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Foreword

This volume consists of a background report prepared by the OECD Secretariat to support the Labour Market and Social Policy Review of Colombia, which is currently being undertaken by the OECD Employment, Labour and Social Affairs Committee as part of the process for Colombia's accession to the OECD [see the Roadmap for the Accession of Colombia to the OECD Convention: C(2013)110/FINAL]. In accordance with paragraph 14 of Colombia's Accession Roadmap, the Employment, Labour and Social Affairs Committee agreed to declassify the report in its current version and publish it under the authority of the Secretary General, in order to allow a wider audience to become acquainted with the issues raised in the report. The publication of this document and the analysis and recommendations contained therein, do not prejudge in any way the results of the ongoing review of Colombia by the Employment, Labour and Social Affairs Committee as part of its process of accession to the OECD.

The review was prepared by Horacio Levy, Thomas Liebig and Veerle Miranda (project leader), supported by Rodrigo Fernandez and Hervé Philippe for statistical work and Monica Meza-Essid for project assistance, under the overall supervision of Monika Queisser. Valuable comments were provided by Stefano Scarpetta, Mark Pearson and many other OECD colleagues. The report also includes comments from the Colombian Ministry of Labour and the Department for Social Prosperity.

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Acronyms and abbreviations

ANSPE	National Agency for Overcoming Extreme Poverty
AP	Pacific Partnership (*Alianza del Pacífico*)
APRE	*Programa de Abono Anticipado de Prestación a Extranjeros*
BEPS	Periodic Economic Benefits (*Beneficios Económicos Periódicos*)
CAN	Andean Community of Nations (*Comunidad Andina de Naciones*)
CAL	Workers' Rights Centres (*Centro de Atención Laboral*)
CCF	Family compensation fund (*Caja de Compensación Familiar*)
CETCOIT	Special Committee for the Handling of Conflicts referred to the ILO
CREE	Corporate income contribution to equity
CTA	Associated work co-operative (*Cooperativa de Trabajo Associado*)
DANE	Statistical Office of Colombia
DOIC	Database of Immigrants in OECD countries
ECV	National Quality of Life Survey (*Encuesta Nacional de Calidad de Vida*)
ENIG	Household budget survey (*Encuesta Nacional de Ingresos y Gastos*)
ENS	National Trade Union School (*Escuela Nacional Sindical*)

ESLF	Longitudinal Social Survey of Fedesarrollo (*Encuesta Social Longitudinal de Fedesarrollo*)
GEIH	Integrated Household Survey (*Gran Encuesta Integrada de Hogares*)
ICBF	Colombian Institute for Family Well-being (*Instituto Colombiano de Bienestar Familiar*)
IDD	Income Distribution Database
IMAN	Alternative minimum personal income tax (*Impuesto Mínimo Alternativo Nacional*)
INCYDE	Chamber of Commerce Institute for Creation and Enterprise Development (*Fundación Instituto Cameral para la Creación y Desarrollo de la Empresa*)
LAC	Latin American countries
LAP	US-Colombia Labour Action Plan
MERCOSUR	Southern Common Market (*Mercado Común del Sur*)
PES	Public employment service
PLUMA	*Plataforma Laboral Única para el Migrante Andino*
POS	Contributory health care scheme (*Plan Obligatorio de Salud*)
POS-S	Non-contributory health care scheme (*Plan Obligatorio de Salud Subsidiado*)
SAS	Simplified stock company (*Sociedad por Acciones Simplificada*)
SENA	National Training Service (*Servicio Nacional de Aprendizaje*)
SITAC	Sistema Integrado de Trámites al Ciudadano
TWA	Temporary work agency
UNAD	*Universidad Nacional Abierta y a Distancia*
VIP	Free Housing (*Vivienda Gratuita*)
VIPA	Priority Interest for Savers (*Vivienda de Interés Prioritario para Ahorradores*)

Executive summary

Colombia has made major economic and social advances in recent years. The combination of strong economic growth and policies targeted at the most vulnerable groups improved considerably the living standards of the Colombian population. Today, the country enjoys higher employment and labour force participation rates than the average of OECD countries and unemployment is steadily declining. These favourable economic conditions are also attracting more immigrants from neighbouring countries.

Nevertheless, despite these positive trends, deep structural problems remain. Labour informality is widespread, the rate of self-employment is high and many employees have non-regular contracts. Income inequality is higher than in any OECD country and redistribution through taxes and benefits is almost negligible. In addition, half a century of internal conflict and violence has displaced a significant part of the population, and many of them are living in extreme poverty. Despite considerable progress, violence continues to be a challenge and also affects trade union members and leaders.

The Colombian Government has undertaken important reforms in recent years to address these labour market and social challenges, and the efforts are gradually paying off. However, further progress is needed to enhance the quality of jobs, coverage of social protection, social dialogue, and overall well-being for all. A correct application of the labour legislation is a first step towards a more equal labour market. Labour inspectors and the labour justice system are key to investigate and sanction breaches of labour regulations, but also social dialogue and collective bargaining mechanisms are important ways to ensure decent working conditions. A better functioning of these systems is crucial. Additional reforms are required to bring workers out of informality and better protect them and their families against poverty, sickness and unemployment. Public social spending, albeit rising, is low and not always targets those most in need. The pension system is complex, restrictive and concentrated among those with higher incomes, and could benefit from a comprehensive reform. Social policy programmes for the poor and vulnerable should be scaled up to improve outcomes and the redistributive effect of family allowances should be enhanced. More

could also be done to engage the large emigrant community abroad, often highly-educated people, and to support their return and reintegration in the Colombian labour market.

The main trust of the OECD report is to support the Colombian Government in tackling labour market duality, generate trust between the social partners, develop inclusive and active social policies, and get the most out of international migration. As suggested policies will imply a rise in public social spending, it will be important to improve the tax system or shift the composition of spending towards labour market and social policies.

Assessment and recommendations

Towards a more equal society

Colombia has enjoyed strong economic growth, improving the living standards of most Colombians

Colombia has experienced strong and sustained growth over the past decade and a half, driven by an oil and mining boom, foreign direct investment in the commodity sector and measures to reduce barriers to trade and investment. A sound monetary, fiscal and financial framework also moderated macroeconomic volatility that characterised previous decades. Yet, Colombia needs to sustain high growth rates to converge towards the living standards of OECD countries. With GDP per capita at 34% of the OECD average in 2013, Colombia ranks well below Mexico (46%) and Turkey (50%), the two OECD countries with the lowest GDP per capita.

The combination of strong economic growth and policies targeted at the most vulnerable has considerably improved the living standards of most Colombians, including the poorer parts of the population. Measured against the price of a basic basket of food goods, the incidence of absolute poverty fell from 48 to 31% in the decade to 2013. Also extreme poverty dropped from 16 to 9% and multidimensional poverty, which takes into account education, living conditions of children and youth, work, health, public services and housing, declined from 49 to 25% over the same period.

Yet, income inequality remains very large

Despite this progress, Colombia remains a very unequal country, with a Gini coefficient of disposable income inequality of 0.56 compared with 0.31 in the OECD on average. The Gini coefficient is considerably higher than in Chile (0.50) and Mexico (0.47), the OECD countries with the highest income inequality levels. Significant differences across regions in labour market outcomes and the level and quality of education are the main factors behind the high levels of income inequality and poverty in the country. Moreover, and in contrast to most OECD countries, there is hardly any redistribution of income through taxes and benefits in Colombia.

Strong improvements in employment rates hide deep structural problems

Employment and labour force participation rates are slightly higher than in the OECD area, in particular thanks to high employment rates among men (of all ages) and strong improvements in the employment rates of youth, women and older workers. In 2013, 73.4% of the population aged 15-64 was active in the labour market and 66.5% was employed, compared with respectively 71.1 and 65.3% on average in the OECD. Not only men, but also youth and older workers now have higher employment rates than their counterparts in OECD countries; only women continue to lag behind. The unemployment rate has also declined considerably, from 15.6% of the labour force aged 15 or over in 2002 to 9.6% in 2014, and long-term unemployment is marginal.

Nevertheless, deep structural problems in the labour market are visible through the unusually high share of self-employment: 52% of the population works as self-employed compared with 27% in Mexico and 39% in Greece, and 17% in the OECD on average. Moreover, the majority of self-employed people work in unregistered businesses (83%) and are not covered by social security (93%). Informality is also high among employees, with around 42% of them not contributing to the pension system; a much higher share than in most other emerging economies. Transitions from informal to formal employment are very low, and those who manage to move to the formal sector are more likely to work under a fixed-term contract than a permanent one, which in turn carries a higher risk of falling back into informality or unemployment.

Despite significant progress, violence persists…

Over the past decade, Colombia has made noteworthy progress in reducing violence, but the crime rates remain high in international comparison. At around 14 700 deaths per year, the homicide rate in Colombia stood at 30.8 per 100 000 population in 2012 (down from 66.5 in 2000), compared with a global average homicide rate of 6 per 100 000 population. Colombia ranks second-highest in South America, after Venezuela. In the OECD area, the average homicide rate was 2.2 per 100 000 population in 2012, with Mexico and Estonia at the top of the ranking with a homicide rate of 21.5 and 5.0 per 100 000 population respectively.

…displacing a significant part of the population and affecting trade unions members and leaders

Fifty years of internal conflict and violence have displaced about 6.2 million people in Colombia. With 12.9% of the total population internally displaced, Colombia ranks second highest in the world, after Syria, and accounts for about 22% of the global stock of internally displaced people. Forced displacement is disproportionally concentrated among Afro-Colombians and indigenous people and is increasingly concentrated in certain regions. Two-thirds of the internally displaced individuals live below the poverty line, and one third below the extreme poverty line.

Trade union members and leaders are also affected by the high crime rate, with 20 homicides of trade unionists in 2014 and more than 300 hundred assaults, threats, harassments and other types of violence in the same year. There has been some debate as to whether violence against trade union members is targeted or just part of the general violent climate in Colombia. While the national and international literature describes numerous examples of trade union members who are murdered for their involvement in union activities, other reports argue that violence against trade union activists responds to a range of different motivations due to their role as local leaders, including resistance to armed groups and displacement. Improved prosecution of crimes, in close contact with trade union organisations during investigations, will be crucial in promoting greater clarity and accuracy in the determination of the motivations and intellectual authors behind the crimes.

The protection programme was considerably improved, but could benefit from further reinforcement

Over the past three years, the protection programme for trade union members and leaders has been significantly improved through the creation of a National Protection Unit, an expansion of the programme's coverage, better material, a reformed risk assessment process, shorter delays and investigation of several corruption scandals. These initiatives have produced important results: since their introduction, none of the trade unionists covered by the protection programme has been killed.

Nevertheless, the protection programme continues to face challenges. In particular, the budget of the National Protection Unit remains very unstable, and each year there is a risk that the budget will be cut, including for 2015. The risk assessment process of 33 business days also remains too long for people under immediate risk. There is no evaluation instrument for collective risks and no system in place to monitor the adequacy of the provided protection measures or to prevent corruption. Most importantly,

impunity for crimes against trade unionists, related to inefficiencies and dysfunctionalities in the judicial branch, should be addressed.

Policies addressing labour market duality

Recent reforms to promote labour formalisation are paying off, but remaining barriers to labour formalisation should be addressed as well

Over the past decade, the government has sought to encourage labour formalisation in Colombia through a series of legislative initiatives, of which the Formalisation and Job Creation Law of 2010 and the tax reform of 2012 were the two most important. Through a package of reduced corporate income and payroll taxes, tax reliefs and government support programmes, the Colombian Government encouraged formal job creation and reduced labour informality by 5 percentage points in less than four years.

Notwithstanding the success of the reforms, the informality rate remains high in comparison with other emerging economies. The Colombian Government needs to address the remaining barriers to formalisation as well, including 1) labour market distortions related to social insurance programmes; 2) weak implementation of labour law; 3) complex procedures for the registration of companies and the affiliation of workers to social security; 4) high minimum wage; and 5) large imbalance between the skills needs of the productive sector and the available workforce.

Starting with increasing the incentives for workers to contribute to social insurance…

The combination of poorly designed mandatory social insurance programmes for formal workers and non-contributory schemes for the rest of the population can have negative effects on the labour market. First, workers in Colombia have limited incentives to formalise and pay into the contributory health care system because: 1) part of the formal workers' health care contribution is used to finance the subsidised system and thus acts as a tax; 2) the subsidised health care system offers similar services and is free of costs; and 3) there is a discontinuity in health care coverage when an individual's employment status changes. Second, there is a disconnection between the mandatory contributions employers pay into the family compensation funds (*Cajas de Compensación Familiar*) and the benefits their employees receive.

To stimulate the formalisation of labour without jeopardising universal health care coverage, it would be important to broaden the sources of funding for the subsidised health system. Additional resources would allow

the government to gradually reduce the share of total health funding coming from formal-sector employee contributions and increase funding from the general budget. The planned tax reform may be an opportunity to raise additional resources for the health system.

A similar recommendation would hold for the family compensation funds. Increased resources from the government for the services these funds provide to non-affiliates would allow a gradual decline in the employer contribution to the compensation funds. In addition, the government could consider making the services that are not available to all formal workers (such as cultural and recreational services that are only located in the bigger cities) voluntary, to allow employers to opt out from this services in return for a lower contribution rate.

…and strengthening labour law enforcement to address labour market duality

Weak enforcement of the employment legislation further contributes to labour market duality. While many workers and firms in Colombia are forced to stay in the informal sector because they are unable to enter the formal one due to the high costs, informality may also be a choice for certain firms and workers to avoid taxes and social contributions. For this reason, it will be important to strengthen labour law enforcement and raise fines for labour law infringements related to social insurance.

Furthermore, there is a tendency among Colombian employers to rely on contracts regulated under civil-law provisions for their employment relations, such as dependent self-employment and third-party contracting through associated work co-operatives, simplified joint stock companies and union service contracts. The different forms of contracts have in common that the workers involved do not benefit from the rights stipulated in the labour code (such as minimum wage, hiring and firing rules, affiliation to trade union, and collective bargaining rights and social security rights), even though working conditions are often similar to those of regular employees. The magnitude of the use of civil-law contracts is not entirely clear, but estimated at 10% or more of all employees with a written contract. While the use of associated work co-operatives for labour relations is prohibited since 2011, there has been increased hiring through other types of civil-law contracts. The Colombian Government should prohibit the use of all types of civil-law contracts for labour relations as soon as possible and oblige companies to formalise employees working under such contracts through regular employment contracts that ensure access to all basic labour rights.

Finally, while fixed-term contracts and subcontracting through temporary work agencies (TWA) provide flexibility for firms to adjust their

workforce to changing economic circumstances, these types of contracts also generate a high degree of job insecurity for the workers involved. While Colombia has very flexible regulations on fixed-term contracts and rather strict rules on TWA employment, the shares in total employment are high for both types of contracts. In 2013, 34% of all employees with a written contract had a fixed-term contract; a share above that in Chile (30%) and Poland (27%), the two OECD countries with the highest share of fixed-term contracts. The high share of TWA contracts – 9% of all employees with a written contract work for a TWA; compared with less than 3% in nearly all OECD countries (no information is available on TWA employment in Chile and Mexico) – despite the strict regulations points to a weak enforcement of the law. To safeguard job quality of TWA workers and limit abuse, the Ministry of Labour should continue to closely survey temporary work agencies.

A new unemployment protection scheme has been introduced but more resources are needed

To address the country's high levels of unemployment, the Colombian Government introduced in 2013 a new "protection mechanism against unemployment" (*Mecanismo de proteccion al cesante*). The system consists of four elements: 1) small allowances for unemployed people; 2) a voluntary system of individual unemployment savings accounts; 3) a network of public employment services (PES) with a nationally-shared job database; and 4) active labour market programmes.

Taking into account Colombia's financial resources and administrative capacity to run a comprehensive unemployment protection scheme, the choice for individual unemployment savings accounts is probably the most appropriate way to provide income compensation in the case of job loss. Such a system avoids moral hazard problems inherent to traditional unemployment insurance schemes and promotes active job search among benefit recipients – which would be very difficult to monitor in the presence of the large informal sector. Individual savings accounts also draw a clear link between contributions and benefits. In order to strengthen the system and increase the use of the individual unemployment savings accounts, it would be important to limit the options to withdraw funds for reasons other than unemployment (like house purchase/renovation or education).

Negligible funding for employment service providers implies that the support they are able to deliver is very limited. While higher-skilled formal workers might quickly find a new job through personal contacts or through the nationwide job database, harder-to-place jobseekers, such as long-term unemployed, inactive and low-skilled people, need personalised

employment counselling and targeted training to improve their skills. For these groups, it will be important to ensure sufficient funding for employment service providers for the organisation of job-search support and effective active labour market programmes.

Enhancing social dialogue

Trade union density is low due to labour market segmentation and violations of trade union rights

Colombia has ratified all fundamental ILO conventions (unlike some OECD countries) and freedom of association is recognised by the Constitution and the Labour Code. With trade union density estimated at 9.2% of salaried workers (formal and informal) and 4.5% of the total workforce, Colombia is at the lower end of the OECD ranking and considerably below Chile and Mexico. As in most other OECD countries, trade union density is much lower in the private sector (estimated at 5.1%) than in the public sector (55.5%). The average trade union counts just over 200 members, but the large majority (80%) has fewer than 100, limiting their bargaining power. The low trade union density in Colombia is related to a number of factors, including labour market segmentation, violence against trade union leaders and members, and repeated violations of freedom of association rights.

To enhance trade union rights, the criminal code was reformed in 2011, establishing higher penalties and possible imprisonment for employers who undermine the right to organise and to bargain collectively. The Ministry of Labour has also been organising media campaigns to improve the perception about trade unions among employers and the Colombian population more general. The Prosecutor General's Office (*Fiscalía*, also translated as Attorney General's Office) is currently investigating 277 cases of alleged violations of the reformed article. It will be important to see whether these investigations lead to convictions, where warranted. At the same time, it is unclear whether the administrative sanctions that were imposed by labour inspectors on firms violating the right of trade union association have been collected in the meantime.

Collective bargaining coverage is limited despite a recent increase in collective bargaining agreements

The coverage of collective bargaining remains low, at 6.2% of all salaried workers, despite a significant increase in the number of collective agreements. Contrary to most OECD countries, but similar to Chile and Mexico, the bargaining coverage rate for salaried workers is lower than the

trade union density rate, indicating that many local trade union units are too weak to engage their employer in collective bargaining. In addition, authentic collective agreements account for a decreasing share of all agreements signed in the private sector in 2013; instead, the bulk of collective agreements are union service contracts, which have become a popular instrument for labour subcontracting.

Important progress in collective bargaining has been made for public sector workers

Until 2012, most public sector workers did not effectively enjoy the right to collective bargaining despite Colombia's ratification of the relevant ILO conventions. Two new decrees, issued in 2012 and 2014, set out the bargaining procedures for public employees (with the exception of the armed forces, police and high-level officials) and allowed for substantial progress in their collective bargaining rights. In 2013, 266 collective agreements were signed covering more than 430 000 public employees. In addition, for the first time in history, a national agreement was reached between the government and various trade union federations on a unified set of demands related to government service, benefitting more than 1 million public employees throughout the country.

Legislative loopholes affect collective bargaining in the private sector

Collective bargaining in the private sector is affected by a number of legislative restrictions, including the lack of within-firm extensions and a framework for sectoral bargaining, collective pacts, and trade union fragmentation.

Collective agreements are not automatically extended within firms

Collective agreements are only extended to all employees of a company if the trade union that negotiated the contract represents more than one third of the company's workforce. This practice contrasts with those in most OECD countries where, once an agreement has been signed, the benefits resulting from collective bargaining are normally extended to non-unionised workers within the firm (often with the exception of managerial/supervisory staff), irrespective of the size of the trade union and even if there is no statutory regulation on the subject. The "free-rider" problem that the extension within a firm may pose is usually considered of less relevance than the need to preserve peaceful and co-operative labour relations among all workers.

There is no framework to allow for sectoral bargaining

The labour code allows higher-level trade union organisations (such as industrial unions, federations and confederations) to sign collective agreements, but sectoral or regional bargaining hardly occurs in practice as there are no further regulations by the Ministry of Labour to structure the negotiations (for instance, the Labour Code gives only rules on company-level bargaining). In the OECD, all member countries (except Japan) have sectoral or even national agreements in place. It is nevertheless true that, over the past few decades, many OECD countries have seen a trend towards decentralisation of collective bargaining towards the company level. Similar to many OECD countries, Colombia could promote the development of a two-tier system of collective bargaining in which bargaining at the company level is coupled with sectoral bargaining on basic wage and working conditions. To do so, regulation on sectoral and regional bargaining should be further developed in the Labour Code.

Collective accords undermine the power of trade unions

Similar to Chile and Mexico, but unlike other OECD countries, employers in Colombia have the possibility to negotiate collective accords with non-unionised workers if trade unions represent less than one third of the company's workforce. Even though employers are not allowed to offer better conditions than those already agreed upon in the collective agreements with the trade unions in their company, collective accords are sometimes used by employers to prevent the emergence of trade unions or weaken their influence. To avoid misuse, the option to negotiate collective accords with non-unionised workers should be eliminated.

Trade union fragmentation complicates the bargaining process

In some cases, five or more different trade unions operate in one company and, until recently, the latter had to negotiate with each union separately even though some workers would belong to more than one union. Union fragmentation is driven by competition among trade unions, but also the result of trade union members searching for protection against dismissal. Trade union immunity (*fuero sindical*) is granted to the trade union's founders and initial members for a maximum of six months, as well as to elected board members of trade unions and higher-level trade union organisations. It implies that they cannot be fired or transferred and their working conditions cannot be downgraded, without just cause as determined by a labour judge.

