

## EMPLOYMENT POLICY IMPLEMENTATION MECHANISMS IN BRAZIL<sup>1</sup>

The ILO and its constituents have made significant progress in developing national employment policies (NEPs). However, unless appropriate institutional arrangements can be put in place to ensure their timely and effective implementation, even sound policies may not produce the desired results. To respond to the increasing requests from its constituents for assistance in NEP implementation, the ILO launched a research project on “a comparative analysis of employment policy implementation mechanisms in selected countries”. Case studies<sup>2</sup> and a synthesis report were published as working papers. This research brief presents the coordination structure, as well as the accountability, financing and employment information systems that support employment policy implementation in Brazil.

### 1. Employment policy in Brazil

Brazil has consolidated a framework of employment policies over the last two decades, supported by a stable funding source and structured into programmes and actions (see Table 1). The first employment policy in Brazil was established in the 1970s and aimed at employment placement. In the mid-1980s, the unemployment insurance programme was adopted as a second employment initiative. A broader employment policy framework aiming at labour protection, employment services, vocational training and guidance, job creation and income generation was enshrined in the Federation Constitution adopted in 1988. The Federation Constitution also gave the State a clear mandate to implement employment policies on an on-going basis. Since the mid-1990s, the Federal Government has implemented a variety of job placement and skills programmes and actions.

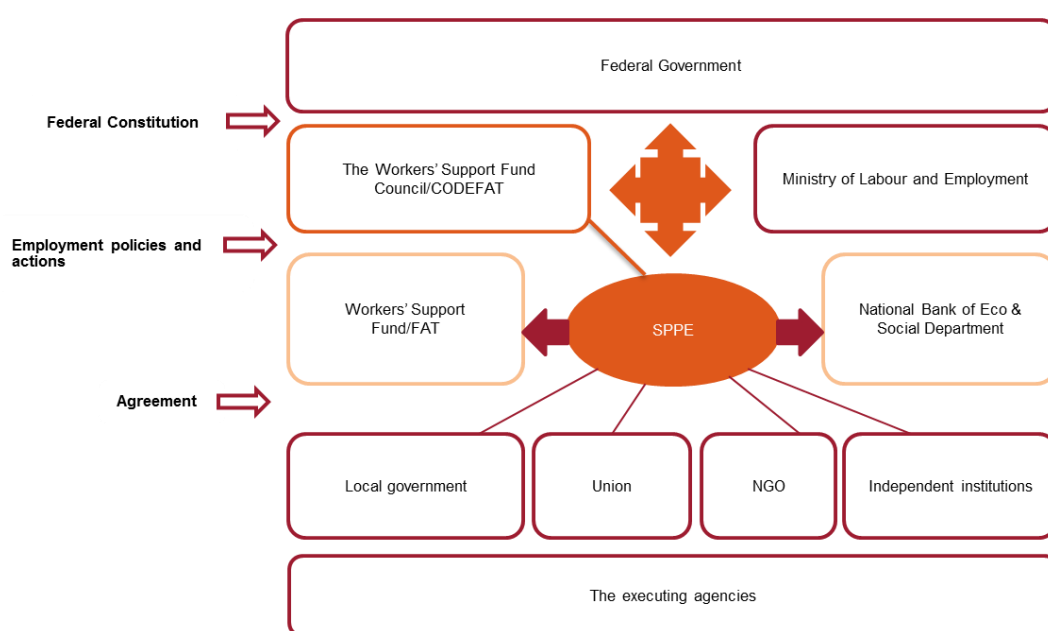
The Federation Constitution in 1988 brought three changes to employment policy in Brazil. Firstly, it introduced active labour market policies in addition to passive labour market policies. Secondly, it established the Workers' Support Fund (FAT) to finance employment policy implementation. The National Bank for Economic and Social Development (BNDES) was designated as the entity responsible for the capitalization of the consolidated FAT assets. This institutional arrangement between the FAT and the BNDES highlights the importance of a development strategy that associates economic development with employment and income generation. Thirdly, it extended the coverage of employment policy from the formal to the informal economy through new policies of placement, skills, job creation and income generation for the informal sector (see Table 2).

The main instruments used by the Brazilian Government to address the global financial crisis in 2008 and its negative impacts on employment were an income policy that increased credit availability and the maintenance of public investment programmes. The existing employment policies, programmes and actions listed in Table 1 and Table 2 also remained in effect. This strategy has ensured sustained domestic demand which, in the face of a limited reduction in exports, has maintained GDP and employment growth levels since mid-2009. Between 2008 and 2011, the average household income rose by 9 per cent, the minimum wage by 13 per cent, formal employment by 12 per cent and GDP by 13 per cent.

