



LABOR OBSERVATORY

BETTER JOBS INDEX 2024

QUALITY OF EMPLOYMENT IN LATIN AMERICA: BETWEEN INFORMALITY AND INSUFFICIENT WAGES

LABOR MARKETS AND SOCIAL SECURITY DIVISION





Quality of employment in Latin America: between informality and insufficient wages

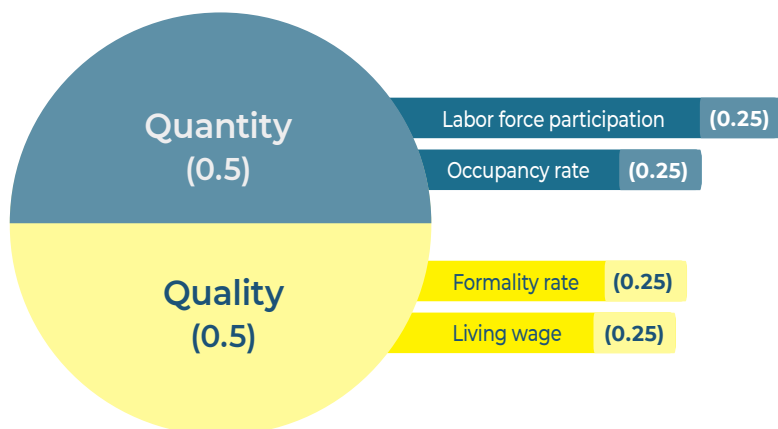
In order to identify areas of opportunity to develop and boost productivity in Latin America and the Caribbean, the Inter-American Development Bank closely monitors the evolution and behavior of labor markets in the region. One of our key tools is the [Better Jobs Index](#), which every two years measures and records the quality and quantity of employment in a region where the majority of citizens of productive age work, and 70% depend exclusively on their work to generate income, live and support their families

What Is The Better Jobs Index and What Does It Measure?

The Better Jobs Index measures countries' jobs through two dimensions: quantity and quality. The quantity dimension is composed of two indicators: the labor participation rate and the employment rate. The quality dimension is constructed with the rates of formality and of jobs with sufficient wages to overcome poverty. Thus, the index is the weighted average of these four indicators and its scores range from 0 to 100. For a country to score 100 points, all people participating in the labor force must be employed in a formal job that provides them with a living wage.

*The Index uses a variation of the working age population - WAP: all those between 15 and 64 years of age excluding people who attend to full-time school and are neither working nor looking for a job.

WHAT DOES THE BETTER JOBS INDEX MEASURE?



The quantity dimension of this index refers to quantitative aspects of employment: labor participation and effective employment in the countries. The quality dimension, on the other hand, records qualitative aspects: labor formality and wage sufficiency to overcome poverty.

In this report we explore the evolution of the Better Jobs Index between 2010 and 2022, the gaps that exist in quality and quantity of employment between men and women, and between youth and adults, as well as their implications for the future of employment in our region.

It is noteworthy in our analysis that the quality of employment in the region reached its highest historical peak since 2010 in 2022: 41.2 on a scale of 0 to 100. However, this measure, the latest available from the Inter-American Development Bank's Better Jobs Index, indicates that most workers in the region earn their living informally, and their incomes are not enough to overcome poverty. Informal labor translates into low wages, increases poverty and inequality, and thus slows productivity.

JOB QUANTITY

Labor force participation:

Calculated by dividing the number of persons in the working-age population actively participating in the labor force - in a job, or unemployed and in a short job search - by the total working-age population.

Effective employment:

Calculated by dividing the number of employed persons by the total number of persons in the working age population.

JOB QUALITY

Formality:

Calculated by dividing the number of formal jobs by the size of the working age population.

Living wages:

Number of jobs with wages that allow a basic level of consumption divided by the size of the working age population.¹

¹The Index uses a variation of the working age population - WAP: all those between 15 and 64 years of age excluding people who attend to full-time school and are neither working nor looking for a job.