To address the adverse effects of having multiple collective bargaining processes, the Ministry of Labour issued a new decree in January 2014,

giving trade unions the opportunity to join forces and strengthen their bargaining power vis-à-vis the employer, and encouraging them to sign one single collective agreement at the company level. The decree is in line with regulations in most OECD countries that require a "single bargaining channel" in order to prevent or attenuate the costs involved in trade union rivalry, but the decree could go further by requiring (rather than encouraging) multiple trade unions in the same company to form a bargaining team to ensure a single collective agreement.

Conditions on the right to strike are sometimes overly strict

The Colombian Constitution recognises the right to strike and employers are prevented from using strike breakers at any time during the course of a strike. Yet, while trade union federations and confederations are allowed by law to sign collective agreements, the labour code forbids them to organise strikes. As such, strikes can only be organised by unions at the company level, in contrast to most OECD countries where strikes can also be declared in an industry. In addition to giving the right to strike to higher-level trade union organisations, the government should also consider abolishing the clause for compulsory arbitration after 60 days of strike action. While legislation in OECD countries typically provides for conflict-resolution mechanisms in collective labour disputes, the use of such mechanisms are not imposed on the bargaining parties through the use of the statutory mechanisms. In all, strikes do not seem to be particularly widespread in Colombia: there were 18-19 strikes in 2012 and 2013 and only 2 strikes in the period January-June 2014, compared with 400 to 600 industrial disputes that are resolved annually without industrial action.

Strikes are illegal when the dispute arises in services considered essential, including 1) civil servants not exercising authority of the state; 2) transportation by land, water and air; 3) electricity and telecommunications; 4) social assistance, charity and welfare; 5) hospitals and clinics; 6) production, refining, transport and distribution of oil and oil products – exactly those sectors where the largest trade unions operate. While there is a diversity of positions among OECD member countries on the sectors in which the public interest in securing an uninterrupted service justifies restricting the freedom of workers to initiate industrial action, Colombia would fall into the group of the more restrictive countries. The government could therefore reflect on alternatives to the outright prohibition of strikes in public and essential services, such as introducing a requirement of minimum service, while allowing the majority of employees in a particular industry to participate in strike action.

Collective dispute mechanisms are increasingly used and positively contribute to social dialogue

For conflicts related to public and other essential services, as well as for conflicts that did not obtain the absolute majority vote of the company's workforce, arbitration is the only option if the conflict cannot be solved through direct negotiation. The arbitration tribunal for collective conflicts is composed of three members: a representative from the trade union, a representative from the company and a third person, the arbiter. The latter has to be approved by both the trade union and the company. In case there is no agreement on the arbiter, the Ministry of Labour assigns the arbiter. In the past couple of years, the number of convened arbitration tribunals increased substantially, but the share of cases that were solved dropped considerably.

Disputes in the areas of freedom of association and collective bargaining that cannot be solved by any other instance, can be submitted to the Special Committee for the Handling of Conflicts referred to the ILO (CETCOIT). The committee is composed of nine persons, i.e. three representatives each of the trade union federations, the employer federations and the government. CETCOIT was considerably strengthened in 2011 and an independent facilitator respected by all parties was appointed. These measures improved the efficiency of the committee and, by October 2014, an agreement was reached for 64 out of 99 cases, many of which were longstanding conflicts (11 years or longer). It was also agreed to create regional structures, but there are not enough funds available to do so. All in all, both the employers and trade union federations have confidence in CETCOIT and it is positively contributing to social dialogue in the country.

In 1990, the Colombian Government dropped previous provisions on mediation of industrial disputes in the private sector, which used to be a mandatory step before calling a strike or taking a conflict to the arbitration tribunal. The abolition of any mediation services could be considered surprising in view of the positive experience some OECD countries have made with assisting the collective bargaining parties by means of conciliation and mediation. The government may consider reintroducing mediation in the collective dispute resolution process, ideally organised by an autonomous body that is respected by both the trade unions and the employers.

Reinforced collective bargaining would allow the minimum wage to regain its role as wage floor

Over the years, the minimum wage in Colombia has lost its purpose of providing a wage floor and instead has become the wage norm for many

formal, and even for half of all informal employees. At 96% of the median wage in 2013, it is much higher than in any OECD country and most emerging economies. As a result, many workers – typically low-skilled workers and youth – cannot access the formal labour market because of their low productivity levels. The very high minimum wage also contributes to wage inequality, while it does not reduce poverty rates since poor households do not have access to formal-sector jobs.

Nevertheless, the minimum wage should be seen in the context of the limited role of collective bargaining in Colombia. Since the minimum wage is one of the few ways for trade unions to ensure decent working conditions for their affiliates, they tend to put strong pressure on raising its level. To allow low productivity workers to join the formal labour market and reduce poverty among these workers' households, the minimum wage should gradually regain its role of wage floor. However, the minimum wage adjustment hinges upon a better social dialogue and reinforced collective bargaining on aspects other than the minimum wage, such as working conditions or take-home pay. In the meantime, increases in the minimum wage should closely follow inflation. Differentiating the minimum wage across regions could be a possibility, but improved labour law enforcement is a prerequisite, given that minimum wage differentiation increases complexity and could potentially reduce compliance. It would be equally important to further develop social policies to reduce poverty amongst the poorest households.

Enforcing labour rights

The labour inspection system has been significantly strengthened, but additional improvements are necessary

Labour inspectors have an important role to play in the enforcement of employment regulations. Colombia has taken an impressive amount of measures in the past few years to improve the labour inspection system. In particular, the number of labour inspectors was more than doubled in the space of four years and their salary scales were increased to 4-6 times the minimum wage to attract better candidates and avoid staff turnover. In addition, intensive training sessions have been organised in collaboration with the ILO to improve the technical capabilities of labour inspectors, and practical guidelines, checklists and methodologies were developed through tripartite consultations. Counselling services for workers were improved to better address their questions concerning labour rights and to register complaints about violations of those rights. Finally, the fines collection system was revised and strengthened.

In spite of these important efforts, given the high frequency of labour law violations and the low coverage of collective bargaining, additional improvements to the labour inspection system appear to be necessary. The number of labour inspectors per worker remains low compared with most OECD countries and inspectors have insufficient resources to properly fulfil their function. Not all labour inspectors have followed the trainings (the completion rates are between 59 and 87% depending on the training module) and it is unclear to what extent the labour inspectors undertake preventive inspections in addition to inspections following complaints. Finally, there is no structural a co-operation between the labour inspection and judicial system.

Especially the collection of fines remains problematic

Fines imposed by labour inspectors on employers are collected by the National Training Service (SENA) – a government body attached to the Ministry of Labour. However, the SENA does not seem to have the experience to fulfil this function properly. Moreover, until recently, SENA was barred from collecting the fines if a company could demonstrate that it had filed a judicial appeal of the case, which nearly all companies would effectively do. A new resolution in June 2014 profoundly changed the fines collection procedures of SENA, and gave the institution the authorisation to require and hold collateral payment from an enterprise pending the outcome of the judicial appeal. The immediate effect was that companies are no longer filing appeals.

SENA is slowly starting to collect the fines, but only the more recent fines can be collected. By law, fines related to labour rights violations expire in three years and those related to social security and trade union rights in five years. As a result, many fines will never be collected, especially knowing that the administrative process to collect the fines takes on average 417 days. To better enforce labour rights, the fines collection process should be shortened significantly and companies whose fines have expired should be re-visited and re-fined if the labour law violations continue.

There is too little supervision over the formalisation agreements

Companies that were fined for third-party contracting through associated work co-operatives can obtain a reduction or even remission of their fine if they hire the workers directly with an open-ended contract. While this possibility ensures job security for the involved workers, there is insufficient follow-up by the Ministry of Labour to verify the content of the formalisation agreements (some agreements do not offer workers open-ended contracts but just fixed-term contracts for only a year) or to ascertain

if these workers are effectively hired within the terms set out in the agreement. The agreements are negotiated without involvement of the workers or their trade union organisations and it is unclear whether the labour inspectors or regional directors involved in the process have received guidance or training to draw up the agreements. The number of workers that have been formalised so far is marginal compared with the misuse of associated work co-operatives and workers are not always offered open-ended contracts. To limit abuse, the Minister of Labour should closely monitor the content and implementation of the agreements negotiated between companies and the Ministry of Labour that obtained a reduction or remission of their fine for third-party contracting.

Improving redistribution through social policy

The pension system is very complex, restrictive and concentrated among those with higher incomes

The pensions system is based on two mutually exclusive schemes: a public pay-as-you-go defined-benefit and a fully-funded private scheme. Workers are allowed to switch between the two systems every five years up to ten years before reaching the retirement age. Due to its complexity, it generates inequities, administrative inefficiencies and high operating costs. Coverage is very low and benefits mainly affluent people. About 35% of the population in retirement age receive a pension, compared to 90% on average in the OECD. Almost 90% of pension spending targets the richest 20% and less than 6% the poor. Furthermore, pensions are largely exempt from taxes and pension contributions and investment returns are not taxed at all. Low coverage is due to high informality; about one third of workers actively pay pension contributions. Informality also disproportionally penalises the worse-off. Only the richest 30% of men and richest 10% of women contribute enough to be eligible for a regular pension. People at the bottom 10% contribute on average five weeks per year, thus unable to reach the required 1 300 weeks within a normal working life.

A comprehensive reform is needed to increase coverage and make the pension system more equitable and sustainable. Over time this could involve several options. In any case, the competition between the public defined-benefit and the private defined-contribution plans should be removed as it is costly and inefficient. The constraint of the minimum pension being at least equal to the minimum wage should be relaxed. Equalising the retirement age between men and women – currently at 62 and 57, respectively – would raise female pension coverage as it would provide longer contribution periods and higher chances to fulfil the requirements. Gradually moving towards a scheme that increases the retirement age in line with life

expectancy would increase long-term sustainability and, despite public perception, is unlikely to reduce job opportunities for younger people.

Recent reforms for vulnerable elderly people have made significant inroads but more is needed

Recently, two programmes were announced aiming to cover vulnerable elderly people who reach pension age and have not contributed enough for a pension: *Beneficios Económicos Periódicos* (BEPS) and *Pension Familiar*. These new programmes are welcome, but so far only a few people have joined them. This may reflect the difficulty lower-income people face in accessing information, taking up the benefits and saving for old-age. Measures to increase awareness and take-up of BEPS and *Pension Familiar* should be put in place. Potentially eligible population must be identified (e.g. combining information from Colpensiones and SISBEN) and contacted to be made aware of the benefit. Access must be facilitated by extending the number of centres where the population can apply for the benefits (currently limited to large cities). *Colombia Mayor*, a safety net programme for the elderly, is neither generous nor comprehensive; the amount is about 10% of the minimum wage and according to government estimates only half of potential recipients are covered. The government has been increasing its coverage and plans to extend it all potential legitimate recipients. It is a welcome initiative that should be accompanied by an increase of the benefit level.

The cash allowance of the family subsidy system could be better designed, and the services of the family compensation funds should be rationalised

The family subsidy system (*sistema de subsidio familiar*), to which employers contribute 4% of their wage bill, is used to support a number of programmes (including cash allowances, employment services, housing and services). These programmes are run by family compensation funds, not-for-profit private organisations, which operate at the department level and charge an administration fee of 8%.

The family cash allowance is restricted to formal workers, thus not covering most low-income families, as they tend to be in the informal sector. The cash allowance is paid at the same rate for all workers earning between one and four times the minimum wage, thus not taking into account differences in need and creating distortions around the upper threshold. The design and redistributive effect of the cash allowance could improve by increasing the amount for lower earners and applying a tapering rate on higher earnings.

Many services provided (such as recreation, education and culture) are located in the regional capitals, thus not easily accessible to people in smaller cities. Furthermore, as the size and financial situation of the family compensation funds are not homogeneous, the scale, scope and quality of services they provide are also not the same.

The family compensation funds should continue to play a role in service delivery, but stricter rules and control should be applied in determining which services must be financed by the family subsidy system based on widespread access and public interest. In the long run, the Colombian Government should consider taking a more active role in the provision of family protection.

Social policy programmes for the poor and vulnerable are well targeted but more resources are needed to improve outcomes

Social policies for populations in poverty or vulnerability, such as *Red Unidos*, *Familias en Acción* and *Jóvenes en Acción*, are generally well targeted and achieve positive outcomes, according to independent programme evaluations. However, the expenditure level on these programmes is still small thus limiting their impact (for example, *Familias en Acción* spends less than half a dollar per child per day). Spending must increase not only on the amount of cash benefits but particularly on the elements that could reinforce the achievement of long-term objectives. For instance, although *Familias en Acción* had increased school enrolment, the impact on education achievement was smaller due to lack of improvements in the quality of education. Similarly, the impact of *Red Unidos* was limited due to lack of resources. In comparison to *Chile Solidario*, social workers are less qualified; their visits to beneficiary families are not as frequent; and means are not available to respond to eventual increases in the demand for social programmes or services. Furthermore, lack of co-ordination between different programmes, agencies and levels of government reduce the efficiency and effectiveness of programmes.

The design of social programmes could be revised to improve equity, work incentives and formalisation

Benefit levels of social programmes for the population in poverty or vulnerability are not differentiated by income or any other indicator of living standards. Most benefits are paid without tapering or grading scale – either the benefit is paid in full amount or not paid at all. This approach produces discontinuities in the income distribution thus generating very high effective marginal tax rates (or kinks) and possibly distortions both on work incentives and formalisation. It may also cause horizontal inequity, public

resentment and opposition as those just marginally above the threshold (thus excluded) may end up significantly worse-off than those just marginally below the threshold (thus included) once the programme is taken into account. Currently income tapering is not possible, due to inaccurate income data collected by SISBEN. An alternative could be to taper based on the SISBEN score (which is a continuous indicators ranging from 0 to 100); the technical and administrative feasibility could be explored while income data collection is being improved.

Making the most out of migration

Colombia is an emigration country and remittances have played an important role

Colombia is a net emigration country – sending more migrants abroad than it receives. In 2010/11, there were about 1.3 million Colombians living in OECD countries, with the United States and Spain being the primary destinations. The tow most important non-OECD destinations are Colombia's neighbours, Venezuela and Ecuador. Nevertheless, the share of Colombian emigrants residing in OECD countries, as a percentage of the total Colombian population, stands only at about 3% – which is below the average for OECD countries. Colombian emigration is characterised by an over-representation of women and highly-educated people and indeed, one in nine highly-educated Colombians lives in an OECD country. At 78%, the labour market participation of Colombians residing in OECD countries is relatively high. However, the unemployment rate among this group reached 12% in 2010/11 and, among those highly-educated who have a job, 35% are overqualified.

Given the large diaspora, remittances have played an important role for Colombia's economic development, and the evidence suggests that while they have lowered poverty, they have also contributed to enhancing inequality. With the global economic crisis, remittances have declined by almost one half and currently stand at 1.2% of GDP. Unlike other countries, Colombia has not developed specific instruments to try to channel remittances into local economic development. Instead, the Colombian approach has rather focused on encouraging personal and family savings. This seems adequate, given the mixed evidence on the impact of channelling remittances towards economic development beyond the family level.

More could be done to engage with the diaspora and to support return migration

A number of initiatives have been put in place to engage with the emigrant community, but most of these have been small scale, with little policy co-rdination. The difficult economic situation in key destination countries – in particular Spain and Venezuela – coupled with favourable economic conditions in Colombia, has also prompted many former emigrants to return. A few targeted policies have been put in place to support return migrants, mainly consisting of counselling and tax and customs incentives. Yet, for reasons which are not entirely clear, take-up has been low. In any case, an approach more directly linked with informing return migrants about labour market opportunities in Colombia, possibly coupled with some training, would seem more promising. First steps in this direction have already been taken.

Immigration flows are still small, although there has been significant growth in labour migration supported by a liberal policy

Immigration to Colombia was a marginal phenomenon until recently, and, at 0.3%, the population share of immigrants is lower than in any OECD country. However, this situation is gradually changing, and the more favourable economic and living conditions in Colombia are notably attracting many Venezuelans, the largest immigrant group. In contrast to most OECD countries, where family and – to a lesser degree – humanitarian migration are important, labour accounts for the bulk of new migration inflows.

These labour migration flows have been supported by a significant modernisation and liberalisation of the labour migration system. Institutional changes, such as the creation of *Migración Colombia*, an agency under the Ministry of Foreign Affairs, and a labour mobility unit within the Ministry of Labour, are also witness of the growing importance of labour migration. Current admission conditions are more favourable than in most OECD countries. There is no labour market test and, if they have a job offer, foreigners can in principle take up any employment that pays at least the minimum wage. However, in spite of recent improvements in the statistical infrastructure, there is still little monitoring of the flows to date. In addition, the permit system is rather opaque. The management of labour migration would benefit from capacity-building on the analytical side, along with more transparency in the permit system and the statistics derived from it.

Integration is not yet on the radar screen

Given the small-scale nature of immigration to Colombia, integration policy has not, thus far, been a priority. Formal protection against discrimination is similar to that provided in OECD countries and conditions to take up Colombian nationality are very liberal. There are, however, no active integration policies, such as training. Clearly, this would currently concern only few migrants, namely refugees from non-Spanish speaking countries. And while the number of refugees remains negligible, it has seen a strong upward trend in recent years. In this context, a small pilot for the integration of recognised refugees may be worth considering. Such a pilot should include language training – where necessary – and labour market orientation, and would enable a nascent integration system to gain experience in dealing with integration, in preparation for the eventuality that immigration flows continue to grow considerably.

Enhancing international co-operation should be high on the migration policy agenda

One area which could potentially convey large benefits is international co-operation over migration management. Within this, three domains are particularly relevant in the context of the rather skilled nature of Colombian emigration: social security agreements; co-operation regarding recognition of foreign qualifications, and bilateral labour migration agreements. Existing activity in each of these areas regarding OECD countries has been limited, with a few exceptions in the area of social security. International co-operation, by its very nature, concerns – at least – two sides, but Colombia seems well-placed to take an active role in promoting this. Larger-scale co-operation, for example regarding mutual recognition coupled with bilateral labour migration agreements, could be tested in pilots or in selected occupations.

Policy recommendations for Colombia

In the context of enhancing job opportunities and well-being for all, the Colombian Government is invited to consider the following items as part of its strategy to tackle labour market duality, generate trust between the social partners, develop inclusive and active social policies, and get the most out of international migration. As the suggested policies will imply a rise in public social spending, it will be important to improve the tax system or shift the composition of government spending towards labour market and social policies.

Labour market policy and institutional setting

- Make further progress to provide income support to unemployed people. In this context, reinforce the system of individual unemployment savings accounts by restricting options to withdraw funds for reasons other than unemployment (like house purchase/renovation or education), and complement the income support with sufficient funding for employment service providers to enhance the effectiveness of job-search support and active labour market programmes.

- Tackle labour informality through 1) improving the link between what workers and employers are required to contribute to social insurance and the benefits and services they receive in return; 2) better informing workers about the benefits of social insurance; 3) strengthening labour law enforcement; and 4) addressing the complex procedures for the registration of companies and the affiliations of workers to social security.

- Review different atypical labour market contracts to avoid abuses and promote formalisation. In particular, closely monitor contracts under temporary work agencies and prohibit the misuse of civil-law contracts that undermine the labour rights of the workers involved; companies should be required to formalise employees working under such contracts through regular employment contracts that ensure access to all basic labour rights.

- Develop a constructive framework for social dialogue, by 1) promoting a two-tier system of sectoral and firm-level bargaining by elaborating the regulations on sectoral and regional bargaining in the Labour Code; 2) eliminating the option to negotiate collective accords with non-unionised workers; 3) extending collective agreements automatically to all employees of a company; 4) requiring multiple trade unions in the same company to form a bargaining team to ensure a single collective agreement; 5) giving the right to strike to higher-level trade union organisations; and 6) abolishing the clause of compulsory arbitration after 60 days of strike. In addition, Colombia should reflect on alternatives to the full prohibition of strikes in essential services (e.g. strikes conditioned on a minimum-service requirement) and consider reintroducing mediation in the collective dispute resolution process. In the context of better social dialogue and reinforced collective bargaining, consider a gradual adjustment of the very high minimum wage to bring it back to its original role of wage floor instead of wage norm.

Policy recommendations for Colombia (*cont.*)

- Further strengthen the protection programme for trade union members and leaders, by 1) ensuring sufficient and permanent resources; 2) reducing the amount of time for completion of the risk assessment process for people under immediate threat; 3) monitoring the sufficiency of the provided protection measures and increasing them if deemed inadequate; 4) ensuring effective controls to prevent corruption; 5) implementing an evaluation instrument for and providing participants the option of becoming part of a collective protection scheme; and 6) addressing the low rate of conviction for threats and violence against trade unionists.
- Strengthen the labour inspection system, by 1) increasing the number of labour inspectors towards international standards; 2) ensuring sufficient resources for labour inspectors; 3) ensuring that all labour inspectors receive appropriate training and implement the lessons learned; 4) undertaking sufficient preventive inspections in addition to inspections following complaints; 5) shortening significantly the administrative process of fines collection; 6) re-visiting and re-fining, as appropriate, companies whose fines have expired; 7) monitoring closely the content and implementation of formalisation agreements negotiated between companies and the Ministry of Labour; and 8) establish and implement a framework of co-operation between the Ministry of Labour and the Prosecutor General's Office to improve the prosecution of labour cases under the Penal Code.