## 2. Coordination structure

The implementation of employment policy in Brazil is a Federal Government responsibility, stipulated in the Federation Constitution in 1988. The Ministry of Labour and Employment (MTE) plays a key role in employment policy formulation and implementation. Local governments are involved in policy implementation through signed agreements with Federal Government. The coordination structure for employment policy formulation and implementation is called the Workers' Support Fund Council (CODEFAT), which includes key players from tripartite partners. The Department of Employment Policy (SPPE) in the MTE acts as the secretariat of the CODEFAT, while the Workers' Support Fund (FAT) facilitates employment policy implementation (see Figure 1). The management of the FAT incorporates the BNDES into the employment policy implementation process.

**Figure 1. Implementation framework of employment policy in Brazil**



### 2.1. The coordination structure of employment policy: The Workers' Support Fund Council (CODEFAT)

Established in 1990, under the provisions of the 1988 Federal Constitution, the CODEFAT is a tripartite body with representatives from the Federal Government, workers' and employers' organizations; it currently has 18 members, six of whom represent the Government, six represent workers and six represent employers. With a three-year term, one third of its members must be renewed annually. The CODEFAT is chaired by the members in rotation. Members are nominated by the central employers' and workers' organizations, but their final appointment lies with the MTE.

The CODEFAT plays a leading role in making employment policies. Its activities are usually established by an annual work plan concerning employment services and skills development. The plan comprises a list of actions, targets and the funding allocated for their implementation. Actions are usually based on demand from states, municipal governments and other institutions engaged in employment placement and job skills training. The CODEFAT may commission an external evaluation for issues it considers sensitive to some aspect of employment policy.

The management of resources and the implementation of actions established by the CODEFAT is carried out by the Department of Employment Policies (SPPE) in the MTE. Every year, the SPPE establishes agreements with the states, large municipalities, unions and

non-governmental organizations for the implementation of the work plans. Agreements are established based on the work plans submitted by governmental and non-governmental public institutions in the previous year.

## **2.2. The executive structure of CODEFAT: The Department of Employment Policies, MTE**

The implementation of a major part of all Federal Government employment policies is concentrated in the SPPE of the MTE. The SPPE has two roles in the implementation framework of employment policy: one, it acts as the secretariat of the CODEFAT and supports its activities; two, it coordinates and implements the decisions of the CODEFAT on employment policies. All the MTE's functions on employment policy implementation shown in Table 2 are managed by the SPPE, either directly or indirectly.

Once the annual work plan has been approved by the CODEFAT, the SPPE drafts and implements the necessary agreements and contracts with governmental and non-governmental public institutions that are responsible for employment placement and job skills training. The SPPE is also responsible for the management and publication of reports and data via the national labour market information system.

In addition, the SPPE acts as the interface between the FAT and the BNDES that is responsible for the management and conservation of the Fund's assets; this suggests the need for CODEFAT to coordinate sectoral and infrastructure policies with employment policy.

## **3. Accountability for employment policy implementation**

### **3.1. Accountability framework**

As indicated above, national employment policies in Brazil are established in accordance with the institutional provisions of the 1988 Federal Constitution and the specific 1990 Organic Act of the Workers' Support Fund (Fundo de Amparo ao Trabalhador). Each year, the MTE prepares a work plan and submits to the CODEFAT for approval. The work plan sets out details of vocational training and employment placement activities. The activities are established according to the availability of funds determined jointly by the CODEFAT and the Federal Government.

The work plan is drawn up in the second half of the previous year; the groups and structure of planned activities are defined by the MTE in consultation with state governments, large municipalities and social partners. When the work plan is approved, usually in December, the various action modalities and distribution of tasks across states are also established. Then, the MTE starts implementation in January. Since the approval of the work plan also defines the composition of activities and the distribution across states, the MTE only has to agree to the arrangements for implementation with state governments, large municipalities and the competent social institutions. The relationship between the Federal Government and the executing agencies is based on agreements that allow for the transfer of funds for employment placement and skills training actions.

Executing agencies are required to implement the actions plans within the framework of the budgets set for the work plan. At the end of each year, agencies must make a financial and progress report on the implementation of the work plans, the application of the approved budget, and the achievement of the original goals. Coordination of the public policies work plan is a responsibility of the Federal Government, through the MTE and the CODEFAT, while implementation of work plans is the exclusive responsibility of state governments, large municipalities and social institutions. Thus, the executing agencies are not autonomous with regard to the use of FAT funds neither in terms of actions nor volume.

