

LABOR INTERMEDIATION SERVICES: CONSIDERATIONS AND LESSONS FOR LATIN AMERICA AND THE CARIBBEAN FROM INTERNATIONAL EXPERIENCE

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I. INTRODUCTION

In every nation one finds gaps and lags between the “demand” for workers by employers and the “supply” of job seekers. Many factors influence the lack of “fully clearing” labor markets: limited information and dissemination on job openings, mismatches between the skills workers have and the skills employers need, poor job-hunting skills by workers, and labor market discrimination, just to begin. These gaps between labor supply and demand, however, can have significant economic consequences in terms of higher and longer unemployment, underemployment, and lower productivity. Greater economic integration has increased the pace and need to adapt to higher rates of job rotation, career changes, and more frequent need for skill upgrading.

Recent labor market performance in Latin America and the Caribbean has demonstrated serious inefficiencies in moving workers through a hoped-for continuous cycle of education, work, and training. To name but a few key trends: unemployment rates have risen, particularly in the Southern Cone and Andean region; job rotation rates are increasing in many countries; underemployment is high, particularly in Central America; and the region relies heavily on inefficient, informal methods of placing workers in jobs.

Labor intermediation services are one policy vehicle intended to improve the quality and efficiency of the match of workers to jobs and training. National public employment services, first created in the industrial economies at the turn of the century, are being reconfigured beyond recognition in many countries to adapt to the new demands of more frequent job change. In these new policy reformulations of national employment services, it is more accurate to call the emerging systems labor intermediation systems (LIS) as the range of services has become broader in “intermediating” between worker and job and between job and education and training, self-employment, and other needed social services.

Latin America and the Caribbean have experience, albeit limited, in the reform and reformulation of labor intermediation systems. This article seeks to bring together both experience in the region and within the Organization for Economic Cooperation and Development (OECD) countries to investigate how such systems might be relevant to Latin American and Caribbean economies. The article first reviews what is the more modern concept of labor intermediation, outlining its various services. It then analyzes OECD and Latin American experience with reform and modernization of intermediation

systems with an eye to recommendations and adaptations particularly relevant to economies in the region.

II. DECODING LABOR INTERMEDIATION

Labor intermediation services are activities undertaken to improve the speed and quality of the match between available jobs, jobseekers and training. In this way, such services “intermediate” between labor supply and demand. The principal clients of such services are: un or underemployed workers and firms seeking new employees.

There are many advantages in making the match between job seekers and jobs more quickly, with lower cost, and with better quality. “Better quality” in this case means the employee more closely fits the job, is more productive on and suited to that job and is thus likely to stay longer. The benefits of “more quickly and at lower cost” are that the firm hires an employee into a position in a shorter amount of time (e.g. reducing output losses, increasing productivity, reduced staff time in personnel functions) and a worker finds employment sooner (e.g. increased income, reduced social and family costs of un or underemployment,). “Lower costs” also impact the wider community as there is a reduced need for social services and lower unemployment insurance/social service claims. To summarize broadly, the principal benefits of labor intermediation services are:

- Reduced short-term unemployment, job rotation
- Increased productivity
- Eased labor mobility
- Improved social welfare
- Increased labor market transparency and information, reduced discrimination.

To accomplish above benefits, labor intermediation services have developed a set of “core” services that you would find in any service. These are:

1. **Job Search Assistance** – which prepares the job seeker for finding new employment. It can include: resume preparation, development of a job search strategy, occupational information, and participation in a job club. Research from OECD countries continues to indicate that job search assistance is on the order of three times more cost effective than training for labor market insertion. Positive impacts as well have been noted in job counseling, particularly with two or more sessions.
2. **Job Placement or “Brokering.”** This service consists of a job registry that lists current job openings and activities to match these jobs to the supply of job seekers registered in the service. This task is not simple to do well. Employer job needs change rapidly and to be effective, the service must get a wide enough number of listings, keep them extremely current, and be skilled at placing the right people in the right jobs in order to insure that employers to continue to use the service.

Overtime, from the core functions of job search and placement, labor intermediation services have developed a range of “secondary” services designed to improve the quality and efficiency of intermediation. These services are labeled secondary only in that not all systems of labor intermediation offer such services, but they can be central to the efficient functioning of the match between workers and jobs. The key secondary services listed in Table 1 are: employment profiling/skills assessments; training and training referral; labor market information; social service or unemployment insurance provision; and, specialized employer services. Some intermediation services also regulate health and safety/workplace regulations, but this is controversial and can build adversarial relationships with employers that undermine the relationships needed for good intermediation..

TABLE 1
LABOR INTERMEDIATION SERVICES:
PRINCIPAL FUNCTIONS

SERVICE CATEGORY	TARGET CLIENTS	TYPES OF SERVICES
Job Search/ Employment Profiling	<ul style="list-style-type: none"> • Job seekers 	<ul style="list-style-type: none"> • Skills testing or referrals to testing • Profiling of clients to determine services needed • Resume preparation • Job counseling • Phone banks for job search • Job search assistance • Job clubs • Case management
Job Placement/Brokerage	<ul style="list-style-type: none"> • Employers • Job seekers 	<ul style="list-style-type: none"> • National database of job vacancies • Job placement • Vacancy in/take (firms) • Candidate screening (for firms) • Outplacement • Recruitment for select positions (firms)
Training	<ul style="list-style-type: none"> • Job seekers • Training Providers • Employers 	<ul style="list-style-type: none"> • Assessments of training needs/requirements • Referral to private and public training providers • Training directly by LIS (limited)
Specialized Services to Employers	<ul style="list-style-type: none"> • Employers 	<ul style="list-style-type: none"> • Human resources assessments • Legal advice on employment • Screening and testing of job applicants • Private sector promoters/liaisons • Staff training guidance
Labor Market Information	<ul style="list-style-type: none"> • Government (local and national) • Employers • Job seekers • Training Institutions 	<ul style="list-style-type: none"> • Provide data and analysis on labor market trends
Unemployment Insurance/Social Services Gateway	<ul style="list-style-type: none"> • Job seekers/workers 	<ul style="list-style-type: none"> • Administration of UI benefits or referral to UI • Referral or coordination with social services • Referral to self-employment programs