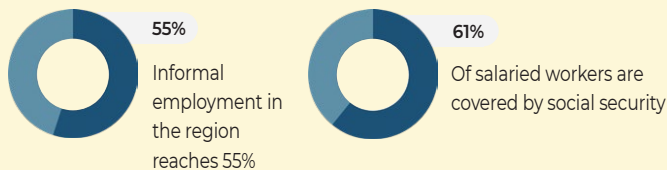
Analyzing the evolution of labor markets in the region through the lens of the Better Jobs Index, we observe a gradual growth of the index as a whole between 2010 and 2022, albeit with diverging trends in its components. While the **quantity component** has remained virtually stagnant, maintaining a relatively "high" rating (between 74 and 75 on a scale of 0 to 100), **the quality component has experienced slight growth in recent years.**

This analysis shows the urgent need for policies and actions to promote the creation of quality jobs in Latin America and the Caribbean. It is impossible to think of economic development in the region, and of reducing poverty, which affects 29% of the population—some 183 million people— without a substantial improvement in labor markets and human capital. It is not a matter of improving the picture of current labor conditions, but of generating and expanding access to jobs that allow for progress, generating long and upward career paths and boosting productivity in the long term.

WHAT DO WE MEAN BY QUALITY OF EMPLOYMENT?

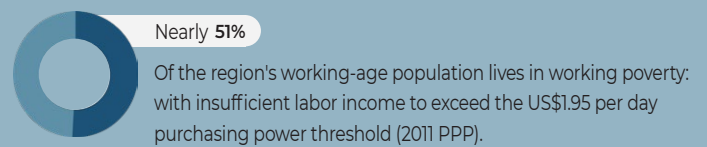
FORMALITY

Does the job provide access to social security benefits?



LIVING WAGE

Are wages in Latin America and the Caribbean above the poverty line?



Evolution of The Better Jobs Index from 2010 to 2022

During the period from 2010 to 2022, the Latin America and the Caribbean Better Jobs Index has experienced significant fluctuations, reflecting the complexities of the labor market in the region. The index as a whole rose from 54.9 in 2010 to 57.6 in 2022, showing a general upward trend, albeit with ups and downs.

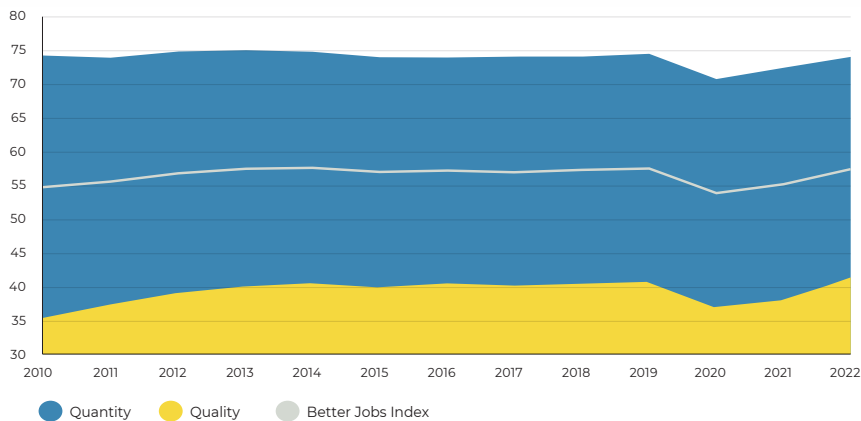
The quantity component of the index has shown a downward trend since its highest point in 2014, when it reached 74.3 points. In 2022, with the latest available data, the quantity component registered 74.1 points, indicating relative stability in terms of employment of all types, formal and informal, available in the region.

On the other hand, the quality component has shown a more positive evolution. With a score of 35.6 in 2010, this component has experienced limited but steady growth since 2010, peaking in 2019 at 40.8 points. The crisis caused by the pandemic in 2020 generated a drop in the score to 37.0 points; since then a recovery has been observed reaching 41.2 in 2022, its highest point. Despite this positive evolution, this quality component score means that the majority of workers in the region work informally and earn insufficient wages.

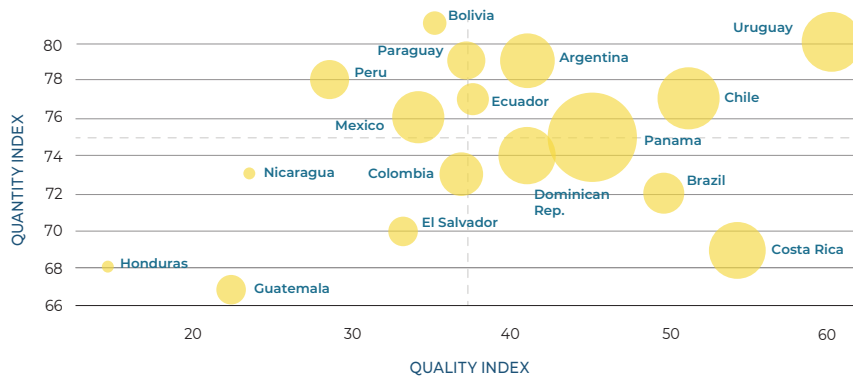
When analyzing the evolution of the Better Jobs Index by country, it is observed that Uruguay, Chile and Costa Rica are the countries with the highest scores in 2022, with scores in the job quality component above 50 points on the scale of 100. This trend suggests a correlation in some countries between GDP level and job quality in the countries of the region, as wealthier countries tend to perform better in the Better Jobs Index.

