workers (i.e. without “carteira assinada”)

<table>
<thead>
<tr>
<th>Program</th>
<th>Expenditure (2015 R$)</th>
<th>Program</th>
<th>Expenditure (2015 R$)</th>
<th>Total</th>
<th>Share of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garantia Safrar</td>
<td>380,604,551.00</td>
<td>Pronatec</td>
<td>2,439,323,144.00</td>
<td>3,051,927,695.00</td>
<td>1.8%</td>
</tr>
<tr>
<td>Bolsa Verde</td>
<td>92,830,525.00</td>
<td>Rural technical assistance - ATER</td>
<td>93,951,794.00</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Seguro-Desemprego ao Trabalhador Resgatado de Condição Análoga à de Escravo*</td>
<td>3,192,086.00</td>
<td>PAA (MVA)</td>
<td>20,596,651.00</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Economia Solidária</td>
<td>13,513,183.00</td>
<td>Support to productive inclusion of family farmers and women rural workers</td>
<td>6,876,865.00</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Brasil Quilombo</td>
<td>481,412.00</td>
<td>Mais Aprendiz (youth apprenticeship)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Mais Emprego-SINE</td>
<td>69,825,144.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Projovem-courses+financial assistance</td>
<td>61,129,748.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Fomento/microgrants</td>
<td>6,831,066.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Technical assistance /microcredit to microentrepreneurs-PNMO/Crescer/Agroamigo</td>
<td>183,529.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Total | 141,390,638,485.00 | 29,236,284,891.00 | 170,626,923,376.00 |
Share of total | 82.9% | 17.1% |

Source: Authors’ elaboration, based on BOOST national budget data for 2015.
Figure A1.2: (2014-2015) While unemployment benefit represents the bulk of Passive Labor market Policies, state contribution to Fundo de Garantia por Tempo de Serviço (FGTS) (due to judicial action) is also sizable.

Source: Staff estimates, based on BOOST national budget data for 2016 - 2018. Note that Seguro Desemprego Doméstico and Escravo were aggregated in 2015 into a new budget code (00H4).

Figure A1.3: (2016-2018 update)

Source: Staff estimates, based on BOOST national budget data for 2016 - 2018. Note that Seguro Desemprego Doméstico and Escravo were aggregated in 2015 into a new budget code (00H4).
Figure A1.4: The Fundo de Garantia por Tempo de Serviço (FGTS), while not state financed, also plays an important role as a passive labor market measure to support dismissed workers.

<table>
<thead>
<tr>
<th>Outlays as % of GDP 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demissão sem justa causa</td>
</tr>
<tr>
<td>Aposentadoria</td>
</tr>
<tr>
<td>Moradia</td>
</tr>
<tr>
<td>Inatividade da conta</td>
</tr>
<tr>
<td>Neoplasia</td>
</tr>
<tr>
<td>Demais modalidades</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: Staff estimates, based on BOOST national budget data for 2000 to 2018.

Figure A1.5: Passive labor market spending has grown even in times of high employment creation.

Source: Staff estimates, based on BOOST national budget data for 2000 to 2015.
Figure A1.6: Between 2005 and 2014, passive labor market policies spending grew due to increased number of eligible workers and, to a less extent, due to growth in average benefit.

Source: Staff estimates, based on BOOST national budget data for 2000 to 2018.

Figure A1.7 Beneficiaries of Seguro Desemprego have grown in a context of increasing share of eligible formal workers.

Source: Staff estimates.
Figure A1.8 Active labor market spending increased over 15 years from a low basis. In spite of PRONATEC’s growth, Abono Salarial dominates, spending on labor market intermediation remains minuscule.

- Training - vocational, life skills, cash for training (e.g. Bolsa Qualificação, Pronatec, Projovem)
- Other Active Labor Market Programs (e.g. Economia Solidária, Agricultura Familiar)
- Labor market services and intermediation through PES (SIGAE, Cadastros Públicos de Emprego)
- Entrepreneurship support /startup incentives (e.g. ATER, fomento para estruturação produtiva - quilombola e indígenas, etc.)
- Employment incentives/wage subsidies (Abono Salarial)

Source: Staff estimates, based on BOOST national budget data for 2000 to 2018

Figure A1.9 PRONATEC’s growth is small compared to Abono Salarial’s four-fold increase in 10 years
Figure A1.10 Abono salarial stands out also in terms of number of beneficiaries compared to any other active labor market program.
Source: Staff estimates, based on BOOST national budget data for 2000 to 2018
Figure A1.11: Per beneficiary spending of active labor market programs varies significantly

Source: Authors’ elaboration, based on BOOST national budget data for 2000 to 2014.
Note: PRONATEC spending per beneficiary decreased significantly compared to the older Bolsa Qualificação, (possibly due to the important in-kind contribution of Sistema S to training costs not accounted). PAA unit costs are higher, but program cost includes also the goods sold for public use.

