



**WORLD BANK GROUP**



## Skills and Jobs

### An Agenda for Youth

OVERVIEW OF FINDINGS, CONCLUSIONS AND  
POLICY RECOMMENDATIONS

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Skills and Jobs:  
an Agenda for Youth

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# ACKNOWLEDGEMENTS

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**“Skills and Jobs: An Agenda for Youth”** is a report focused on assessing the main skills and jobs challenges faced by the Brazilian youth today to achieve higher employability and productivity in the labor markets. The study was prepared by a team led by Rita K. Almeida (Senior Economist, co-Task Team Leader) and Truman Pack (Lead Economist, co-Task Team Leader).

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# Analytical Background Papers Developed for this Report

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"Brazilian Youth Choices: Categorizing and Evaluating the Time Allocation Decisions: Cohort Evidence between 1995 and 2014". By J. Costa, M. Foguel, M. França and R. Almeida (2017).

"Youth School dropout and Time Allocation: Micro Determinants 2012-2016". By J. Costa, M. Foguel, M. França and R. Almeida (2017).

"A Skills-Based Human Capital Framework to Understand the Phenomenon of Youth Economic Disengagement" by D. Angel-Urdinola and R. Mayer Gukovas (2018)

"A Framework for Youth Disengagement in Brazil" by E. Rios Nieto (2017).

"Pieces of the disengagement puzzle", By R. Gukovas and U. Kejsefman (2017).

"If it is already tough, imagine for me: Qualitative Perspective on Youth disengagement in Brazil". By M. Muller and A. L. Machado.

"Ongoing analysis on Positive deviants and Rural samples", by M. Muller and A. L. Machado (2017).

"Wages and Employability of Higher Education Graduates in Brazil: Evidence from matched employer employee data", by R. Almeida, L. Caseiro A., Maciente, and P. Nascimento.

"Policies to Increase Youth Engagement and Reduce School Dropout in Brazil: A meta-analysis & International Benchmarking." (2017). A. Loureiro and C. Szerman.

"Review/meta-analysis of international quantitative evidence on the impact of labor market institutions on employment outcomes of youth". (2017) Y. Pui Shen

"'Scarring' effects on youth from informal employment and unemployment. Analysis using PME", (2018) by R. Gukovas and V. Moreira.

Estimates of labor market policy/program reforms on opportunities/outcomes for youth (policy reform simulations that appear in BER, but applied to youth-only sample, to identify differences in impact). (2017). Moreira, V., M. Morgandi, M. Weber and T. Packard

"Teacher and School Quality in Brazil: Evidence for Ensino Médio". By L. Costa and M. Barbosa.

"Mapping of Higher Education Institutions in Brazil: Access and Relevance", (2017), By R. Verhire and P. Nascimento.

# PRELUDE

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Brazil, Stefan Zweig's "land of the future", faces the prospect of becoming mired in promises of the past. Despite the significant social progress achieved over the past decades, many of Brazil's social and economic institutions still contribute to exclusion. Public policies and spending favor insiders and the elderly and leave many young people disconnected, disenfranchised, and economically disengaged. Unless it fully engages its young people in the economy, Brazil's productivity will continue to languish. This report argues that to successfully navigate the country to a higher-income, more equitable society, Brazil's leaders will have to place youth at the center of an ambitious skills and jobs policy-reform agenda.

Moderate growth expectations in the medium term only increase the urgency to engaging youth and to upgrade their skills. Although the goal of inclusion, particularly of the most geographically, economically and socially disconnected young people remains a priority, the new urgency arises from the headwinds on economic growth that are blowing stronger as Brazil's population ages. The last wave of Brazil's demographic transition is starting to crest. With the right skills and jobs policies, Brazil could ride this wave out of middle-income status. The alternative is for that wave to crash down and sink the prospect of reaching new levels of shared prosperity.

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## 1.1 Population Ageing, Technological Change and the Productivity Imperative

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A critical determinant of any country's labor productivity potential, and ultimately of its economic development, is its human capital -the labor force and its skills.<sup>1</sup> Many economists are calling human capital the New Wealth of Nations, to paraphrase the title of a forthcoming global report from the World Bank (World Bank, 2018a) on the subject. Brazil is emerging from a stage in its development when labor had been abundant, and years of sustained public and private investment equipped an expanding share of its labor force with basic education. The country has benefited enormously from this demographic dividend – a long period when the share of working-age people in the

population was substantially higher than the share of dependent children and elderly. Brazil augmented that dividend by ensuring widespread and expanding access to primary and secondary education. Advances in technology also released large numbers of people from subsistence toil to work in more productive forms of agriculture, the rural non-agriculture economy and to move to jobs in manufacturing and services in urban areas.

But even a country abundant in human capital, requires a contestable and efficient labor market to ensure that this resource is put to its best use, as well as an effective set of workforce development policies to ensure that

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<sup>1</sup> Dutz et al (2018) analyze in detail the challenges of low productivity growth in Brazil and the two concepts of labor productivity (PT) and total factor productivity (TFP). While related, this report focuses on the challenges to labor productivity growth from the perspective of youth.

working people have sought-after skills. The recent, prolonged period of high growth -fueled by external demand for commodity exports- drew new workers into the labor market, and many into regulated 'formal' employment. The gains in employment and earned-income that were driven by rapid growth during this period, were also socially progressive. Indeed, leading scholars in Brazil have noted that in the period from 2001 to 2015, the average annual rate of growth of labor income was more than twice as fast among working people in the lowest three deciles of the income distribution than for people in the top three (Paes de Barros, et al, 2017)<sup>2</sup>. Yet even with favorable economic tailwinds, strong and progressive employment outcomes were not predetermined or inevitable. The hand of government policy, in particular expanding the access to education to the most vulnerable, helped to shape these outcomes. Policy interventions can improve the education and training system to provide relevant, sought-after skills, as well increase the efficiency of the labor market at matching skilled workers with employers.

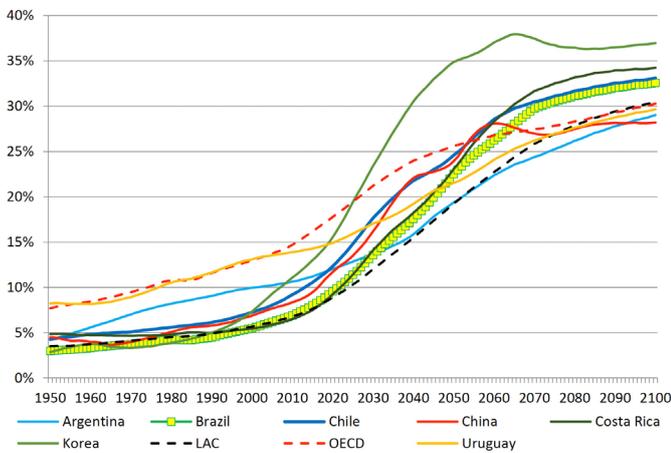
**Brazil now needs more of the right policy efforts to sustain its gains, for despite the advances from demographic and structural change, productivity has been disappointing when compared to other countries in Latin America and in other regions.** This report is a complementary companion volume to an analytical look by the World Bank at the constraints on productivity across Brazil's product and factor markets, "Brazil's Promise: Boosting Productivity for Shared Prosperity" (World Bank, 2018). By taking the perspective of human development, it analyzes the institutions, regulations and interventions that create the bedrock of skills in the economy, and that channel people into the right jobs. The best way to raise productivity is to find better ways to

combine capital, labor and skills in core sectors of the economy. In this report, we scrutinize the most binding constraints on and obstacles to this process on the supply-side of the labor market, and particularly the structures that Brazil has put in place to prepare youth to be productive participants in that market. Although the broader World Bank productivity report "Brazil's Promise" concludes that there are more acute problems in capital markets and the lack of competition, labor markets could also function better. As a result, the productivity of labor in Brazil has been notably stagnant for many years, barely moving since 1980, while that of neighbors such as Chile and Argentina as well as of erstwhile peers such as Japan and South Korea, has soared ahead.

**Population ageing creates an imperative and increases the urgency of raising labor productivity.** Even if problems in its product and other factor markets have been more detrimental, the challenges to the skills development system and to the labor market to raise Brazil's productivity potential are augmented by a rapid onset of population ageing. The demographic 'headwinds' that Brazil faces are getting stronger as the country's population 'ages' rapidly. Indeed, Brazil's demographic profile will soon start to resemble that of many European countries, although at a much lower level of economic development and per-capita value added. In about three years, the share of Brazil's population aged 15-64 ("working age" by global statistical conventions) will peak. The population dependency rate -the sum of children 0-14 and elderly 65 and over- will start rising in 2020, driven mainly by the growing share of elderly in the population. The old-age dependency ratio – the share of over-65s to the working-age population – is already higher than the average for Latin America and the Caribbean, and among the BRICs and upper-middle income countries, the pace of aging in Brazil is surpassed only by China.

<sup>2</sup>"Sustainable Inclusive Growth in Brazil: Past Achievements and Challenges Ahead" IAS INSPER presentation, delivered at the World Bank Office, Brasilia, End of Poverty Day, 17 October 2017.

Figure 1. Brazil's population is aging rapidly (Population aged 65 and older. 1950-2100, %)



Source: United Nations World Population Prospects

### The best chance for the Country of the Future to achieve high income status is to better engage its young people.

Brazil's productivity potential will be increasingly determined by today's youth- in Brazil, those currently aged 15 to 29 – and the ability of the country's skills development and labor market institutions to engage them fully in the economy. The last wave of demographic transition is cresting for Brazil, but its power can be harnessed. It is worth noting that population ageing in Korea accelerated faster than in Brazil starting in about 1990. Despite this acceleration, South Korea's labor and total factor productivity, its rate of growth and overall development has remained consistently strong and resilient to financial and economic crises. Korea's example, that of Japan and China are the best evidence that a country's demography does not have to dictate its economic destiny. Keeping the elderly economically active longer is one imperative. But ensuring that each new cohort

of new entrants to the labor market is equipped and fully engaged is the other. This report suggests how policy makers in Brazil can respond to the imperative of engaging its youth.

Yet another reason why the policy agenda outlined in this report is now urgent, is that digital technology adoption is rapidly changing the skills demanded by Brazilian employers. Population ageing and the declining share of the working age population, is not the only reason to put youth at the center of a discussion of productivity. Technological change and the spreading adoption of technology in the workplace, is shifting the set of skills that employers seek and the task-content of occupations. Brazil, in line with other countries in the Latin America and Caribbean region, still has a relatively low-level of digital technology adoption among businesses (Dutz, Almeida and Packard, 2018).<sup>3</sup> However, that pattern is changing -albeit, still at a slow rate- and producing changes in what is required to be viable and competitive in the labor market. Recent evidence for Brazil shows that business that rely on higher levels of digital technology adoption, and were first exposed to internet, have a smaller reliance on routine activities and manual abilities (Almeida, Corseuil and Poole, 2017). More and more firms are looking for workers with cognitive and higher-order analytical abilities, such as a clear mathematical reasoning, to be able to perform non-routine activities effectively, such as interacting with computers. Brazilian firms are also making relatively greater use of socio-emotional skills including more interactive, communication-based abilities, such as oral expression and speech clarity.<sup>4</sup>

<sup>3</sup> Dutz, Almeida and Packard (2018) point out that, while Chile ranks reasonably well, Brazil ranks 14th in the World Economic Forum's (WEF) Networked Readiness Index (NRI) business environment sub-index showing that enormous potential for reforms to encourage greater adoption of digital technologies. The World Economic Forum's (WEF) Networked Readiness Index (NRI) business environment sub-index is constructed using 18 indicators that cover product market policies; skills and labor market policies (including tertiary education and quality of management schools); and technology generation and diffusion support policies.