Social policy

- The pension system needs a comprehensive reform. There are several options for reform, but in any case several measures that should be considered. The competition between the public defined-benefit and the private defined-contribution plans should be removed. The taxation of pension benefits should be increased and could be one of the resources to improve the safety net for the elderly. The minimum pension should be delinked from the minimum wage. The minimum contributory period should be reduced, and the reference wage based on more years. The retirement age of men and women should be equalised and its evolution be linked to changes in life expectancy.
- Enhance the effectiveness of the family subsidy system by improving the design and redistributive effect of the cash allowance and rationalising services by focusing on those of widespread access and public interest.
- Increase public spending on social policy programmes aimed at the poor and vulnerable. Target additional resources particularly on measures that would enhance the impact of current policies (e.g. expand the quantity and quality of educational resources in line with higher school attendance produced by Families in Action).
- Strengthen the co-ordination between different programmes, agencies and government levels involved in social policy programmes. Integrate databases and put in place the right mechanisms and incentives for all stakeholders to actively participate and co-ordinate activities.

Policy recommendations for Colombia (*cont.*)

Migration policy

- Expand co-operation between Colombia and destination countries regarding bilateral labour migration agreements, recognition of foreign qualifications, and co-ordination in the area of social security.
- Engage more strongly with the diaspora, by informing them about opportunities in Colombia, and provide, where appropriate, training opportunities to return migrants, in particular to those who need adaptation to the Colombian labour market.
- Build capacity to use the improved statistical infrastructure for a better monitoring of migration flows, linked with more transparency in the permit system.

Chapter 1

Strong growth but unequal Colombian society

Strong and sustained economic growth over the past 15 years translated into significant improvements in labour market outcomes, especially among youth, women and older workers. Policies targeted at the most vulnerable groups further improved the living standards of most Colombians. Nevertheless, Colombia remains a very unequal country due to large regional differences and very little redistribution. In addition, deep structural problems in the labour market are visible through the unusually high share of self-employment and widespread informality. With the global economic downturn and the overall improvement in living conditions in Colombia, the emigration flow has declined and immigration from neighbouring countries is gradually increasing. Finally, half a century of internal conflict and violence has displaced a significant proportion of the Colombian population, many of whom live in extreme poverty.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

1. Sustained economic growth owing to a mining boom and prudent macroeconomic management

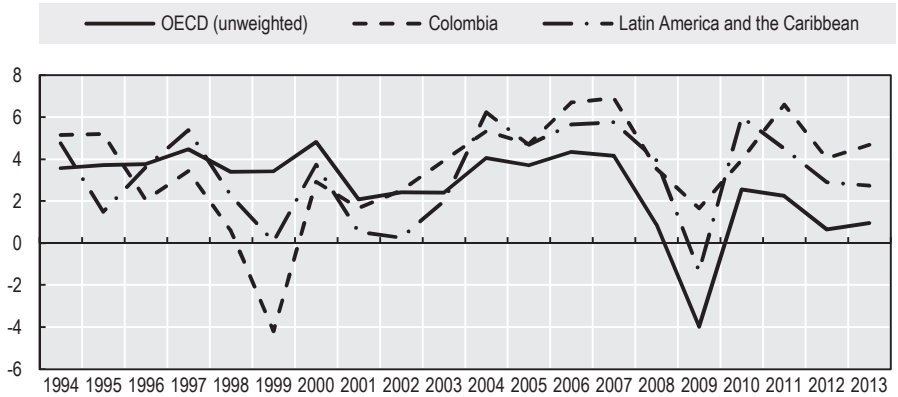
Following the Colombian financial crisis in 1998-99, the country endured a 15-year period of strong and sustained economic growth. Between 2000 and 2013, real GDP grew at an average annual rate of 4.2%, considerably higher than the OECD average (2.2%) and the average of the Latin America and Caribbean Region (3.4%) (Figure 1.1, Panel A). Growth slowed down in 2008 and 2009 as a result of the global financial and economic crisis but quickly recovered thereafter. Despite the strong GDP growth, living standards in Colombia remain well below those in OECD countries and even those in OECD emerging economies. With GDP per capita at 34% of the OECD average in 2013 (Figure 1.1, Panel B), Colombia needs to sustain high growth rates to gradually converge towards the OECD countries.

Colombia's robust economic performance has been underpinned by strong macroeconomic policies (OECD, 2015). A sound monetary, fiscal and financial framework moderated the macroeconomic volatility that hindered growth in previous decades. Bilateral free trade agreements and unilateral measures have reduced barriers to trade and investment and significant reductions in violence rates have further contributed to growth. In turn, booming oil and mining investments and exports trickled down to domestic demand.

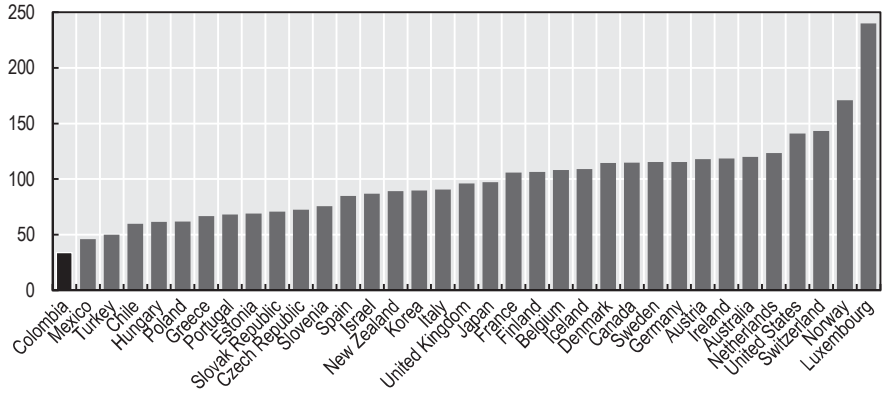
Nevertheless, non-mining tradable sectors, manufacturing and agriculture suffered in recent years from the strong real exchange rate, weaker international demand, the economic turmoil in neighbouring Venezuela and stronger competition from Mexico after its bilateral free trade agreement with Colombia. Productivity and investment in those sectors remain low due to a distortive tax system, inadequate infrastructure and skills, and limited access to finance. As discussed in the latest *OECD Economic Survey of Colombia* (OECD, 2015), the fading commodity boom will require a range of actions by the government to sustain growth.

Figure 1.1. **GDP and GDP per capita in Colombia and OECD countries**

Panel A. Real GDP annual growth, in percentage



Panel B. GDP per capita in purchasing power parities, OECD = 100, 2013



Source: OECD calculations based on the World Economic Outlook Database (October 2014) of the International Monetary Fund.

StatLink http://dx.doi.org/10.1787/888933275445

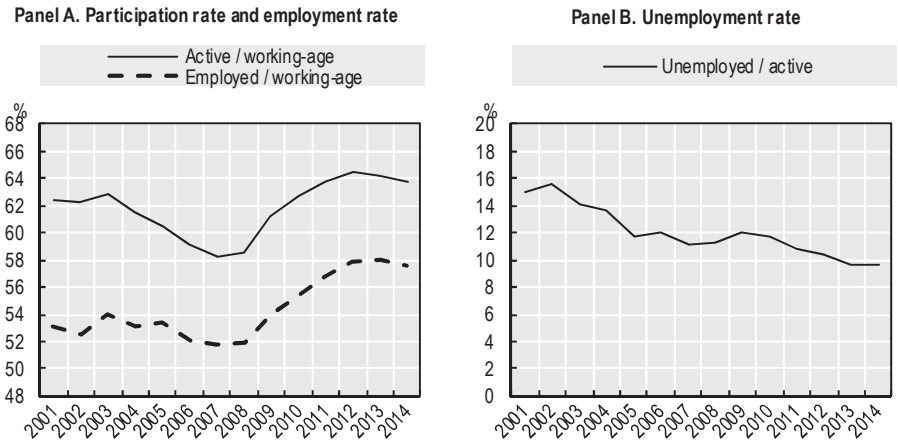
2. Improved labour market outcomes hide deep structural problems

Improved employment rates but most people remain self-employed

Economic growth contributed to better employment outcomes, but the effect has emerged with a long delay. The strong GDP increases of the early 2000s initially had little impact on employment rates (Figure 1.2, Panel A). The decline in labour force participation and unemployment rates between 2000 and 2008 illustrate a withdrawal from the labour market of jobseekers (Figure 1.2, Panel B), in part related to the labour market withdrawal of the "reserve household workforce" that had entered the labour market after the financial crisis of 1999 to contribute to household income. It was only in 2008 that the labour force participation and employment rates started to improve largely as a result of massive foreign investment; unemployment rates followed in 2010.

Figure 1.2. **Labour market improvement lagged economic growth**

Trends of labour market indicators of the population aged 10 years and more, 2001-14[1]



1. DANE considers the working-age population as people aged 12 years and above in the urban areas and 10 years and above in the rest of the country. Even so, the legal minimum age to work is 15 years in Colombia.

Source: OECD calculation based on the Integrated Household Survey (*Gran Encuesta Integrada de Hogares*, GEIH) of the Colombian Statistical Office (DANE).

StatLink http://dx.doi.org/10.1787/888933275457

Today, Colombia enjoys slightly better employment and labour force participation rates than the OECD countries on average, in particular thanks to high employment rates among men (of all ages) and strong improvements in the employment rates of youth, women and older workers. In 2013, 73.4% of the population aged 15-64 was active in the labour market and 66.5% was employed, compared with respectively 71.1 and 65.3% on average in the OECD (Table 1.1).[1] Youth, women and older workers all seized new employment opportunities and their employment rates rose by 7-8 percentage points in five years' time. By 2013, employment rates of youth (44.2%) and older workers (61.0%) were considerably higher than OECD averages (respectively 39.6% and 56.4%; OECD 2014a). Only among women was the employment rate still lower than the OECD average (54.6% compared with 57.5% in 2013).

Table 1.1. **Youth, women and older workers seized new employment opportunities**

Labour force status of the Colombian working-age population (15-64 years), 2008-13

Age category	Both genders			Men			Women		
	2008	2011	2013	2008	2011	2013	2008	2011	2013
Labour force / Population									
15 - 24	47.6	53.7	54.0	57.0	63.2	62.6	38.3	44.0	45.2
25 - 54	79.1	83.2	83.8	95.3	96.3	96.1	64.0	70.9	72.3
55 - 64	56.6	62.7	64.3	78.9	82.6	83.1	36.6	45.2	47.9
15 - 64	67.8	72.6	73.4	82.5	85.3	85.2	54.0	60.6	62.1
Average OECD	70.8	70.6	71.1	80.4	79.5	79.7	61.4	61.8	62.6
Employed / Population									
15 - 24	37.3	42.5	44.2	47.1	52.9	54.0	27.6	32.0	34.3
25 - 54	72.5	76.6	77.7	89.0	90.8	90.8	57.1	63.3	65.2
55 - 64	53.7	59.2	61.0	74.3	77.8	78.7	35.1	42.9	45.7
15 - 64	60.5	65.1	66.5	75.3	78.4	79.1	46.6	52.4	54.6
Average OECD	66.5	64.8	65.3	75.5	73.0	73.2	57.6	56.8	57.5
Unemployed / Labour force									
15 - 24	21.6	20.7	18.1	17.4	16.3	13.8	27.9	27.2	24.1
25 - 54	8.4	7.9	7.4	6.6	5.8	5.5	10.8	10.7	9.7
55 - 64	5.2	5.5	5.0	5.7	5.8	5.3	4.1	5.0	4.6
15 - 64	10.7	10.4	9.3	8.7	8.0	7.2	13.7	13.5	12.0
Average OECD	6.1	8.1	8.1	6.0	8.2	8.1	6.2	8.1	8.1

Note: The labour force statistics reported in this table are different from the ones reported in the table with basic labour statistics of the recent *OECD Economic Survey of Colombia* (OECD, 2015, p. 7), because the latter refers to the working-age population of 12 years and more (10+ for rural areas), and not 15-64 years as reported. To allow for comparison with OECD countries, the table above restricts the population to those aged 15-64 years.

Source: OECD calculations based on GEIH of DANE and OECD Labour Force Surveys for OECD averages.

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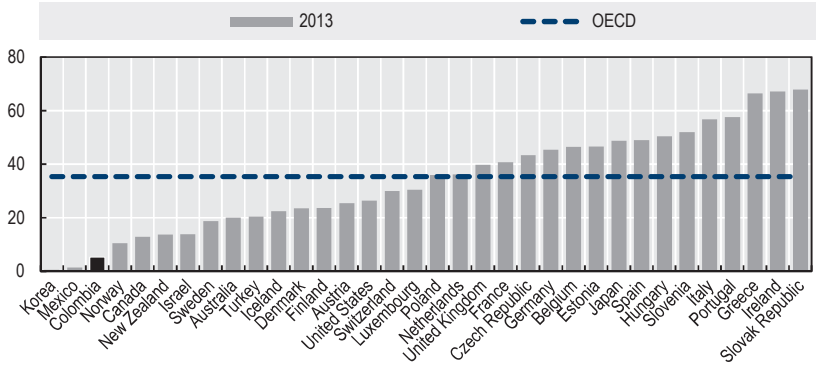
The unemployment rate declined significantly, from 15.6% of the labour force aged 15 and over in 2002 to 9.6% in 2014 (Figure 1.2). Restricting the population to 15-64 years to allow for comparison with OECD countries gives an unemployment rate of 9.3% in 2013, above the OECD average of 8.1% (Table 1.1). Unemployment has a gender dimension, with a much higher female unemployment rate (12%) compared with that of men (7.2%). However, long-term unemployment is marginal, with only 5.3% of the unemployed people looking for a job for more than one year (Figure 1.3).

The strong improvements in labour market outcomes are particularly impressive given the population growth that Colombia experienced in the past decade and a half. Since 2001, the population is estimated to have grown by nearly 7 million people to 48 million people in total by March 2015. The labour force grew from 18.8 to 23.9 million people over the same period. The birth rate is about 2.07 and about 66% of the population is aged between 15 and 64 years.

Figure 1.3. **Low incidence of long-term unemployment**

Long-term unemployment (12 months and over) as a percentage of total unemployment, 2013



Source: OECD calculations based on GEIH of DANE for Colombia and OECD Labour Force Surveys for OECD Countries.

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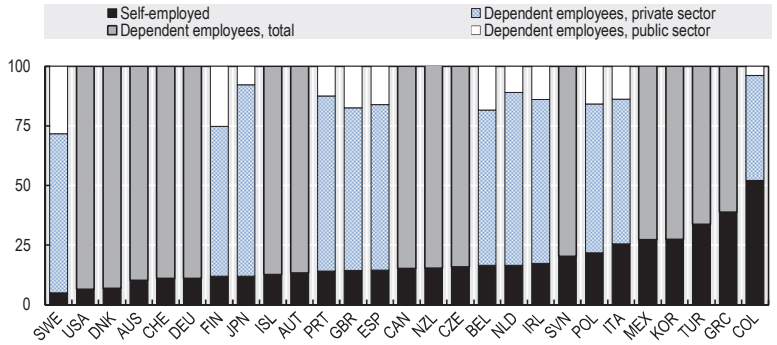
Nevertheless, the composition of employment points to structural problems in the labour market. With more than half of all employed people (52%) working as self-employed, Colombia has far more self-employment than in OECD countries, where it ranges from 5% of total employment in Sweden to 27% in Mexico and 39% in Greece (Figure 1.4). Also the public sector is much smaller than in the OECD countries for which this information is available. The high rate of self-employment creates particular challenges for the design and implementation of labour market policies, as informality is typically much higher among self-employed people (see

below). Perry et al. (2007) also illustrate that a sizeable proportion of Colombian self-employed people seem to be excluded from the formal labour market, as opposed to many other Latin American countries where many self-employed people choose to be so.

Figure 1.4. **The share of self-employment in Colombia is much higher than in OECD countries**

Employees (public and private) and self-employed as a percentage of the total employed population aged 15-64, 2013



Note: Some countries report the number of employees working in the public sector and some other only report the total number of employees. This situation is reflected in the figure by using either the total number of dependent employees or the breakdown public / private employees. No reliable information was available for Chile, Estonia, France, Hungary, Israel, Luxembourg, Norway and Slovak Republic.

Source: OECD (2014), *OECD Economic Outlook*, No. 96, November; for Colombia GEIH (DANE).

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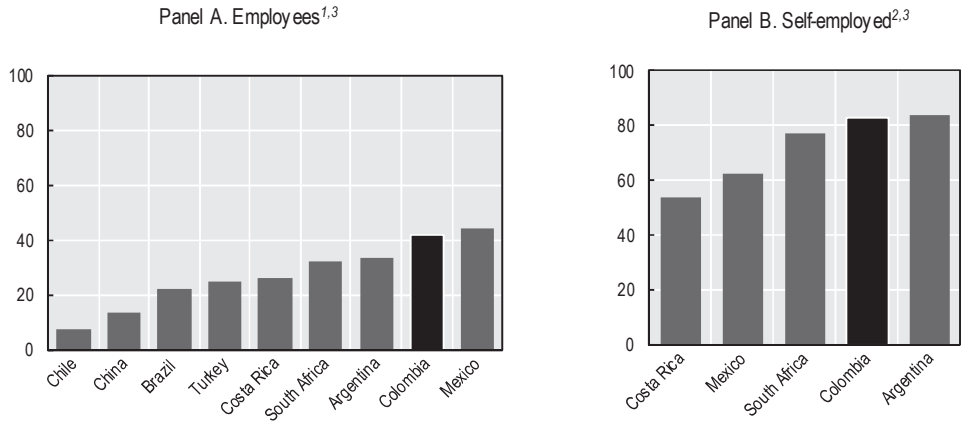
Widespread informality due to labour market segmentation

Like most emerging economies, Colombia is characterised by a large shadow economy and a high incidence of informal employment.[2] Among the population aged 15-64, both the share of employees who are not contributing to pensions (42%) and the share of self-employed who did not register their business (83%) are high compared with many other emerging economies (Figure 1.5). Colombia's informality level is also above what could be expected given the country's economic development (World Bank, 2010). Alternative measures of informality, based on employment contract, firm size or affiliation to health insurance, all show similar magnitudes (see Box 1.1). For the remainder of the report, informality will be defined as the share of employees and self-employed not contributing to the pension system, unless specified otherwise. This definition implies an informality rate of 68% in 2013 for the population aged 15-64; the informality rate reaches 93% among self-employed and 42% among employees.

Figure 1.5. **Informality in Colombia is high among both employees and self-employed**

Informality rates among employees and self-employed aged 15-64, latest available year



1. Informality among employees is defined as the share of employees not contributing to the pension system among the total number of employees aged 15-64 years.

2. Informality among self-employed is defined as the share of self-employed who did not register their business among the total number of self-employed aged 15-64 years.

3. The data refer to 2013 for Colombia and Costa Rica; to 2012 for Argentina, Brazil, Mexico, South Africa and Turkey; to 2011 for Chile; and to 2009 for China.

Source: OECD calculations based on national household surveys for informality rates.

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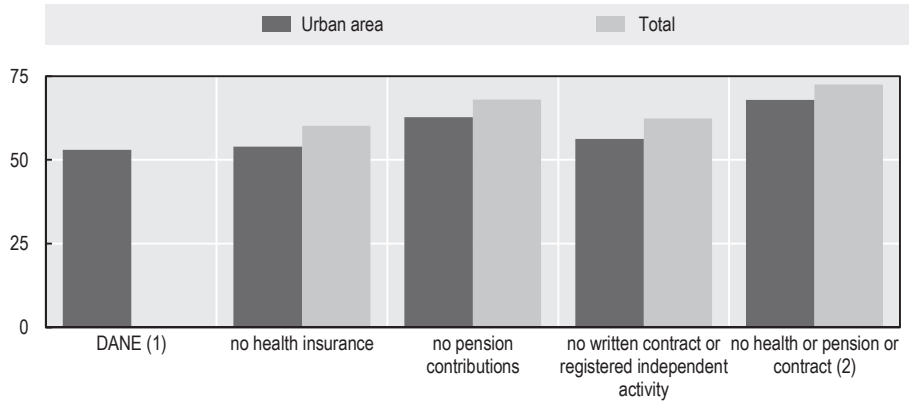
Box 1.1. **Alternative measures of labour informality in Colombia**

Several definitions of informality are commonly used in the literature, such as employees without a written contract, self-employed people without registered activity, workers not contributing to pensions and/or health insurance, firm size, or a mix of several definitions (for detailed discussions on Colombia and OECD countries, see Bernal, 2009; IDB, 2013; OECD, 2009; Peña, 2013).

The figure below shows how the incidence of informality in Colombia changes depending on the definition adopted. Reassuringly, all definitions place the informality rate in a relatively small range (between 59 and 73% of the workforce in the country as a whole). As expected, informality tends to be lower in urban areas than in the rest of the country. The definition adopted in this review (i.e. the share of employees and self-employed not contributing to the pension system) yields a slightly higher incidence (63% for urban areas; 68% in the whole country) than the one used by the Colombian Statistical Office, DANE (53% in urban areas).

Box 1.1. **Alternative measures of labour informality in Colombia** *(cont.)*

Informal workers, including both employees and self-employed, as a percentage of the total number of workers (15-64 years) by geographical breakdown, 2013



1. OECD calculations based on a proxy of DANE's definition of informality; these numbers do not exactly coincide with DANE reports as the age range is different. The informality concept of DANE is by definition urban.

2. This definition is very restrictive: only workers who pay pension and health contributions and who have formalised their activity (written contract or independent formally registered activity) are considered as formal workers.

Source: OECD calculations based GEIH of DANE. Bernal, R. (2009), "The Informal Labor Market in Colombia: Identification and Characterization", *Desarrollo y Sociedad*, No. 63, pp. 145-208. IDB (2013), *Andemic Informality. Assessing Labor Informality, Employment and Income Risk in the Andes*, Inter-American Development Bank, Washington, D.C.; OECD (2009), *Is Informal Normal? Towards More and Better Jobs in Developing Countries*, An OECD Development Centre Perspective, OECD Publishing, Paris; Peña, X. (2013), "The Formal and Informal sectors in Colombia. Country Case Study on Labour Market Segmentation", *Employment Working Paper No. 146*, International Labour Office, Geneva.