Figure A1.12: Brazil is unique when compared to OECD and LAC countries in spending almost its entire active labor market program budget on “employment incentives” (including wage supplements).

Source: Staff estimates, based on BOOST national budget data and OECD Socx data for 2011.
Figure A1.13: Mix of active labor market policies (ALMPs) by country: Brazil focuses on employment incentives (including wage supplements) and spends the lowest share of GDP in ALMPs among comparator countries

BRA-Composition of ALMP budget: 0.26% of GDP, 2011

ITA-Composition of ALMP budget: 0.4% of GDP, 2011

NZL-Composition of ALMP budget: 0.28% of GDP, 2011

FRA-Composition of ALMP budget: 0.9% of GDP, 2011

OECD Average-Composition of ALMP budget: 0.56% of GDP, 2011

PRT-Composition of ALMP budget: 0.58% of GDP, 2011

POL-Composition of ALMP budget: 0.41% of GDP, 2011

ESP-Composition of ALMP budget: 0.87% of GDP, 2011

Source: Staff estimates, based on BOOST national budget data and OECD Socx data for 2011.
Figure A1.14 Labor programs at a glance: spending, beneficiaries and per beneficiary cost. Smaller labor programs fill specific niches of labor policy for specific groups.

Source: Staff estimates, based on BOOST national budget data.

Figure A1.15 Social and labor programs at a glance: spending, beneficiaries and per beneficiary cost.

Source: Staff estimates, based on BOOST national budget data.
ANNEX 2

Table A2.1: Main benefits and design features of Bolsa Família, Abono Salarial and Salário Família

<table>
<thead>
<tr>
<th>financing source</th>
<th>Salário Família</th>
<th>Abono Salarial</th>
</tr>
</thead>
<tbody>
<tr>
<td>source</td>
<td>Employer-paid and refunded by INSS</td>
<td>Federal, as part of the Fundo de Amparo ao Trabalhador (FAT) to which employers contribute</td>
</tr>
<tr>
<td>target population and eligibility criteria</td>
<td>Formal Worker with monthly wage below 1,212.64 R$ =1.4 MW and with children up to age 14 or a disabled child of any age</td>
<td>Formal worker with monthly wage up to 2 minimum wages, and registered in PIS/PASEP for at least five years</td>
</tr>
<tr>
<td>conditionalities</td>
<td>Annual submission of child immunization and school attendance certificates</td>
<td>Having a formal contract for at least 30 days in calendar year</td>
</tr>
<tr>
<td>beneficiary unit</td>
<td>individual</td>
<td>Individual</td>
</tr>
<tr>
<td>benefit</td>
<td>For worker with income between 806 R$ and 1,212 R$, monthly allowance per child is 41.37R$ (2016 values). For workers with income up to 806 R$: allowance 29.16 R$ per child</td>
<td>73 R$ (1/12 of the minimum wage) for each month worked during calendar year, up to 1 minimum wage</td>
</tr>
<tr>
<td>frequency of payment</td>
<td>Monthly</td>
<td>Annually</td>
</tr>
<tr>
<td>implementing agency</td>
<td>Ministry of Labor and Social Security</td>
<td>Ministry of Labor and Social Security</td>
</tr>
<tr>
<td>case study: Family of 2 adults and 2 children below 15*</td>
<td>One parent working: 59 (SF) + 73 (AS) = 132 R$ per month; Two parents working: (59 + 73) x 2 = 264 R$ per month.</td>
<td></td>
</tr>
<tr>
<td>case study: Family of 1 adult and 3 children below 15*</td>
<td>One parent working: 87 (SF) + 73 (AS) = 160 R$ per month;</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ elaboration.
ANNEX 3

Table A3.1: Unemployment Insurance Design Features in Brazil, Other Countries in Latin America and Structural Comparators