<sup>4</sup> Around the world, there is a growing concern with the impacts of technology adoption on the labor market, and especially on the prospects of less skilled workers who may be especially affected, unless the productivity gains from adoption generate significant increase in output and employment (Acemoglu and Restrepo, 2017, 2018). At the same time there are fears that new technologies may reduce manufacturing jobs especially in emerging economies by undermining their main vehicle of economic integration and economic growth in several countries (Hallward-Driemeier and Nayyar, 2017). Dutz, Almeida and Packard (2018) argue that in Latin America and Brazil there is potential for technology adoption to generate increases in productivity, output, and employment, so that they more than compensate employment in certain geographical areas, industries or firms.

If the basic education and skills development system is ready and responsive to meet the shifting demands of employers, young minds are more likely to keep pace with changing demands and to meet them. Like population ageing, this shifts the weight of urgency of the youth agenda from the objective of social inclusion to that of productivity and economic growth. This important labor market transformation shaping the future of work in the country poses new challenges for Brazil's education and skill development system. It sets new priorities for these systems to focus on new competencies, as well as digital skills to further support employability and labor productivity through higher digital technology adoption and use.

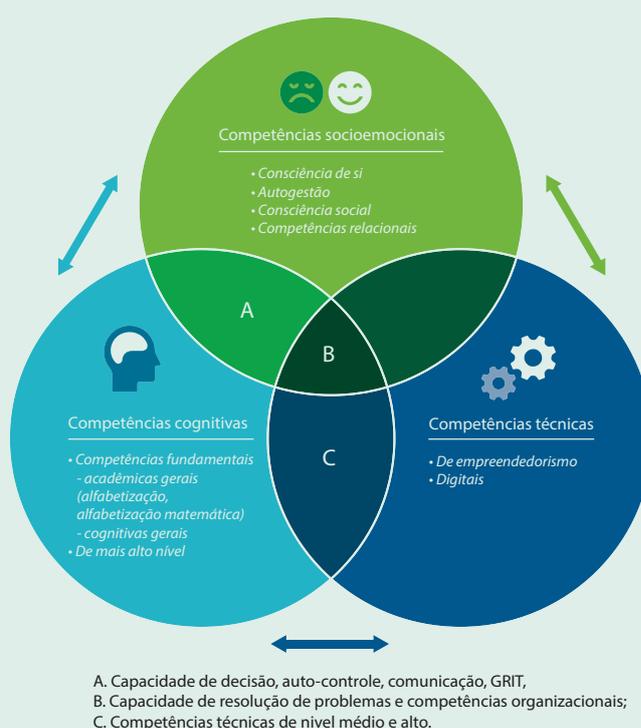
Skills acquisition while in school and at work, therefore, become part of Brazil's

human capital and critically determine both productivity and inclusion prospects. While Brazil has made significant progress in placing kids in school and promoting access to upper secondary education, there are still many concerns with the quality of education and the relevance of the skills students are acquiring. Because youth today will be the prime-age workers of tomorrow, attention should be focused not only on the foundational skills developed earlier in life but also on the learning that takes place 'on the job' and in training programs. Box 1.1 illustrates the importance of the three different types of skills – cognitive, technical and socio-emotional skills - as highlighted by the World Development Report 2018 (World Bank 2018b). All three types of skills can be acquired throughout life, but early childhood is an optimal period in which to learn the most skills as they can quickly build upon each other and give youth a head-start.

### Box 1.1 Placing the Focus on Cognitive, socioemotional & Technical skills

The difference between knowing how to do something and carrying out a task can be quite different. This gap illustrates the difference between knowledge and skill – that is, the difference between classroom learning and on-the-job training. Even the concept of “skills” can be quite diverse with categories such as cognitive, socioemotional, and technical skills all are all quite unique in their own respect. An efficient and well-trained person in a certain trade will have skills in all three aspects, in addition to knowledge. Promoting a range of skills means “educating for a mastery of a wide range of competencies that will help mitigate the challenges posed by our changing world context (WDR 2018).

**Cognitive skills** form the foundation of learning for most students. These skills are typically learned in elementary school and built upon throughout life. Cognitive skills allow students to think critically and are generally academic, including basics such as reading, counting, and telling time. They are the core skills used by the brain to think, reason, and pay attention. They will be used every day.



**Socioemotional skills** are skills learned as part of navigating social and interpersonal interactions, as well as social structures. These skills are the behaviors, attitudes, and values that a person may express at any given time and determine how a person may react in various situations. They can include self-awareness, relationship skills, and conversational skills. Socioemotional skills make up the “life skills” necessary to succeed in life beyond the carefully structured confines of school and family life as a youth. They are applicable to a wide range of disciplines and can be learned in multiple facets of life, including at home, at school, or in the workplace.

**Technical skills** are acquired knowledge and experience that are needed to carry out a

task. They can be quite specific and include the mastery of topics and certain materials or technologies. Technical skills are often learned after cognitive and socioemotional skills in later years of schooling such as secondary school, technical school, or tertiary education.

These three types of skills all interact to form a well-rounded person and allows them to succeed and to handle a variety of challenges and situations. They all reinforce each other with cognitive as the foremost skill needed to form the start of learning. Acquiring a solid base of cognitive and socioemotional skills can set the course for a lifetime trajectory of success, allowing the easier acquisition of technical skills later in life.

*Source: World Bank, WDR (2018)*

In addition to these two ‘megatrends’, there are at least three contextual factors that make the discussion about skills and jobs policies for youth in Brazil different from that in other countries in the Latin America and Caribbean region. Although these are not discussed at length in this report, they are important for readers to keep in mind when considering the challenge Brazil faces to building, sustaining and deploying its human capital to raise productivity.

The first is the large land size, relative dispersion of the population, and geographically uneven development and growth. Brazil is often referred to as a continent unto itself rather than just a country. Brazil is the fifth largest country on earth both in land area and population. With a land-mass only slightly smaller than Canada, the United States and China, it is three times as large geographically than Argentina, the next biggest country in Latin

America. Its size also gives the country more diversity, both in environment and terrain and the extent of connectedness. This matters as economic dynamism is often accompanied and propelled by centripetal forces that concentrate economic growth in certain places. It should come as no surprise, therefore, that economic development and growth are uneven, and indeed, heavily concentrated in the southeast of the country. This, of course, has implications for the options for economic engagement available to young people, both financially, viz. the tax base of a given locality, the extent and quality of the services it can afford offer, and the extent to which provision of these services is supported by an effective and equitable system of fiscal transfers.

Second, the economy, like that of many large countries is, historically, still relatively autarkic and insular even after years of slow integration. The economy developed for years behind a formidable wall of tariff and non-tariff barriers to trade. Although there have

been focused efforts at liberalization and more regional and global economic integration since the 1990s, export and imports remain a small share of economic activity relative to their importance in many of Brazil's neighboring countries and among its peers. The limited links to global markets has blunted the spurs to performance that come from foreign competition. In turn, the relative isolation and protection from competitive pressures has allowed product and factor markets to remain relatively uncontested. Low levels of competition have created an environment that can succor businesses that would otherwise be uncompetitive or that can be viable at unproductively small sizes. This in turn affects the demand for skills that Brazil's institutions were designed and evolved to build. It also pre-sets the extent to which liberalization and greater technology adoption will have a disruptive impact on those institutions.

**Third, the implementation of social sector policies, including education, labor and social protection, critical to building human capital is highly decentralized.** State and municipal authorities and local agencies play a greater role in delivering health and education services than in other countries in Latin America and the Caribbean. On one hand, this can make service providers more accountable to households seeking quality healthcare, education and support when they suffer a shock to their livelihoods, such as job-losses. Decentralization of decision making and administration might, arguably, increase not only the responsiveness but the local relevance of human capital building services. On the other hand, there is substantial variation in quality, that reflects different levels of capacity across sub-national administrative units to deliver services. Again, this variation can have a critical part to play in determining opportunities for economic engagement. Variation in the quality of human capital can also tie people down or keep them disconnected from where work is being created, adding to mobility and adjustment costs (Dix-Carneiro and Kovak, 2017).

This report is the second installment of a World Bank analytical services and advisory program for the Government of Brazil focused on skills and jobs policies, and places emphasis on productivity. The first installment, *Sustaining Employment and Wage Gains in Brazil: A Skills and Jobs Agenda* (Silva, Almeida and Strokova, 2015) highlighted the policies required for Brazil to safeguard the economic and social advances made during the long period of economic growth that ended so dramatically in 2014. The main emphasis of the first report was on social inclusion policies. This installment gives new urgency to the skills and jobs policy agenda, considering the economic contraction that the country has suffered, but with an emphasis on future productivity, and sharpens the focus on engaging young people in school and in work. The foundational premise of this focus is that a country that fails to provide opportunities for young people to engage, build and apply their talent and abilities, is at an acute disadvantage at sustaining development to high income as it passes through the last stage of its demographic transition.

**The report argues that, against the backdrop of rapid population ageing, there is renewed urgency to improve skills and jobs outcomes of youth.** Brazil simply cannot afford to grow old before it grows to high income status. The pace of population ageing implies that Brazil can no longer rely on factor accumulation. As mentioned above, the report is published alongside a broader examination of the constraints on productivity that lie in the regulation and institutions of other product and factor markets. This report dives deeper into the remaining constraints in the education and training system and in the labor market that prevent Brazil from reaching its productivity potential. The key to increasing Brazil's productivity potential lies in augmenting its human capital and combining it more effectively with other productive factors.

Can Brazil more effectively fully engage its young people in school and work, to raise their productivity? This core question has several component queries that this report seeks to answer. Is Brazil equipping its youth with the necessary skills and competences for the future workplace? Will youth be able to have high levels of employability and labor productivity and can they play a critical role in the final wave of its demographic transformation? How many young Brazilians are disengaged from the formal schooling system and in the labor market? How different are these patterns for young men and young women? Is the ongoing reform in the Ensino Medio doing all that is needed to reduce grade repetition and to ultimately support the acquisition of the right skills for the future of work? Is the ongoing reform to de jure job protection regulations de facto strengthening youth's labor market outcomes, or are more reforms needed?

The longer volume is organized as follows.

Section 2 of the presents a conceptual framework with which to analytically grapple with the concept of economic engagement. In Section 3 of the report key stylized facts are presented that describe the education and labor market participation patterns of young people since the early 2000s. Section 4 covers policies and programs in the formal schooling system at the upper secondary level and the significant efforts being made by the Government of Brazil to improve learning and retention at this level of schooling. Section 5 covers labor market institutions, regulations and interventions that shape incentives to work and hire youth, and help to determine the quality of matches between firms and young workers (either first-time job seekers or those transitioning across sectors and market engagements). Finally, Section 6 examines training and other active labor market programs, focusing especially on the policies that foster skills development for the abilities employers seek and more productive work. The remainder of this Overview is organized to reflect and follow the sequence of analysis, findings and conclusions in the longer volume.