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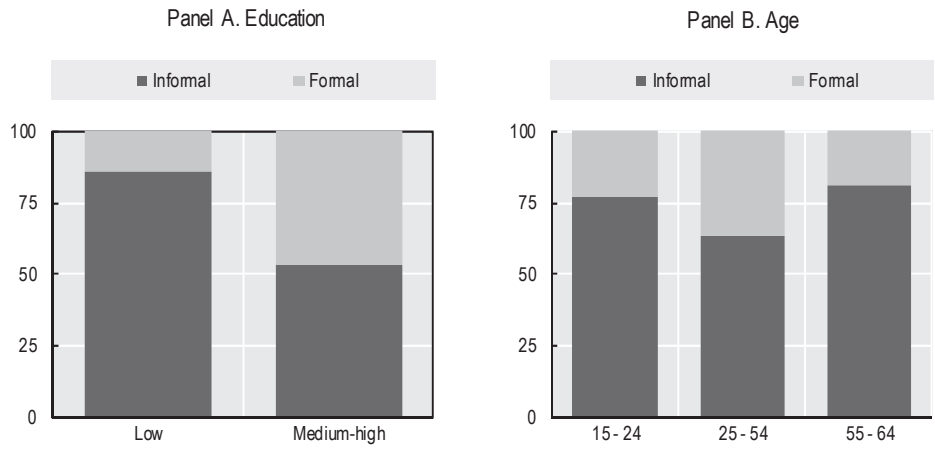
Informality in Colombia is significantly higher among low-skilled workers than among medium or higher skilled workers (Figure 1.6, Panel A). Nevertheless, even among the latter, 53% work informally and do not contribute to the pension system.[3] Informality rates are very similar among men and women (not reported), and only slightly lower among prime-aged workers than among youth and workers close to retirement (Figure 1.6, Panel B). The incidence of informality also varies considerably across sectors and industries: it is highest in traditional sectors like fishing, agriculture and hunting, as well as in hotels and restaurants, and lowest in

financial services, energy and utilities, and public administration (not reported). The higher incidence of informality among low-skilled workers and in traditional sectors with low productivity is reflected in the average earnings differential between formal and informal jobs (Figure 1.7). Formal jobs tend to pay nearly three times more, on average, than informal ones and the gap has been widening in recent years due to a steady growth of formal sector earnings.

Figure 1.6. **Rate of informal labour by demographics, 2013**



Note: Formal workers are employees and self-employed people aged 15-64 who pay pension contributions. Low education is defined as those without upper-secondary education; medium-high includes those with at least upper-secondary education. The data do not allow distinguishing between people with a university degree and those with a post-secondary non-tertiary education.

Source: OECD calculations based GEIH of DANE.

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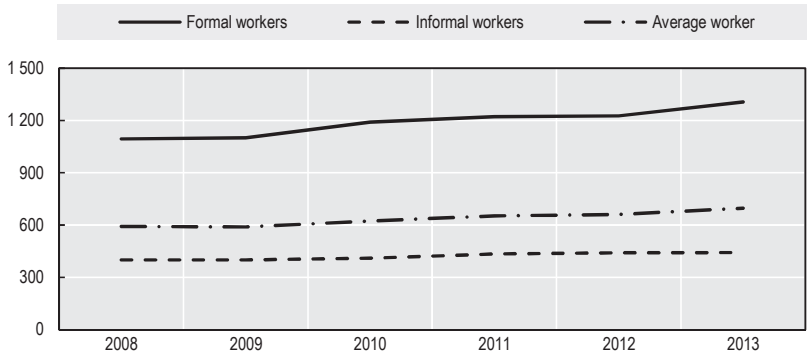
Since informal jobs tend to be less productive and pay less on average, an important question for policy makers is how easily workers move out of informality and acquire more desirable formal employment? And which workers find it harder to leave informality? Answering these questions hinges upon observing workers' transitions in and out formal jobs by means of panel data. The Longitudinal Social Survey of the Colombian policy think tank Fedesarrollo, *Encuesta Social Longitudinal de Fedesarrollo* (ESLF), is suitable for this purpose, but it only covers major urban areas over the period between 2007 and 2010.

On average, only 15% of all informal workers obtain a formal job between two years of the survey, while 16% of formal workers return to the informal sector (Figure 1.8). These low transition rates are indicative of the Colombian labour market segmentation reported by several studies (including Peña, 2013; Mondragón-Vélez et al., 2010). Even so, transition probabilities differ significantly by worker characteristics. In particular, high-skilled workers are nearly three times more likely to move out of informality than low-skilled workers, suggesting that workers with low levels of education may not be able to enter the formal sector given their low productivity level relative to the high cost of formal employment, while informality among workers with high levels of education is more frequently the result of their choice (World Bank, 2010). Furthermore, the probability of transitioning falls with age (from youth to prime-age). The opposite conclusions hold for the transition from formal jobs to informal ones.

Figure 1.7. **Large earnings gap between formal and informal workers**

Gross earnings in thousands of Colombian pesos, 2008-13



Note: Formal workers are employees and self-employed people aged 15-64 who pay pension contributions. Since formal workers contribute to health insurance (4% of their wage) and pensions (4%), the net earnings gap with informal workers is slightly lower than shown in the figure. The GEIH survey does not provide information on net earnings.

Source: OECD calculations based on GEIH of DANE.

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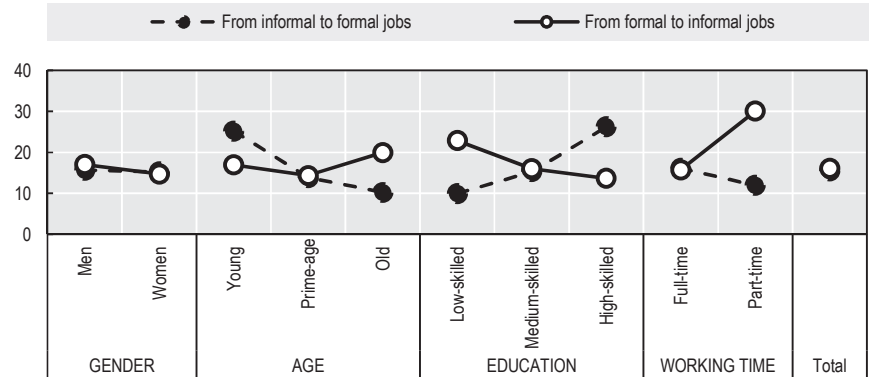
It is important to recognise that not all formal jobs are equally appealing. In particular, a large literature (including OECD, 2014a) documents a deep divide in the formal labour market between employees on permanent contracts and those on fixed-term contracts. It turns out that about half of all informal workers who move into a formal job acquire a fixed-term contract, which in turn carries a higher risk of falling back into informality or unemployment (Figure 1.9).

Figure 1.8. **Low transition rates suggest labour market segmentation**

Yearly transition rates between formal and informal jobs for the period 2007-10



Note: The data refer to major urban areas over the period 2007-10. Formal workers are employees and self-employed people aged 15-64 who pay pension contributions.

Source: OECD calculations based on the Longitudinal Social Survey of Fedesarrollo, Encuesta Social Longitudinal de Fedesarrollo (ESLF).

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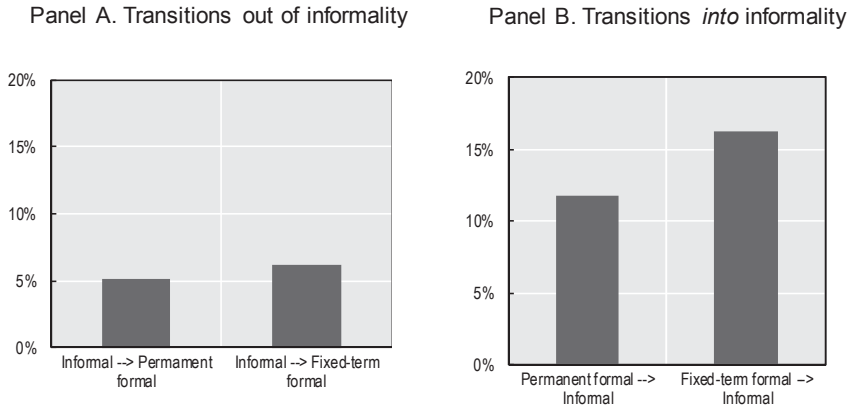
Figure 1.9. **Employees with fixed-term contracts are more likely to move into the informal sector**

Yearly transitions into/out of different types of contracts for the period 2007-10, for employees only



Note: The data refer to major urban areas over the period 2007-10. The sample is restricted to employees only, aged 15-64. Informality is based on contributions to the pension system.

Source: OECD calculations based on ESLF.

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3. High but slowly declining income inequality and poverty

Trends and international comparison

The combination of strong economic growth and policies targeted at the most vulnerable has considerably improved the living standards of most Colombians, including the poorer parts of the population. Nonetheless, Colombia remains a very unequal country, with income inequality levels higher than any OECD country and most Latin American countries (LACs). Differences across regions, in education and in employment, and low income redistribution are the main factors behind the high levels of income inequality and poverty in the country.

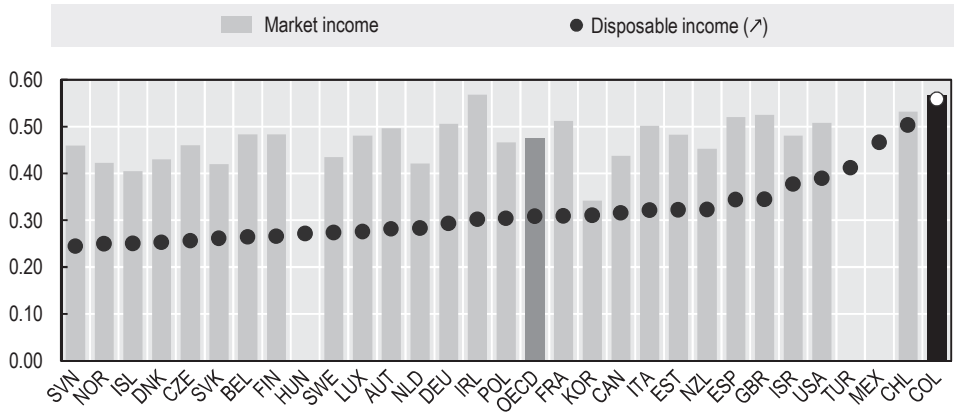
Using the definitions of the *OECD Income Distribution Database* (see Box 1.2), the Gini coefficient of disposable income inequality in Colombia was 0.56 in 2011 (Figure 1.10, Panel A). This level is much higher than the OECD average of 0.31 and considerably higher than in Chile and Mexico, the OECD countries with the highest income inequality levels. According to ECLAC (2013), the Gini coefficient in Colombia is also 4 points higher than the Latin American average; only Guatemala, Honduras, Brazil and Paraguay have higher income inequality than Colombia.

In contrast with OECD countries, but similar to many other Latin American countries, redistribution of income through taxes and benefits is very weak in Colombia. While income inequality after taxes and benefits in the OECD is almost 17 Gini points lower than before taxes and benefits (0.309 and 0.486, respectively), in Colombia such reduction is just of one Gini point. The OECD countries with lowest redistribution, among those where data are available, are Chile and Korea (3 Gini points).

In the past decade, income inequality in Colombia has decreased, but not as much as in most of its neighbouring countries. According to estimates by DANE (2014), the Gini coefficient of income inequality fell 3 percentage points, from 0.57 in 2002 to 0.54 in 2013 (Figure 1.10, Panel B). In contrast, only in 5 out of 18 LACs inequality fell less than in Colombia (Tsounta and Osueke, 2014).

Figure 1.10. **Income inequality levels and trends in Colombia and OECD countries**

Panel A. Gini coefficient of market and disposable income in Colombia and OECD countries, 2011[1]



Panel B. Trends in Gini coefficient of disposable income in Colombia, 2002-13[2]

Note: Estimates based on *OECD Income Distribution Database*'s definitions (see http://www.oecd.org/els/soc/income-distribution-database.htm). Data refer to 2009 for Japan; 2010 for Belgium and Ireland, and 2012 for Australia, Hungary, Republic of Korea and United States; Switzerland is not available. OECD-31 refers to the simple (unweighted) average, and excludes Hungary, Mexico and Turkey, for which market incomes are not displayed as reported net of taxes. Estimates for Colombia were provided by DANE and based on the National Quality of Life Survey (*Encuesta Nacional de Calidad de Vida*, ECV). DANE estimates based on GEIH.

Source: OECD Income Distribution Database and DANE

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Box 1.2. **Income inequality and poverty measurement in Colombia**

Income inequality and poverty are monitored annually by the National Department of Statistics (DANE) and are based on income data from the Integrated Household Survey (*Gran Encuesta Integrada de Hogares*, GEIH).

Three different poverty indicators are used: income poverty, extreme income poverty and multidimensional poverty.

- The extreme income poverty line is computed based on the price of a basket of food goods using data from a household budget survey (*Encuesta Nacional de Ingresos y Gastos,* ENIG), which was developed by a group of experts to revise poverty measurement in Colombia – *Misión para el Empalme de las series de Empleo, Pobreza y Desigualdad* (MESEP).
- The poverty line is derived from the extreme income poverty line and takes into account the basket of goods and services that a household needs.
- Multidimensional poverty is measured with an index that takes into account five dimensions (education, living conditions of children and youth, work, health, and public services and housing) and 15 indicators. People are considered poor if deprived of at least five of these 15 indicators. Data are obtained from the National Quality of Life Survey (*Encuesta Nacional de Calidad de Vida*, ECV).

The *OECD Income Distribution Database* (IDD) estimates for Colombia were computed by DANE based on data from the ECV. The GEIH survey was not used because incomes are reported before personal income taxes and social contributions. While the ECV does report taxes, it does not account for social contributions, which are taken as expenditure instead of mandatory income deductions.

In addition to difference in data sources, there are a number of methodological differences between the approaches of the OECD and DANE. DANE estimates are based on income per capita including imputed rent from home ownership. Instead, OECD estimates are based on equalised income excluding imputed rent. Furthermore, while DANE measures income poverty using an absolute poverty line, the OECD uses a relative poverty line defined as 50% of the median household disposable income. Details about the *OECD Income Distribution Database* methods and definitions are available at www.oecd.org/els/soc/income-distribution-database.htm.

Relative income poverty in Colombia is also higher than in any OECD country. Using the OECD definition (i.e. with 50% or less of median household income), 24% of the Colombian population lives in relative poverty, compared with 12% on average in the OECD (Figure 1.11, Panel A). Colombia is also well above Israel and Mexico, the two OECD countries with the highest relative poverty rates. As with inequality, the Colombian tax-benefit system does little to alleviate relative income poverty. While relative income poverty after taxes and benefits in the average OECD country is 18 percentage points lower than before taxes and benefits (28.7% and 10.9%, respectively), in Colombia the reduction is less

than 1 percentage point. The OECD countries with the lowest poverty reduction, among those where data is available, are Korea (2%), Switzerland (4%) and Chile (5%), which are all countries where the relative poverty levels before taxes and transfers are considerably lower than in Colombia. ECLAC (2013) illustrates that relative poverty in Colombia is also higher than in most other Latin American countries; only Brazil and the Dominican Republic register (slightly) higher relative poverty rates than Colombia.

While absolute income poverty has fallen considerably in the last decade, relative income poverty hardly declined. Estimates produced by the Colombian Government suggest that the incidence of absolute income poverty fell from 48% to 31% in the decade to 2013, extreme poverty fell from 16% to 9%, and multidimensional poverty fell from 49% to 25% (Figure 1.11, Panel B) (see Box 1.2 for the definitions of the three poverty indices used by the Colombian Government). According to Tsounta and Osueke (2014), only in Bolivia did income poverty fall by more than in Colombia in the last decade in the region. However, results are less impressive when using the OECD relative poverty measure that assesses poverty in relation to the general level of prosperity of the country at a given point in time (see Box 1.2). Between 2003 and 2011, relative income poverty in Colombia decreased only by a half percentage point, from 24.4% to 23.9% (Figure 1.11, Panel B).

Figure 1.11. **Poverty levels and trends in Colombia and OECD countries**

Panel A. Relative income poverty in Colombia and OECD countries, 2011[1]

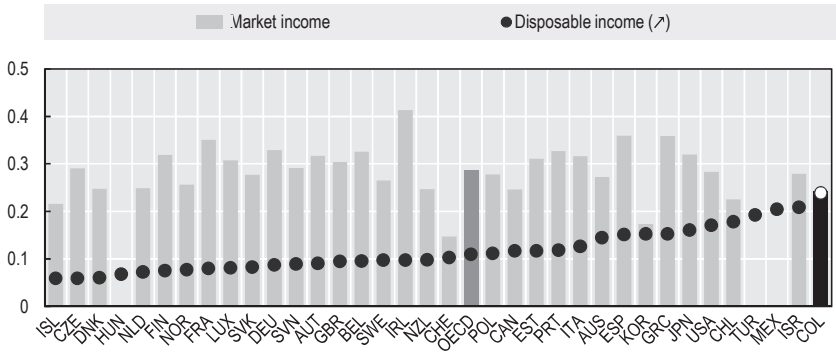
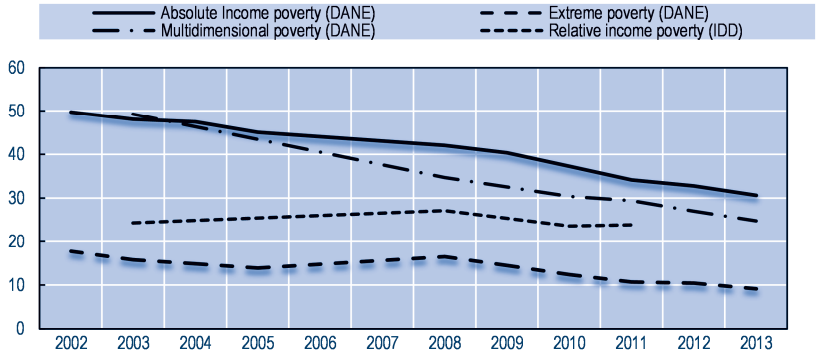


Figure 1.11. **Poverty levels and trends in Colombia and OECD countries** *(cont.)*

Panel B. Trends in poverty in Colombia, 2002-13[2]



1. Estimates based on *OECD Income Distribution Database*'s definitions (see www.oecd.org/els/soc/income-distribution-database.htm). Data refer to 2009 for Japan; 2010 for Belgium and Ireland; and 2012 for Australia, Hungary, Republic of Korea and United States; Switzerland is not available. OECD-31 refers to the simple (unweighted) average and excludes Hungary, Mexico and Turkey, for which market incomes are not displayed as reported net of taxes. Estimates for Colombia provided by DANE and based on the National Quality of Life Survey (*Encuesta Nacional de Calidad de Vida*, ECV).

2. Absolute income poverty and extreme poverty estimates based on GEIH of DANE. Multidimensional poverty and relative income poverty estimates based on ECV.

Source: OECD Income Distribution Database (IDD) and DANE.

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Factors behind high inequality and poverty

Four inter-related factors help to explain the high and persistent levels of poverty and income inequality in Colombia: differences in the level and quality of education, labour market segmentation (see subsequent sections), regional differences in the availability and quality of public infrastructure and services, highly unequal distribution of land ownership and limited income redistribution via taxes and benefits.

Differences in education contribute to labour segmentation and income inequality. While education coverage, particularly in secondary education, has increased considerably in Colombia in the last decade, differences in the quality of education are so large that, if anything, the education system exacerbates the differences in earning potentials between those who can afford good schools and those who cannot (Núñez and Castillo, 2013). Furthermore, since school is mandatory only up to grade nine (typically, when pupils are aged 15) and returns of low-quality education are low

anyway, school dropout rates are high in the last years of secondary education, particularly in rural and poorer areas where low-income families need their adolescents to contribute to household income. As a result of the differences in the quality of education and high dropout rates among low-income youth, Colombia has one of the largest skill premiums in Latin America: in 2012, high-skilled workers earned on average four times as much as low-skilled workers, compared with 2.7 on average across LACs (Tsounta and Osueke, 2014).

Regional differences and an unequal distribution of land ownership are additional determinants of high levels of income inequality in Colombia. The availability and quality of public infrastructures and services differ substantially across regions, contributing to large discrepancies in both the productivity of local economies and the well-being of the population. In addition, Colombia has, like other Latin American countries, a highly unequal distribution of land ownership, the roots of which can be traced back to the colonial era. High land inequality – the Gini coefficient for land for Colombia was 0.85 in 2009, equal to the average in South America, but very high compared with Europe's Gini coefficient of 0.57 (IGAC, 2012) – has been maintained over time due to the weakness of the state to regulate land property rights. In particular, land reform efforts undertaken in the 20th century failed largely due to opposition from large landowners. Tax benefits for landowners and obstacles to the leasing and sale of smaller properties have, to a large extent, benefited large landowners. Drug trafficking further contributed to a greater concentration of land, by forcing displacement of people from their land and further weakening the role of the state.