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Argentina</th>
<th>Colombia</th>
<th>Chile - Employment related system</th>
<th>Chile - Individual Severance account</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coverage</strong></td>
<td>Formal workers, fishermen and domestic workers</td>
<td>Private sector employees, including temporary and casual workers.</td>
<td>Employed persons; voluntary coverage for self-employed</td>
<td>Employed persons</td>
<td>Mandatory for employed persons after Oct 2nd, 2002. Voluntary for persons hired before.</td>
</tr>
<tr>
<td><strong>Minimum prior work requirement for eligibility</strong></td>
<td>6 months / last 3 years</td>
<td>6 months / last 3 years</td>
<td>12 months / last 3 years</td>
<td>12 months / last 2 years</td>
<td>12 months of contributions</td>
</tr>
<tr>
<td><strong>Other requirement for eligibility</strong></td>
<td>Not be due to misconduct or resignation</td>
<td>Must be registered and available for suitable employment and not be receiving any other social security benefit.</td>
<td>Participate in training and vocational rehabilitation programs</td>
<td>Must be involuntarily unemployed, able and willing to work.</td>
<td>Must be involuntarily unemployed and have balance in the individual account.</td>
</tr>
<tr>
<td><strong>Minimum and maximum benefit amount</strong></td>
<td>R$ 872.34 and R$ 1235.91</td>
<td>250 and 400 pesos</td>
<td>Based on minimum wage</td>
<td>Between 17,336 pesos and 8,669 pesos</td>
<td>Between 78,500 and 525,000 pesos</td>
</tr>
<tr>
<td><strong>Benefit replacement rate</strong></td>
<td>Between 68% and 80% for people receiving less than R$ 1,817.56 / decreasing after that.</td>
<td>50% of insured’s best wage in six months</td>
<td>---</td>
<td>---</td>
<td>Decreasing, starting at 70% and ending at 30% for the sixth payment.</td>
</tr>
<tr>
<td><strong>Pay-out period</strong></td>
<td>3 to 5 months</td>
<td>Between 2 and 12 months</td>
<td>6 months</td>
<td>12 months</td>
<td>6 months</td>
</tr>
<tr>
<td><strong>Job-search requirement</strong></td>
<td>None</td>
<td>Register at employment office and accept suitable offers.</td>
<td>Register at employment office Register at employment office</td>
<td>Register at employment office</td>
<td>Register at employment office</td>
</tr>
<tr>
<td><strong>Other requirement</strong></td>
<td>TVET course on second solicitation</td>
<td>---</td>
<td>Must not be receiving both benefits</td>
<td>Must not be receiving both benefits</td>
<td>Must not be receiving both benefits</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>France</th>
<th>China</th>
<th>Russia</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coverage</strong></td>
<td>Formal workers, fishermen and domestic workers</td>
<td>Employed persons residing in France or Monaco, including apprentices, household workers and child caregivers</td>
<td>All employees of urban enterprises and institutions.</td>
<td>Citizens of Russia</td>
<td>Employees over 18 years old under a service contract in the public or private sector</td>
</tr>
<tr>
<td><strong>Minimum prior work requirement for eligibility</strong></td>
<td>6 months / last 3 years</td>
<td>4 months / last 28 months</td>
<td>12 months</td>
<td>6 months / last 1 year</td>
<td>The previous 4 months, or at least 600 days over the last 3 years</td>
</tr>
<tr>
<td><strong>Other requirement for eligibility</strong></td>
<td>Not be due to misconduct or resignation</td>
<td>Not be due to misconduct or resignation, be available and capable for work, be younger than retirement age.</td>
<td>Involuntarily unemployed, not receiving other benefits.</td>
<td>Benefits may be reduced, postponed, suspended or terminated if the worker is dismissed because of misconduct, leaving without a good cause, violating conditions of job placement or vocational training or fraud.</td>
<td>Benefits may be reduced, postponed, suspended or terminated if the worker is dismissed because of misconduct, leaving without a good cause, violating conditions of job placement or vocational training or fraud.</td>
</tr>
<tr>
<td><strong>Minimum and maximum benefit amount</strong></td>
<td>R$ 872.34 and R$ 1235.91</td>
<td>Up to EU 9093.00</td>
<td>Between local public assistance and minimum wage</td>
<td>850 rubles and 4,900 rubles</td>
<td>428.40 and 856.80</td>
</tr>
<tr>
<td><strong>Benefit replacement rate</strong></td>
<td>Between 68% and 80% for people receiving less than R$ 1,817.56, decreasing after that.</td>
<td>Between 57.4% and 75%.</td>
<td>---</td>
<td>Decreasing over time, between 75% and 45% of the prior average on first year, 30% of subsistence on the second</td>
<td>40% of average daily earnings (up to 80% of the gross legal monthly minimum wage)</td>
</tr>
<tr>
<td><strong>Pay-out period</strong></td>
<td>3 to 5 months</td>
<td>Up to 24 months (36 for people over 50 years old)</td>
<td>Between 1 and 2 years</td>
<td>2 years</td>
<td>Between 180 and 300 days</td>
</tr>
<tr>
<td><strong>Job-search requirement</strong></td>
<td>None</td>
<td>Register at employment office and accept suitable offers.</td>
<td>Register at employment office, actively seeking employment, and accept suitable offers.</td>
<td>---</td>
<td>None</td>
</tr>
<tr>
<td><strong>Other requirement</strong></td>
<td>TVET course on second solicitation</td>
<td>---</td>
<td>Incentives to geographical relocation and vocational training.</td>
<td>Workers that do not qualify might receive a reduced benefit for a year.</td>
<td>---</td>
</tr>
</tbody>
</table>