## 1.2 Youth Economic Engagement: New Conceptual Insights and the Extent of Youth Disengagement in Brazil

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The report uses a conceptual framework, grounded in human capital theory, to expand the discussion of youth engagement beyond just the small segment of young people that is neither studying nor working. Chapter 2 of the report presents a conceptual framework with which to analytically grapple with the concept of economic engagement. The model is based on seminal human capital formation models, that charts pathways of skills development leading from the home and community, through study and which continue as youth take up employment full time. Beyond attending school,

the conceptual framework emphasizes the importance of the quality of education and of learning opportunities at work. A novel insight that arises from the conceptual framework is that 'economic disengagement' can take several forms, and intensities, even when young people are in school or working. It considers the definition of disengagement considers the larger population of young people who appear to be on a risky path: students that are either in school suffering from grade-age distortions or have high repetition rates, or are already working and are in low productivity and informal and/or low earnings jobs with fewer protections from shocks and scant opportunities to build their skills further.

Figure 2. “Disengagement” happens when youth are no longer accumulating human

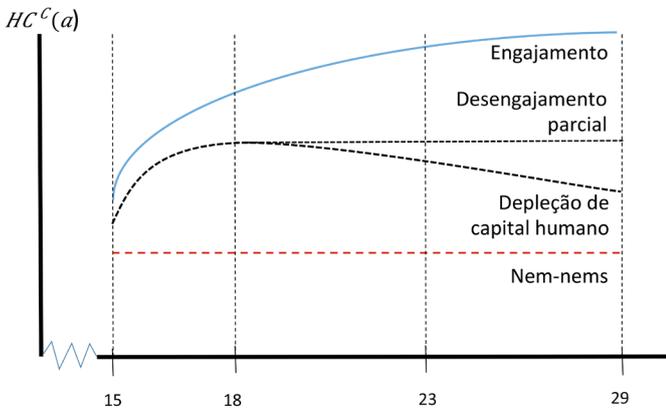
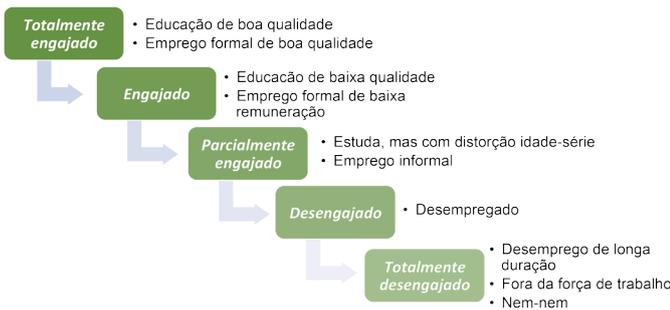


Figure 3. Portraits of youth disengagement from a skills & jobs perspective



Sources: Angel-Urdinola and Gukovas (2018) and Rios-Nieto (2017) for this report.

Today more than 50 percent of youth can be considered “at-risk” of disengagement as they are out of school and out of work, or are in school or working but failing to acquire relevant human capital. Chapter 3 of the report shows that according to the most recent available survey data, approximately 23 percent of youth (in Brazil, those 15–29 years old) are not in school, training or working, and are thus facing the most extreme form of disengagement (usually the so-called NEETs or nem-nems). However, the application of the new conceptual framework developed outlined in chapter 2 of this report shows that the share of youth that is less-than-fully engaged can rise as high as 50 percent. This

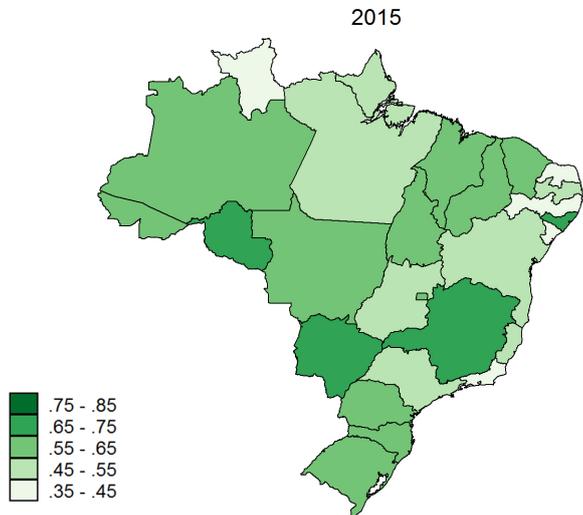
need not be either an alarming nor should it be a paralyzing fact. Rather the report proposes this measure of disengagement as one that motivates greater care to take an earlier and sharper policy action to keep young people engaged.

With the broader conceptualization of economic disengagement, the report charts recent trends in education and market participation, to distill key stylized facts.

Chapter 3 of the report presents and discusses these main facts and describes the education and labor market participation patterns of young people since the early 2000s. Descriptive statistics are presented that show how time-use choices of young people compare with those of youth in other countries, as well as with older members of Brazil’s labor force. The section presents, and benchmarks internationally when possible, several education outcomes including students’ grade trajectories, completion and dropout rates; the transition from study to work; patterns of labor market insertion; and the quality of jobs held by young people.

Although there is, on average, less youth disengagement than in previous years, the extent of youth disengagement, is still highly variable across Brazilian states. The rate of disengagement is shown in Figure 4 by state, where higher levels of disengagement appear darker. On a positive note, across the country, youth economic disengagement has fallen over the period 2004–2015, from 61.7 percent in 2004 to 52.2 percent in 2015. This fall occurs despite the increase in the share of ‘nem-nems’ over the same period. It was mainly driven by falling age grade distortion rates, for those in school, and falling labor informality, for those already in the labor markets. More critically, the rates of youth economic disengagement still vary substantially across Brazil’s states, being highest for the northeast and lowest in the south region of the country.

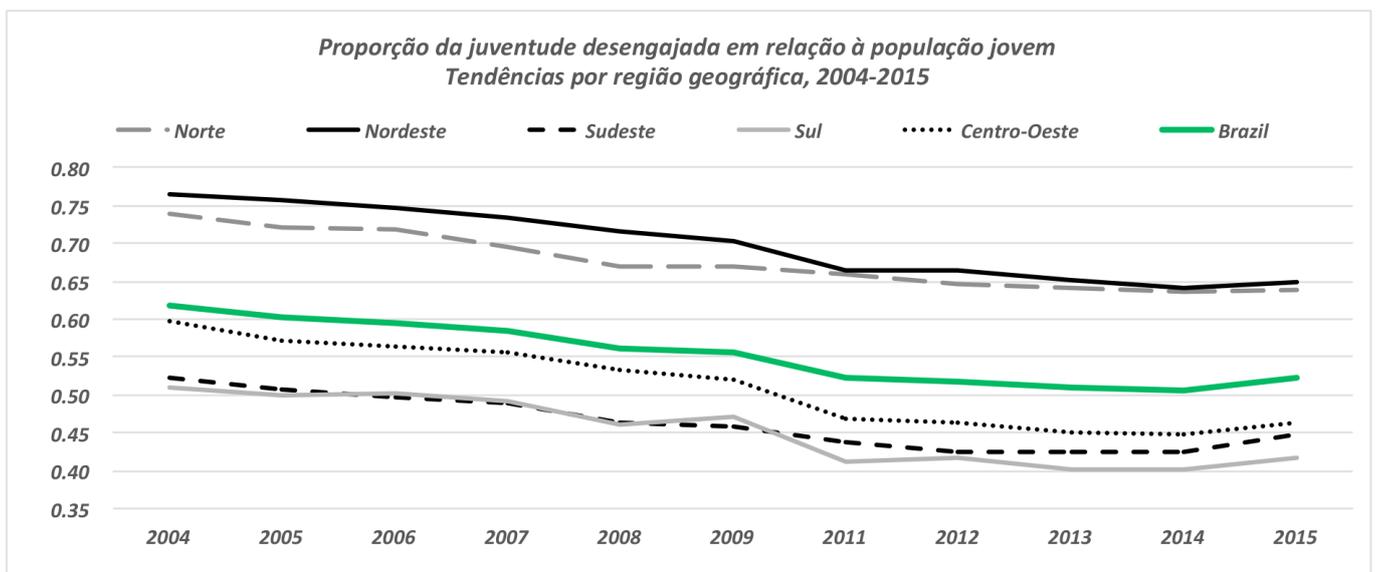
Figure 4. Youth economic engagement varies widely across the country (shares of youth disengagement relative to the youth population, subnational, 2015)



Source: Staff estimates using Pesquisa Nacional por Amostra de Domicílios (PNAD), 2015.  
 Note: The map shows the shares of the disengaged youth in each state relative to the state's youth population. Disengaged youth are the youth 15 to 29 years old that: (i) work in the informal sector (regardless of only working or also studying), (ii) only attends school but are lagging behind in learning (with a school-age gap) and, (iii) do not work or attend school (are out of school and out of work, regardless of being active or inactive).

Despite the comforting decline, since 2004, in the average youth disengagement and its within country dispersion, there has been a recent, and worrisome, reversion of this trend with the rising numbers of “nem-nems” and of youth informality and unemployment. Evidence in chapter 3 shows that during the recent crisis (2015-2016), the transitions out of out of school and out of work state have become more difficult. There is also concern with the recently increasing trend in youth unemployment and informality. The key question that arises from the discussion for policy makers is whether, in less buoyant economic conditions, the past achievements of engaging young people can be sustained. This is a worry for a country whose productivity potential now depends so critically on engaging its young people.

Figure 5. Youth disengagement fell during the period of rapid economic growth, but is now rising (share of youth disengaged relative to the youth population, trends by region 2004-2015)



Source: Staff estimates using Pesquisa Nacional por Amostra de Domicílios (PNAD), 2004 through 2015.  
 Note: Graph reports the trends for the shares of the disengaged youth in each state relative to the state's youth population at the state level and nationwide. Youth population refers to populations aged 15-29 years old. Disengaged youth are the youth 15 to 29 years old that: (i) work in the informal sector (regardless of only working or also studying), (ii) only attends school but are lagging behind in learning (with a school-age gap) and, (iii) do not work or attend school (are out of school and out of work, regardless of being active or inactive).