The evolution of the Better Jobs Index from 2010 to 2022 reflects some progress, the effects of the pandemic on employment, and also the region's significant debt in terms of job quality.

EVOLUTION OF THE BETTER JOBS INDEX AND ITS COMPONENTS

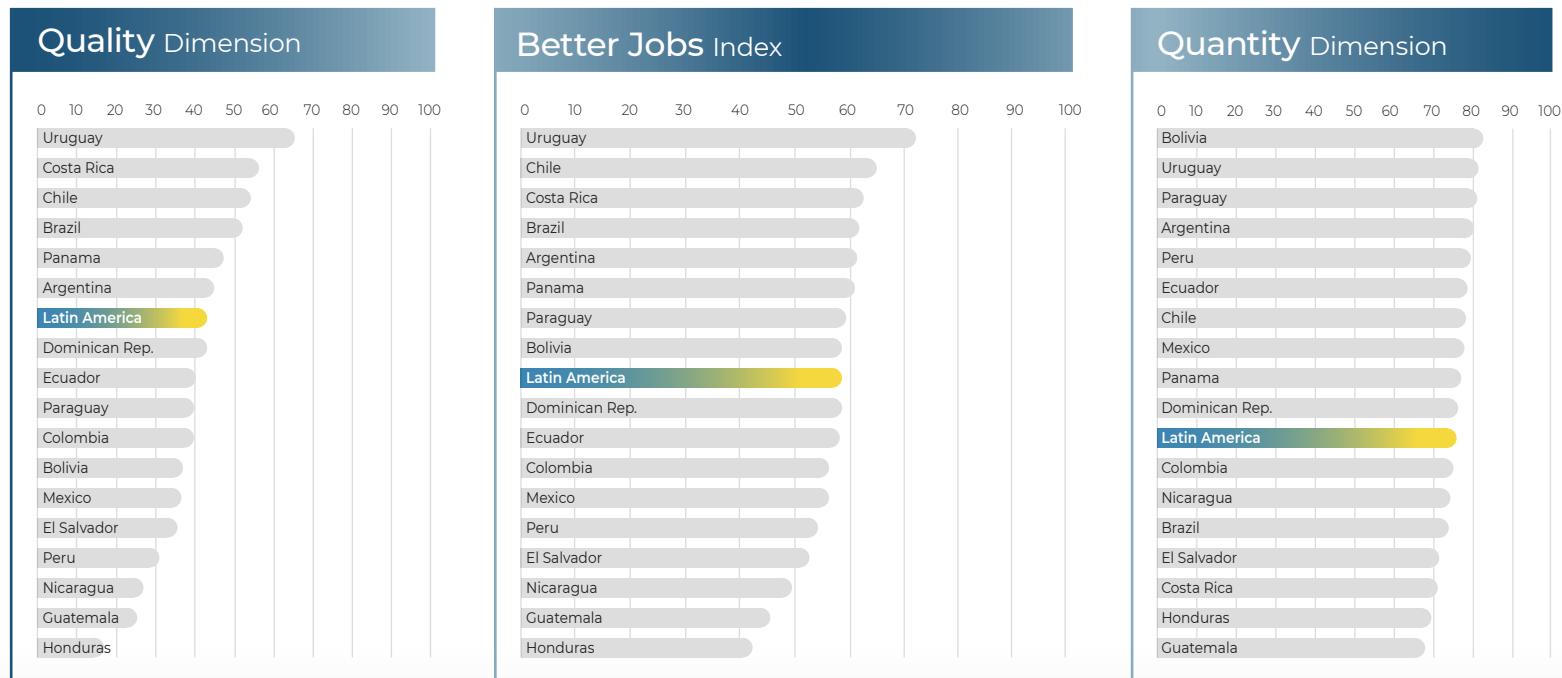


RATIO OF THE QUALITY AND QUANTITY INDEX WEIGHTED BY GDP PER CAPITA IN 2022



Note: GDP per capita is the size of the circumference of each country circle.