4. Changing patterns of migration

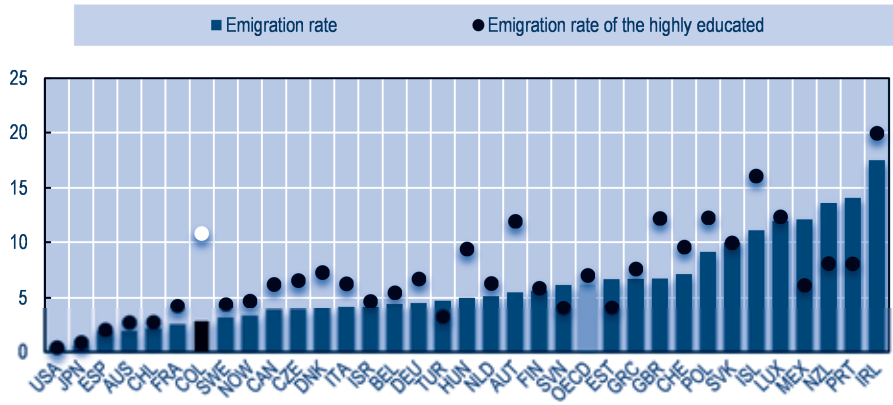
Emigration disproportionately concerns the high-educated

For most of its recent history, Colombia has been a country of net emigration, with past emigration driven in part by the armed conflict involving guerrilla and paramilitary groups, coupled with poor economic conditions. Emigration was particularly strong in late 1990s and early 2000s, with the peak just prior to the global economic downturn. According to the *Database of Immigrants in OECD Countries* (DIOC) for 2010/11, the latest year for which figures on the population who are Colombian-born and living abroad are available, there were about 1 275 700 Colombian emigrants residing in OECD countries. This figure represents a little less than 3% of Colombia's population and an increase of more than 70% compared with a decade earlier. More than half of the Colombian emigrants (51%) reside in the United States and close to 40% in Europe, with Spain accounting for three quarters of the latter. Spain has also been the primary destination

country of recent flows, accounting for almost half of those who had less than ten years of residence abroad in 2010/11. Although Colombia is considered an emigration country, most OECD countries have higher shares of emigrants living in another OECD country (Figure 1.12).

Figure 1.12. **Highly-educated people are over-represented among Colombian emigrants**

Emigrants living in OECD countries, as a percentage of the population in the origin country, 2010/11



Source: *Database of Immigrants in OECD Countries* (DIOC) 2010/11.

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Colombia has also been the primary country of origin for inter-regional migration within Latin America and the Caribbean. According to estimates on the basis of the Global Bilateral Migration Database of the World Bank, more than 20% of the intra-regional immigrant population was born in Colombia. The two most important non-OECD destinations are Colombia's neighbours, Venezuela and Ecuador. In 2010/11, there were almost 700 000 Colombians living in Venezuela and 90 000 in Ecuador. However, the share of Colombians among current migration flows is much lower. Estimates on the basis of inflow data from the countries in the region for 2013 suggest that the current share is only about 7%.

One key characteristic of Colombian migration to OECD countries is that both women and highly-educated people are over-represented. At the time of the 2010/11 round of censuses, more than 56% were women and highly-educated people accounted for almost 30% of all emigrants. These figures suggest that almost one in nine tertiary-educated Colombians lives in an OECD country, which is high compared with the experience of most OECD countries (Figure 1.12). Indeed, only a handful of OECD countries

have higher emigration rates for highly-educated people, and in all of these – with the exception of Poland – there are significant numbers of highly-educated immigrants to counterbalance the overall migration balance (OECD, 2014b).

Colombian emigrants have relatively high labour market participation, but have been disproportionally affected by the global economic crisis. The overall participation rate of Colombians in the OECD is around 78% and thus higher than in Colombia itself (73% in 2013) and also higher than that of most other migrant groups in OECD countries. However, many Colombian emigrants have lost their jobs during the global economic crisis. The impact of the crisis is particularly apparent in Spain, where the unemployment rate of Colombian emigrants reached 42% at the time of the last census. As a result, registered outmigration flows of Colombians from Spain have more than doubled since 2008 – reaching 22 000 in 2013 according to Spanish register data – although the exact magnitude is difficult to estimate as people do not necessarily de-register when they leave a country. And for those who do, it is unclear whether they returned to Colombia or left for other destinations. Globally, the available evidence suggests that there has been a significant increase in outmigration of Colombians from OECD countries with the crisis until about 2010, but little increase thereafter.

With the global economic downturn and the overall improvement in living conditions in Colombia, emigration has declined significantly. The annual inflow of Colombians in OECD countries declined from more than 90 000 in the pre-crisis period to below 70 000 since 2010, although preliminary data for 2013 show again a slight upward trend. In 2012, Colombia ranked 22nd among the most important origin countries of new migration to the OECD, accounting for 1.2% of all inflows (OECD, 2014b).

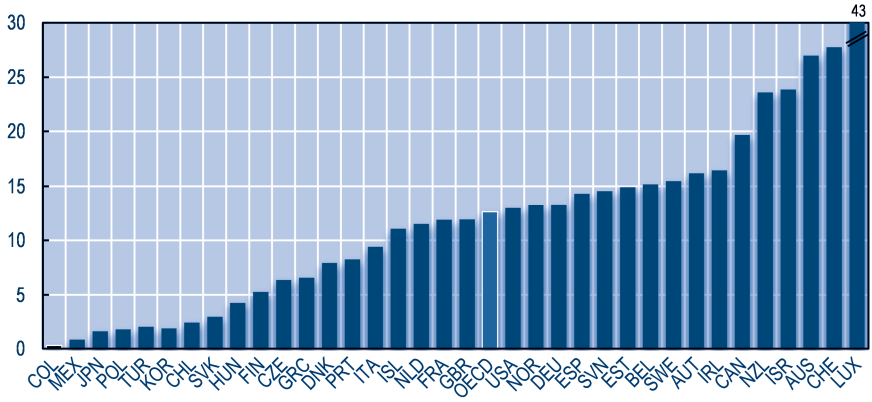
The bulk of the decline since 2008 is due to Spain, where inflow figures show a decline from more than 42 000 in 2008 to less than 10 000 in 2013. In contrast, emigration to Chile has increased more than six-fold over the same period. With more than 26 000 inflows of Colombians in 2013, Chile is now for the first time the most important destination of new Colombian emigration in the OECD. Among non-OECD destinations for which data are available – which does not include Venezuela-Argentina has evolved as the main destination country, accounting for more than 16 500 emigrants in 2012, more than twice the 2010 level.

Small but gradually increasing immigration

Immigration to Colombia has been a marginal phenomenon until recently. In 2012, there were only about 130 000 foreign-born living in Colombia, accounting for 0.3% of the population, which is lower than in any OECD country (Figure 1.13). Yet, this pattern is gradually changing; partly driven by the more favourable economic and living conditions in Colombia and partly by the unfavourable situation in neighbouring Venezuela, the most important origin country of migration to Colombia. All indicators point to increasing inflows, although the exact scale is not clear since the overwhelming majority of immigrants come from countries with which Colombia has visa-free regimes, so immigrants are not necessarily registering. The number of registered inflows, for example, has doubled since 2010, to 30 000 immigrants in 2013. These figures include both temporary and permanent flows and are thus not directly comparable with the standardised figures in the OECD, which only cover permanent flows. Taking the number 30 000 as an upper bound, registered per capita migration to Colombia stands at 0.06%, which is smaller than for any OECD country for which data are available, except Mexico where flows are of a similar relative magnitude (OECD, 2014b). The overall OECD average is ten times the Colombian number.

Figure 1.13. **Immigration to Colombia is marginal compared with OECD countries**

Foreign-born population in Colombia and in OECD countries, as a percentage of the total population, 2012



Source: *OECD International Migration Database.*

StatLink http://dx.doi.org/10.1787/888933275561

5. Internal displacement related to conflict and violence

More than international migration flows, internal population movements have been strongly shaped by the armed conflict in Colombia. Fifty years of internal conflict and violence have displaced about 6.2 million people in Colombia according to the Colombian authorities. With 12.9% of the total population internally displaced, Colombia ranks second highest in the world, after Syria, and accounted for about 22% of the global stock of internally displaced people in 2013 (UNHCR, 2014). Statistics on internal displacement in Colombia are relatively accurate, since these people have to register as victims of the armed conflict in order to benefit from priority access to a range of social services, and the accuracy of the information is verified. Such social policy targeting is rather unique in comparison with other countries with displaced populations.

Internal displacement figures for Colombia saw a dramatic increase between the mid-1990s and early 2000s, with annual displacement flows reaching a peak in 2002, at about 667 000 individuals. The primary causes of internal displacement have been the military confrontations with illegal armed groups, the presence of land mines and threats related to territorial control. However, the numbers of new internally displaced people have been significantly falling in recent years with the annual displacement flow falling to 205 000 persons in 2013, the lowest in more than 15 years. The majority of internally displaced Colombians originate from the regions of Chocó, Antioquia, Cauca and Nariño. Two-thirds of internally displaced people migrate within their province of origin, with many settling in the most deprived areas of Colombia's main cities. Over-represented among internally displaced people are children (35% of the total) and/or ethnic minorities (13%).

Available studies suggest that, for the average individual, the welfare loss resulting from displacement in Colombia equals 25% of the net present value of rural lifetime aggregate consumption (Ibáñez and Velez, 2008). In total, asset losses related to internal displacement represent about 3% of Colombian GDP (Ibáñez and Velásquez, 2009). In addition to income and land loss, many internally displaced persons face significant difficulties in integrating in their new place of residence. Since many displaced people come from rural areas, finding a job is often complicated by their generally low education level. In addition, they lack access to credit markets and local networks. As a consequence, many internally displaced individuals fall into poverty. Indeed, a nation-wide representative survey on internally displacement undertaken in 2014 illustrates that 64% (down from 97% in 2010) of the internally displaced population lived below the poverty line, with 33% (down from 77% in 2010) living below the extreme poverty line (Unidad para la atención y reparación integral a las víctimas, 2015).

6. Conclusions

Strong economic growth in the past 15 years has significantly improved Colombian economic and labour market outcomes, especially among youth, women and older workers. Apart from the female population, all groups now have higher employment rates than on average in OECD countries. Nevertheless, these positive trends hide deep structural problems in the labour market. In particular, more than half of the employed population works as self-employed, of which the large majority in unregistered businesses and uncovered by social security. Informality is also high among employees, with around 42% of them not contributing to the pension system, which is much higher than what could be expected from Colombia's level of economic development. Transition rates from informal to formal employment are very low and those who manage to move to the formal sector are more likely to work under a fixed-term contract than a permanent one, which in turn carries a higher risk of falling back into informality or unemployment.

The combination of strong economic growth and policies targeted at the most vulnerable groups has also considerably improved the living standards of most Colombians, including the poorer parts of the population. Even so, Colombia remains a very unequal country, with income inequality levels higher than any OECD country and most Latin American countries. Significant differences across regions in labour market outcomes and the level and quality of education, as well as very little income redistribution are the main factors behind the high levels of income inequality and poverty in the country.

While Colombia is a net-emigration country, emigration as a share of the total population remains low compared with many OECD countries. The United States and Spain are the primary OECD destinations for Colombian emigrants, in addition to Colombia's neighbouring countries, Venezuela and Ecuador. Colombian emigration is characterised by an over-representation of women and highly-educated people, as well as successful participation in the host country's labour market. Nevertheless, with the global economic downturn and the overall improvement in living conditions in Colombia, emigration has declined significantly. In turn, while immigration to Colombia was a marginal phenomenon until recently, the more favourable economic and living conditions in Colombia are attracting many Venezuelans, the largest immigrant group. Finally, Colombia has a large group of displaced population (12%) resulting from the long internal conflict and violence. While the flows of displaced people have declined dramatically in recent years, many of them live in poverty.

Notes

1. The rates reported in Table 1.1 differ from the rates reported in Figure 1.2 due to differences in the age category considered. Table 1.1 refers to the population aged 15-64 years (standard in OECD publications), while Figure 1.2 is based on the definition of DANE, i.e. population aged 12 years and above in the urban areas and 10 years and above in the rest of the country.
2. Based on the ILO definition, the informal (shadow) economy includes all economic activities by workers and economic units that are – in law or in practice – not or insufficiently covered by formal arrangements (ILO, 2002). Given the focus of this review, the analysis will concentrate on the concept of informal *employment*, comprising both workers in the informal sector and workers employed informally by formal firms.
3. Medium to high education includes workers with at least upper-secondary education. Even if the sample is limited to those with post-secondary education – i.e. people with a university degree or a post-secondary non-tertiary education (the data do not allow distinguishing between both groups) – the informality rate is still 41%.

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Chapter 2

Towards more equal job opportunities in Colombia

Recent initiatives to promote labour formalisation are slowly paying off but more efforts will be needed to further reduce the costs and increase the benefits to workers and businesses of operating formally, including the labour market distortions related to social insurance programmes, the high minimum wage and the weak implementation of the labour law. Overall, the Colombian employment protection legislation is in line with those in OECD countries, but fixed-term contracts and subcontracting through temporary work agencies is widespread and workers' labour rights are regularly violated through the use of civil-law contracts instead of employment contracts. Finally, a new unemployment protection system has been put in place to address the country's high levels of unemployment. Income support focusses on individual unemployment savings accounts and public employment services are being harmonised. Yet, negligible funding severely limits the reactivation support employment service providers can offer.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

1. Introduction

The strong economic growth over the past decade and a half has significantly improved employment outcomes in Colombia, especially among under-represented groups, such as women, youth and older workers. Nevertheless, unemployment remains high and about half of the employed population works as a self-employed. The majority of jobs are informal, both among the self-employed and employees, leaving these workers with little protection against poverty and sickness in old age and the risk of unemployment. Widespread informality also reduces tax and social security revenues for the government and hinders economic growth. As will be discussed in this chapter, non-regular employment, such as fixed-term, temporary work agency and civil-law contracts, further contributes to labour market duality and has an adverse impact on both equity and efficiency.

This chapter reviews Colombia's main labour market policies and institutions, focusing on the observed long-term achievements and structural shortcomings. The chapter starts in Section 2 with an overview of the policies that have been introduced in recent years to address labour informality, followed by a discussion of some remaining challenges. Section 3 analyses the role and impact of the legal minimum wage, while Section 4 describes the new unemployment protection system that has been put in place recently. Finally, Section 5 compares the Colombian employment protection legislation with those of OECD countries and discusses the challenges Colombia is facing in this area. The chapter concludes with a summary of the key observations and puts forward a set of policy recommendations to improve the functioning of the Colombian labour market.

2. Policies addressing labour informality

Chapter 1 illustrated that 68% of all workers aged 15-64 in Colombia are informal in the sense that they do not contribute to the pension system. Among the self-employed the share increases to 93% while among employees, 42% do not contribute to pensions. Different measures of informality show similar magnitudes of the problem: 83% of self-employed people did not register their business and 41% of employees do not have a written contract.

A report by the World Bank (2010) concluded that labour informality in Colombia is related to a wide range of factors, including: 1) low productivity related to the low qualification of many workers; 2) high labour costs; 3) lack of awareness about the rights and benefits associated with the affiliation to social security; 4) inflexible social security contribution conditions for certain population groups and sectors; 5) complex procedures

for the registration of companies and the affiliation of individuals to social security; and 6) weaknesses in the monitoring process of compulsory contributions to social security.

Recent initiatives to promote labour formalisation are paying off

Over the past decade, a series of legislative initiatives have sought to encourage labour formalisation in Colombia (for an extensive overview see Forlac, 2014; Peña, 2013). The two most important reforms were the Formalisation and Job Creation Law of December 2010 and the tax reform of December 2012.

The Formalisation and Job Creation Law of 2010 established a package of incentives to formalise firms and employment, including: 1) access to government support programmes, including microcredit programmes targeted at young people under 28 years; 2) reduced tax and social security contributions until end 2014 for small companies; 3) simplified administrative and legal procedures to facilitate the formalisation of firms; 4) temporary tax relief on income and payroll taxes for employers hiring employees from vulnerable population groups; and 5) lower income tax for independent workers. More detailed information about the 2010 Formalisation and Job Creation Law is provided in Box 2.1.

The comprehensive tax reform of 2012 significantly reduced non-wage labour costs and shifted the burden towards a broader corporate tax. For workers earning less than ten times the minimum wage – given the high minimum wage (see next section), less than 1% of the workforce earns ten times the minimum wage or more –, the reform reduced the mandatory employer contributions from 29.5% to 16% by abolishing the employer contributions for 1) early childhood programmes (3%); 2) training programmes for unemployed workers (2%); and 3) the contributory health system (8.5%). To make up for the lost revenue, the statutory rate of corporate income tax was reduced and an additional tax with a broader base was introduced (see Box 2.2 for an overview of the main aspects of the reform).

Box 2.1. **The Formalisation and Job Creation Law of 2010**

The 2010 Formalisation and Job Creation Law (*Ley de Formalización y Generación de Empleo*) contained the following elements:

- Access to government support programmes, including microcredit programmes targeted at individuals under 28 years old, as well as technical training and financial support programmes.
- Simplified labour, commercial and administrative procedures to facilitate the formalisation of firms.
- Reduced corporate income and payroll taxes for newly created small firms (defined as those employing up to 50 employees and with total assets worth no more than 5 000 minimum wages) that are registered at a Chamber of Commerce. The reductions decrease over time until the sixth year of operation, as detailed in the table below. The provisions on corporate income tax have an indefinite character, while lower payroll taxes and reductions in the fee for commercial registration could only be used until the end of 2014.
- Tax relief on income and payroll taxes for employers hiring new employees who i) will earn less than 1.5 times the minimum wage; or are ii) under 28 years of age; iii) part of the displaced population; iv) persons in the process of social reintegration after participation in the armed conflict; v) women over 40 years that have not had a job contract in the past 12 months; vi) heads of households classified as vulnerable; or vii) disabled with reduced working capacity. The tax reliefs are limited to two or three years, depending on the type of employee that is being hired.
- Prohibition to undertake labour intermediation activities or to provide staff on a temporary basis for activities or services related to the core business of a company (see Section 5 for a detailed discussion).

Reduced tax and social security contributions for small firms

Year	Commercial registration and renovation fee	Corporate income tax	Payroll taxes
1	0%	0%	0%
2	50%	0%	0%
3	75%	25%	25%
4	100%	50%	50%
5		75%	75%
6		100%	100%

Note: Payroll taxes include employer contributions to family compensation funds (4%), childcare (3%), vocational training (2%), minimum pension fund (1.5%) and solidarity health care fund (1%). A more generous treatment is granted to firms in the scarcely populated regions of Amazonas, Guainía and Vaupés for the corporate income and payroll tax reductions.

Source: Farné, S. (2011), "La Ley 1429 de 2010 ha Formalizado el Empleo en Colombia?", *Boletín del Observatorio del Mercado de Trabajo y la Seguridad Social*, No. 13, Bogotá.

Box 2.2. **Main aspects of the 2012 tax reform**

The aims of the tax reform are reducing the tax burden on formal jobs, simplifying the VAT system and making the personal income tax more progressive. The reform intended to be revenue neutral.

A series of payroll taxes (so-called *parafiscales*) were abolished for workers earning less than 10 times the minimum wage. In particular, employers no longer have to pay the 2% contribution for the training programmes for unemployed workers provided by the National Training Service (SENA – *Servicio Nacional de Aprendizaje*) and the 3% contribution to the Colombian Institute for Family Well-being (ICBF – *Instituto Colombiano de Bienestar Familiar*) for the financing of early childhood programmes. Also the employer contribution to the contributory health system of 8.5% was eliminated. Together, these measures reduced the mandatory contributions from 29.5 to 16% of gross wage earnings.

To make up for the lost revenue, the corporate income tax was modified. The statutory rate was reduced from 33 to 25%. At the same time, an additional tax was introduced (CREE – Corporate Income Contribution to Equity), with a statutory rate of 9% for the period 2013-15 and 8% thereafter. The CREE tax has a broader basis than the ordinary corporate income tax through the inclusion of income from activities that used to be fully exempted (e.g. tourism and hotel services). Revenues from the CREE surtax are not part of the general government budget process but directly earmarked to the budget of the SENA and ICBF to cover the loss in employer contributions. There is an explicit guarantee by the government to provide funding if the revenues from the CREE fall short of SENA's and ICBF's budget needs.

The reform also introduced an alternative minimum personal income tax (IMAN – *Impuesto Mínimo Alternativo Nacional*) that acts as a cap on many of the exemptions to the personal income tax. This measure increased slightly the effective tax rate paid by high-income households who benefitted the most from exemptions.

Finally, the VAT system was simplified by reducing the number of tax rates from seven (between 0 and 35%) to three (0, 5 and 16%). At the same time, the reform introduced several excise taxes to substitute higher VAT rates. For instance, for restaurants and bars, a sales tax of 8% was introduced substituting the 16% VAT, with the rationale that evasion was pervasive as restaurants and bars had little incentives to comply with the tax code as most of their inputs were exempt from VAT (Avendaño, 2013).

Source: OECD (2015), *OECD Economic Surveys: Colombia 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-col-2015-en.