## 1.3 Education Outcomes and the Motivations to Invest in Human Capital

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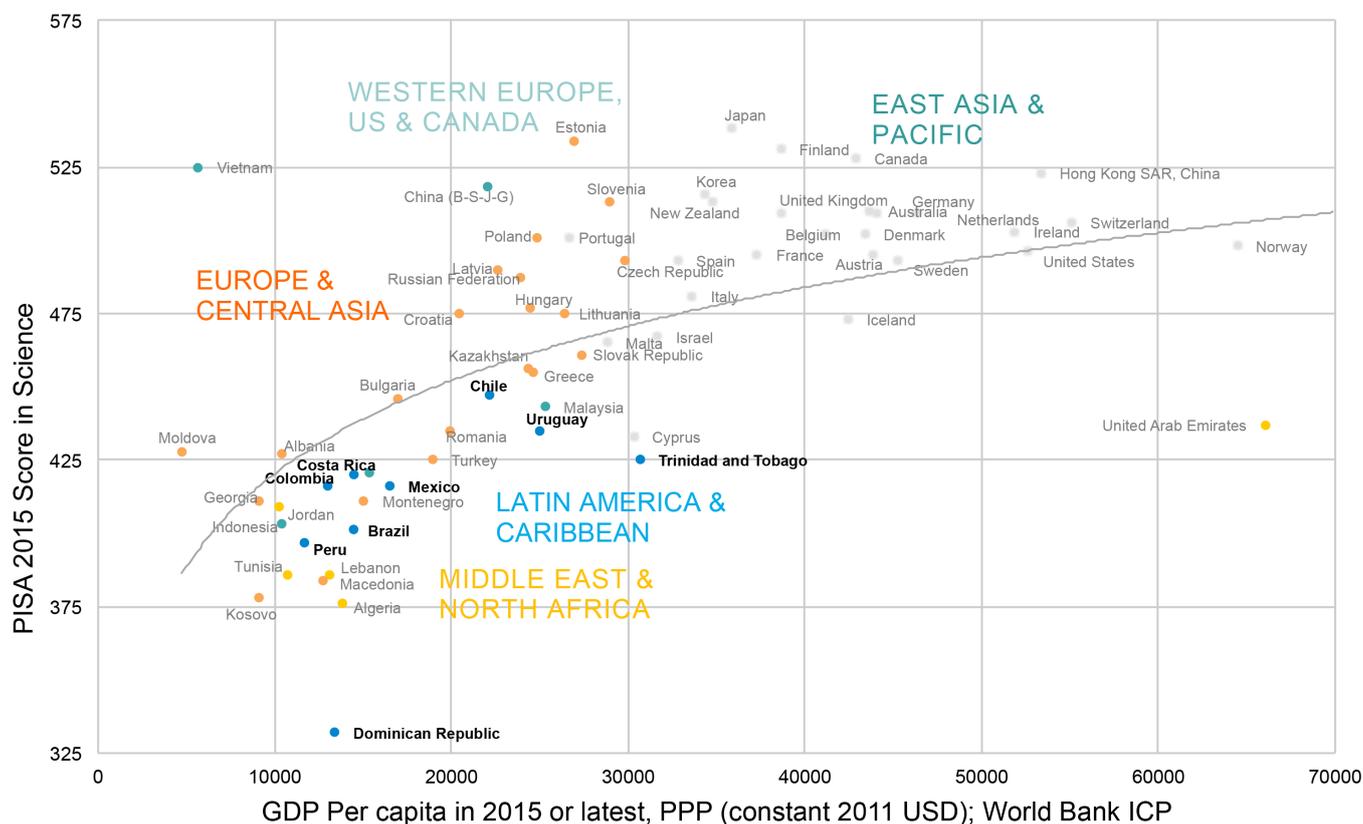
Brazilian youth today completes more years of education than previous generations, especially those at the bottom of the income distribution, yet labor productivity in the country continues to languish behind most of the comparator OECD economies. Since the 2000s, Brazilian youth went through a massive expansion in the access to education, including in higher education. The most vulnerable youth benefitted especially (Costa et al, 2017a). But, puzzlingly, although wages have been growing, aggregate labor productivity growth has been low (below both the Latin American and Caribbean regional average and the Organization for Economic Co-operation and Development [OECD] average) and stagnant (with an average annual growth since 1995 of 1 percent) over the past 15 years (Paes de Barros et al, 2017).

This report argues that this education-growth “puzzle” is likely driven by three facts: a labor demand that is heavily distorted towards unskilled labor, a low-quality education system and miss information about the real returns to education. First, labor demand has been heavily constrained by an economy still characterized by low productivity activities, with distorted product, labor and capital markets, generating a labor demand that is disproportionately oriented towards less skilled workers. Some of these patterns are discussed in-depth in the companion productivity report to this volume. Second, an education system of low quality, facing a severe learning crisis, with a reputation that is rarely unable to overcome “heavy” and outdated social norms hurting especially for women. In addition, evidence in the report of the misinformation in the returns to education sheds additional light on the increasing youth disengagement.

Brazil is facing a learning crisis, in which despite generous education spending and high levels of enrolment, young people are not learning the skills that will make them competitive workers. The World Development Report 2018 has shown a spotlight on a learning crisis around the world. Although access to education through expanded enrollment, including in Brazil, is a proud achievement, progress in improving learning has been far more limited. Brazil still ranks very low relative to neighbors and peer countries on international learning achievement tests. And, although Brazil has been improving learning performance the pace at which progress is being made is slow. The WDR 2018 estimates that based on current trends, it would take Brazil over 260 years to reach the OECD-member average scores for reading performance (WDR, 2018). Learning shortfalls during the school years show up as weak skills in the workforce.

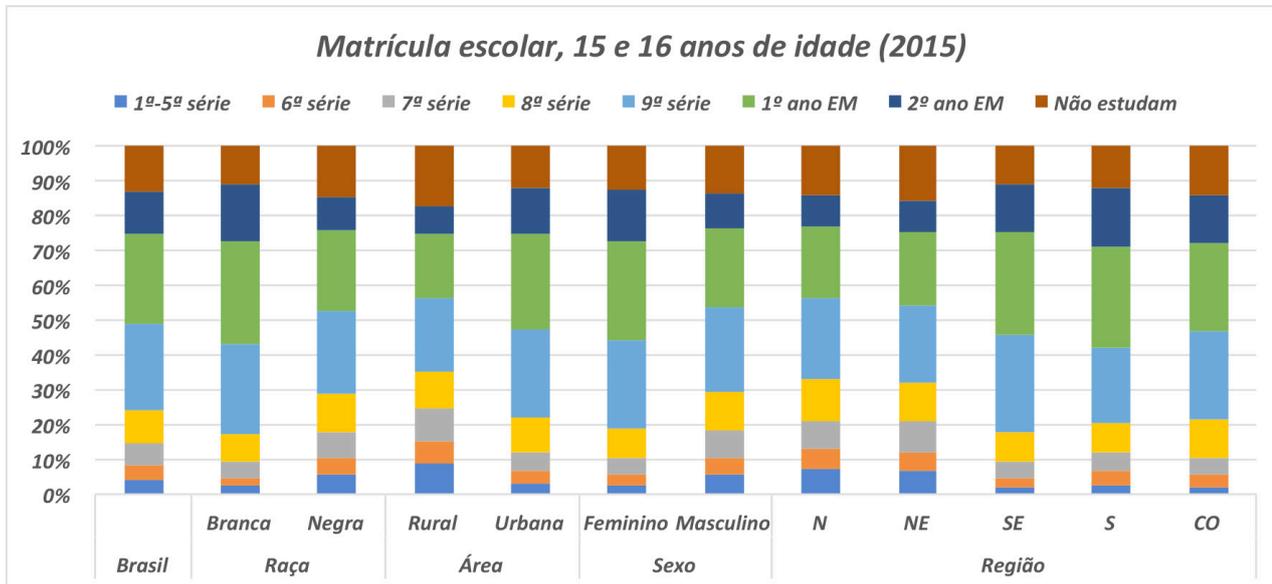
As of 2015, only 38 percent of teenagers are in the right grade in school and more than 13% is already out of school. There are significant learning deficiencies for Brazilian youth as many already struggle to complete even “Fundamental Education”. Most of the adolescents aged 15 to 16 years old, today completes “Ensino Fundamental” (grades one through 9) but has already important deficiencies in learning. Figure 7 shows that by age 15 or 16, when students should be attending the first year of Ensino Medio had they not had any type of age-grade distortion, already approximately one out of every 8 students have already dropped out from the formal schooling system. Also, for those that remain in school, only 37.9% are in the right grade for their age while most of the remaining are already lagging at least two full year of education (i.e. are attending eighth grade or less). This implies that youth starts Ensino Medio with highly deficient learning trajectories on core foundational skills, including academic, cognitive and behavioral skills, from their years of “Ensino Fundamental”.

Figure 6. Learning still is lagging behind even in countries with high enrollment, PISA 2015



Source: World Bank Group. PISA Country Notes (2016)  
 Notes: Figure shows the relationship between GDP per capita and performance on PISA Science in 2015.

Figure 7 Share of Youth (aged 15 to 16 years old) enrolled in school and out-of-school, 2015



Source: WBG calculations based Pesquisa Nacional por Amostra de Domicílios (PNAD), 2015.  
 Note: Figure reports for 15 and 16 years old youth the share that is still in school (by the corresponding grade of school) and the share that is out of school. Ensino Fundamental comprehends 1-9 years of education while Ensino Médio is defined by 10-12 years of education. Grades 1 through 5 are part of "Ensino Fundamental I" and grades 6 to 9 are part of "Ensino Fundamental II". Youth aged 15/16 years old should be attending grade 1 of EM (10th grade) if they had no age grade distortion. Age grade distortion is defined for students 15-29 years in the education system with age as March 31 of the reference year greater than the expected age of entrance in a grade. Black race includes self-reported races "preta" and "parda". Other races (indigenous and yellow) were not reported due to very low frequencies (less than 1% of the sample when considered together).

Learning deficiencies are cumulative and start early in students' school careers, lead to a lack of interest in building human capital, and motivate drop-outs among many adolescents. The main reason reported by students drop out of upper secondary education in Brazil is linked to lack of student interest in the contents offered by school. An overloaded curriculum, and perceived waste of time as they attend education are likely important drivers. Today the curriculum used in Ensino Fundamental and Ensino Medio is geared heavily towards memorization rather than critical thinking and rarely goes in-depth on specific topics. If youth find investment in additional education to be ill-fitting for jobs within the labor market that they want, and/or if they disproportionately discount future earnings, they are more likely to drop out and attempt to join the labor market as is, rather than flounder in lack of opportunity without any income.

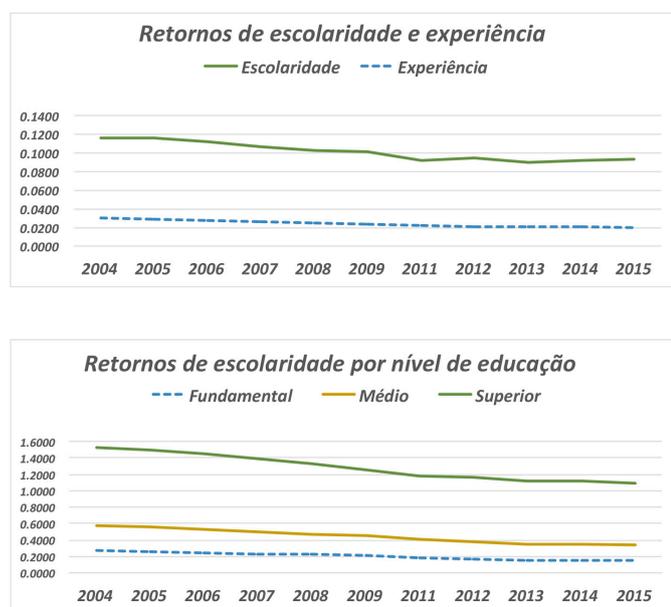
Qualitative work prepared as background to this report also shows that the reputation

of the schooling system is rarely strong enough to overcome deeply rooted and stringent social norms which coupled with reduced aspirations lead many girls to drop out from school. Machado and Muller (2018) gathered evidence from interviews with young women and men that reveal that the motivations and process of dropping out is quite different across genders. However, for both groups the lack support systems and incentives to continue investing in human capital are important determining factors.