A further way to understand the great variety in LIS systems is to look at some of the implicit trade-offs between the client base, the services, and the costs of these services in an individual country and institutional context. No one package of services will fit the needs of every worker seeking employment through an intermediation service. Some will need little assistance, others a lot. As resources are finite in any system, better results are obtained by concentrating resources on those who need the greatest number of services. Table 2 provides a classification of client need in three categories. As you move to higher categories, larger and more individualized services are likely required to get the worker hired. Table 2 shows, for example, the first, simplest category of “job ready” client (Category 1), who already has the skills and recent work history to find a new job relatively easily. This might be a professional in a high demand occupation or a skilled tradesperson. It is important not to disregard services for this category of worker (Category 1) as research continues to point out that job search assistance is one of the most effective services an LIS can provide, particularly on a cost-per-client basis. As in labor market programs more broadly, the key is to avoid providing such services to those who would have found a job as easily and as quickly without any service at all (e.g. avoiding “deadweight loss”).

TABLE 2
CLIENT (WORKERS) TYPES VS. SERVICES NEEDED

No.	CLIENT DESCRIPTION	KEY SERVICES NEEDED
#1	Job ready	Orientation and Placement Services only
#2	At risk for medium term un or underemployment	Skills assessment and job counseling before placement in either employment or short term training
#3	High risk for longer term un or underemployment	Development of longer term employment and training plan, more systematic follow-up, intervention and social services

Finally, it is important not to confuse “labor intermediation services” with the distinctly different trend of firms that serve as intermediary employers, called “services” or “*intermediarios*” in some Latin American countries. In select countries in the region, for example, the Andean countries of Peru and Bolivia, firms contract a “services” firm to employ the workers they need, thus avoiding many labor regulations and benefits applying to permanent hires. This is a distinctly different trend with serious implications for legal protections for workers. Labor intermediation refers to services to enable workers to be hired directly into firms, not indirectly through intermediaries.

III. OECD COUNTRIES: RECENT TRENDS AND REFORMS

For more than a decade now, the OECD countries have come to jointly re-examine and reform the role of public and private employment services in the mix of “passive” and “active” national labor market policies. These efforts are not just oriented at reform of the old public employment services, but modernization and design of the larger “system” of public and private services to meet the demands of a global marketplace. These reformed intermediation services are taking advantage of new technologies and demanding more explicit and definable outcomes. Four key trends and reforms are reviewed here.

i. Integrating and Linking Labor Market Policies

Many OECD countries found there was a lack of an effective link or synergy between the main labor market policy functions of employment, training, and intermediation. Often the three related functions are carried out by different agencies, or carried out in an isolated fashion. But the three are highly related. Knowledge of job vacancies and private sector requirements is needed to insure that training and self-employment programs meet actual demand. Close coordination between job placement and training insures that the un or underemployed acquire the skills needed for actual job vacancies. Unemployment insurance (UI) and income support needs to be effectively linked to actual job search so that UI is used as intended -- to temporarily cushion income loss while seeking new work. This reduces the cases of UI being used to delay or discourage a worker from finding new work.

Some of the chief ways OECD countries have sought to improve the employment/UI - training-intermediation link include:

- Adding a training referral function to national intermediation services;
- Unifying UI benefits and job placement services, or at least, coordinating the two services more effectively; and,
- Creating a “one-stop” service where all core functions are united and simplified.

It is not essential to have UI and labor intermediation under one roof as countries have different traditions and concerns about whether unification discourages non-UI beneficiaries from using the job placement service, or whether UI delivery gives the intermediation service too dominant a social service focus. Japan, for example, tries to improve linkages by rotating staff between UI benefits and the employment service. The key here is effective linkage in a particular country context.

The one-stop service has been a particular innovation in countries such as the United States, which has broadened the accessibility of a range of job services and make them more accessible on-line. Income support programs like unemployment insurance are less common in Latin America and Caribbean, but the interesting aspect for the region is the

incorporation of self-employment services or referral to self-employment services and resources into intermediation centers.

ii. Introducing Market Signals and Expanding Role of Private Employment Agencies

With the end of the era of public monopoly of employment services, most OECD countries have been incorporating a range of market-based mechanisms to, in short, make public services act more like private firms. These reforms fall into two groups: improving the efficiency of public employment services through market-based mechanisms and introducing competition and partnership with private employment agencies. Underneath these private-sector-based reforms is clear agreement of the need to separate out the role of the government as a provider and purchaser of services. This means that most intermediation services are getting out of the business of being training providers and allowing clients to choose competitively among providers.

Public services have been induced to act more like private firms by, for example, through: contracting out through competitive bid key active labor market training; instituting user fees and paid services; and using voucher systems. The Swedish public employment service turned to purchasing courses from either other public sector training centers or the private sector. In the United Kingdom, the local training and enterprise councils that run local employment services contract out to training agents who assess training needs who in turn contract to training managers who provide the training or contract it out. Vouchers are another method being used to induce competition. Workers are given a voucher to purchase training from outside providers. A key in voucher provision is providing substantial labor market and training course information to the beneficiary and oversight in the implementation of the voucher scheme. User charges had been limited in both private and public employment services, in large part because of the restrictions of ILO Convention 96 that prohibited charging fees to workers. These restrictions have been understood not to apply to fees charged to employers or some of the new specialized services offered by Public Employment Services (PESs). As a result, fees have become increasingly common. In Belgium, for example, employers pay for the extra service of intensive screening of job candidates and for outplacement services. In the Netherlands, instituting a series of fee-based services for employers has brought the local intermediation offices in more direct contact with local employers, bringing broader benefits to the service and job-seekers overall.