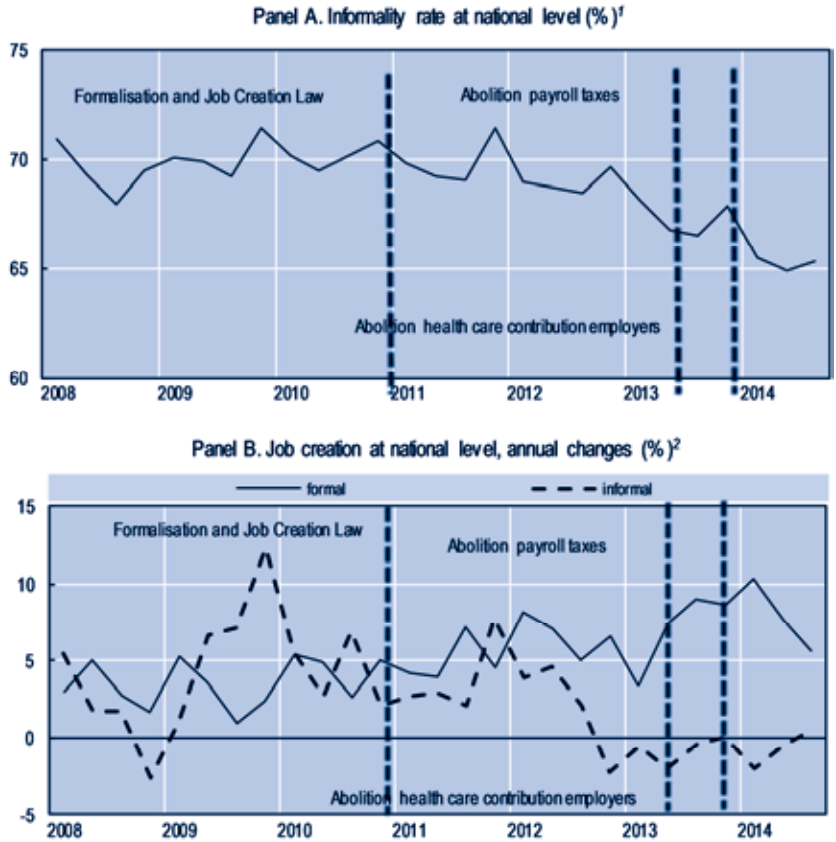
To date, there has been no in-depth analysis of the impact of either reform and given their similarities and overlap, it will be impossible to measure the effects of each reform separately. Yet, while the expected employment effects related to the 2010 Formalisation Law were limited, initial evaluations of the 2012 tax reform suggest more positive effects. In particular, by shifting the fiscal burden from employment to business

revenues, the tax reform is expected to positively affect formal job creation of labour-intensive businesses, often micro and small enterprises (Forlac, 2014). Using a general equilibrium model, Anton (2014) estimates that total employment would increase by 0.3-0.5% through a rise in formal employment by 3.4-3.7% and a drop in informal employment by 2.9-3.4%.

The potential impact of the 2010 Formalisation Law is limited because of a number of reasons. First, the reduction in labour costs related to the Formalisation Law – about 12% for an employee paid at the minimum wage – was much less than the gap in labour costs between the formal and informal sector – more than 40% for those who have not completed secondary education (Sanchez Torres and Alvarez Vos, 2011). Second, the administrative capacity of local governments is not always sufficient to execute the support programmes put in place through the Formalisation Law (Hernandez Serna, 2013). Third, the law provides incentives for firms to split up and encourages an inefficient process of firm destruction and creation to take advantage of the lower labour costs. Finally, it is unclear how much funding the government invested in addition to existing programmes (Farné, 2011).

Data from the Colombian Statistical Office, DANE, illustrate that informality is gradually declining. Since the introduction of the first reform package, at the end of 2010, the share of employees not contributing to the pension system declined by 5 percentage points, reaching 65.4% in September 2014 (Figure 2.1, Panel A). Even so, it is unlikely that this progress is solely related to the reforms as the decline in informality already started before the introduction of the first reform package. Figure 2.1, Panel B shows an upward trend in formal job creation since mid-2009 and a downward trend in informal job creation as of end 2011, turning negative since mid-2012. There are also no spikes at or just after any of the reforms.

Figure 2.1. Evolution in formal and informal job creation



1. The informality rate is defined as the percentage of workers (including employees and self-employed) not contributing to the pension system.

2. Formal job creation is defined as the year-to-year change in the number of workers contributing to the pension system, while informal job creation is defined as the year-to-year change in the number of workers not contributing to the pension system.

Source: OECD calculation based on GEIH of DANE.

StatLink http://dx.doi.org/10.1787/888933275589

Although the latest data for 2014 in Figure 2.1 show a reversal of the trend in formal and informal job creation and the informality rate, it is too early to tell whether the reversal is related to seasonal job market effects or whether the positive evolution of the past years is coming to an end. That notwithstanding, the Colombian Government will need to continue addressing the remaining barriers to formalisation as well, including the

large imbalance between the skills needs of the productive sector and the available workforce (see OECD, 2013a, for a discussion), the labour market distortions related to social insurance programmes (see next subsection), the high minimum wage (see Section 3) and the weak implementation of labour law (see Section 5). It is important also to notice the high administrative burden caused by regional and municipal taxes, which are particularly cumbersome for micro and small enterprises (Forlac, 2014). Whereas businesses can declare and pay national taxes online through a unified system, they have to prepare and present, often in person, several local declarations separately.

The development and implementation of a skills strategy is a priority theme for the current government. As part of this strategy, a number of actions have been undertaken. In particular, a survey has been carried out to identify the actual and future needs for human capital formation, and a framework for vocational training units within companies has been developed to encourage companies to train their workforce and improve their productivity. In addition, training programmes for people vulnerable to social exclusion have been introduced, such as a training programme for young victims of the armed conflict, as well as scholarships for short-term training courses for people between 18 and 45 years who would like to improve their chances on the labour market, with priority for people who are unemployed.

Labour market distortions related to social insurance programmes

Despite recent reforms, social insurance programmes in Colombia still suffer from the combination of poorly designed mandatory programmes for formal workers and non-contributory schemes for the rest of the population. This combination can have negative effects on labour markets when a substantial part of the workforce is self-employed and many workers do not contribute to mandatory social insurance (Pagés et al., 2013; and Perry et al., 2007). For instance, non-contributory programmes targeted at informal workers can provide disincentives for people to take formal jobs. Or, the use of payroll taxes to finance broader social programmes can further reduce incentives for firms to operate formally or offer informal contracts to workers, especially when productivity levels are low and the minimum wage is binding.

Ideally, there is a clear link between what workers contribute and the benefits they receive to encourage compliance. That link is not always clear in the case of Colombia. A first example is the mandatory contribution for health care. Workers have limited incentives to formalise and pay into the contributory health care system because: 1) part of the formal workers' health care contribution is used to finance the subsidised system and thus acts as a tax; 2) the subsidised health care system offers nearly the same

services and is free of charge; and 3) there is a discontinuity in health care coverage when an individual's employment status changes.

More specifically, two health care systems coexist in Colombia: a contributory scheme for workers in the formal sector, *Plan Obligatorio de Salud* (POS), and a non-contributory scheme for the rest of the population, *Plan Obligatorio de Salud Subsidiado* (POS-S). The contributory system is financed by a 4% employee contributions and a corporate income surtax CREE that replaced the 8.5% employer contribution for employees earning less than ten times the minimum wage (see Box 2.2 above). Also the subsidised system is financed from several sources, including 1.5 percentage points of the health care contribution of formal employees, 7% of the contribution of formal employees to the family compensation funds (see below) and some additional funding from central and local governments.

While the subsidised regime has long been less generous than the contributory regime, the two packages have gradually converged following a 2008 Constitutional Court ruling. Although there are still some differences in the quality of services, the subsidised regime is more generous in terms of people covered – every member in an eligible household has access to the subsidised regime regardless of the relationship with the household head, while the contributory regime only covers direct dependents (spouse, children or one parent). Especially for enlarged families, the generosity of the subsidised regime gives strong incentives to remain in the informal sector. Also, workers (or their household members) who are receiving treatment through the subsidised system have to submit a request for the continuation of the treatment to the contributory health care regime upon entering a formal job, which may imply delays in ongoing treatments. Conversely, workers who lose their formal job may not be able to quickly regain access to the subsidised health system as the registration process takes time.

Camacho et al. (2013) show that the universalisation of health care through the creation of a dual system in 1993 increased informality by 4 percentage points between 1995 and 2005. The unification of the pension and health contribution systems between 2003 and 2007, which made it impossible to contribute differently to one plan versus the other, further reduced the share of workers contributing to the health system, especially among independent workers (Calderón-Mejía and Marisnescu, 2012).

To stimulate the formalisation of labour without jeopardising universal health care coverage, it would be important to broaden the sources of funding for the subsidised health system. Additional resources would allow the government to gradually reduce the share of total health funding coming from formal-sector employee contributions and increase funding from the general budget. The planned tax reform may be an opportunity to raise

additional resources for the health system. A similar reform is proposed to the Mexican Government in a forthcoming *OECD Review of the Mexican Health System* (OECD, 2015b) and in the latest *OECD Economic Survey on Mexico* (OECD, 2015c). Yet, a redesign of the Colombian health care system goes beyond the scope of this report; the system will be reviewed in detailed in a separate OECD report in the coming months.

A second example of the disconnection between contributions and benefits is related to the family compensation funds (*Cajas de Compensación Familiar*) to which employers contribute 4% of their wage bill. While the family compensation funds were originally introduced in 1957 to redistribute income from high-wage to low-wage formal employees through family allowances for workers with (large) families earning less than four times the minimum wage, they have increasingly been mandated by the government to provide benefits and services to non-affiliates (Table 2.1). As such, an increasing part of the contribution to the family compensation funds is in reality a tax to finance social policy programmes for which formal workers are not eligible. In addition, many of the funds' services (such as cultural and recreational services, training and education) are located in the regional capitals and thus not available to formal employees in smaller cities. For these workers, the benefits of contributing into the system are thus not always clear, hereby reducing their incentives to formalise.

Table 2.1. **Distribution of expenditure based on the 4% employer contribution, 1982 and 2014**

Percentage

Use	Beneficiaries	Expenditure distribution (%)	
		1982	2014
Family allowance	Affiliates	55	30
Social Services (mainly recreation, education and culture)	Affiliates and non-affiliates	34	24
Employment services and unemployment benefit (FOSFEC)	Affiliates and non-affiliates	..	11
Housing (FOVIS)	Affiliates	..	11
Administration		10	8
Health (FOSYGA)	Non-affiliates	..	7
Children and complementary education (FONIÑEZ y JEC)	Non-affiliates	..	4
Legal reserves		..	3
Cash subsidies	Non-affiliates	..	1
Other		1	1
Total		100	100

Source: ILO and Ministerio del Trabajo (2014), *Libro Blanco del Sistema de Subsidio Familiar*, Bogotá.

StatLink http://dx.doi.org/10.1787/888933275756

To promote formalisation, the government could consider making the services that are not available to all formal workers voluntary, to allow employers to opt out from these services in return for a lower contribution rate. The link between contributions and services could be further improved by allocating more government resources to the compensation funds services that are provided to non-affiliates. This would allow a gradual decline in the employer contribution to the compensation funds. When doing so, it will be important for the government to closely monitor the shift in financing resources to ensure that the services for non-affiliates do not deteriorate.

3. High minimum wage has become the wage norm for many formal and informal employees

Strong political involvement generates upward pressures on the minimum wage

Minimum-wage setting in Colombia has a strong political component, which has generated upward pressures over the years. The minimum wage is adjusted yearly by a centralised bargaining process between representatives of trade union federations, employer federations and the government. If no consensus is reached by the tripartite body by the end of the year, the government sets the minimum wage unilaterally but taking into account the inflation target of the Central Bank for the upcoming year, labour productivity and GDP growth. Since 1999, the yearly increase cannot be lower than the inflation rate of the past year by constitutional mandate. Between 1998 and 2010, the minimum wage increased by 25% in real terms, well above the evolution of productivity (OECD, 2013a). For 2015, the minimum wage is set to increase by 4.6% to COP 644 350 (EUR 240), compared with an estimated inflation rate of 3.6% in 2014.

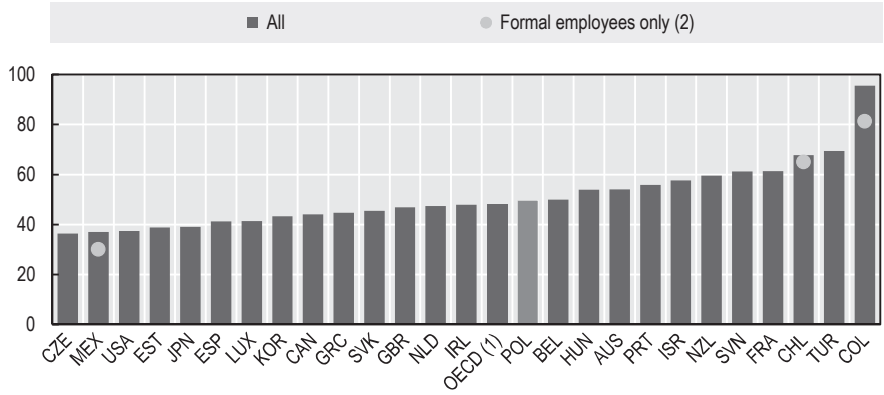
In 2013, the minimum wage reached 96% of the median wage, much higher than in any OECD country (Figure 2.2).[1] Even when excluding the large informal sector where compliance with the minimum wage is lower, the ratio remains well above those of OECD countries, at 81% of the median wage in 2013. The minimum wage in Colombia is very high also considering other emerging economies: the minimum-median wage ratio for full-time employees is 32% in Mexico, 68% in Brazil and Chile and 69% in Turkey. The high level of the minimum wage in comparison with other countries is confirmed by other measures. For instance, the ratio of the minimum wage to the average wage was 66% in 2013, compared with 38% in the OECD on average. Also the ratio of the minimum wage to GDP per capita in Colombia (about 3.8%) is higher than in other Latin American countries (0.05% in Mexico and 2.7% in Chile), though lower than in

Turkey (4.7%). Finally, the minimum wage is about 3.1 times the national poverty line, suggesting that the minimum wage is enough to keep a household of three with a single earner out of poverty.[2]

Differences in minimum wages across countries go beyond the level at which they are set, as the gross cost employers face in employing minimum-wage workers depends on the level of social security contributions and payroll taxes. Unlike in Chile and a few other OECD countries where employers are not subject to social security contributions and other taxes at the minimum wage (OECD, 2014a), employers in Colombia are not eligible for lower rates. Nevertheless, since the introduction of the Formalisation and Job Creation Law in 2010 (see previous section), employers can deduct some payroll taxes – equal to 6.5% of the wage bill since the tax reform of December 2012; and 11.5% beforehand – of new employees earning less than 1.5 times the minimum wage from their income tax for a maximum of two years (Farné, 2011).

Figure 2.2. **The minimum wage is set at a very high level**

Statutory minimum wage (gross) as a percentage of median wage of full-time employees, 2013



1. Median ratio for the OECD countries shown.

2. Formal employees are defined as those contributing to the pension system (health system in the case of Mexico).

Source: OECD (2014), *OECD Minimum Wage* (database), http://dx.doi.org/10.1787/data-00313-en. For Colombia, OECD calculation based on GEIH of DANE.

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However, the role of the minimum wage in Colombia should be seen in the light of the limited role of collective bargaining (see Chapter 3). In the absence of collective agreements, formal wages are strongly determined by the minimum wage setting. Trade unions therefore tend to put strong pressure on raising the minimum wage level to ensure sufficient protection for formal workers, even if this implies that the impact on poverty will be minimal (Saget, 2008). Other emerging economies where the minimum wage negotiations have become a platform for actual wage negotiations are Indonesia, the Philippines, Thailand and Paraguay. Strengthening collective bargaining on wage setting more generally would allow having the statutory minimum wage regain its role as wage floor and not as a *de facto* wage norm for the formal sector.

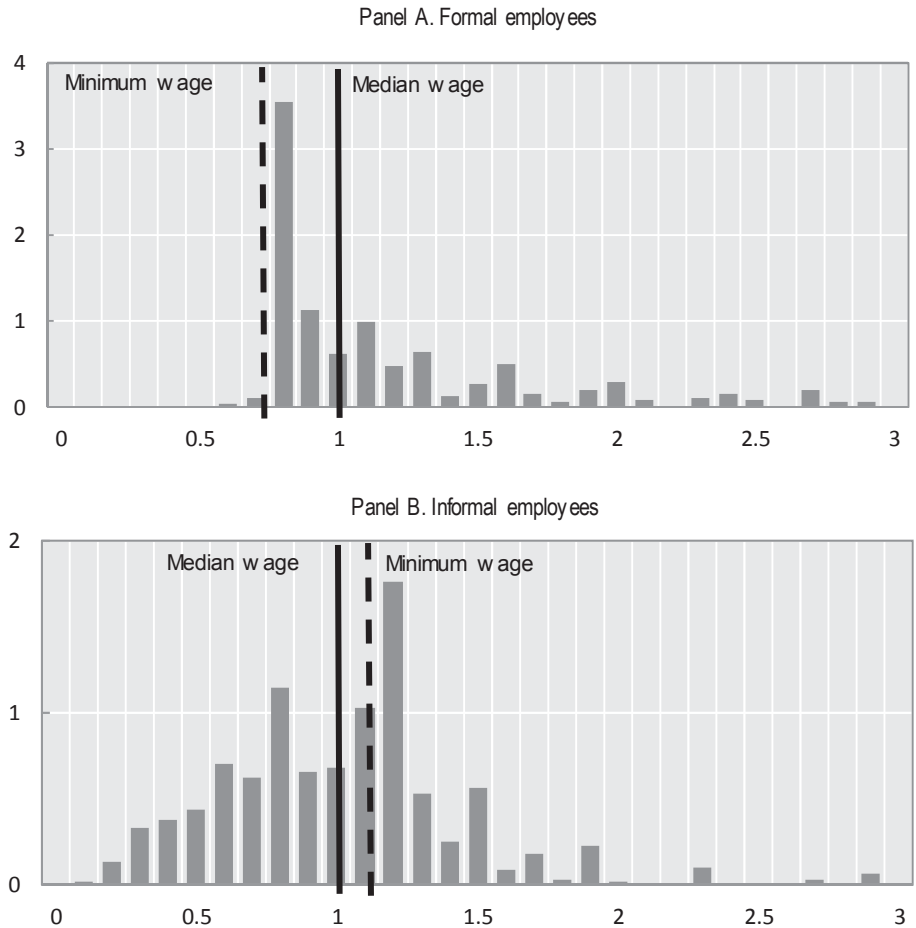
Binding minimum wage reduces formal employment and exacerbate wage inequality

The minimum wage has a strong binding effect in the formal sector and severely compresses the wage distribution in Colombia (Figure 2.3, Panel A). In 2013, 36% of full-time formal employees earned around the minimum wage (between 95 and 105% of the minimum wage) and 80% earned less than twice the minimum wage. Despite its high level, compliance with the minimum wage is very high in the formal sector: over the past five years, on average, only 2.9% of full-time formal employees reported monthly earnings of less than 0.95% of the minimum wage. The minimum wage is particularly onerous in the poorest, low-productivity regions, where its level is above median and average income. For instance, in the Pacifica and Atlántica regions, the minimum wage represented respectively 179% and 131% of the median wage in 2011 (OECD, 2013a). These are also the regions where informality is most prevalent.

While the median wage in the informal sector is below the statutory minimum wage, there is a spike around the minimum wage, suggesting that it is also somewhat binding for informal workers (Figure 2.3, Panel B). This spill-over effect on the informal sector is observed in many other countries and can be explained by a number of factors (Cunningham, 2007). On the one hand, workers value not only their absolute wage, but also the wage relative to other workers with the same skills. As such, the minimum wage is used as a signal of what constitutes a “fair” wage. On the other hand, employers may pay wages comparable to the formal sector market wage to avoid that their employees leave for a similar job in the formal sector. At the same time, the fact that 49% of informal employees are paid at the minimum wage or above (Figure 2.3, Panel B), indicates that informality in Colombia is not just related to the high minimum wage but also reflects other obstacles to formalisation (see Section 2).

Figure 2.3. **Compressed wage distribution due to high minimum wage**

Earnings distribution of full-time formal and informal employees, October 2013[1]



1. The horizontal axis represents the normalised gross monthly wages, while the vertical axis represents the density. The sample includes full-time employees who worked more than 40 hours per week in the reference month (October 2013). Formal employees are defined as those who contribute to the pension system. Note that the minimum-median wage ratio for formal employees (78.6% in Panel A) differs slightly from the one reported in the text since the wage distribution refers to the month of October only, and not to the entire year of 2013 as is the case in the text.

Source: OECD calculations based on GEIH of DANE.

StatLink http://dx.doi.org/10.1787/888933275602

The high minimum wage in Colombia decreases formal employment and increases unemployment. Job losses occur mostly among those earning near the minimum wage, often low-skilled, youth and women, whose productivity levels are below their employment cost (Aguirre Botero, 2011; Arango and Pachón, 2004; Bell, 1997; Hernandez Diaz and Pinzon Garcia, 2006; Mondragón-Vélez et al., 2010; and Sánchez et al., 2009). The negative employment effects are much more pronounced in Colombia than in other Latin American countries where the minimum wage is set at (much) lower levels and where the minimum wage has no or only minimal impact on the overall employment level (Broecke et al., forthcoming; Cunningham, 2007; and Maloney and Méndez, 2004).

In addition, the very high minimum wage paradoxically contributes to wage inequality in Colombia. As in other countries, low-wage workers are over-represented in the informal sector, often as self-employed, and do not benefit from the high minimum wage. As illustrated by Arango and Pachón (2004), an increase in the minimum wage mainly increases the wages of workers in the 45th to 60th wage deciles in Colombia, with no significant effect on the lower or upper parts of the wage distribution. Also Hernandez Diaz and Pinzon Garcia (2006) find that higher minimum wages increase wage inequality between poor and middle-income workers.

The minimum wage is also too high to reduce poverty rates. Arango and Pachón (2004), one of the few studies on the link between poverty and the minimum wage in Colombia, estimated that only households in the 25-45th percentiles of the per capita family income distribution benefit from an increase in the minimum wage – results that are confirmed by López Castaño (2010). With the relative poverty rate in Colombia estimated at around 24% (see Chapter 1), it is clear that only the relatively better-off families gain from a higher minimum wage. The poorest households neither gain nor lose as they typically do not have access to formal jobs (Arango and Pachón, 2004). As suggested by Gindling (2014), more effective strategies to tackle household poverty would be to promote formalisation and develop well-targeted social policy measures (see Chapter 4 for a discussion on the latter).

Finally, the minimum wage has major implications on other government policies. For instance, given that, according to the Colombian constitution, pension benefits cannot be lower than the minimum wage, the high minimum wage reduces the coverage of the Colombian pension system and brings its affordability in danger (OECD, 2015a). As a result of the stringent contribution requirements, less than 40% of the Colombians receive a pension benefit and almost half of the elderly live below the poverty line.