The earnings premium for education and labor market experience in Brazil have been steadily been falling, but are still considerable. The falling returns to education (Figure 8) create reduced incentives of young people to invest in education; nevertheless, these returns still remain by and large significant economic returns. Figure 9 shows that holding a higher education degree yields, on average, a 125%

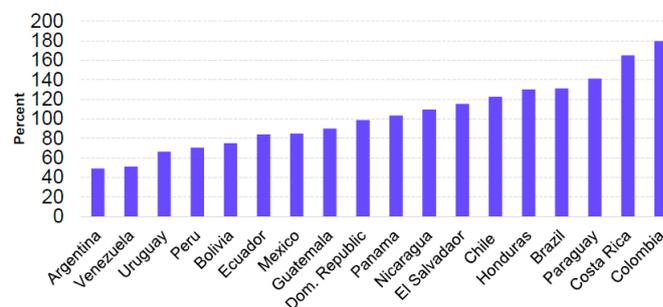
earnings premium. This is above the Latin American average of wage returns of 104% (Ferreyra et al, 2017). Broken down by type of institution, the net return of university degrees is higher in almost all fields compared to professional institutes and technical trainings. One of the main questions the report attempts to answer is whether selection can explain part of this result or whether it reflects real labor market gains for similar individuals. Aguinaldo et al (2017) show, after accounting for differences across students in many observable and frequently unobservable characteristics (such as quality at entry into higher education), there is still high individual wage rates returns to the investment in HE and large heterogeneity across different HE providers. Furthermore, evidence in Almeida et al (2017) also document significant wage premiums for secondary level TVET. Since only 12% of Brazilians have completed some form of higher education, there is considerable room for gains in employment and earnings.

Figure 8. Education earnings premiums are falling across levels of completed education



Source: Staff estimates based on Pesquisa Nacional por Amostra de Domicílios (PNAD), 2004 - 2015  
 Note: Panel (a) presents the OLS estimates of the continuous variable for years of schooling and the returns to  $\beta_{LMPE} + 2\beta_{LMPE^2} X_i$ , where LMPE is the LM Potential Experience, LMPE<sup>2</sup> is the potential experience-squared and  $X_i$  is the average years of potential experience. Panel (b) presents the OLS estimates of the dummy variables to denote completed levels of schooling (primary, secondary and tertiary). The sample only includes wage earners (employees, military and civil servants) aged 15 to 64 years old.

Figure 9. Returns to higher education are still substantial in Brazil and across Latin America (wage returns from higher education in the LAC region)

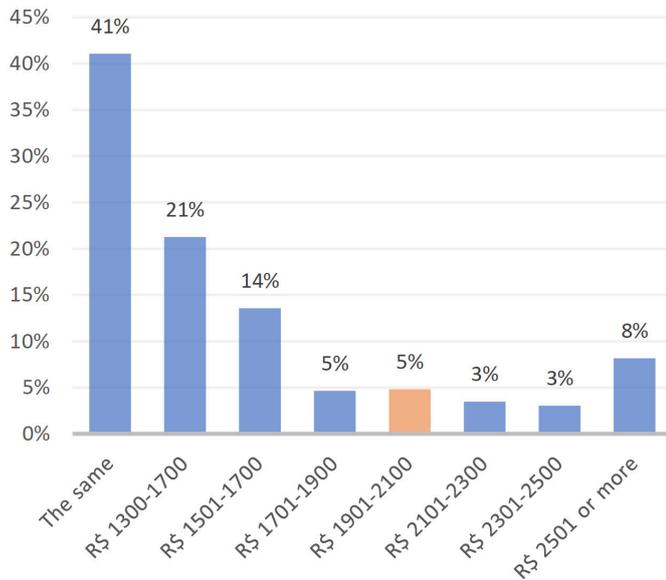


Fonte: Ferreyra et al (2017)  
 Nota: A Figura reporta, por país, os prêmios salariais para vários países de ter o ensino superior completo relativamente a ter completado o ensino básico. Os retornos são baseados em dados do SEDLAC e usam uma especificação econométrica de Mincer.

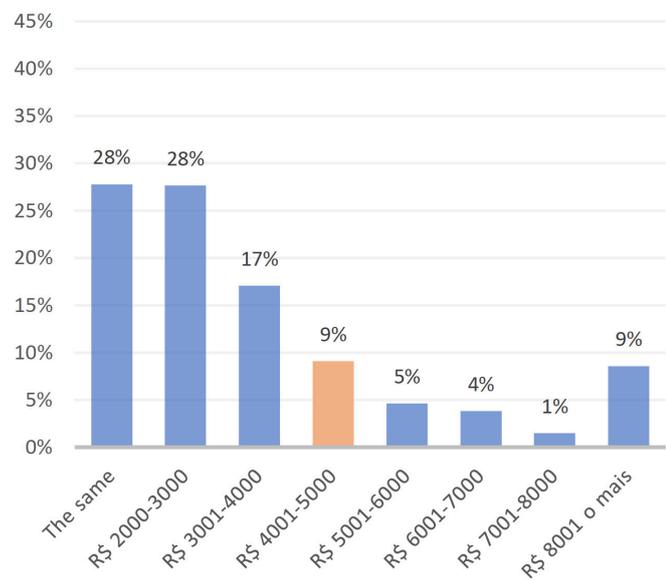
Despite these large earnings premiums, misinformation (and wide diversity) in the perceived returns to education, by students and their families, likely contributes to rising youth disengagement. The poor quality of education provided in schools coupled with the misinformation on returns likely reduces the individual incentives of investing in human capital (at school or at work). New evidence collected for this report (Gukovas and Kejsefman, 2017) suggests that there is much uncertainty (and misinformation) about the benefits of human capital investment among Brazil's youth when it comes to schooling. When provided with the average income of a worker with a certain level of education and asked what someone with additional years of education might make on the job, a vast majority of survey respondents in Brazil underestimated the true value of additional years of school. For instance, over 40% of respondents in the RIWI survey thought a worker with just fundamental education who makes 1,226 reais on average would fetch the same salary as a worker who completed secondary education; only 14% overestimated the value of the same investment. And the reality is quite different. A worker with secondary education earns a premium of more than 50% over the base rate for a worker with completed fundamental education (1,900 to 2,100 reais on average).

Figure 10. Most people in Brazil substantially underestimate the value of education in the labor market (perceptions about the benefits of human capital investment, 2016)

a. Perceptions about the wages of people with completed secondary education (Ensino Medio)



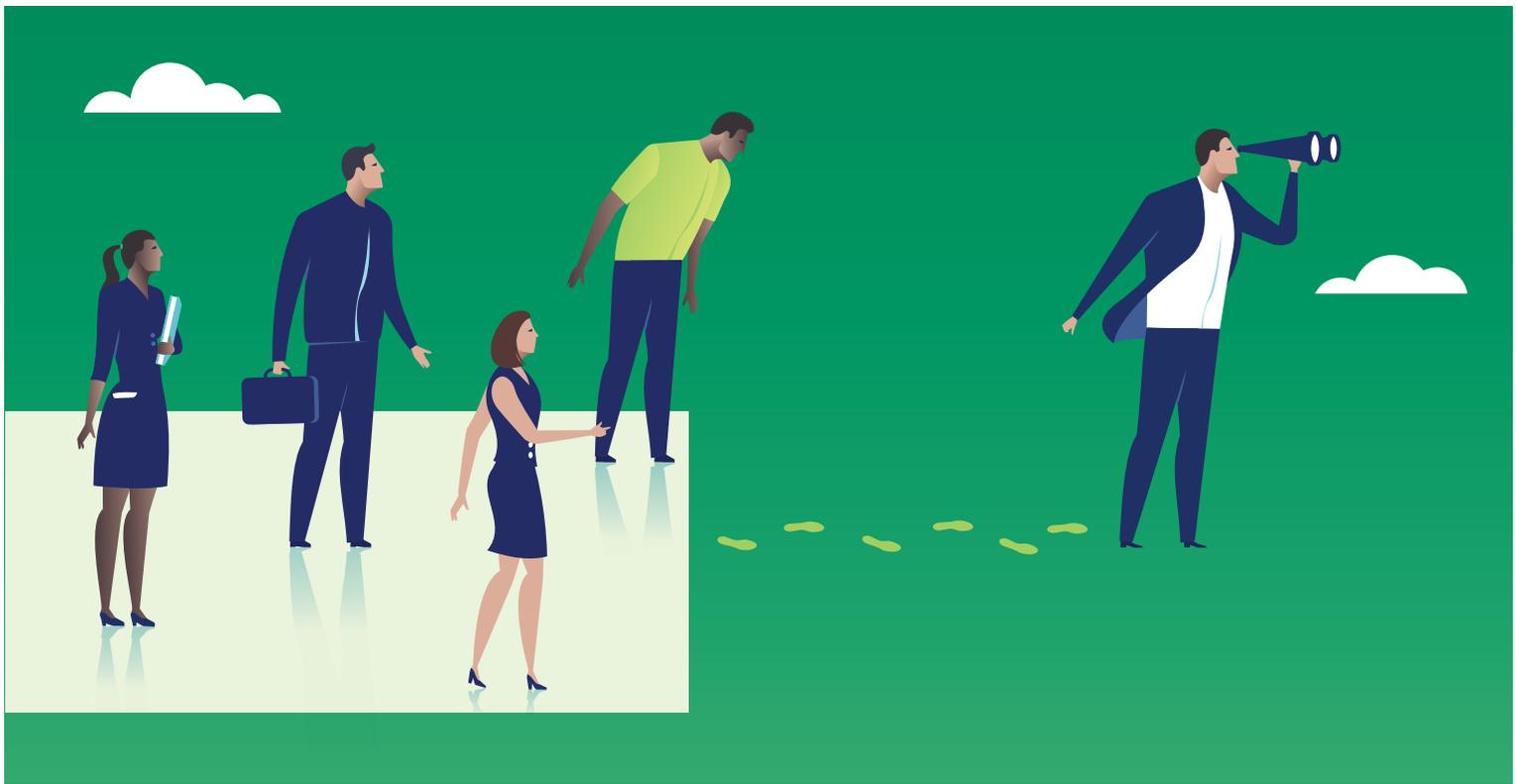
b. Perceptions about the wages of people with completed tertiary education



Source: Gukovas and Kejselman (2017) for this report, using RIWI survey (2016)  
 Notes: Figures shows people’s perception regarding investments in human capital. Respondents were provided with the average monthly wage of a worker with completed fundamental education / and with completed Ensino Medio, respectively. Then they were asked to estimate the wages of people who complete the following level of education by choosing one alternative out of different wage ranges. The orange bar indicates the average monthly wage that is observed in the labor market, for that same educational level, in the PNAD household survey (2016). The two questions were made in sequence, after the respondent had answered the first, they would learn what was the average wage of a worker with secondary education complete.