A second set of market-based reforms is directed at opening the market to private employment agencies or community organizations that provide placement and job services. This expansion includes efforts to:

- relax legal restrictions on private employment services, allowing them to compete with public services;
- contract directly with private employment agencies or community organizations to place individuals (e.g. Australia) and stimulate competition; and,

- developing partnership agreements with private agencies or organizations to better cover the placement market.

Contrary to expectations, the opening of the employment services market in many countries has not led to dramatic gains in market share for the private sector. This is likely due to the smaller, high-end market that the private sector typically occupies and the substantial “start up” and reputation building that is needed to gain large market share. Such was the case of Denmark in the early 1990s.

iii. Introducing and Strengthening Performance Indicators/Management Reforms

Improving internal performance of labor intermediation services through new performance measures and management reforms has been enacted widely in OECD countries. Performance targets have been moving from *ex-post* indications of performance to *ex-ante* measures of how the service is being implemented. These include targets such as “vacancies filled” or “vacancies filled with active involvement of the service,” and “time required to fill a vacancy.” Both “carrot and stick” measures can be applied to improve performance such as: disciplinary measures, management reviews, budget bonuses, or other rewards/penalties. In Switzerland, the national government ranks placement offices by performance after controlling for external influences such as local labor market conditions. It then pays each canton (regional government) according to the performance of the placement office under its management.

Internal performance indicators have clear limitations. For one, unless more sophisticated indicators are used, they do not measure the impact of a particular service or training, just its volume and that it has been efficiently performed. A local service may appear to reach its targets for jobs placed, but these jobs may be mismatched or temporary. A neighboring service may spend more time per client, get a lower placement rate, but these placements may have a greater impact on local unemployment. In the United Kingdom, a House of Commons Committee is suggesting the British system move away from placement-based targets to targets that represent “value-added” through customer satisfaction as labor intermediation services are moving to a greater range of services beyond placement. Internal performance indicators should be complemented or integrated within a larger evaluation system that assesses broader or longer-term impacts. In sum, internal performance indicators alone cannot be relied on as the sole method for increasing efficiency and effectiveness. For this reason, the development of performance indicators has typically been part of wider management reforms and internal changes designed to improve overall intermediation service efficiency and coverage.

The key management reforms within OCED countries implemented include: decentralization, “management by objectives” and enhanced use of information technologies. Decentralization of resources and program flexibility has been used to improve the ability to tailor services to the needs of the local economy, in countries such as France. “Management by objectives” reforms the overall staff incentive and performance structure. Austria, Finland, and Sweden have experimented with such

changes. In these cases, local offices are given wider latitude in apportioning their budgets among the different services (e.g. job search vs. training vs. employment subsidies) and in keeping with agreed on objectives. Finally, information technologies are probably the most widely instituted management change in OECD nations targeted to improving service efficiency and reach. Many countries have put their job banks “on line,” bringing into the system a wider range of clients who prefer using the self-serve services from their homes, community centers, or even shopping centers.

iv. Targeting the Long-Term Unemployed

A final area of reform emphasized almost exclusively by the high-income industrialized countries is in making their labor intermediation services better serve the needs of the more difficult cases, the long-term unemployed (e.g. defined as greater than 12 months of continuous unemployment). The reforms are oriented towards intervening earlier for the most at-risk clients and targeting more and different services for the long-term unemployed. Among the policy interventions of this type are:

- *Profiling and Early Intervention.* Interview and computer-based schemes to identify early on the most at-risk clients and target services before long-term unemployment sets in;
- *Case Management.* An individualized approach to creating a re-employment strategy and targeting services to the particular client’s needs; and,
- *Benefit Sanctions and Sequencing.* Tightening requirements for workers to actively seek work to receive UI, and sequencing services with the goal of getting the unemployed back into the job market faster and with more lasting effect.

IV. TRENDS IN LATIN AMERICAN AND CARIBBEAN LABOR INTERMEDIATION SYSTEMS

As in most of the developing world, reforms and modernization to labor intermediation systems in Latin America and the Caribbean have been more limited than in the OECD. To over generalize for Latin America and the Caribbean, there is the dominance of a public sector model of intermediation that, because of limited resources, is typically very small and serves the lower strata of the work force. The directors of the public employment services of Central America, for example, argue that intermediation services in the region have occupied the strata with “low technical qualifications at the lowest levels of the occupational pyramid.”¹ National employment services in the region are typically administered by either the Ministry of Labor or via the state-based national training institute (e.g. SENA in Colombia).

¹Documento de Conclusiones, “*Seminario-Taller Sobre la Estructura y Funcionamiento de los Departamentos de Empleo y de los Sistemas de Intermediación en el Mercado de Trabajo,*” Organización Internacional del Trabajo, 8 y 9 de septiembre de 1998, 2.

The motivation for reform and change has distinct elements in Latin America and the Caribbean. OECD reforms were motivated principally by poor performance, the need for cost savings, and greater need to reach the hard-core unemployed. Latin American and Caribbean systems have a different set of economic needs, but have encountered similar criticisms of poor performance and even more of politicization. While, in theory, the public sector monopoly was to protect and serve the workers who needed it most, in practice, particularly in Latin America and the Caribbean, public sector investments were never substantial enough to cover a large part of the market. Public employment services in the LAC region got the reputation for only have the least skilled jobs registered and few workers in their registries. As a result, disadvantaged workers rarely got information and access to better paying, higher skilled jobs through public employment services. Cost savings are less an issue in the region as public investment levels are low, and unemployment insurance is rare in the region. Latin American and Caribbean countries may turn to reforming labor intermediation systems as a way to create greater transparency in very inefficient and slow-changing labor markets, and in particular to reduce labor market discrimination. The region still has a high reliance on informal networks and family/personal contacts which can result in clear productivity mismatches and can reinforce and perpetuate discrimination based on race, ethnic origin, gender, and economic class.