BETTER JOBS INDEX: QUALITY OF EMPLOYMENT AND QUANTITY OF EMPLOYMENT (DATA BY COUNTRY, 2022)

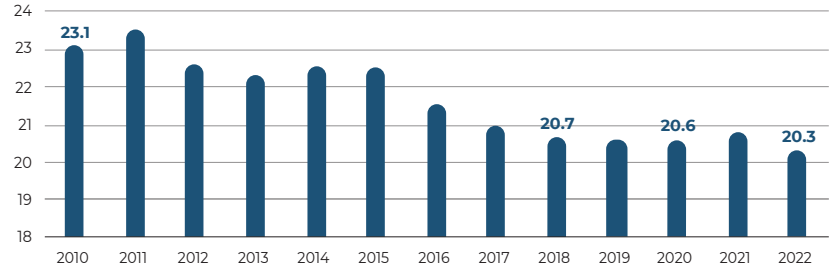


Women in Latin America Have Lower Quality Jobs than Men

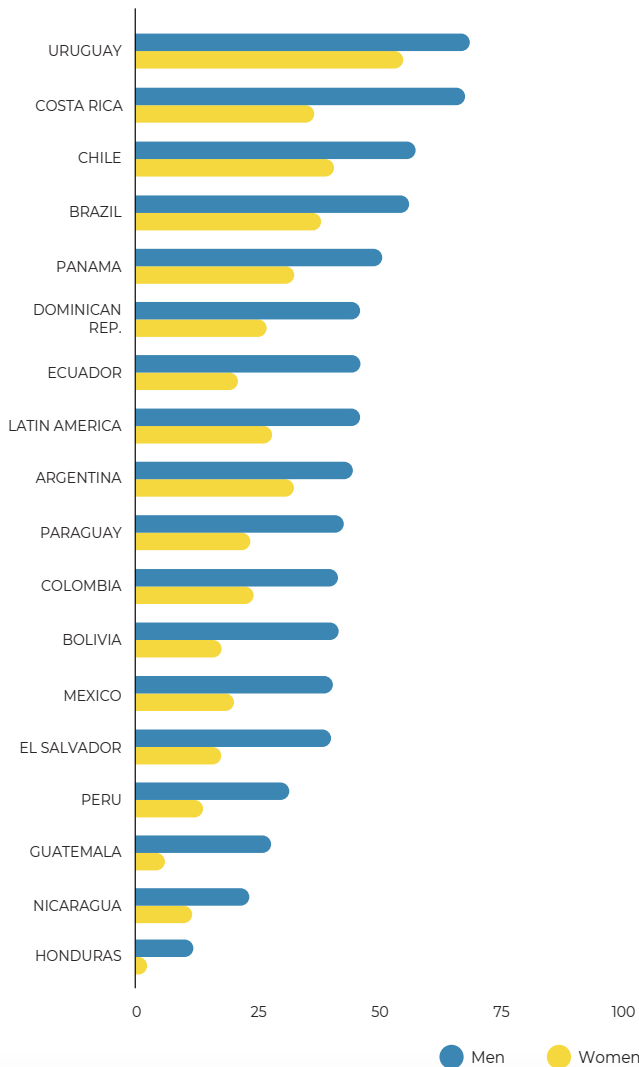
The gender gap in the Better Jobs Index is a crucial aspect in the analysis of the labor market in Latin America and the Caribbean. Over the period 2010 to 2022, the gap in quantity and quality of employment between men and women remains significant despite slight reductions.

In 2010, the gap between men and women in the Better Jobs Index as a whole was considerable: 23.1 points higher for men than women. By the latest available measurement in 2022, while the gap has narrowed, it still persists at 20.3 points. This trend reflects the marginal success of efforts to close the gender gap in the labor market over time.