Source: Staff elaborated based on Social Security Programs Around the World
ANNEX 4: SISTEMA S AND PRONATEC FUNDING STRUCTURE

The National Program for Access to Technical Education and Employment (Pronatec) is a set of actions aimed at increasing access to vocational and technical education in Brazil. Created in 2011, the program targets young people, workers and beneficiaries of income transfer programs, in a complex arrangement of course supply and demand. It involves a large number of private and public institutions that offer the training, as well as several ministries who demand the type and amount of courses to be offered.

Pronatec is financed by two sources: the federal government and Sistema S (see Figure). Sistema S is a network of institutions of professional categories whose budget is secured by mandatory contributions from firms, based on a percentage of their payment rolls. A gratuity agreement signed between the government and Sistema S guarantees that a share of the budget of the Sistema S’s participating institutions, reaching up to 2/3 of their net revenues, would subsidize free of charge training course (see Table). As such, the Pronatec’s spending coming from the Ministry of Education (R$2.5bi in 2015) represents just part of Pronatec’s total costs. We estimate that in 2014, Sistema S has invested about R$2.2bi in Pronatec gratuity courses.

The program is ambitious in terms of coverage, but is not a large ALMP. By 2014, Pronatec had over 8 million students enrolled in technical and professional training courses in more than 4,300 municipalities. In international perspective, however, Brazil’s level of active labor market training, despite Pronatec, remains low. The population served by Pronatec training courses is heterogeneous. Not all of the trainees are workers or out-of-work individuals. Pronatec offers vocational education to students who have just completed secondary school, trains already employed workers and welcomes a number of beneficiaries of social programs (Pronatec-Brasil Sem Miséria/Acessusas) who aim at learning a profession in order to graduate from poverty or social assistance conditions. Hence, just a small parcel of Pronatec can be counted as ALMP.
<table>
<thead>
<tr>
<th>Program</th>
<th>Budget Action Code 2014</th>
<th>Brief Description</th>
<th>Implementing Agency</th>
<th>Targeting Methods</th>
<th>Current Benefit Menu 2016 values</th>
<th>Coverage in # of Beneficiaries 2014</th>
<th>Expenditure R$ 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abono Salarial (0581)</td>
<td>Supplementary income paid annually to low-income employee who received monthly salary up to 2 minimum wages.</td>
<td>MTPS - Ministry of Labor and Social Security</td>
<td>Monthly wage up to 2 minimum wages, employed for more than 30 days in the reference year with a formal contract, in a company that complies with the RAIS database, and be registered in PIS for over five years</td>
<td>One installment of maximum 1 minimum wage, calculated based on the number of months worked in the reference year</td>
<td>22,351,898</td>
<td>R$15,497,431,099</td>
<td></td>
</tr>
<tr>
<td>Salário-Família (0117)</td>
<td>Family allowance per child, directly paid by the employer and later refunded by the government through discounts in social security taxes.</td>
<td>MTPS - Ministry of Labor and Social Security through INSS</td>
<td>The worker must be formally employed, contribute to social security, and have children up to 14 years old or a disabled child of any age</td>
<td>R$41.37 per child if worker’s income is up to R$806.80; R$29.16 per child if worker’s income is between R$806.81 and R$1,212.60</td>
<td>5,790,000</td>
<td>R$2,630,000,000</td>
<td></td>
</tr>
<tr>
<td>Programa Nacional de Acesso ao Ensino Técnico e Emprego – Pronatec (20RW)</td>
<td>Training grant for students at vocational and technological education.</td>
<td>MEC - Ministry of Education coordinator</td>
<td>Self-targeting for course application, income criteria for effective enrollment</td>
<td>Total course tuition fees for the poorest, may include transportation and meals</td>
<td>3,931,459</td>
<td>R$3,536,134,474.67</td>
<td></td>
</tr>
<tr>
<td>Projovem Trabalhador (2A95 and 0A26)</td>
<td>Social and professional qualification courses of 350 hours, aimed at preparing young people for employment or income-generating activities through the development of social and professional skills and by stimulating their integration into the labor market.</td>
<td>MTPS - Ministry of Labor and Social Security</td>
<td>Young people attending or that have completed primary school; or who is attending or have completed secondary school and is not attending or has not completed higher education</td>
<td>Financial assistance benefit R$100 monthly, up to 6 installments per beneficiary</td>
<td>n.a.</td>
<td>R$136,486,558.20</td>
<td></td>
</tr>
<tr>
<td>Programa de Fomento às Atividades</td>
<td>Provision of technical and financial assistance for productive expansion</td>
<td>MDSA - Ministry of Social and Agrarian Development</td>
<td>Family farmers in extreme poverty registered at Cadastro Único</td>
<td>R$2,400 =1,000+700+700) paid sequentially and conditional on the implementation and</td>
<td>n.a.</td>
<td>R$102,246,589.47</td>
<td></td>
</tr>
</tbody>
</table>