Intermediation systems in the region are both much less developed than in the OECD and have to confront quite different labor market needs. Some of the key differences that affect how intermediations systems should be reconfigured include:

- Small size and limited experience of Latin American and Caribbean intermediation systems; many suffer from years of sparse public investment;
- Private sector firms doing placement and employment services in the region are few, of more recent origin, and typically concentrated at higher-end employment;
- Informal sector employment can exceed 50% of the national economy, with a concentration of poor and disadvantaged workers in this sector. This, by definition, shapes a different approach to labor intermediation, to reflect the reality of more prevalent self-employment, particularly in rural areas;
- The principal “hard case” confronting LAC intermediation systems is not long-term unemployment as in the OECD but severe underemployment and low skills;
- The majority of LAC countries do not have unemployment insurance (UI) or other forms of income support for the unemployed, so LIS reforms do not address how to support workers through unemployment. Those countries in the region that do have unemployment insurance *do not* typically use the employment service to administer UI (e.g. Argentina, Brazil). Potential cost savings in UI is thus not a motivation to reform LAC national employment services as it is in many OECD countries.
- Substantial internal and external migration in a number of countries (e.g. Central America and Mexico) creates additional intermediation demands.

With these differences in mind, intermediation reforms and revisions introduced to date in Latin America and the Caribbean have concentrated principally in the areas of: (i) introduction of information systems; (ii) expansion of the role of the private sector, and (iii) performance/management improvements.

i. Introduction and Expansion of Information /Internet-based Systems

Throughout the region, there is a clear trend to put new technologies to work in improving the performance of labor intermediation systems. Investments in information systems technologies for intermediation have been more limited in Latin America and Caribbean, but can clearly be seen around the region (e.g. Brazil, Mexico, Chile, Costa Rica). Information systems modernization includes: on-line job exchanges and services, internal office information systems, and labor market information systems. Chile's *Servicio Nacional de Capacitación y Empleo* (SENCE) has developed the country's first electronic labor exchange. *InfoEmpleo* contains more than 29,000 curriculums of job seekers and receives more than 300 job vacancies a month. Costa Rica, under financing and support from the National Apprenticeship Institute (INA) is developing a two-phased information system to revitalize its public employment service, expand to a network of private and non-profit providers, and provide a national job registry with INA providing the central server. Important as well to the region is the development of electronic "*bolsas de trabajo*" and labor market data not just on a single country basis but regionally. Under a regional project of the IDB's Multilateral Investment Fund, eight countries of the Central America region, the Dominican Republic, and Panamá are developing a labor market information system in which labor market data can be jointly shared and analyzed on a regional basis, including data on employment, economic, and occupational trends.

ii. Expansion of Role/Partnerships with Private/Non-Profit Sectors.

A key trend in the region is the expansion and linkages with private, non-profit and public providers. The first stage of this process is in opening up, legalizing and regularizing the private sector market. Since the 1990s, a number of countries in the region are working to provide appropriate legal frameworks for private/non-profit providers and to institute regulations or oversight of such providers. Panama, for example, passed a law in August 1995 permitting for-profit employment agencies and providing for Ministry of Labor oversight over such agencies.

The second and more significant stage is then to promote the expansion of private employment agencies and create new partnerships between public, private, and non-profit providers. In 1996, Perú reinvigorated its public employment service by creating a network of private and non-profit centers, inducing a host of new and innovative providers into the intermediation business. These "centers of intermediation and labor information" (CILs in Spanish) include training centers, local community centers, and church-affiliated organizations all with specific contacts and knowledge of local employers and local jobseekers. While more extensive evaluations are to be conducted,

early analysis of the Peruvian system (*CIL-ProEmpleo*) show an increase in both coverage and efficiency increased for both public and private providers that became part of the network. Guatemala with the support of the Interamerican Development Bank is just initiating plans to create a network of Employment centers (*Red de Servicios de Empleo (RESE)*) in which the local public office of the national employment service in each region or province would serve as a center for a local network that would include private and non-profit providers.

iii. Improving Performance; Expanding Client Base

There are a series of additional actions being taken to improve the performance, output, and client base of Latin American and Caribbean systems, including:

Job Fairs as Temporary One-Stop Centers. “*Ferias de Empleo*” are being used in the region more than just to bring employers and job seekers together face-to-face for one day. Job fairs, like those in Panama, are expanding to offer a range of services more akin to a one-day “one stop shop” that is seen in the OECD countries. Besides interviews with local employers, the services available at the Panamanian Job Fairs include: technical assistance to micro-enterprises; career information; resume workshops; information on training programs; and, skills assessments. Mexico, as well, for many years has developed a comprehensive approach to job fairs.

Decentralization. There is a more limited trend in the region towards decentralization of labor intermediation services to local municipalities and offices. The role and feasibility of decentralization in any country depends on a larger national strategy and trend towards decentralization and on the capacity of local institutions. Consistent with its national policy, Chile has decentralized local employment offices to a network of over 150 Municipal Employment Agencies. Mediation services are provided free to workers through these offices. The National Training and Employment Service (SENCE) provides technical support to the network as well as plans and supervises training programs and institutions but the core intermediation functions are provided at the local level.

Improved Services, Assessment Tools. A number of Latin American and Caribbean nations are expanding as well the range of specific services and tools provided by intermediation centers (e.g. better job search methodologies, skills assessments), and looking at sharing information and tools across the region.