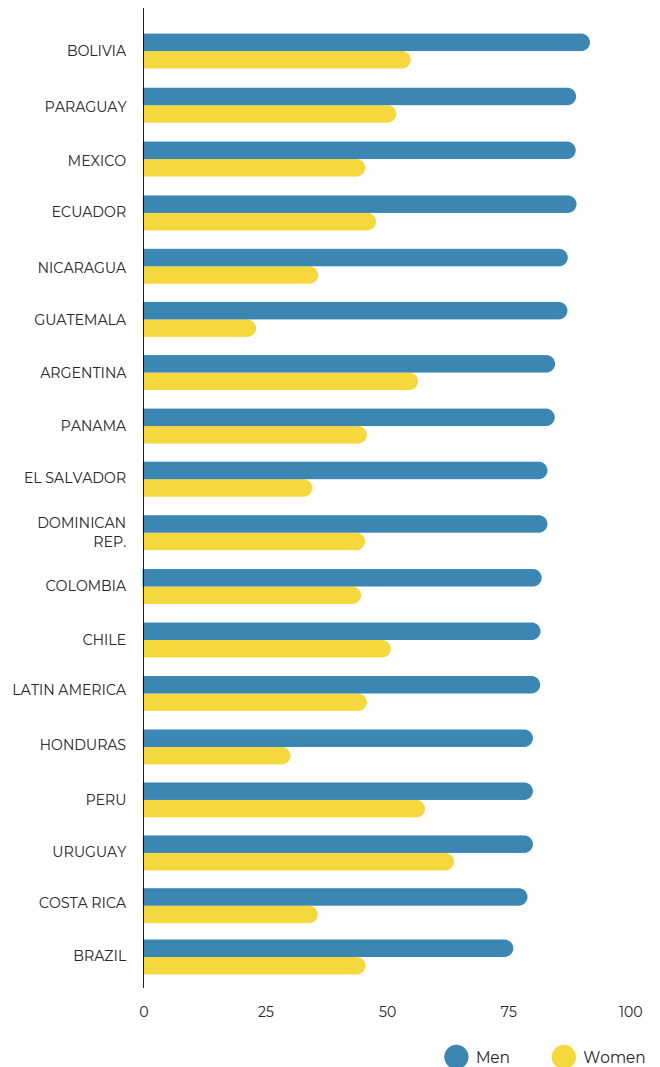
GAP BETWEEN MEN AND WOMEN'S BETTER JOBS INDEX SCORES BY YEAR



GENDER GAP IN THE QUALITY COMPONENT BY COUNTRY IN 2022



GENDER GAP IN THE QUANTITY COMPONENT BY COUNTRY IN 2022



From 2010 to 2022, the Better Jobs Index for women grew at a rate of 0.8% per year. At that rate, it would take more than 47 years for women to reach the level of job quality and quantity that men have in the index as of 2022.

When analyzing the gender gap in the individual components of the Better Jobs Index, it is observed that the disparity is more pronounced in the quantity component than in the quality component. In 2022, the gap in quantity is 24.5 points, while in the quality component it is 16.1 points.

It is important to note that the countries with the smallest gender gap in the Better Jobs Index are Uruguay, Argentina and Peru, while those with the largest gender gaps are El Salvador, Costa Rica and Guatemala. **The presence of Uruguay and Costa Rica at opposite ends of the gender gap rankings underscores the complexities of the region's labor markets encompassed by the Better Jobs Index. Both countries rank highly in the regional ranking of the index, but have different gender gaps.**

The gender gap in the Better Jobs Index is a crucial aspect to be considered by policy makers and labor market actors in Latin America and the Caribbean to raise the quality of employment.

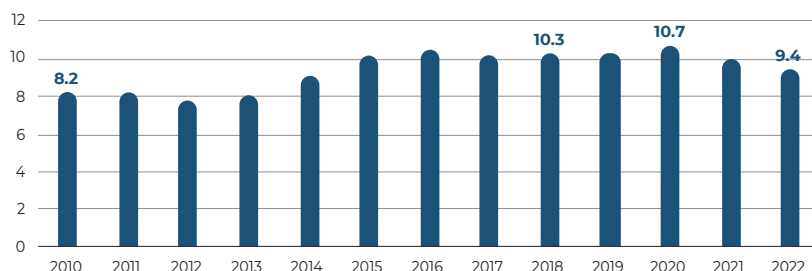
Youth in Latin America Have Lower Quality Jobs than Adults

During the period from 2010 to 2022, a slight growth has been observed in the gap between youth and adults in the Better Jobs Index. In 2010, adults had an index 8.2 points higher than that of youth, and by 2022, this gap widened to 9.4 points.

Breaking down the gap between youth and adults by components of the Better Jobs Index shows that the disparity is more pronounced in the quality component than in the quantity component. In 2022, the gap in the quantity component is 3.8 points, while in the quality component it is 15 points.