33 Our World Bank SPL Program Inventory draws on BOOST spending data and numerous administrative sources. It covers many more variables and years (2000-15) than what is presented here, which is just an overview.
Produtivas Rurais (20GD)

through practices that ensure environmental conservation, sustainable use of natural resources, and qualification of products for the PAA Program.

progress of technical assistance plans elaborated jointly with rural extension workers.

<table>
<thead>
<tr>
<th>Program Budget Action Code 2014</th>
<th>Brief Description</th>
<th>Implementing Agency</th>
<th>Targeting Methods</th>
<th>Current Benefit Menu 2016 values</th>
<th>Coverage in # of Beneficiaries 2014</th>
<th>Expenditure R$ 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistência Técnica e Extensão Rural (2100 and 2010S)</td>
<td>Public service of rural technical assistance aimed at strengthening family farming.</td>
<td>Casa Civil, Secretaria Especial de Agricultura Familiar e do Desenvolvimento Agrário</td>
<td>Family farmers holding a Declaração de Aptidão ao Pronaf – DAP</td>
<td>Technical assistance to improve production, and provision of non-formal education regarding management, production, processing and marketing of rural activities and agricultural services</td>
<td>n.a.</td>
<td>R$85,156,654.51</td>
</tr>
<tr>
<td>Programa de Aquisição de Alimentos – (PAA/Conab 2881)³</td>
<td>Program aimed at eliminating hunger and promoting family farming. Includes public food purchase, storage for composing strategic stocks and enabling an increased value to products, and food distribution to vulnerable population through popular restaurants, food banks, community kitchens and free food baskets.</td>
<td>Casa Civil, Secretaria Especial de Agricultura Familiar e do Desenvolvimento Agrário</td>
<td>n.a.</td>
<td>Actions include public food purchase, storage for composing strategic stocks, and food distribution</td>
<td>4,548</td>
<td>R$31,369,737.11</td>
</tr>
</tbody>
</table>