V. INSTITUTIONAL MODELS OF LABOR INTERMEDIATION SERVICES

Reform and strengthening measures underway in both OECD and Latin America/Caribbean countries need to be viewed within the larger context of reform to the very institutional frameworks from which labor intermediation services are delivered. It is change to these institutional relationships -- between the government, private sector,

and social partners -- which provide the most fundamental change to labor intermediation services and provide the greatest push to increasing both clients and suppliers of intermediation. The variety of intermediation systems adapted to very different country circumstances is striking. This study's review of select intermediation systems around the globe identified six distinct models. These models can be understood most simply as a linear spectrum from a sole public employment service on one extreme (private services banned) to a solely private system on the other extreme, except that few national systems really operate at either extreme. Within these models, there is substantial variation between countries with the greatest variation found in the middle, that is, in the partnerships between the public, private and non-profit sectors. The first two models (A and B) represent systems largely prior to reform and renovation. Newer models are found in C through F.

Model A: Public Service Monopoly

This model was the most common one in the post-WWII period. The public sector was provided with a legal monopoly to run a national intermediation service, both to insure that workers were not exploited by being charged high fees and to insure that the more disadvantaged workers received such services. International Labour Office (ILO) conventions enacted in the 1940s banned private firms that charged fees for placement. A public role was, and in many cases continues to be considered necessary, because a free market of employment services would likely result in the exclusion of more difficult-to-place, low-income and disadvantaged workers. This would be accomplished, through a process in which the private sector "creams" the most easy-to-employ workers. The theory behind a public sector role lies in market imperfections that lead to the "under-provision" of employment services for certain types of workers.

Under the public sector model, there is a single national public service, typically run by either a Department of Labor or another executive agency to which all workers are granted access free of charge. Private employment services are limited to those that do not charge fees for placement, temporary employment agencies, and, agencies dealing with theatrical workers and artists. In practice, the public employment service monopoly has been removed in most countries following a 1997 ILO convention,² and most relatively recently (e.g. Portugal (1989), Finland, Austria (1994)). There are few countries today that still have a legal ban in place. Even when there is a ban on the books, though, often a few private employment agencies crop up. Costa Rica, for example, has a legal ban on private employment agencies on the books, but in practice, at least 42 private employment services operate in the country in the form of consulting firms. Today this model can be described as public employment service monopoly that dominates the provision of intermediation services, but with typically low national coverage, and private agencies operate at reduced levels in a precarious, uncertain legal environment.

² The basic ILO conventions are the Employment Services Convention of 1948 ratified by 15 Latin American and Caribbean countries, C-96 Fee-Charging Employment Agencies Convention 1949, ratified by

Model B: National Employment Service Operating with, *de facto*, Competition from Private Providers

This is a model we find common in developing countries. Private employment agencies and services are permitted, but the public and private services operate largely independently. In this model, private employment services may either be regulated (by the public service or other entity) or market conditions may prevail. The theoretical basis for the co-existence of public and private providers is that private providers are believed to provide some competition for the public service, leading to better quality intermediation and greater innovation by both. In practice, while some competition does result, intense competition is limited as both sectors tend to cover only fractions of the national market and there is relatively limited overlap of clientele. The typical tendency of the market is for the public service to serve the lower-income clientele and for private firms to serve higher income and professional workers whom are easier to place, or for whom, higher fees can be charged.

In Panama, the small National Employment Service exists with just a small number of private and non-governmental providers. There has been limited interaction between the public and private sectors. This will begin to change as Panama implements a public-private network in its capital city. As the private and public sectors move into more explicit relationships, they may enact more extensive forms of private/public cooperation as found in models C and D.

Model C: Public-Private Partnerships

There are a range of ways that public employment services have been reformed and literally transformed into different systems through creating new relationships and partnerships, not only with the private sector, but also with key social actors, such as trade unions and community organizations. Partnership is understood here as a collaborative, not competition-based relationship in which public and private institutions combine among the possibilities: resources, information, services, and/or clients. Partnerships have become increasingly common as an institutional framework as the demands for effective intermediation have become more specialized. The impetus for this model has been more practical than theoretical. Since market share for public and private providers has been relatively small too date, partnerships have been seen as a way to increase the market coverage for *both* public and private providers simultaneously and to achieve greater economies of scale. Interestingly enough, there seems to be evidence that public and private providers can expand the demand curve for intermediation services with greater collaboration and shared listings, although the efficiency of different providers in placing jobseekers can vary substantially.

7 Latin American and Caribbean countries, and C-181 Private Employment Agencies Convention 1997, ratified by one Latin American country.

Three key types of partnerships are reviewed here. The first type is when the public employment service forms a *(i) network of public, private, and non-profit providers* to create an expanded, more effective national system. Peru offers an interesting example of this type. In 1996, the Ministry of Labor initiated a network of non-profit and private providers largely in urban areas. Churches, social organizations, and training centers could apply to be offices of local labor intermediation and information. All offices in the network register job seekers, provide job search assistance, place job seekers to local vacancies, and have access to the national database of job vacancies. The results, even in the first years of implementation, demonstrated clear increases each year in the numbers inscribed in the service for both public and private providers, increases in number of jobs listed, and importantly, an increasing percentage of workers placed. From 1998-2000, for example, the number of placements of the combined public and private centers increased 28%, efficiency (percent of job seekers placed) as well as vacancies filled also increased.³ With such networks, the public service can be a distinct entity (as in the case of Peru) or replaced in favor of a network of local and regional offices (e.g. Chile).

A second area of partnerships is in providing *(ii) policy guidance and oversight* to improve implementation of labor intermediation services and overall coordination of labor market policy. Mexico created executive committees of its state-level employment offices in 1992 to provide guidance in the operation of the employment offices. Participation in the executive committees includes: business associations and firms, training institutions, state and federal government agencies, and labor unions. These executive committees in turn form part of the state councils for productivity and competitiveness, which coordinate labor market policy between state and federal governments.

A third form of public-private partnership has developed to serve *(iii) disadvantaged or special needs populations*. The United Kingdom provides an interesting example of using local area partnership to improve services to the most difficult-to-reach populations. The responsibilities and flexibility to develop these partnerships to fit local needs lies at the local level. UK partnerships have been formed around serving handicapped populations, minority populations and those with severe learning difficulties.