Notably, the countries with the smallest gap between youth and adults in the Better Jobs Index are Costa Rica, El Salvador and Brazil, while those with the largest gaps

GAP BETWEEN THE BETTER JOBS INDEX SCORE BETWEEN ADULTS AND YOUTHS BY YEAR



are Argentina, Peru and Uruguay. Again, as with the gender gap, the presence of Uruguay and Costa Rica at opposite ends of the age gap rankings highlights the complexity of the challenges facing the region's labor markets.

Quality of Employment by Country

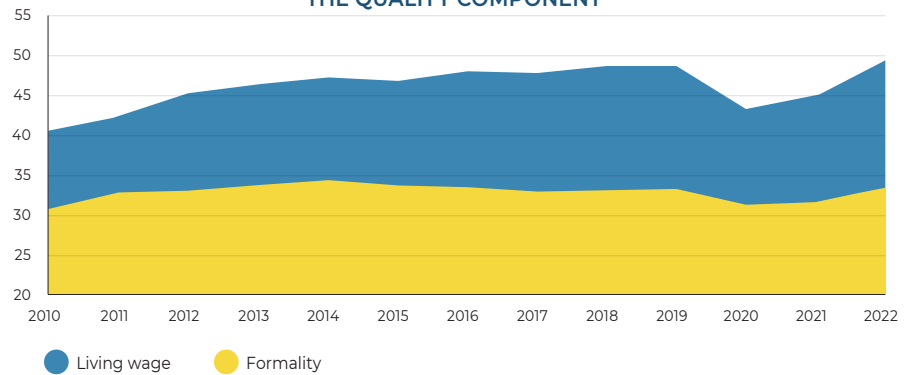
The quality component of the Better Jobs Index reached its highest point since it has been measured with a score of 41.2 in 2022. The formality indicator score stands at 33.2 in 2022, slightly below its peak in 2014, when it registered 34.2 points. Between 2010 and 2022, the job quality component grew at a rate of 1.2% per year. At that rate, it would take more than 48 years to reach the 74.1 point level achieved by the quantity component in 2022.

On the other hand, the living wage indicator had a score of 49.1 in 2022, representing its highest point since 2010. The living wage indicator has grown by 9 points since 2010. However, what these results tell us is that barely a third of workers in Latin America and the Caribbean have formal jobs, and more than half live in working poverty with insufficient labor income to exceed the US\$1.95 per day purchasing power threshold.

Uruguay, Costa Rica and Chile stand out as the three countries with the highest scores in terms of job quality by 2022. However, most of the countries in the region have also shown improvements in their performance on this indicator since 2010. It is noteworthy that 10 of the 17* countries included in the analysis have experienced growth of more than 6 points in the job quality component between 2010 and 2022, with Paraguay, the Dominican Republic and Brazil showing the greatest progress.*

* Updated data up to 2022 is only available for 15 of the 17 countries included in the analysis of this edition of the Better Jobs Index. For Honduras and Nicaragua the most recent data available is from 2014 -2018.

EVOLUTION OF THE INDICATORS THAT COMPRISE THE QUALITY COMPONENT



Our Proposal

We have much work to do to raise the quality of employment and productivity in Latin America and the Caribbean. Despite the progress we described in the previous section, today most workers in Latin America and the Caribbean are not earning enough to live on, are not able to save for retirement, and are not contributing to pension systems. Important challenges also persist in terms of gender equity and the generation of opportunities for young people.

The progress we observe in the historical evolution of the Better Jobs Index in the quality of employment dimension has been driven by improvements in workers' remuneration and greater formalization of employment in several countries in the region. But the improvements have not been enough; they need to be scaled up and multiplied.

The challenge of raising the quality of employment must be met:

- **Equipping the region's human capital with skills for productivity** that are aligned with the talent needs of the productive sectors. This includes accompanying countries in the transformation of their industries based on new technologies, climate change, and the transition to green economies, identifying the present and future demand for competencies and skills for work.
- **Promoting formal employment** hand in hand with productivity at lower costs by making social security universal.
- **Promoting access to quality jobs** for people in the region by strengthening public employment services so that job seekers, especially the most vulnerable and those with the greatest barriers to finding work, can connect with the human capital needs of the productive sector.
- **Ensuring high social security and pension protection coverage in the region**, through a sustainable balance between contributory and non-contributory pensions; by promoting and stimulating voluntary savings; and with innovative solutions to integrate non-traditional and non-salaried workers into social security.

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