Based on the financial reports submitted by state governments, large municipalities and social institutions, Federal Government departments audit the utilization of the allocated funds. Additionally, the CODEFAT commissions, without a predetermined time limit, an independent institution to evaluate the results obtained.

### 3.2. Financing the policy implementation: the Workers' Support Fund

The 1988 Federal Constitution established that the Social Integration Programme (PIS) and Public Servant Asset Creation Programme (PASEP) funds pay for the unemployment insurance and the wage supplement. This arrangement was maintained when the PIS and PASEP were combined into the Workers' Support Fund (FAT) in 1990.

The FAT primarily funds employment policies, but is also partially responsible for the funding of industrial and infrastructure policy. The FAT is generated by contributions paid by companies to the Social Integration Programme – PIS/PASEP – normally equivalent to 0.65 per cent of the company's total revenues. The BNDES uses these resources to finance industrial and infrastructure investment. In 1990, the Constitution stipulated that 60 per cent of the Fund's monthly revenues be allocated to the BNDES; these funds must be capitalized by the Bank so as to allow for additional FAT funding during periods of increased demand for unemployment insurance during an economic crisis.

The FAT is managed by the CODEFAT. The funding for the annual work plan is determined jointly by the CODEFAT and Federal Government, and transferred - by agreement between the Federal and local governments - to state governments, large municipalities and social institutions. The executing agencies implement the employment policies within the framework of the budget, and report the expenditure of the approved budget and policy achievements at the end of each year. The Federal Government audits the utilization of the allocated funds. The CODEFAT may engage an independent institution to evaluate the effects of policy and budget implementation.

### 3.3. Employment information system

The Federal Government relies on two information systems concerning employment in the formal sector.

- **The General Registry of Employed and Unemployed Persons (CAGED)**, created in 1965 and restructured in the 1980s, compiles data on monthly dismissals and new employment contracts by companies. Companies that have had changes in their workforce during a given month must, by law, submit a statement with detailed information. The CAGED was initially expected to become a database of information on whether a worker qualified for unemployment insurance or not. However, because of the delay in implementation, CAGED is used as an instrument for governmental evaluation of monthly dismissals and recruitment in the formal labour market, which led to the establishment of an employment level index in the late 1980s.
- **The Annual Social Information List (RAIS)** was created in the mid-1970s, with the aim of consolidating information for the PIS/PASEP and social security. Every year in March, all companies must report personnel and employment contract data for all employees during the previous year. The digitalization of the RAIS system has improved the quality of its data, transforming it into an annual census of formal wage labour in the country. A vast set of information is available through RAIS, which includes each employee's sex, colour, age, education, occupation, monthly wages, recruitment and dismissal date; as well as details of the company's address, industry and number of employees.

The RAIS provides detailed information on the formal labour market, and acts as the database for the registration of unemployed workers receiving unemployment insurance. It also provides labour market information on occupations and enterprises. The CAGED complements RAIS by providing monthly information on employment contracts while they are not yet available from the original source.

The policy-making process has been increasingly based on information provided by IT systems and reaches far beyond actions related to employment policy. These information systems provide significant input into employment policy, as they provide precise knowledge about the country's occupational and productive structure along with its evolution over time. They make it possible to identify the productive sectors with the highest employment generation capacity, the turnover rate per sector and occupational category, and the wage and payroll trends as well as other information relevant to employment policy.

## 4. Summary

Brazil has built up a solid institutional framework for national employment policies since 1988. First, employment policy and its institutional framework in Brazil are enshrined in the 1988 Federal Constitution and governed by supplementary laws, which prevent it from depending solely on the political will of successive governments. The Federal Constitution also defines the obligations of the State regarding employment promotion; these are, therefore, institutionally enshrined in its organization. Second, the Constitution also ensured a stable funding base under social control by establishing a tripartite entity, the CODEFAT, to coordinate policy design and implementation. Third, the regulations of the FAT provide that 60 per cent of revenues must be transferred to the BNDES to capitalize the accumulated assets. This gives the State the possibility of incorporating employment generation objectives into its financing agreements, in accordance with its sectoral and infrastructure policy strategies.

It is worth pointing out that employment policies are part of the set of social and labour protection policies which resulted from the democratic consolidation process experienced by Brazil over the last 30 years. The democratic process has systematically called for effective employment policies, as well as the establishment of stronger links between these and other social policies.