Model D: Autonomous Service with Tri-Partite/Key Social Actors Participation

A more advanced form of partnership has come about when the public employment service is replaced by an autonomous organization comprised of key social partners. These autonomous services are neither solely public nor private. They operate autonomously, making all the key decisions on the operation of offices and the delivery of services. They typically receive substantial public funding through public subsidies and public payment of training and other services, but management is independent of the public sector. A recent study concludes that almost one-half of OECD countries now have autonomous, tri-partite organizations. These autonomous services can be run on a tri-

³ *La Modernización del Servicio Nacional de Empleo en el Peru*, “Ministerio de Trabajo y Previsión Social, mayo 2001.

partite basis (e.g. Germany) with business, labor, and government (local and federal) partners or based on different groupings of social actors. The Netherlands started with a tri-partite organization in 1991, but the government decided to withdraw from administration in 1996 and replaced its slot with independent experts. Government representatives had found themselves in impossible and compromising political positions that frequently paralyzed decision-making. The key advantages of this model are the more active participation of the local stakeholders and improved delivery and flexibility of decision-making. Autonomous services are expected to have greater levels of coverage of job openings and registered jobseekers because of the active participation of workers and employers. For autonomous services to work efficiently and smoothly, these cooperative labor union-government-private sector relationships need to have already been established to avoid polarized and ineffective decision-making. The United Kingdom had attempted a tri-partite service, but the Thatcher government retook the service for the public sector after major disputes with the trade union partners. The degree of consensus between the government and the social partners and the advanced state of existing relations are key elements in the success of autonomous services. For this reason, the model is less applicable to developing economies where such program management relations are less developed.

Model E: Competition-Based Network with Public Funds

Within the OECD countries, adventurous reforms are being pursued by Australia in creating its own distinct model. The Australia system has evolved from earlier reforms of a “case management” approach in which the public employment service would contract out specific cases for placement/services to the private sector. In 1998, it inaugurated a more advanced reform of outsourcing labeled “competitive service delivery.” Under this newly developed model, the Public Employment Service was replaced by a “job network” of 310 private, community, and governmental organizations that are paid individually to place clients in jobs. The functions of this network, delineated in the national web page include: job brokering, employment and training systems. This new institutional model is strongly driven by outcomes, as agencies - whether public, private, or non-profit - are paid a fee for each unemployed person placed with extra fees for placing the long-term unemployed. In the second round of contracts (called tender), the public sector organization (Employment National) was cut back as the larger number of placements were made by non-profit organizations run by churches and other voluntary bodies. The job network model was intended to overcome deficiencies in the previous models in which the disadvantaged were underserved. Under the Australian model, additional resources are provided to give incentives for public and private providers to serve the disadvantaged. It is too early to judge the effectiveness of this new model, but one British Parliamentarian remarked that it was “a unique step which is being watched closely by employment ministers around the world.”

Model F: Private Sector-Based Services

Under this final model, there are no public providers. The public sector, may, however, support the financing of private providers to support public sector goals. In Central America, El Salvador has introduced a new reform offering a different private sector-based model and taking new risks to expand the provision of intermediation services. The Salvadoran model is unique in the region in that it is piloting a national service provided by a private or non-profit provider. The Ministry of Labor and the tri-partite state training institute, *Instituto Salvadoreño de Formación Profesional* (INSAFORP) provided particular leadership in formulating and supporting the new pilot service, and will constitute a policy oversight committee to the service, but not with day-to-day management responsibilities. The Salvadoran experiment constitutes a national intermediation service run completely by a private entity. There are plans as well for creating a network of satellite partners for the private national service. Distinct from El Salvador would be those countries with only private providers of intermediation, that is no public service or public-private efforts to collaborate in a national system. This can be understood as a *laissez faire* approach in which private providers may compete but there is no effort to support or capture the “public good” element of labor intermediation services nor coordinate labor market and training policy. The theoretical basis for the pure private model is for those who argue no public good function exists for intermediation and thus any public employment service or public subsidy of private providers would result in market inefficiencies.

As the great variety of intermediation models demonstrates, there is clearly no single “right” way to structure labor intermediation services. Which model is more efficient and effective and serves the greatest number (and type) of clients depends on a country context, the strength and performance of public and private institutions, available financing, and the relationships of key social actors. Institutions and their structure do matter in delivering labor intermediation services efficiently and effectively and who is served. A recent OECD study notes: “the institutional structure [of employment services] does affect factors such as the pool of knowledge and expertise contributing to management, the willingness of the parties involved to co-operate in implementing particular strategies and the perceived political legitimacy of operations.”⁴ Public financing directed specifically at compensating for the higher costs of placing disadvantaged workers (e.g. variants of models C, D, E possibly F) are the most likely to avoid the “creaming” problem that can result if solely market forces determine who is served. Just financing a public service, however, without specific targeting mechanisms, has been shown not to sufficiently protect lower income or disadvantaged workers.

⁴ Labour Market Policies and the Public Employment Service, Organization for Economic Cooperation and Development, Prague Conference, July 2000, 62.

VI. CONSIDERATIONS AND RECOMMENDATIONS FOR LATIN AMERICAN AND CARIBBEAN NATIONS

The Latin American and Caribbean region faces its own set of challenges and distinct economic needs in implementing new or reformed systems of labor intermediation. It is useful to distinguish the specific economic conditions applicable to investing in reforms to labor intermediation systems and considerations for how those systems need to be adapted to specific characteristics in Latin American and Caribbean economies.

The principal economic motivations for labor intermediation systems hold true in developed and developing countries alike. Namely, developing and developed economies alike operate with incomplete labor market information and inefficiencies between labor demand and supply in both employment and training and these inefficiencies have become more costly in a globalized and more rapidly changing labor market. The Peruvian Labor Ministry, for example, concluded that poor labor market information and intermediation translated into higher rates of unemployment, high occupational misadjustment, and underutilization of the labor force, all of which lowered social well-being and justified the need for reforms in the nation's intermediation service.