4. A new unemployment protection system has been put in place

To address the country's high levels of unemployment, the Colombian government introduced a new "protection mechanism against unemployment" (*Mecanismo de proteccion al cesante*) in 2013. The system consists of four elements: 1) small allowances for unemployed people; 2) a voluntary system of individual unemployment savings accounts; 3) a network of public employment services (PES) with a nationally-shared job database; and 4) active labour market programmes.

Income support focusses on individual unemployment savings accounts

The small allowances for unemployed people in Colombia are not meant to replace their lost income, as is the case in most OECD countries. Instead, formal sector job losers with dependents (children, siblings and parents) who earned less than four times the minimum wage upon job loss continue receiving their family allowances from their family compensation fund (see Section 2) for a maximum of six months. The family allowance is in proportion to the number of dependents; the average worker receives about EUR 8 per month. Also the social security contributions for the health and pension systems (together equal to 8% of the wage) are covered for the same period on the basis of one minimum wage. Only formal workers whose employer contributed 4% of their payroll to a family compensation fund for at least 12 months in the three years before job loss occurred (24 months for independent workers) are eligible for these unemployment allowances.

In 2014, about 7.6 million workers, equal to 36% of the Colombian workforce was affiliated to a family compensation fund and 90% of them earned less than four times the minimum wage. In August 2014, there were about 10 000 unemployed people receiving the small unemployment allowances, which is around 0.5% of the 2.1 million people who were unemployed according to the Integrated Household Survey (*Gran Encuesta Integrada de Hogares*, GEIH) of the Colombian Statistical Office (DANE). The far majority of unemployed people do not qualify as they have been working in the informal sector or their employer did not contribute long enough (the latter was the case for 23% of the applications received by the Ministry of Labour). Given that the system is fully operational only since February 2014, the number of unemployed people who fulfil the contribution criteria may still increase – the Ministry of Labour estimate is to reach 19 000 unemployed people per month in 2015, or somewhat less than 1% of the unemployed.

In addition to the small unemployment allowances, workers are encouraged to save their severance payments in an individual unemployment savings account from which they can withdraw money in case of unemployment. At the end of each year, employers pay for each employee (fixed-term and permanent) one month of salary into a private unemployment fund selected by the employee. Upon job loss, the employee receives a benefit equal to one month of salary for each year of service. Yet, the amount workers receive is not necessarily the sum of the savings since only the salary of the last month is taken as a basis for the benefit payment. Workers who earned less in the month before losing their job (for whatever reason) receive less than they contributed to the system, and the other way around.

This individual unemployment savings system has existed since 1990, but due to several options to cash the savings before job loss – for instance, to finance education, purchase a house or undertake house renovations – the system has lost its purpose of income protection in the event of unemployment. While statistics on the proportion of people withdrawing their entitlements before job loss are not available, the government confirmed that it is a widespread phenomenon.

To re-engage people to save the money for times of unemployment, the government provides, since February 2014, complementary benefits for employees who keep at least 10% of their unemployment savings in the unemployment fund (25% of the unemployment savings for those earning more than twice the minimum wage). The complementary benefit by the government is proportional to the amount saved by the employee (see Table 2.2), but is only paid in case of job loss (i.e. it cannot be cashed to finance education or purchase/renovate a house). Employees can choose in how many payments they wish to withdraw their savings. By December 2014, only 1 000 workers had started making use of the voluntary saving system.

Table 2.2. **Complementary benefits provided by the Colombian Government for workers who voluntarily save their unemployment payments**

Awarded benefits as a percentage of the amount saved

Worker's earnings as a multiple of the legal minimum w age	Duration of the saving period		
	Up to 2 years	2-3 years	More than 3 years
Up to 2	20.0	22.0	23.5
Betw een 2 and 3	19.0	21.0	22.5
Betw een 3 and 4	17.0	19.0	20.5
Betw een 4 and 5	16.0	18.0	19.5
Betw een 5 and 6	14.0	16.0	17.5
Betw een 6 and 7	12.0	14.0	15.5
More than 7	10.0	12.0	13.5

Source: Information provided by the Ministry of Labour.

StatLink http://dx.doi.org/10.1787/888933275762

Public employment services are being harmonised but receive very limited funding

All unemployed people, regardless of whether they contributed or not to the unemployment protection system (i.e. also informal workers), can rely on the support of the national public employment service, which was created in 2013. The employment service operates through a network of both new and existing providers of employment services across the country, such as family compensation funds, the National Training Service (SENA), universities, municipalities and other public and private employment agencies. Each municipality decides itself how to best organise the local employment service provision and through which institutions. Once authorised by the Ministry of Labour, employment service providers in the network receive some start-up support (e.g. offices and personnel training) as well as instructions on how to organise their services. Employment services are required to offer job search support and training programmes to improve the jobseeker's employability, and to report job vacancies, jobseeker details and the availability of training programmes to a nationally-shared job database. Currently, the system has more than 126 authorised providers and more than 1 million jobseekers and 306 000 vacancies were registered in the system between July 2013 and June 2014 (Ministerio del Trabajo, 2014). During the same period, only 14% of the newly registered

jobseekers found a job, but it is unclear whether they were placed through a service provider or found a job by themselves.

The unemployment protection system (including income support, employment services and training) is financed through part of the 4% employer contribution to the family compensation funds. By law, 11% of the budget of these funds has to be devoted to the unemployment protection mechanism (see Table 2.1 in above) – about EUR 530 000 per year for all funds together[3] – of which 60% is used for the payment of the unemployment allowances and 26% for the organisation of active labour market programmes of the family compensation funds. Information provided by the Ministry of Labour illustrates that the remaining 14% is used to finance the employment services and training programmes of the other providers in the network and the development of the digital database (0.5%). The negligible budget for the employment service providers implies that they have to be creative in their service delivery. For instance, the employment service provider in Bogota set up collaboration with the local university in which last-year students in business administration give short courses to jobseekers.

It is too early to assess the impact of the new unemployment protection mechanism as many of the employment service providers are still being formed. Yet, the minimal funding for the organisation of active labour market programmes implies that the support these service providers are able to deliver is extremely limited. While higher-skilled formal workers might quickly find a new job through the nationwide job database, harder-to-place jobseekers, such as long-term unemployed, inactive and low-skilled people, need personalised employment counselling and targeted training to improve or change their skills to find a job. For these groups, it will be important to ensure sufficient funding for the employment service providers.

5. Labour legislation is circumvented by civil-law contracts

Employment protection legislation, defined as the rules governing the hiring and firing of workers, has typically been designed to protect employees against unfair behaviour of their employers and increase job stability with the aim to reduce the costs for the individual related to job displacement. At the same time, however, too rigid regulations risk discouraging employers to hire workers formally as they internalise the expected cost of dismissal in case the firm has to downsize or restructure to adapt to changes in demand conditions and technological changes. It is, thus, important to strike an adequate balance between protecting employees and ensuring efficient operation of firms to adapt their workforce.

The employment protection legislation indicators, developed by the OECD to accurately measure regulations concerning the dismissal of regular employees and hiring of workers on temporary contracts to allow for comparison across countries, illustrate that the overall restrictiveness of the Colombian employment protection legislation is similar to the OECD average (Figure 2.4). The summary indicators on both the regulations of individual and collective dismissals of workers with regular, open-ended contracts (Figure 2.4, Panel A) and the regulations of temporary contracts (Figure 2.4, Panel B) are around the OECD average. The average scores hide, however, rather flexible regulations on individual dismissals and fixed-term contracts, on the one hand, and rather strict rules on collective dismissals and employment through temporary work agencies (TWAs), on the other hand. Also, it should be noted that the efficiency of the process of dispute resolution is not included in the OECD indicators, even though this is a key determinant of the costs and effectiveness of employment protection (OECD, 2013b).

Regulations are flexible for individual dismissals but strict for collective dismissals

The protection of permanent workers against individual dismissal in Colombia is at the lower end of the OECD ranking. In particular, 1) poor individual performance or unsuitability are valid and sufficient grounds for fair dismissal; 2) the legal notice period (15 days) is short and no severance is paid for fair dismissals; and 3) no reinstatement option for the employee is allowed following unfair dismissal. While the maximum time period of three years for lodging a claim against unfair dismissal is extremely long compared with the median of two months in the OECD, the cost impact is negligible as fines for the employer are very low (only severance payment, equal to 30 days of salary for workers with a tenure of less than one year and 20 additional days for each additional year of tenure, is due). Conversely, the two-months trial period is very short by OECD standards, where the average is about five months.

Figure 2.4. **Employment protection in Colombia is around OECD average**[1]

Panel A. Protection of permanent workers against individual and collective dismissals, 2013[2]

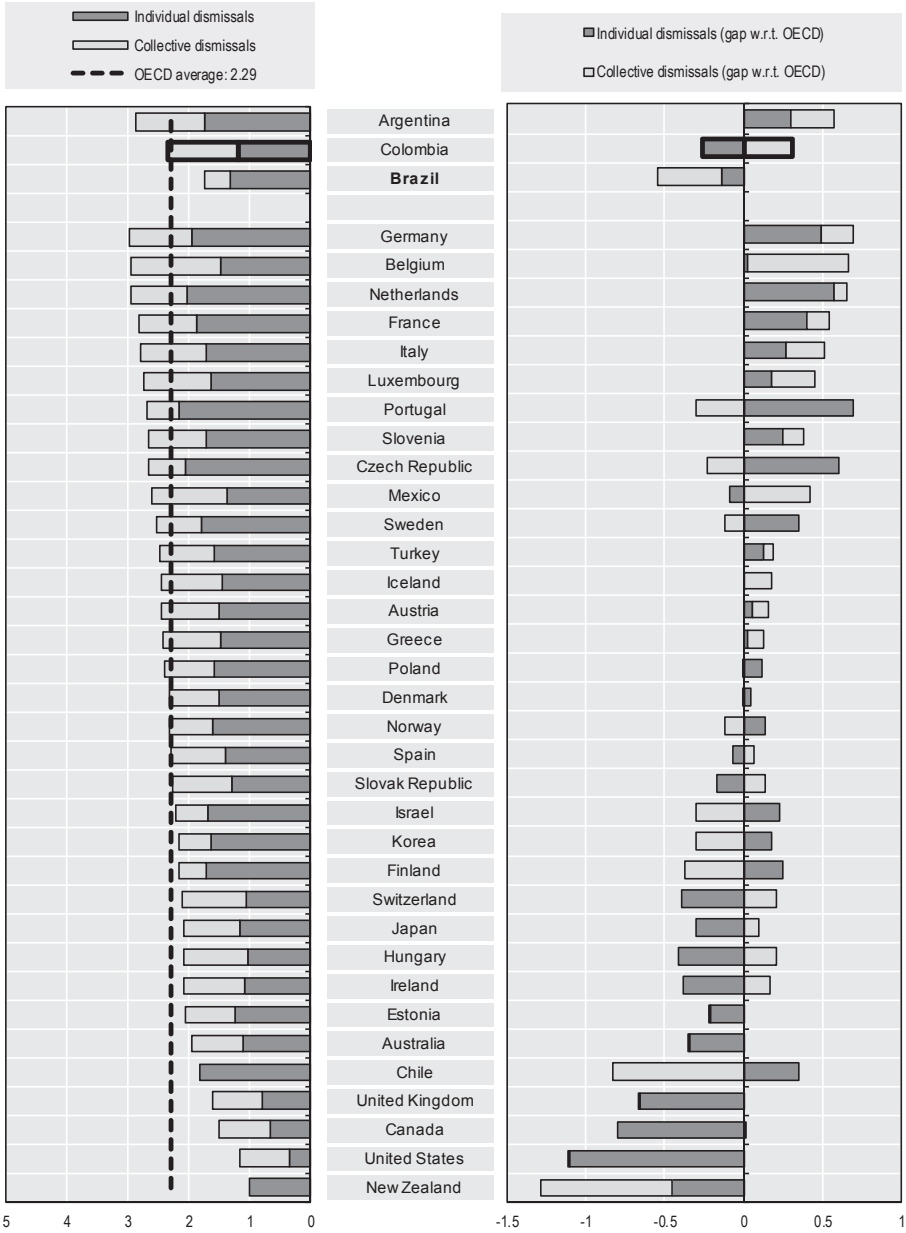


Figure 2.4. **Employment protection in Colombia is around OECD average**[1] *(cont.)*

Panel B. Regulation on temporary contracts, 2013[3]

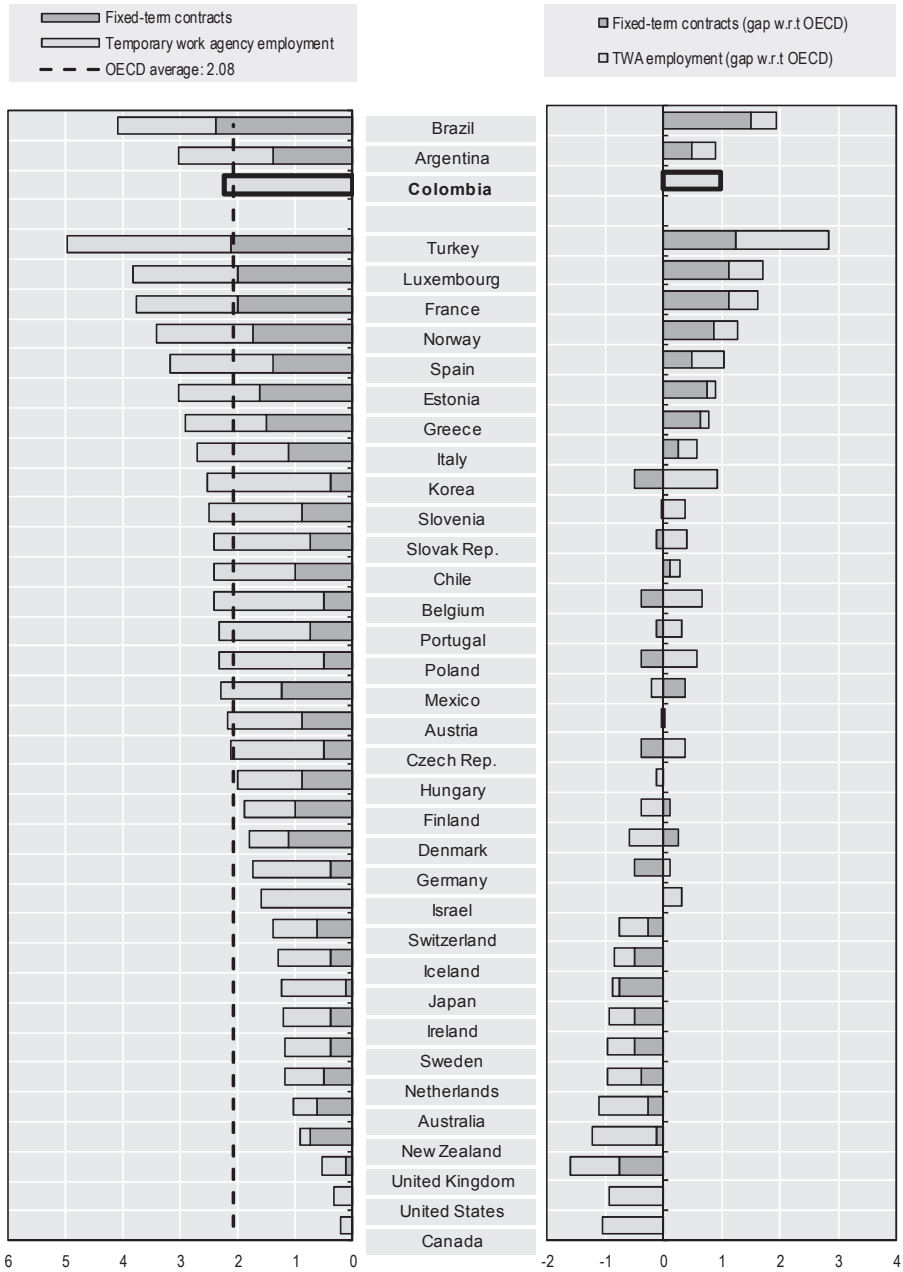


Figure 2.4. **Employment protection in Colombia is around OECD average**[1] *(cont.)*

1. Data refer to 2013 for OECD countries and Colombia; 2012 for Argentina and Brazil. The indicators for Colombia have been developed in collaboration with the Inter-American Development Bank.

2. The figure presents the contribution of employment protection for regular workers against individual dismissal and additional provisions for collective dismissal to the indicator of employment protection for regular workers against individual and collective dismissal (EPRC). The height of the bar represents the value of the EPRC indicator.

3. The figure presents the contribution of the indicator of regulation for standard fixed-term contracts and the indicator of regulation for TWA employment to the indicator of regulation on temporary contracts (EPT). The height of the bar represents the value of the EPT indicator.

Source: OECD Employment Protection Database, 2013 update, www.oecd.org/employment/protection.

StatLink http://dx.doi.org/10.1787/888933275618

Specific provisions for collective redundancies kick in very quickly in Colombia and can be cumbersome for employers; the indicator for collective dismissals is among the top three of the OECD ranking. As in most other OECD countries, the definition of collective dismissals depends on the size of the firm, starting at 30% of the workers for firms between 10 and 50 employees and going down to 5% of the workers in firms with more than 1 000 employees. Yet, the low threshold is more stringent than in any OECD country, apart from Portugal where collective dismissal starts at less than five employees. In addition, employers in Colombia are obliged to obtain prior authorisation from the Ministry of Labour, which should take (in principle) a maximum of two months. Otherwise, and unlike in one third of OECD countries, there are no additional costs for employers in terms of additional severance pay or the establishment of a social plan for the affected workers, such as measures of retraining, reemployment or outplacement.

Very few restrictions on fixed-term contracts, but heavily regulated TWA employment

The greatest flexibility in the Colombian employment protection legislation comes through the regulations governing the hiring of workers on fixed-term contracts. Contrary to most OECD countries, there are very few restrictions on the use of standard fixed-term contracts in Colombia (Figure 2.4, Panel B). Although the maximum duration of a single fixed-term contract is three years, they can be renewed indefinitely, with the only restriction that, if the original contract is less than one-year in duration, after three renewals, the minimum duration of subsequent fixed-term contracts is one year. It is thus not surprising that Colombian employers make widespread use of such contracts. Indeed, at 34.5% of all employees

with a written contract in 2013, the share of those with a fixed-term contract is higher than in any OECD country (Table 2.3).

A further form of a temporary contract is employment through a temporary work agency. TWA employment is a specific type of contractual relationship in which workers are hired by an agency and temporarily assigned for work into a user firm, typically to perform temporary tasks outside the core business of the user firm or to enable the user firm to cope with short-term increases in the workload. While TWA employment offers firms flexibility for the performance of temporary tasks, it might also be used as a way to weaken trade unions and avoid constraints imposed by collective agreements (OECD, 2013b).

To reduce potential negative effects of TWA employment, Colombia's regulations on TWA employment are stricter than in any OECD country (with the exception of Turkey; Figure 2.4, Panel B). In particular: 1) the type of work for which TWA employment is legal is severely restricted;[4] 2) the maximum cumulated duration of assignments is limited to only 30 days for occasional services and six months renewable once for production increases; 3) temporary work agencies have authorisation, registration and reporting obligations to the Ministry of Labour; and 4) the law requires equal treatment, including remuneration, of agency workers and regular workers at the user firm.

Despite the strong restrictions, TWA employment is used much more in Colombia than in any OECD country, which could point to weak enforcement of the law. Calculations based on the Integrated Household Survey (*Gran Encuesta Integrada de Hogares*, GEIH) of the Colombian Statistical Office (DANE) suggest that 9% of all employees with a written contract worked for a temporary work agency in 2013.[5] In comparison, less than 3% of employees in OECD countries have a TWA contract – with the exception of Slovenia where TWA employment accounts for 5.3% of all employees (Table 2.3). The shares of TWA employment are particularly high in manufacturing (16% of all employees with a written contract in the sector), electricity, gas and water (14%) and transport, storage and communications (13%), as well in the regions of Barranquilla (20%), Cartagena (14%) and Cali (12%). It should be noted, however, that TWA employees not necessarily work under a fixed-term contract: as is also the case in many European OECD countries, over half (50.3%) of TWA employees in Colombia have a permanent contract with a temporary work agency.

Table 2.3. **Colombia has a very high share of employees with fixed-term or TWA contracts**

Percentage of all employees, average 2011-12[1]

	Permanent			Fixed-term (2) (3)			With a temporary work agency (TWA)
	All contracts	Not with TWA	With TWA	All contracts	Not with TWA	With TWA	
Australia	94.1	..	..	5.9	..	..	..
Austria	90.6	88.6	2.0	9.4	9.2	0.3	2.2
Belgium	91.5	91.5	0.0	8.5	6.7	1.8	1.8
Canada	86.5	..	..	13.5	..	..	..
Chile	69.5	..	..	30.5	..	..	..
Colombia (all employees)[2]	**41.5**	**38.7**	**2.9**	**58.5**	**55.6**	**2.9**	**5.7**
Colombia (formal employees only)[3]	**65.2**	**60.7**	**4.5**	**34.5**	**30.0**	**4.5**	**9.0**
Czech Republic	91.9	90.7	1.2	8.1	7.9	0.2	1.4
Denmark	91.3	90.5	0.8	8.7	8.4	0.3	1.1
Estonia	96.0	95.8	0.2	4.0	3.9	0.1	0.2
Finland	84.4	83.9	0.5	15.6	14.9	0.7	1.1
France	84.9	84.9	0.0	15.1	12.8	2.3	2.3
Germany	85.6	83.9	1.8	14.4	13.1	1.2	2.8
Greece	89.2	89.0	0.3	10.8	10.7	0.1	0.4
Hungary	90.8	90.2	0.7	9.2	8.8	0.4	1.0
Iceland	87.2	87.2	0.0	12.8	12.8	0.0	0.0
Ireland	89.8	89.3	0.6	10.2	9.8	0.4	0.9
Italy	86.4	86.4	0.1	13.6	13.0	0.6	0.6
Japan	87.0	..	..	13.0	..	..	1.7
Korea	77.9	77.9	0.0	22.1	21.0	1.1	1.1
Luxembourg	92.7	91.8	0.9	7.4	6.7	0.6	1.5
Netherlands	81.2	80.8	0.5	18.8	16.3	2.5	2.9
Norway	91.8	91.7	0.1	8.2	8.1	0.1	0.2
Poland	73.3	73.3	0.0	26.7	26.2	0.5	0.5
Portugal	78.6	78.0	0.6	21.5	20.1	1.4	1.9
Slovak Republic	93.4	91.9	1.5	6.6	6.1	0.5	2.1
Slovenia	82.5	81.9	0.7	17.5	12.8	4.6	5.3
Spain	75.5	74.0	1.5	24.5	23.4	1.2	2.7
Sweden	83.8	83.1	0.7	16.2	15.6	0.5	1.3
Switzerland	87.1	86.6	0.5	12.9	12.5	0.4	0.9
Turkey	87.9	87.9	0.0	12.1	12.1	0.0	0.0
United Kingdom	93.9	..	..	6.1	..	..	..
United States	..	..	..	..	..	..	1.8

1. For Colombia, the data refer to 2013; for the United States, data refers to the share of temporary help services workers in total non-farm employees.