Challenges in implementation are still considerable. Internal coordination between different employment programmes and actions needs to be strengthened: for instance, existing policies targeting the job skills training and employment placement are insufficiently integrated with each other. The Federal Government needs to make special efforts to promote coordination between the different Federal institutions to coordinate employment, infrastructure, sectoral and social policies. In particular, the frailty of the informal economy cannot be addressed by employment policy alone; it requires the coordinated commitment of all other policies. The management of the FAT by the Federal Government through the MTE jointly with the CODEFAT needs to be accompanied by independent and systematic evaluation on the quality of programmes and actions, as well as their impact on the labour market.

**Table 1. List of employment related policies in Brazil, 1965-2012**

Year	Regulatory Framework
1965	Decree-Law 4923 mentions employment placement and unemployment insurance
1966	The Length of Service Guarantee Fund (FGTS) established
1970	The Social Integration Programme (PIS) and the Public Servant Asset Development Programme (PASEP) established
1975	National Employment System (SINE) for employment placement established
1976	Merger of PIS and PASEP
1986	Unemployment insurance enacted
1988	The Workers' Support Fund (FAT) with tripartite management established
1988	Wage supplement enacted
1990	The Workers' Support Fund Council (CODEFAT) established
1995	Employment, incomes and vocational training policies adopted
1996	Employment placement, employment generation and vocational training programme adopted
2003	Redesign of the employment placement, employment generation and vocational training programmes, aiming at integration into a unified public employment system
2007	Decree of the Minimum Wage Policy
2012	Minimum Wage Act

Source: Dedecca (2014)

**Table 2. Functions of the employment policies in Brazil**

Functions	Objectives
Wage supplement	Paid to those who have received up to twice the minimum wage on average during the previous year, have registered with the PIS or the PASEP for at least 5 years, and have been formally employed for at least 30 days in the preceding year.
Labour and Social Security Card (CTPS)	Established in 1932, the CTPS is currently one of the few documents to record a worker's professional life, which includes the workers' unemployment insurance and social security benefits.
Employment placement - IMO (SINE)	Aims to (re) engage workers in the labour market through the National Employment System (SINE). The institution keeps information on vacancies reported to employment service centres.
Youth policies	Started in 2008, actions and policies are organized and unified under the Pro-Jovem youth programme, led by the Federal Government and carried out by the ministries with the aim of breaking the vicious cycle of low schooling, and lack of social and vocational skills of young people.
Employment and Income Generation Programme (PROGER)	Seeks to expand access to information on employment, labour and income programmes, by creating a channels for dissemination and transparent access to credit. People can access information on existing actions and credit lines for small business.
National Programme for Oriented Microcredit (PNMPO)	Aims to encourage employment and income generation among micro-entrepreneurs by providing funds and technical support to micro-credit institutions, build institutional capacity and support through services to grass-roots entrepreneurs.
Vocational training	Promotes access to skills for workers to increase their chances for employment and income generation, social inclusion, poverty reduction, anti-discrimination, and reduce vulnerability.
Minimum wage	Started in 1940, the basic and unified remuneration of the formal labour market. The minimum wage should meet the basic living needs of workers' and their families, and is regularly adjusted as such.
Unemployment insurance	Provides temporary financial assistance to workers dismissed without just cause, and helps them maintain an income, and seek jobs by providing integrated guidance, placement and vocational training.
Solidarity economy	Fosters and supports solidarity economy initiatives through direct actions or cooperation agreements with other government bodies at federal, state and municipal level, as well as civil society organizations.
MTE portal–Mais Emprego (more employment)	An IT system that integrates access to labour, employment and income-generating polies (unemployment insurance, employment placement and vocational training).

Source: Dedecca (2014)

## Endnotes

<sup>1</sup> This research brief was prepared by Yadong Wang, based on Dedecca (2014), Employment policy implementation mechanism in Brazil (Employment Working Paper No.154, Geneva: ILO) and focused on the employment policies in place during the growth phase of the Brazilian economy (2004-2013). Claudio Salvadori Dedecca (State University of Campinas) provided updates and Anne Posthuma (ILO) provided support. Aurelio Parisotto (ILO) reviewed the research brief.

<sup>2</sup> The following countries are covered: Argentina, Bosnia and Herzegovina, Burkina Faso, Brazil, China, Republic of Korea, South Africa, and the European Union (EU) including the United Kingdom and Germany. Apart from Argentina and South Africa, the other countries mentioned here have ratified ILO's Employment Policy Convention, 1964 (C122).

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