The good news, is that Government and stakeholders are engaged in enacting solutions to these performance problems in the education system.

Chapter 4 of the report covers policies and programs in the formal schooling system at the upper secondary level and the significant efforts being made by the Government to improve learning and retention at this level of schooling. While recognizing that learning and repetition among teenagers reflect life-long choices and opportunities, the chapter focuses on policies anchored in Ensino Medio. In 2017, authorities have been very active in enacting an important reform in Ensino Medio designed to modernize the curriculum and the extended school day, keeping adolescents in school through completion, and creating life-long learners that will be more resilient to changing technology and demands in the labor market. The chapter reviews international evidence and proposes concrete policies to help maximize the educational impacts of this reform. Yet these efforts are not enough. Brazil can, and should do more, especially if the country aims to soon have a workforce fully equipped with XXI century skills. The chapter discusses critical human resource reforms for teachers and school principals supporting increased quality and motivation among this staff. It also reviews complementary policies needed to more aggressively tackle the challenges of non-completion and dropouts in Ensino Medio.

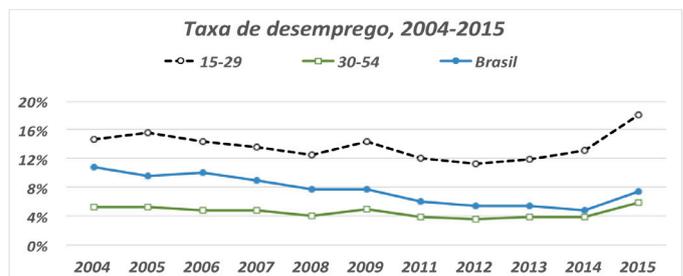


## 1.4 Youth Labor Market Outcomes

Brazil's youth unemployment is particularly high, has risen fast since 2013 and threatens to undo some of the social achievements of the previous decade. The unemployment rate for younger members of the workforce is higher in most countries. There are reasonable explanations for this phenomenon. Younger people have limited prior job search experience; they present a riskier prospect to employers; and many will need to 'shop around' experimenting before committing to a particular sector or job, which explains not only a higher unemployment rate among youth, but also higher levels of churn and shorter unemployment spells. However, in times of financial and economic crises, younger members of the labor force are also usually the segment that is hit first by layoffs and that during a protracted economic contraction, find it difficult to find new employment. Through much of the high-growth period, the youth unemployment rate followed the overall unemployment rate, but the difference between the two started to significantly widen from 2012. In contrast, the job prospects

among people of prime working age (30-54) were far more robust.

Figure 11. The rise in unemployment in Brazil has been steepest among youth (unemployment rate, 2004-2015)



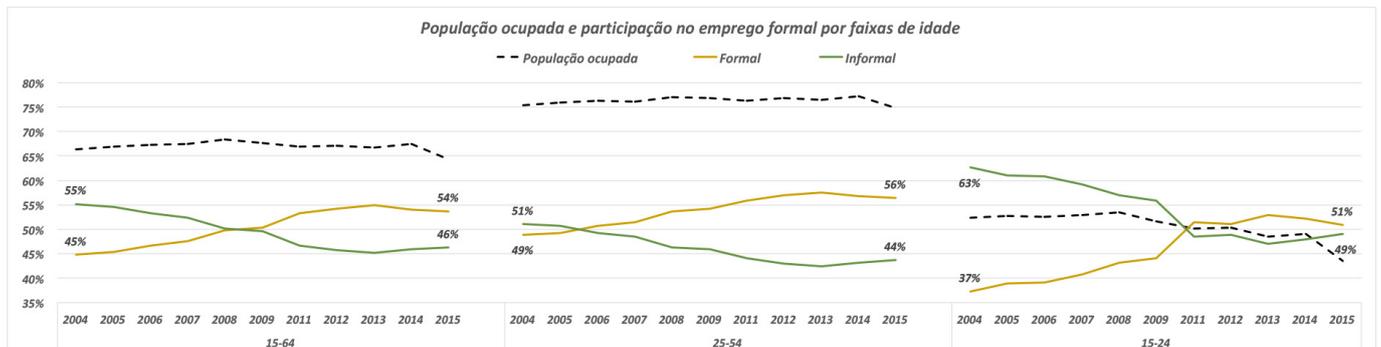
Source: Staff estimates based on Pesquisa Nacional por Amostra de Domicílios (PNAD), 2004 to 2015 and IPEADATA, based on Instituto Brasileiro de Geografia e Estatística, Pesquisa Mensal de Emprego (IBGE/PME).

Note: For the youth (15-29), adults (30-64) and the national average (for the month of September), figure shows the unemployment rate which is given by the number of unemployed over economically active population (occupied + unemployed). Up until March 2016, unemployment rates in Brazil were reported monthly based on PME. Since PNAD occurs annually on September, figure shows national rates for the month of September. Ages were considered as of March 31 of the year of the survey.

The changing job status of working youth, present a more nuanced picture, with higher rates of informal employment among the youngest working-age cohorts. The youth

segment (ages 15-29) has shown higher rates of formal labor insertion than the working age population. This could reflect an advantageous position of the current cohort of 25-29 years, their higher levels of completed education than this age group had in the past, and their successful insertion into formal employment during the high-growth years. But among the “youngest youth” – working people, ages 15-24 – the rate of informal employment is higher than for the overall employed labor force. This pattern is similar with the observed patterns of market activity of young people (15-24) in other countries. To the extent that spells of informal employment provide platforms on which young people can gain work experience and technical skills, and act as “stepping stones” into later, higher-paying jobs offering more opportunities, there is little cause to worry. However, a mounting body of evidence from several high and middle income countries, indicates this might not be the case.

Figure 12. Informal employment is highest among the youngest cohorts of the workforce (Working population and share of formal and informal employment by age, 2004-2015)



Source: Staff estimates using PNAD

Note: is the share of the population that works during the reference period as a proportion of the total. Formal with carteira assinada is the share of the working population whose main work is in jobs with a “carteira assinada” (employee or domestic worker). Informal jobs are those defined in PNAD as follows: other employees without “carteira assinada”, employees without “carteira assinada”, domestic workers without “carteira assinada”, self-employed, self-employed in production for the own consumption, construction workers for their own use, unpaid workers and workers that did not declare the type of occupation. Wage < minimum wage is the proportion of people that works (either works only or works and attends school) with wages below the minimum wage for the year of reference. Contributing to social security is the share of the working population that contributes to any kind of social security, for any of the jobs. Self-employed or employers is the share of the working population who were declared as such in the reference week. Others contributing to social security is the share of self-employed or employers that made contribution to social security.

Spells of unemployment or long periods of informal employment in early ages, can have lasting, adverse impact on the human capital of young people and their future job prospects. There are as many motivations and circumstances that lead a person into informal work (tax avoidance and evasion, preferences for flexibility, exclusion, etc.), as there are informal working forms (unpaid family worker, uncontracted wage employee, day laborer, small business owner, sole-trader etc.). However, all forms of informal work entail a higher element of risk, particularly when a person’s options are heavily constrained and the only jobs on offer are uncontracted dependent employment. An early and protracted spell in informal jobs can put young people on a path of less-than-full engagement. Higher rates of informal work among youth, raise the risk of unemployment and informality later in working life, as well as lower hourly wages in adulthood (Cruces et al., 2012, Gukovas and Moreira, 2017). The adverse impacts of early spells of informal employment dissipate over time if youth have the

chance to acquire more education and job relevant capabilities<sup>5</sup>. However, the “scarring” impacts will be substantial for youth that are out of school and out of work, relative to those in formal jobs. Young men who experience long spells out of school and out of work are particularly scarred, and face a statistically significantly higher likelihood of future unemployment, informal employment and lower pay later in life. The scarring effects on wages do not seem to dissipate as the individuals age. The relatively higher rates of unemployment can last until approximately the age of 35, while the higher likelihood of informality persists until the age of 45.

<sup>5</sup> Cruces et al (2012) show that for Brazil, a spell of unemployment among youth increases the probability of being informal and unemployed in early adulthood, but again these effects dissipate after the age of 35.



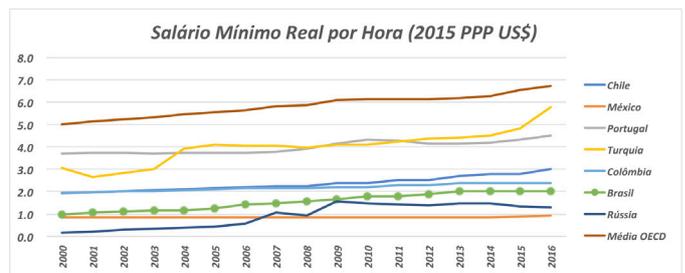
especially among young workers. (Almeida and Carneiro, 2009, 2012). The adverse impact of labor regulation on the job prospects of young people is particularly notable with respect to the statutory minimum wage. As enforcement of labor market regulations increases, at the top of the formal wage distribution, workers bear the cost by receiving lower wages. However, rigidity from a statutory floor on wages prevents this downward adjustment at the bottom of the income distribution, pushing lower-productivity workers – among them, less experienced, younger workers- either into unemployment or informal employment.

Historically, there has been little evidence in Brazil of segmentation caused by statutory minimum wages sometimes found in other countries. Analyzing the impact of minimum wage increases in Brazil has been tricky given the unification of regional minimum wages in 1984, as well as the linkage of minimum wages to inflation and GDP growth since 2005 (Jales, 2015). The World Bank’s Brazil Jobs Report (2002) pointed out how little evidence there was of labor market segmentation usually 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 level formal statutory minimum wage (Neri, Gonzaga and Camargo 2001, Fajnzylber, 2001). Indeed, analysis of the earnings distribution of formal and informal workers in Brazil over the period 2001 - 2015 shows that although the share of informally employed people earning less than the minimum wage has always been substantial, the statutory minimum continues to shape the earnings of people working informally.

The recent introduction of valuation policies and the specific parameters of an adjustment formula have caused the statutory minimum wage to rise steadily since 2003 and even in the years of recession. Since 2003, Brazil has

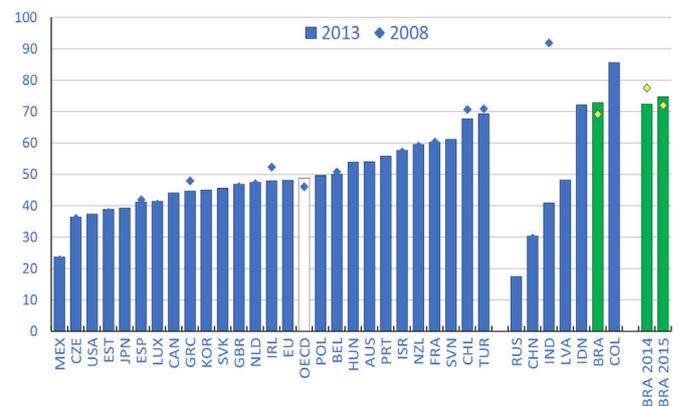
followed a “Minimum Wage Valuation Policy” that entails annual adjustments of the national minimum wage based on pre-determined rules, including an explicit formula. Brazil’s statutory minimum wage is adjusted by the inflation rate in the previous year, plus the real rate of GDP growth two years previously. The adjustment rule was extended in 2015 for the period 2016-2019. The valuation policy and adjustment rule have delivered a real rise in the minimum wage of over 77 percent over the period 2002-2016. Even in the midst of a deep recession, the nominal value of the minimum wage increased from R\$678 in 2013 to R\$ 937 in 2017.