Passive Labor Market Policies

<p>| Seguro Desemprego (0583) | Temporary financial assistance paid in 3, 4 or 5 installments to unemployed workers due to dismissal without just cause. | MTPS - Ministry of Labor and Social Security | Worker must have been dismissed without just cause, must have been employed with a formal contract, and must not be recipient of social security benefit of continued provision | Benefit installment value is the average wage of the last 3 months prior to dismissal, monthly paid. The maximum number of installments is between 3 and 5 per unemployment period | 8,466,675 | R$32,782,288,255.90 |
| Seguro Desemprego ao Pescador Artesanal (0585) | Income provided to artisanal fisherman during the period of legally interrupted fishing activities the fishing ban season or período defeso). The fishing ban duration is determined by the Brazilian Institute of Environment and | MTPS - Ministry of Labor and Social Security | Be registered at INSS under the category 'special insured', and provide proof of fish selling to a company or cooperative during the last 12 months before the start of the fishing ban season | 1 minimum wage R$880), monthly installments received only during the fishing ban period | 873,413 | R$2,310,619,343.00 |</p>
<table>
<thead>
<tr>
<th>Program Budget Action Code 2014</th>
<th>Brief Description</th>
<th>Implementing Agency</th>
<th>Targeting Methods</th>
<th>Current Benefit Menu 2016 values</th>
<th>Coverage in # of Beneficiaries 2014</th>
<th>Expenditure R$ 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seguro Desemprego ao Trabalhador Doméstico (0653)</td>
<td>Temporary financial assistance to unemployed domestic worker, registered at INSS, dismissed without just cause</td>
<td>MTPS - Ministry of Labor and Social Security</td>
<td>The beneficiary must prove employment as domestic worker for at least 15 months during the past 24 months, be registered as domestic worker at INSS, have paid minimum 15 contributions to INSS, and must not be recipient of social security benefit of continued provision</td>
<td>1 minimum wage R$880), monthly paid, maximum 3 installments during a 16-month period</td>
<td>12,972</td>
<td>R$33,357,798.00</td>
</tr>
<tr>
<td>Seguro Desemprego ao Trabalhador Resgatado de Condição Análoga à de Escravo (0686)</td>
<td>Temporary financial assistance to the worker rescued from forced labor or conditions analogous to slavery.</td>
<td>MTPS - Ministry of Labor and Social Security</td>
<td>Must have been rescued from forced labor or conditions analogous to slavery</td>
<td>1 minimum wage R$880), monthly paid, maximum 3 installments during a 12-month period</td>
<td>1,960</td>
<td>R$3,192,086.00</td>
</tr>
<tr>
<td>Mais Emprego (20YX)</td>
<td>Web portal of labor intermediation that provides direct access to information about job offers at the workers’ local job market.</td>
<td>MTPS - Ministry of Labor and Social Security</td>
<td>Self-targeting</td>
<td>Labor intermediation service where workers register online, provide personal information and access an online job search</td>
<td>n.a.</td>
<td>R$24,703,479.75</td>
</tr>
</tbody>
</table>

Notes: 1) Estimated by Portela et al. 2016) based on PNAD 2014. 2) The general Pronatec program also finances projects of infrastructure expansion aimed at increasing the supply of courses. These are under different budget action codes, not included in this table. 3) Refers to PAA/Conab-MDA only. Other PAA budget lines are either classified under social assistance programs given the character of the actions involved – e.g. food and in-kind transfer –, or refer to state and municipal level, therefore not included in our analysis. 4) The number of beneficiaries refers to year 2012, the latest available data.
ANNEX 6. RECENT REFORMS TO BRAZIL’S LABOR PROGRAMS

Some of the labor programs covered in this chapter have undergone recent changes. However, these are unlikely to be reflected in expenditure data.

A “Medida Provisória” passed on December 30, 2014 (MP 664/2014) tightened eligibility and benefits for several programs. However when the Medida was put into permanent law (see Lei 13.134/15, passed in June 2015) program rules were loosened relative to those put forth in the Medida, but remained tighter than program rules through 2014.

Summary of the changes in rules as in the law:

**Abono Salarial:**

- The benefit amount of the Abono was made proportional to the number of months worked in the reference year. Prior to the change, the benefit amount was equal to one minimum salary.

- The Medida had limited the eligibility to those who have worked at least 90 days in the reference year up (from 30 days). However, this change was vetoed by the President, so reverted to 30 days.

**Seguro Desemprego:**

- Eligibility criteria were tightened, requiring workers to have 12 months out of the last 18 to qualify for benefits for the first time (up from only 6). For the second request, the vesting requirement was 9 months (from 6 months) and 6 months for the third time

- The MP had tightened this to 18 months for the first time benefits

**Seguro Defeso:**

- The MP had increased the vesting period for artisanal fishermen from one to three years, however this was undone in the 2015 law

- The law requires publication of the details of who gets Seguro Defeso (name, address) by INSS.