In all countries, the job brokering function of labor intermediation services - its core service -- is performed more effectively when the economy is growing. While this is inherently obvious, there are still conditions of limited growth in which investments in labor intermediation systems make sense. Essentially, this is when the economy exhibits labor market trends for which better intermediation can be an important remedy. These include conditions of: high job rotation; high short-term unemployment; significant labor market discrimination or lack of labor market transparency; and, human capital misallocations in training and employment. Any of these factors may commonly be found in Latin American and Caribbean labor markets and merit evaluation as the chief targets/purposes of a labor intermediation system. However, if a country is facing a true employment crisis with conditions of high structural unemployment (e.g. Argentina), investments in labor intermediation systems should not be a priority. Under crisis conditions, the effectiveness of intermediation would be highly limited unless the service also coordinate or delivers income support or other safety net programs.

One key economic trend in OECD intermediation systems is less relevant to the LAC region. That is, OECD intermediation systems have been increasingly focusing services on their most entrenched labor market problem - long-term unemployment. Ironically, intermediation services were never originally designed to address this type of problem, rather their intention was to reduce transitional, short-term unemployment and improve the match of workers to jobs. Long-term unemployment is a complex and entrenched problem requiring a multiplicity of strategies beyond intermediation.

Generally then, the case for reforming or strengthening labor intermediation services in Latin America and the Caribbean is a solid one, except in circumstances of a severe contraction of employment. It is particularly strong for countries in the region with high

levels of short-term unemployment, weak connections between the training and employment systems, and high levels of discrimination. The gains from intermediation services, however, are not rapid and countries in the region should see such services in more modest terms as vehicles for improving the labor market performance of key groups with employment needs.

How a country goes about reform and strengthening measures clearly varies with each country context and the existing state of labor intermediation services. Labor intermediation should be seen as one policy instrument of a larger employment and training system adapted to national needs and institutions. In any reform or strengthening of labor intermediation services, a key decision point is the long-run vision of the target purpose of the service and the corresponding institutional structure. Overall, reforms and strengthening of labor intermediation services can be seen as operating at two levels, one more potent than the one. The first, more modest level is to begin strengthening and efficiency measures without alteration to the fundamental institutional structure of the national intermediation service. This includes actions such as: staff training, improved management, expansion or creation of new services. The second level, which packs more impact, is to combine improvements to the management and efficiency of the services with institutional reform and restructuring. International experience has made clear that the larger gains come from beginning with institutional reform and restructuring. It is through restructuring that new market conditions are established with the private and non-profit sectors that provide the potential for more substantial gains in coverage and efficiency. In the cases of Peru and El Salvador, this required rethinking the roles of public, non-profit and private providers in a national labor intermediation system based on the strengths and weaknesses of national institutions and how best to garner increasing use of the system by local employers. Networking and partnership relationships can be initiated without substantial restructuring of existing institutions, or prior to a complete restructuring. Table 3 below summarizes some of the key actions that can be taken in strengthening (level 1) and reforming (level 2) labor intermediation systems.

TABLE 3
KEY REFORM AND STRENGTHENING MEASURES FOR INTERMEDIATION SERVICES

Level	Examples of Policy Measures
Level 1: Strengthening and Pre-Reform Measures	<ul style="list-style-type: none"> ▪ Fostering appropriate legal environment for expanding private and non-profit providers, including legal and regulatory changes. ▪ Creating pilot networks with private and non-profit providers ▪ Improve staff training ▪ Improve information systems, computerize job banks, equipment upgrades ▪ Strengthen input and participation of employers ▪ Introduce management reforms, performance measures ▪ Introduce specialized, tailored services (e.g. skills assessments, services to employers) ▪ Promotion campaigns to increase use of service
Level 2: Institutional Reform or Restructuring	<ul style="list-style-type: none"> ▪ Restructuring institutional framework and model (e.g. changing roles of government, private and non-profit sectors) ▪ Expand mandate and labor market policy coordination of service, e.g. adding new key functions such as linkage to training system, self-employment services, social service delivery ▪ Information systems that integrate data on job seekers, job vacancies, and labor market information

Institutional restructuring and reform may be of particular importance to Latin American and Caribbean countries, which have had such limited effectiveness in their present intermediation services and limited credibility with employers. Given budget constraints across the region, it is hard to envision a solely public service that will receive enough funding to function without partnerships in the private and non-profit sectors. For this reason, the institutional models of C and E, which rely on more modest public investment seem the most applicable to the region, and importantly, build on strengths of Latin America and the Caribbean in the vibrancy of the non-profit sector.

In creating new institutional frameworks and modernized intermediation services, Latin American and Caribbean countries will need to take into account their distinct labor market characteristics to shape systems better adapt to Latin American and Caribbean realities. These characteristics do not negate the rationale for reforming and strengthening labor intermediation systems, but they affect the type of intermediation

service and the specific services needed. These characteristics relate more to developing economies and imply the evolution of a more Latin American and Caribbean model of intermediation. Three key factors are reviewed here:

Role of Informal Sector

The traditional emphasis of labor intermediation services has always been formal sector employment as these are the jobs in which employers more openly advertise and solicit employees. The reality in many nations in Latin America, however, is that the informal sector or self-employment may be the major source of employment, particularly in rural areas and for older workers. The national employment service office in Brasilia, for example, found that only 2-3% of workers over the age of 33 who had lost the formal sector jobs found employment again in the formal sector.⁵ There has been little empirical study of the use of labor intermediation services within the informal sector or what impact such services can have on increasing/decreasingly informality. In countries that have high rates of informality, and typically high rates of underemployment, there are clear benefits to improving the match of workers to jobs in the formal sector and to fostering conditions under which small business creation is formalized. A key consideration for intermediation systems in the region is to expand their concept of employment to include referrals to programs of microenterprise, self-employment, and small business development, as this is a frequent - and sometimes only - source of employment for portions of the labor force. Self-employment and microenterprise programs are provided by a range of different national providers (e.g. governments, NGOs) but rarely on a “walk in” demand basis. Even more rare is a clearinghouse that provides information on a range of alternative programs where a potential entrepreneur can be helped in assessing which best fits their needs. Such clearinghouses are one suggestion for labor intermediation services in high informal sector countries. Secondly, countries should also consider whether to provide advice, information, and referral on the formalization of businesses in their LISs. This is quite distinct from regulating business for health and safety conditions or compliance with labor and commercial laws. A clear lesson learned so far is that the regulatory function is one of the most maladapted functions for a LIS. The suggestion here is the value of providing information on a voluntary basis, particularly if the government is offering expedited procedures to register businesses. Both suggestions for service support regarding the informal sector take a lesson learned from the “one stop” shops in the industrial countries in that intermediation services recognize increasingly that “employment” has become more fluid between job search as an employee or employer and intermediation services need to continually stay relevant where jobs exist.

⁵ Ivan Goncalves Ribeiro Guimaraes, Director, Brasilia Employment Office, interview with author, 14 May 1998.

Excluded Labor Market Groups

Latin American and Caribbean countries also face major labor market challenges in the concentration of low skills, poor education, poverty, and labor market among specific populations. These groups can include, among others: poor women, indigenous populations, afro-descendents, youth, persons with disabilities and persons with HIV/AIDs. In recent years, Latin America and the Caribbean have come to understand that the “exclusion” of certain populations from the full range of economic and social opportunities is part of the explanation for the high rate of inequality and persistent poverty in the region. Among the potential uses of labor market intermediation systems is to more effectively reach these target populations through specialized services and outreach. Similar to the OECD targeting of the long-term unemployed, these populations are most likely better reached through individual case management combined with specialized services and social service referral. Particularly interesting may be the United Kingdom experience in which the national service contracts directly with specialized non-governmental organizations in trying to meet the needs of ethnic minorities and disadvantaged groups. The challenge for intermediation systems in Latin American and the Caribbean is in increasing the coverage of disadvantaged populations while simultaneously expanding the overall client and employer base in order to provide more opportunities to refer disadvantaged populations to better quality jobs.

Migratory and Seasonal Labor

While rarely desired, Latin American and Caribbean labor markets include substantial migration and emigration - both to the United States and Europe and other countries in the region. In countries such as the Dominican Republic and El Salvador, worker remittances from abroad are a key source of national income and distort substantially the operation of the local labor market. For Caribbean countries reliant on tourism, there is a reduction in job opportunities in the low season with accompanying out-migration. A key question and controversy is whether a national labor intermediation service should play any role in regularizing temporary or seasonal migration or in protecting/overseeing workers migrating within the region. For countries that choose this path, the justification is that it provides their workers with a legal and safe path for migration and provides for their safe return to their home country. Mexico, for example, has a specific arrangement between its public employment service and the Canadian government in which the service screens a set of agricultural workers who are provided legal visas and travel costs to work seasonally in Canada. The National Employment Bureau (NEB) of Barbados lists seasonal overseas job opportunities under special programs largely in Canada and on U.S. cruise ships. The principal and overwhelming focus of any intermediation service is to support improved national labor markets. Whether and how special programs are designed for seasonal or temporary migration remains a profoundly individual choice depending on national circumstances. No country in the region, nor is it advised, uses its national employment service for principally overseas work as is found in the cases of the Philippines and Sri Lanka. In Panama, for example, private agencies specializing in overseas employment are prohibited. But regional leaders are grappling with how to

respond and adjust to migration trends. The Directors of the Central American employment services, for example, maintain the importance of continuing to face the realities of substantial intra-country migration by meeting on a regional basis to share national experience, propose adequate national policies, and seek ways to guarantee work conditions for migratory persons across national borders.

VII. TOWARDS A LATIN AMERICAN AND CARIBBEAN MODEL OF LABOR INTERMEDIATION

While Latin American and Caribbean countries have much to learn from the experience of the OECD countries in labor intermediation systems, in other ways they will need to chart their own path so that intermediation systems respond closely to the needs of developing countries with Latin-Caribbean characteristics as well as institutional strengths and weaknesses. Developing country experience in labor intermediation systems is much more limited, and in many cases, has been constrained by budget limitations, weak institutions, and slowly developing private sectors. The vibrancy of the non-profit sector and their ability to reach marginalized populations in Latin America and the Caribbean is an asset the region should not turn away from in building new labor intermediation systems. Labor unions as well offer new areas for cooperation in intermediation. At the risk of overgeneralization, some key considerations to future systems in the region would be:

- The building of national networks of public, private, and non-profit providers of labor intermediation services, and the testing of new institutional frameworks that garner the credibility and participation of private employers;
- Where informal sector employment is high, incorporation of both salaried and self-employment work with a labor intermediation service by providing a clearinghouse and referral for self-employment programs. This would create intermediation centers that, at a minimum, reflect employment realities in the country without distorting them;
- Include training information and referrals so that intermediation services promote a productive link between training and employment. It is not recommended that labor intermediation services in the region become providers of training. OECD experience has made clear the importance of separating the provider and supplier functions of training. The “broker” relationship in intermediating between training and employment, however, is clearly needed in the region;
- Particular attention to disadvantaged populations through specialized services and targeted strategies to better reach these groups;

- Slower evolution of computerized “self service” services than found in the OECD countries until there is more widespread use of information technologies nationwide;
- Elimination of regulatory functions for intermediation services;
- Incorporation of labor intermediation data in wider national and regional labor market analysis and systems;
- As national systems evolve, the development as well of regional sub-systems of training and employment intermediation (e.g. within Central America) that support labor market trends and regional integration.

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