Figure 13. Brazil’s federal statutory minimum wage has been rising steadily since 2003 (real hourly minimum wage in 2015 constant prices at 2015 USD PPPs)



Source: Staff estimates using data from OECD Stata (<https://data.oecd.org>)  
Notes: Figure shows real hourly minimum wage in 2015 constant prices at 2015 USD PPPs

Figure 14. Relative to median earnings, Brazil’s federal statutory minimum wage is higher than the average of OECD-member countries and BRICs (minimum wages, % of median wage, 2008-2013, and for Brazil, 2014 and 2015 )

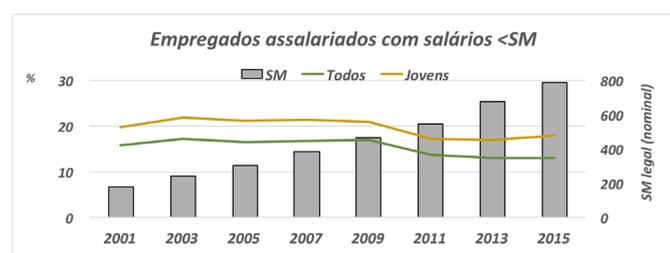


Source: Staff estimates using data from OECD Employment Outlook database, Going for Growth 2016 and 2017 Interim Reports  
Notes: Missing countries do not have a national statutory minimum wage except for Mexico. Data refer to 2004-05 and 2009-10 for India and to 2009 (instead of 2008) for Chile. Exactly half of all workers have wages either below or above the median wage for the OECD countries. Percentage of minimum to average wage for China, Indonesia, the Russian Federation and India.

6 Neri, Marcelo, Gustavo Gonzaga e José Márcio Camargo (2001). “Salário mínimo, ‘efeito farol’ e pobreza”.Revista de Economia Política. São Paulo, SP, vol. 21, nº 2 (82)

At 70 percent of the median wage, Brazil's minimum wage appears high by international benchmark levels. The average level of statutory minimum wages among OECD-member countries has remained stable, at between 45 percent and 50 percent of median wages. Some other countries in Latin America (Colombia, Chile and Costa Rica) have higher minimum wages than Brazil by this metric. When demand for labor slackens real labor costs would ideally adjust downward in order to contain unemployment. The new adjustment policies prevent that from happening. After a long period of decline, the share of working people earning less than the minimum wage is rising again along with unemployment. The rise has been steepest for Brazilian youth.

Figure 15. After a long period of decline, the share of workers earning less than the minimum wage is rising with unemployment, particularly for youth (share of dependent employed earning less than the statutory minimum wage)



Source: Staff estimates using PNAD

Analysis of statutory minimum wages in Brazil has found more consistent, negative impacts on the job prospects of young people. For Brazil's labor force overall, empirical evidence of the impact of minimum wages on employment outcomes, have been ambiguous. A number of researchers have found that minimum wage increases have had negative employment effects (Foguel, 1998; Neumark et al., 2006; Ulyssea and Foguel, 2006; Foguel, Ramos and Carneiro, 2015; Jales, 2015) while others have found no significant effects on employment (Lemos, 2004; Lemos, 2009; Broecke and Vandeweyer, 2015). However, the evidence of impact on job prospects of young people, is clearer. Fajnzylber (2001) finds that an increase in the minimum wage of 10 percent is associated

with a decrease in employment of 3.8 percent. Gonçalves and Menezes-Filho (2016) find that minimum wage increases reduce the likelihood of teenagers working by 3 percent (although due to an intrahousehold reallocation of labor). Broecke and Vandeweyer (2015) find a larger effect of 7.8 percent (when hours worked are used as the dependent variable, the magnitude and significance of this effect diminishes). They also find that an increase in the minimum wage as a share of the average wage of 10 percent is associated with a decline in formality by 3-4 percent on average. Similarly, Foguel et al. (2014) find that minimum wage hikes increase young people's transitions from employment into inactivity and into unemployment. These transitions and the negative effects of minimum wages are amplified during economic downturns.

In addition to statutory minimum wages, evidence from many countries shows that employment protection regulations have a stronger negative impact on the job prospects of youth. As new entrants to the labor market, youth are lower-skilled and less productive than more experienced, prime-age workers. All else equal, younger workers can be a higher-risk prospect for employers to take on. More stringent employment protection regulations can make firms reluctant to hire young people if they remain unproductive and are difficult to dismiss. Second, tenure-based restrictions on dismissal can also make firms reluctant to fire existing, older workers even if they are less productive, and instead to let younger workers go in response to an economic contraction. The empirical literature shows that more restrictive regulations adversely affect those for whom labor demand is more elastic (i.e. less-skilled groups), including young people (OECD, 1996; OECD, 1999; Bassanini and Duvall, 2006). The effect is substantial: Bassanini and Duvall (2006) find that a decline in the OECD's EPL indicator by two standard deviations is associated with a 4 percentage-point increase in youth employment. For Chile, Montenegro and Pagés (2004) find that job security provisions lower the probability of youth being employed (as well as

less skilled workers and women). As a result of high levels of employment protection for workers with indefinite contracts, youth are more likely to work in informally or to be offered only temporary employment (Kahn, 2012). In OECD countries, nearly a quarter of workers aged 15-24 years were employed in temporary work in 2012.

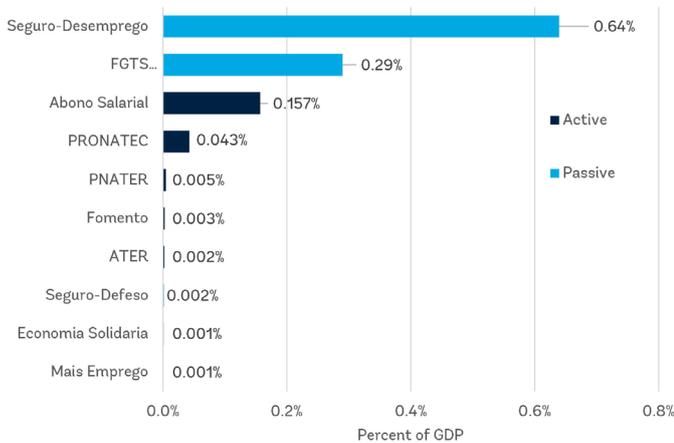
**Although the statutory requirements for dismissing formal workers on indefinite contracts are light relative to OECD-member countries and its neighbors, Brazil has had very stringent restrictions on firms' use of flexible forms of hiring.** When considering people with 'regular' (i.e. indefinite) labor contracts, measures of de-jure employment protection suggest there are few restrictions on dismissals (even if the direct costs paid by employer in fines, or 'multas', for non-disciplinary, involuntary separations can be high). However, when comparing measures of regulation on employers' decision to use outsourcing, fixed term and temporary forms of employment, firms in Brazil have been far more restricted. This extreme regulatory stance can have a more damaging impact on the prospects of young people, who are more likely to prefer or need part time and flexible employment than people of prime working age. It is also a critical constraint on productivity, as these restrictions make it difficult for firms to innovate, experiment with new technology and business processes, or adjust their labor and skills inputs to fast-shifting market demands.

**Restrictions on the use of part time and flexible hiring increase the likelihood of informal employment.** Given the tight restrictions on when firms can use outsourced labor, as well as the limitations on the use of fixed-term and less-than-full time employment, most firms have been forced to engage in these human-resource practices informally. This state of affairs has been bad for firms, in that they have had to spend time and resources avoiding detection and enforcement; it has been bad from working people

who have a preference for flexibility, including young people who might want to combine work with study and training, but also young parents who need to balance market and household responsibilities; and ultimately bad for society, in that firms and households reasonably pursuing economic opportunities, have been forced into evasion of laws and regulations. A culture of broadly accepted, non-compliance and evasion as a social norm, is arguably the most challenging obstacle to bringing more market activity in from the shadows of the informal economy (Packard, Koettl and Montenegro, 2012).

**Finally, Brazil's labor market programs have long privileged (mainly older) 'insiders' at the expense of opportunities for younger people.** Drawing on analysis for the recently released World Bank Brazil Expenditure Review (World Bank 2017), chapter 6 of the report documents the country's underinvestment in the programs that help people -particularly young people with the least experience- navigate the labor market. The deployment of labor market interventions in Brazil is weighted heavily toward 'passive' income-support programs for people who lose formal jobs, and away from 'active' intermediation and job-search assistance programs. Most labor market interventions are financed from the federal budget or dedicated levies and funds (specifically, Fundo de Amparo ao Trabalhador, FAT). The bulk of public spending on labor market programs goes to people who already have formal jobs rather than job seekers. The policies and programs that Brazil puts in place to help correct failures of the labor market, are skewed away from the intermediation services that could improve the quality of matches between firms and job seekers.

Figure 16. Public spending on labor market programs is weighted heavily to 'passive' income support, over the 'active' services that help people find jobs (Federal budget expenditure 2015)

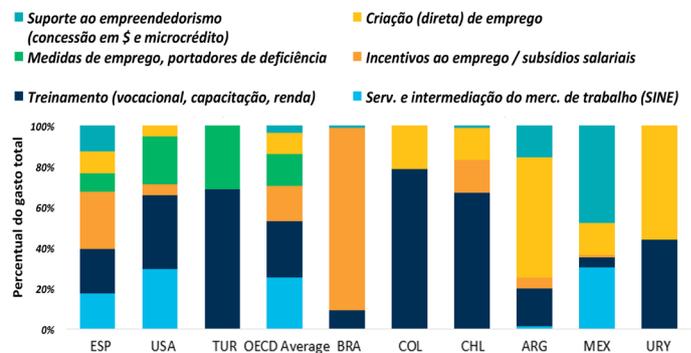


Source: World Bank Brazil Expenditure Review 2017, Labor Programs World Bank staff analysis of BOOST database Federal-level, based on data from SIOPI Sistema Integrado de Planejamento e Orçamento, for SPL Program Inventory.

Although still modest relative to public spending on pensions for the elderly and people living with disabilities, public spending on labor market programs has been rising in recent years. While public spending on labor programs was historically low, at 0.4 percent of GDP in 2000 this category of social expenditure has grown hand 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. This figure is dwarfed by public spending from the federal budget on old-age, survivor and disability pensions, which rose to 11.1 percent of GDP in 2015, and is less than spending on social assistance targeted to the poorest (1.5 percent of GDP in 2015). Nonetheless, spending on labor programs intended to assist people who have lost and are looking for new jobs, is a substantial segment of Brazil's budget. Spending on labor market interventions finances mainly the "passive" labor market programs (i.e. income support for people who have lost jobs), which constitute 83 percent of total labor program expenditure. 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, formally employed workers: only 1.8 percent of labor program expenditure is accessible to workers who are not necessarily formalized that is, workers without a signed contract, referred to in Brazil as "sem carteira assinada"

Figure 17. Spending on 'active' labor programs in Brazil, is allocated mainly to wage top-up subsidies, leaving little for intermediation services and training (Share of Expenditures on ALMPs in Brazil, OECD and Latin American Countries by Functional Category)



Sources: World Bank Brazil Public Expenditure Review 2017, Labor Programs, using OECD SOCs and World Bank staff analysis of BOOST database Federal-level, based on data from SIOPI Sistema Integrado de Planejamento e Orçamento, for SPL Program Inventory.

Public spending on programs that actively promote labor market insertion of the unemployed and economically inactive, remain very small, even after taking account of the recent increased spending on skills training. A wage top-up program, 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 Emprego), and entrepreneurship (Programa de Fomento de Atividades Produtivas Rurais, Assistência Técnica e Extensão Rural). In spite of receiving significant attention due to its rapid growth since 2011, 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).<sup>7</sup> 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. The report points to policy solutions to each of these problems, and recommends structural changes to improve the efficiency of the labor market.

In this context, the section also discusses reforms to the labor code that were legislated in 2017 and postulates what their impact will be on the prospects of working youth. The 2017 reforms constitute an ambitious step in the right direction that could lower insider advantages, increase the share of formally employed young people, and improve the quality of matches. Despite these advances, policies and programs that labor reforms in 2017 left unchanged, create perverse incentives that constrain human capital creation and could, in aggregate, lower the speed limit on economic growth already imposed by an ageing population.

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<sup>7</sup> 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)



## 1.6 Messages for policy makers: Shaping a skills and jobs agenda to engage youth

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The report suggests new policy changes and new measures that Brazil should prioritize, so that it can catch the last wave of its demographic transition. The Government of Brazil has been very active in the arena of skills and labor policy. 2017 has been a year of ambitious policy change, both to Ensino Medio and to the labor code. Chapters 4 and 5 take these two 2017 education and labor reforms as a solid starting point in the discussion. They are important steps in the right direction, and will take time to deliver the expected, positive results. The Ensino Medio reform efforts, in particular, are as deep as they are broad. Yet chapters 4, 5 and 6 discuss a formidable agenda of complementary policy changes to the skills development system and labor market programs, that could be pursued to raise Brazil's productivity potential by facilitating labor market transitions

across employment states. This is an agenda in three parts. First, to further support improvements in learning trajectories for youth, incentivize completion of upper secondary education and modernize the workforce development system, so that it produces workers with the skills that firms are seeking and are likely to seek in future, and is able to keep pace with the shifting demands of firms in a globally competitive economy (chapter 4 and chapter 6). Second, to improve labor market incentives created by worker protection structures, such as the statutory minimum wage Seguro Desemprego and the unemployment savings accounts (Fundo de Garantia por Tempo de Servico), to lengthen employment spells (chapter 5). Third, to support job seekers and improve the matches between firms and workers through modern intermediation services (chapter 6).

While the creation of a new competency based curriculum and the full-time school model are important steps, focus is needed in tracking the quality of the subnational implementation. Thinking through models to develop socio-emotional skills among teenagers will pay off with improved behaviors, ensuring a more relevant technical education, through closer partnerships with the private sector, will develop technical skills aligned with business needs and ensuring that the full-time school model delivers an extended and high quality model - through full time and exclusive teachers, increased training and extended time activities well-coordinated with the core curricula – will pay off in improved learning and reduced dropouts. These discussions build and complement previous analytical work mapping policies in institutions in the Brazilian technical education system (Almeida, Amaral and Felicio, 2016). Furthermore, at the federal level, the risk of increased inequalities in access to quality education, creates the opportunity for a new role for the Ministry of Education (MEC) promoting innovative and cost effective sub-national implementation models that could then be adopted more broadly.

Yet these reform efforts are not enough; Brazil can - and should - do more to leverage on these reforms to increase further learning trajectories among adolescents. At the center of the recommendations offered in Chapter 4 are critical human resources practices reforms for teachers such as the nationwide creation of teacher entrance exam, selecting the “best and brightest” to the profession, developing accreditation standards for pre-service teacher training programs, and supporting a more holistic teacher evaluation systems. The latter would consider proficiency in subject knowledge but also effectiveness in the development of socio-emotional skills among students, and valuing effective pedagogical practices in the classroom. In addition, there is tremendous scope to rethink the careers of school principals, who are not yet systematically selected based on merit and often lack management

and pedagogical preparedness to take up this important leadership position. Finally, Chapter 4 also points to the missed opportunity of using a world class system for assessing learning in comprehensive manner but failing to use it systematically for placing learning at the center of education policy as is already common in several OECD countries.

Chapter 4 also recommends the use of complementary interventions to the existing reforms to support completion of Ensino Medio and reduce drop-outs.

These policies are designed to increase further the perceived benefits of attending school and/or reducing the direct – and more immediate costs of attending. Taken together these should support further reductions in the drop-out from the Ensino Medio, ultimately supporting completion. Given the large share of GDP spent already in Education, special attention is given to low cost interventions including school based interventions to reduce teen pregnancy, introduction of merit-based scholarships and more information campaigns targeted to youth and their families, on the returns to education and TVET. Experiences from Latin America and other regions of the world suggest that, if well designed and implemented, these can be cost-effective interventions to reduce high school drop-outs.

Chapter 5 argues that the distortions of a statutory minimum wage can be minimized if adjustments are made with greater reference to changes in workers’ productivity, greater flexibility and a lower statutory minimum for young people. Although the current adjustment formula for the minimum wage is simple and clear, it appears inflexible and unresponsive to changes in the economy. This has become apparent in the years of economic contraction. Despite a deep recession and an unemployment rate in the double digits, the federal statutory minimum wage surged upward. This report argues that the formula should be scrutinized and changed to reduce this

problem. Chapter 5 also suggests modification of the adjustment policy that would encourage more continuous and systematic engagement of stakeholders, making the results of the formula the starting point in negotiations to set the minimum wage, rather than a predetermined outcome. Additionally, Brazil could consider introducing an age-varying statutory minimum for young people 15-24. This has become leading practice among countries that introduced national statutory minimum wages relatively recently (United Kingdom). And while the experience of countries with lower-statutory wage floors for younger people has been mixed, on balance, the evidence is mainly positive.

### Brazil should build on its labor reforms passed in 2017, with supportive changes to unemployment protection programs.

In the first half of 2017, Brazil legislated changes to its labor market policies.<sup>8</sup> The reforms were designed to give greater freedom to firms in how they employ people and organize their workforce, improve collective bargaining institutions, and lower the uncertain costs of resolving labor disputes. The Government's reform objective is to increase flexibility, reduce the costs and uncertainty of labor disputes and extend access to worker protection. The authorities designed the reforms with the specific aim of making it easier for firms to bring more working women and young people into formal employment. The 2017 reforms are controversial and their impact on outcomes in the short term is uncertain. Because the 2017 reforms make no direct changes to the main policy drivers of labor costs, it is difficult to predict what their impact will be on labor demand and job creation in the short term, given what is still a fragile recovery from the 2015-2016 recession. This said, it is reasonable to expect efficiency savings in the medium and long term. The reform package offers firms and individuals more options

to enter regulated and protected ('formal') work arrangements; greater flexibility by shifting weight away from legislation and toward the bargaining table; creates incentives for unions to be more responsive and accountable to members; and lowers the legal uncertainty and other costs of resolving labor disputes.

### Reforms should help the labor market create better matches, fewer matches outside the legal framework, less adversarial work-place relations, and help to reduce deterrents to investment.

While reversal of some measures is always a risk, and an awkward period of adjustment by firms and people to the new rules is to be expected, changes could be made to the parameters of Brazil's 'passive' unemployment income support programs (Fundo de Garantia por Tempo de Serviço, FGTS, and Seguro Desemprego) to lower perverse incentives and improve their effectiveness. Chapter 5 of the report presents a specific reform proposal for how Seguro Desemprego could underpin the FGTS and in doing so, improve incentives and provide fiscal space for more support to lower-earners and those who find it more difficult to find a new job. Many of those who find it difficult to find employment are likely to be younger people with less marketable experience and savvy at navigating transitions from job to job. The simulation of this reform proposal shows that it could shorten the duration of unemployment, lengthen employment spells, and lower separations from formal jobs.

Finally, Chapter 6 recognizes that more can be done for youth by strengthening the delivery of skills development programs, that have either dropped out of the formal schooling system or are in need of upskilling. The diagnostic and discussion included in the report shows that policy needs to consider

<sup>8</sup> Law No. 13.429 on Outsourcing ('Lei da terceirização') in March; Law No. 13.446 ('Rentabilidade de contas FGTS') in May; Law No. 13.456 ('Programa Seguro-Emprego prazo de vigência') in June; and Law No. 13.467 to the labor code ('Reforma trabalhista') in July 2017.

different target groups of adolescents and youth: youth that are already out of the formal schooling system, have completed formal schooling degrees, but that need additional support to quickly find a high productivity job, but also those in low productivity jobs that may need modern skills upgrading programs. Recognizing that the profiling of these groups is critical for the design and implementation of these policies, chapter 6 then makes concrete recommendations for the reform of second chance programs, making them more oriented towards the development of foundational skills and with strengthened certification mechanisms (to signal employers the relevant skills). In addition, the chapter argues for the urgent need to offer employers a more prominent role in the skills development system, either by strengthening the opportunities for on the job learning, influencing contents in the curricula or strengthening teacher training.

Chapter 6 of the report also highlights that reforms to income support can be made more effective with strengthened active intermediation assistance and targeted demand-side incentives to support better matches between firms and job seekers. Brazil, like many of its neighbors in Latin America, will need to shift greater public support to labor market intermediation and job search assistance. 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 that can be partly explained by the traditional small job search spell. But the bias away from more active intermediation services will need to be corrected to better serve the labor market of an economy that is globally integrated and that supports innovation. As a starting step in this shift, current spending on wage top ups for people already in formal employment, could be shifted to incentivize job offers.

Intermediation services in Brazil require both an increase in resourcing and modernization. Reforming SINE, the main provider of public labor intermediation services in Brazil, which is critical for youth who rarely have the job search skills or experience necessary to navigate the labor market. OECD countries spend, on average, 10 percent of their ALMP budgets on placement and related services, resulting in much higher spending as a share of gross national product. Brazil's spending on public employment services barely registers at .01% of GDP (Silva et al, 2015). SINE can be strengthened to facilitate job searches and matches by adopting a management approach that is more focused on actual job placements, rather than simple registrations and search matches.

Fortunately, policymakers in Brazil have a solid base on which to build to achieve efficient and effective labor market training programs for market participants. Rather, investing in improving the existing structure of active interventions and bolstering them to focus more on youth will accomplish much in closing the gap for the young. Several critical components are necessary if the new and improved programs are to be successful: (1) policies should invest more in labor intermediation and job search services as an effective low-cost tool; (2) there needs to be a new emphasis on building personal skills and hands-on learning, not just technical skills; (3) greater attention needs to be paid to complimentary policies for entrepreneurship, in both training and financing aspects.

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