2. Employees without a written contract are considered as fixed-term workers.

3. Formal employees are defined as those with a written contract.

Source: OECD calculations based on GEIH of DANE for Colombia; EU-LFS microdata, Korean Additional Survey on Economically Active Population (March 2012), Japanese Labour Force Statistics, U.S. Current Employment Statistics and *OECD Labour Force Statistics Database*, http://dx.doi.org/10.1787/data-00297-en.

StatLink http://dx.doi.org/10.1787/888933275776

The government has undertaken significant effort in recent years to monitor temporary work agencies. Statistics provided by the Ministry of Labour indicate that, between 2011 and 2013, about 1 100 visits to such agencies were organised – there were 761 registered temporary work agencies in Colombia in 2011 (Ministerio del Trabajo, 2012) – and 123 sanctions were imposed on agencies violating the law, for a total value of EUR 442 000. It is unclear, however, whether the fines have effectively been collected (see Chapter 3).

Civil-law contracts are used to bypass labour legislation

In addition to the permanent and temporary contracts governed by the labour legislation, there is a tendency among Colombian employers to rely on contracts regulated under civil-law provisions for their employment relations, such as dependent self-employment and third-party contracting through associated work co-operatives, simplified joint stock companies and union service contracts:

- **Associated work co-operatives** (*Cooperativas de Trabajo Associado*, CTAs) are, in principle, non-profit ventures in which workers own and manage its operation. As associated workers are considered owners and not employees, they are not covered by the labour law. As such, they receive a compensation instead of a salary and are not entitled to health care, pension payments or other benefits outlined in the labour law, nor do they have the possibility to establish a trade union (because the workers are the owners of the co-operative). The resulting cost reduction opportunities stimulated the expansion of associated work co-operatives in the 2000s. In nine years' time, the number of co-operatives grew from 710 in 2001 to 4 300 in 2010, covering more than 600 000 associates.
- **Simplified stock companies** (*Sociedades por Acciones Simplificada*, SAS) are commercial entities that were introduced in 2008 to stimulate the formalisation of microfirms by simplifying the administrative and legal procedures to register, manage and dissolve a firm (Soto et al., 2014). While the impact of this new commercial entity on reducing informality is unclear, anecdotal evidence suggests that simplified stock companies are being used to disguise employment relations (CTC/CUT, 2014; AFL-CIO, 2014; and U.S. House of Representatives, 2013). Similar to associated work co-operatives, workers are considered as partners in a simplified stock company and then contracted out to user firms. As such, these workers are not covered under Colombian labour laws.

- **Union service contracts** (*contratos sindicales*) are civil-law contracts under which trade unions agree to supply their members' labour to employers for certain activities. These contracts allow unions to ensure good working conditions for their members, but there are indications that many of the unions offering such service contracts are fraudulent entities created by employers to circumvent the labour law. While union service contracts have been in place for a long time, misuse for employment relations was facilitated in 2010 when the authority of signing a service contract was transferred from the union's general assembly to the union's president. This change in the law implied that it was no longer necessary to obtain the workers' agreement, allowing businesses to construct fake unions and contract out their services.
- **Dependent self-employed workers** are own-account self-employed – i.e. independent contractors without employees who either autonomously produce and sell goods or engage with their clients in contracts for services, regulated by commercial law – whose conditions of work are nonetheless similar to those of employees, in the sense that they work mainly or exclusively for a specific client-firm, with limited autonomy and often closely integrated into its organisational structure (OECD, 2013b).

Such civil-law contracts represent flexible and low-cost alternatives to employment contracts for employers. The different forms of contracts have in common that the workers involved do not benefit from the rights stipulated in the labour code, such as minimum wage, hiring and firing rules, affiliation to trade union and collective bargaining rights, and social security rights.

The exact magnitude of the use of civil-law contracts is not entirely clear. On the one hand, according to the Integrated Household Survey (*Gran Encuesta Integrada de Hogares*, GEIH) of the Colombian Statistical Office, 18.8% of all employees with a written contract in 2013 worked in a different company than the one that contracted them: 9.0% of them were contracted by a temporary work agency and 9.8% by an associated work co-operative or another unspecified type of company. Only a minority (about 73 000 of the 1.2 million subcontracted workers) had a contract with an associated work co-operative, while for 530 000 workers it is unknown which type of company had contracted them. On the other hand, administrative data from the Confederation of Colombian Cooperatives (Confecoop) provided by the Ministry of Labour show that there were 327 500 members of associated work co-operatives in 2013, 4.5 times the figure based on the GEIH survey (Table 2.4). Though not directly

comparable, the figure would suggest that the members of associated work co-operatives alone already account for 5.1% of all employees with a written contract. For simplified stock companies, there are no estimates available on the misuse of this commercial entity for employment relations.

Table 2.4. **Evolution of third-party contracting**

	Temporary work agency				Associated work cooperative				Union service contract				
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013	2014 (1)
Number of firms	..	..	..	..	4 307	3 462	2 857	2 669	50	164	703	964	984
Number of workers [x1000]	514.2	564.6	595.6	546.1	610.5	482.2	386.1	327.5	11.3	37.1	158.9	49.2	..
% of formal employees	9.4	9.7	9.8	8.5	11.1	8.3	6.3	5.1	0.2	0.6	2.6	0.8	..
% of all employees	5.7	6.0	6.1	5.4	6.8	5.2	3.9	3.2	0.1	0.4	1.6	0.5	..

1. Figures for 2014 correspond to the first semester.

Source: Data provided by the Ministry of Labour (associated work co-operatives); Acoset (temporary work agencies); and National Trade Union School (union services contracts).

StatLink http://dx.doi.org/10.1787/888933275786

The widespread use of civil-law contracts, but also fixed-term and TWA contracts, is related to a number of factors. First, persistently high structural unemployment and informality have contributed to this phenomenon by weakening workers' bargaining power and prompting them to accept offers for often precarious jobs. In addition, high labour costs created strong incentives for employers to search for ways to reduce their costs. Finally, until recently the law in Colombia did not explicitly forbid the misuse of civil-law contracts for labour relations (i.e. contracts that do not grant labour rights to the workers involved), unlike in many OECD countries.

To end the abuse of third-party contracting under civil-law provisions, the Colombian Government issued in 2010 the Law 1429 which prohibits labour intermediation for the core work of a company through associated work co-operatives or any other kind of labour relationship that affect access of workers to labour rights, and imposes significant fines for violations. Yet, Decree 2025 of 2011 subsequently weakened this broad and inclusive definition of illegal labour intermediation and restricted it to associated work co-operatives contracts only, opening the door for increased hiring through simplified joint stock companies and union service contracts. An attempt in 2013 to correct for the weaknesses of Decree 2025 was withdrawn as it failed to involve the social partners before the new decree was issued. Since then, the Ministry of Labour is working on appropriate tools to address illegal alternative forms of abusive third-party contracting, but so far no new legislation has been passed.

With respect to dependent self-employment, there are no statistics on the magnitude of the problem in Colombia, but anecdotal evidence suggests that it is widespread, especially in the textile industry. In many OECD countries, the use of contracts for services is unlawful when the own-account self-employed worker is subject to a high degree of subordination (OECD, 2014a). To distinguish between real self-employment and misuse of such status, a wide array of legal instruments has been developed. Nevertheless, the identification mostly relies on the concerned worker lodging a complaint with the court, and breaches of legislation concerning hiring are typically much more difficult to identify – as opposed to unlawful dismissals. Individuals would often not file a complaint as that would imply that they would not get the job, while in the case of unfair dismissals, they have the chance to receive severance payment for unfair dismissal. Only in a few OECD countries does the labour inspectorate have some power to enforce compliance with the labour law as regards the employment relationship. Instead, a solution lies with the tax and social security authorities who can directly impose contributions and fines on the employers based upon their own assessment of the employer-worker relationship and seek to obtain criminal penalties in courts for fraud or grave abuses. Similar strategies could be developed in Colombia.

6. Conclusions

Profound dualism in the labour market resulting from widespread informality and a strong reliance of non-regular employment contracts create important economic and social costs. The Colombian Government has undertaken several important measures to address these issues, but further progress is needed.

Tackling labour informality will require a comprehensive approach to further reduce the costs and increase the benefits to workers and businesses of operating formally. The positive effects of the Formalisation and Job Creation Law of 2010 and the tax reform of 2012 are becoming visible, and the informality rate is slowly declining. Even so, the informality rate remains high in comparison with other emerging economies. The Colombian Government needs to address the remaining barriers to formalisation, including 1) the labour market distortions related to social insurance programmes; 2) the weak implementation of labour law; 3) the complex procedures for the registration of companies and the affiliation of workers to social security; 4) the relatively high minimum wage; and 5) the large imbalance between the skills needs of the productive sector and the available workforce.

To stimulate the formalisation of labour without jeopardising universal health care coverage, it would be important to broaden the sources of funding for the subsidised health system. Additional resources would allow the government to gradually reduce the share of total health funding coming from formal-sector employee contributions and increase funding from the general budget. The planned tax reform may be an opportunity to raise additional resources for the health system.

Similarly, the link between contributions and services of the family compensation funds could be improved by allocating more government resources to the services that are provided by the compensation funds to non-affiliates. This would allow a gradual decline in the employer contribution to the funds. However, it will be important for the government to closely monitor the shift in financing resources to ensure that the services for non-affiliates under no means deteriorate. To further promote formalisation, the government could consider making the services of the family compensation funds that are not available to all formal workers (such as those that are only located in the bigger cities) voluntary, to allow employers to opt out from these services in return for a lower contribution rate.

Weak implementation of employment legislation further contributes to labour market duality. While many workers and firms in Colombia are forced to stay in the informal sector because they are unable to enter the formal one due to high costs, informality may also be a choice for certain firms and workers to avoid taxes and social contributions. For this reason, it will be important to strengthen labour law enforcement, a topic that will be discussed in detail in the next chapter of this report. In addition, while fixed-term and TWA contracts provide flexibility to firms to adjust their workforce to changing economic circumstances, they also generate a high degree of job insecurity for the workers involved. To improve job quality, the Ministry of Labour should continue to closely monitor temporary work agencies to limit abuse. Finally, in line with OECD practices, the misuse of civil-law contracts that undermine the labour rights of the workers involved should be prohibited as soon as possible and companies should be required to formalise employees working under such contracts through regular employment contracts that ensure access to all basic labour rights.

Over the years, the minimum wage in Colombia has lost its purpose of providing a wage floor and instead has become the wage norm for many formal, and even for half of all informal employees. Given the limited role of collective bargaining in the country (see next chapter), trade unions tend to put strong pressure on raising the minimum wage level, as it is one of the few ways for trade unions to ensure decent working conditions for their affiliates. However, as a result of its high and binding level, the minimum

wage reduces formal employment and contributes to wage inequality in the country. It is also ineffective in reducing poverty rates since poor households do not have access to formal-sector jobs. To allow workers with lower productivity to join the formal labour market and reduce poverty among these workers' households, the government may consider a gradual adjustment of the minimum wage to bring it back to its original role of wage floor instead of wage norm. Nevertheless, the gradual adjustment towards a lower level relative to the average or median wage should happen in the context of better social dialogue and reinforced collective bargaining. In the meantime, increases in the minimum wage should closely follow inflation. Differentiating the minimum wage across regions could be a possibility, but improved labour law enforcement is a prerequisite, given that minimum wage differentiation increases complexity and could potentially reduce compliance. It would be equally important to further develop social policies to reduce poverty amongst the poorest households.

Taking into account Colombia's financial resources and administrative capacity to run a comprehensive unemployment protection scheme, the choice for individual unemployment savings accounts is probably the most appropriate way to provide income compensation in the case of job loss. Such a system avoids moral hazard problems inherent in traditional unemployment insurance schemes and promotes active job search among benefit recipients – which would be very difficult to monitor in the presence of the large informal sector. Individual savings accounts also draw a clear link between contributions and benefits. To strengthen the system and re-engage people to save the money for times of unemployment, the government should limit the options to withdraw funds for reasons other than unemployment (like house purchase/renovation or education).

Negligible funding for employment service providers implies that the support they are able to deliver will be extremely limited. While higher-skilled formal workers might quickly find a new job through personal contacts or through the nationwide job database, harder-to-place jobseekers, such as long-term unemployed, inactive and low-skilled people, need personalised employment counselling and targeted training to improve their skills. For these groups, it will be important to ensure sufficient funding for employment service providers for the organisation of job-search support and effective active labour market programmes.

Notes

1. The ratio is different from the one published in the *OECD Economic Survey of Colombia 2015* (OECD, 2015a) because the latter 1) adds the transportation bonus to the minimum wage and 2) refers to formal employees only, using DANE's definition of informal employment based on firm size.

2. The national poverty line is defined as the minimum cost of basic products and services estimated on the basis of the Survey on Income and Expenses (*Encuesta de Ingresos y Gastos*) of the Colombian Statistical Office (DANE). Taking into account transport subsidies and other benefits as well as social security deductions, a minimum-wage worker receives COP 645 133 per month (EUR 240), compared with an official poverty line of COP 210 000 (EUR 78) in 2014.

3. According to ILO and Ministerio del Trabajo (2014), the 43 compensation funds that are currently operating across the country had a joint budget of COP 12.9 billion in 2013, which equals about EUR 4.8 million.

4. According to article 77 of Law 50 of 1990, TWA employment is legal: 1) for services required on occasional, accidental or transitory basis; 2) to replace workers of the user firm which are on vacation, maternity or sickness leave; and 3) to attend an increase in production, transport, sales of goods, stationary periods of harvest and in the provision of services. The law prohibits use of TWA to replace workers on strike at the user firm.

5. The Colombian Association of Temporary Work Agencies (Acoset) reports very similar statistics; see Table 2.4.

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Chapter 3

Enforcing labour rights in Colombia

High informality and a strong reliance on non-standard contracts have weakened the bargaining power of workers in Colombia. Violence continues to be a challenge in spite of considerable progress and strongly affects trade union activities. While social dialogue in the public sector has been recently enhanced, legislative loopholes continue to affect collective bargaining in the private sector. A range of reforms have strengthened the labour inspection system, however more efforts are needed to improve the actual implementation of the reforms. In particular the collection of fines imposed by labour inspectors on employers violating the labour law remains very problematic.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

1. Introduction

High informality and a strong reliance on non-standard contracts have weakened the bargaining power of workers in Colombia. In this context, enforcement mechanisms have a crucial role to play in monitor the correct application of labour legislation. Labour inspectors and the labour justice system are key stakeholders to investigate breaches of labour regulations, but also social dialogue and collective bargaining mechanisms can be important ways to ensure decent working conditions.

This chapter reviews Colombia's industrial relations and the different labour rights enforcement bodies, taking into account recent progress and remaining challenges. The chapter starts in Section 2 with a short discussion of the climate of violence that persists in the country and that has affected the formation and functioning of trade unions. Section 3 continues with a discussion of the challenges posed by the industrial relations framework. Finally, Sections 4 and 5 evaluate the capacity and functioning of the labour inspection and judicial system. Section 6 concludes with a summary of the key observations and puts forward a set of policy recommendations to improve the functioning of the Colombia's labour rights enforcement mechanisms.

2. Trade union activities are affected by high rates of violence

Violence continues to be a challenge in spite of significant progress

Over the past decade, Colombia has made significant progress in reducing violence, but the crime rates remain high in international comparison. Violence takes many forms with high, albeit declining, numbers of murders, kidnappings, assaults and forced displacement. At around 14 700 deaths per year, the homicide rate in Colombia stood at 30.8 per 100 000 population in 2012 (down from 66.5 in 2000), compared with a global average homicide rate of 6 per 100 000 population (UNODC, 2014). Colombia ranks second-highest in South America, after Venezuela. In the OECD area, the average homicide rate was 2.2 per 100 000 population in 2012, with Mexico and Estonia at the top of the ranking with a homicide rate of 21.5 and 5.0 per 100 000 population respectively.

Trade union members and leaders are affected by the high crime rate. Between 1986 and 2014, more than 3 000 trade union activists have been murdered, 230 have disappeared and many thousands more have been threatened with death, kidnapped or have undergone other types of violence. In recent years, the number of assassinations of trade union activists (as recorded by the National Trade Union School, *Escuela Nacional Sindical*, ENS) dropped considerably from over 200 per year in the 1990s to 36 in 2013 and 20 in 2014; the Colombian authorities reported 27 homicides in

2013 (Table 3.1).[1] Also other types of violence, such as threats, forced displacement and disappearances have declined, while an increasing number of harassment cases have been recorded by ENS in recent years. Violence has become more targeted, with 58% of the trade union victims being trade union leaders in the past five years (up from 39% in the past two decades). Violence is widespread but certain regions, such as Antioquia (Medellin), Santander and Valle del Cauca, have been particularly affected, as well as certain groups and sectors, including teachers – though much less so in the last two years – agriculture, mining and manufacturing.

Table 3.1. **Significant decline in violence against trade union leaders and members**

Type of violence	Number of reported cases				
	2010	2011	2012	2013	2014 (1)
Homicides (according to ENS)	53	30	24	36	20
Homicides (according to Colombian authorities)	37	29	20	27	..
Threats	408	543	449	308	192
Forced displacements	46	51	90	2	1
Harassments	19	61	50	59	72
Arbitrary arrests	4	16	20	24	12
Assaults (with or without injuries)	22	13	8	18	22
Forced disappearances	10	3	5	1	..
Kidnappings	6	3	..	2	..
Illegal raids	3	1	3	2	2
Tortures	3	2	2	..	..
Total	**574**	**723**	**651**	**452**	**321**

1. Data for 2014 are preliminary.

Source: Information system on human rights (SINDERH) of the National Trade Union School and Colombian authorities.

StatLink http://dx.doi.org/10.1787/888933275792

There is not necessarily a high correlation between the threats and actual attacks. Instead, threats are often used as a strategy to generate fear and disrupt trade union activities. The National Protection Unit (see below) receives 1 million reports of threats annually, which take the form of text messages, phone calls, letters, emails or other. Yet, it is often difficult to trace the sources as it is very easy to keep anonymity. Many pamphlets are signed by groups that no longer exist according to the government, like the Anti-Land Restitution Army or the Black Eagles. Their threats typically coincide with collective bargaining rounds and can have a strong impact on the morale and negotiating power of the involved trade unions.

There has been some debate as to whether violence against trade union members is targeted or just part of the general violent climate in Colombia

(see, for instance, ILO, 2011a; CCJ/ENS, 2012; and Botero Campuzano, 2011). A comprehensive report of UNDP (2012) provides numerous examples of homicides of trade union activists in the education, banana farming and mining sectors. Also a joint report by the Colombian Commission of Lawyers and ENS gives detailed evidence of targeted violence against trade union activists (CCJ/ENS, 2012). More recent examples are presented in a report by AFL-CIO (2014). Conversely, an econometric study by Mejía and Uribe (2011) finds no evidence supporting the argument that union members are systematically murdered for their involvement in union activities. Apart from some weaknesses in their analysis (see Price and Guzman, 2010, for a discussion), their findings could be related to the fact that trade union activists are citizens who participate in economic, social and political activities, and the complexity of their roles as local leaders implies that violence against them can respond to different motivations. These motivations include labour disputes, strikes and protests, but also complaints against corruption and mismanagement, resistance to armed groups and displacement – for instance, teachers who intend to prevent their students from joining armed groups (Archila et al., 2012; and CCJ/ENS, 2012). Improved prosecution of crimes will be crucial in promoting greater clarity and accuracy in the determination of the motivations and intellectual authors behind the crimes.

Trade union activists receive more and better protection

Violence against trade unions, as well as violations of labour rights more general, has received significant attention of the international community over the years, including from the United States through the US-Colombia Labour Action Plan (LAP; see Box 3.1 for a discussion).

To offer trade union activists under threat appropriate protection, the government protection system was substantially reformed in 2011 as part of the LAP. The National Protection Unit, an entity under the Ministry of Interior, was created to merge the different government protection schemes for judges and prosecutors, displaced population, journalists, trade union activists and other exposed population groups. At the same time, the scope of the protection programme for trade union leaders was expanded to include union members, people who intended to form or join a trade union, and people who are no longer affiliated but still receive threats related to their union activity. As teachers face particular risks in Colombia, especially those working in remote areas, the specialised teacher protection programme was strengthened and it was made easier to relocate teachers when they receive threats.

Box 3.1. US-Colombia Labour Action Plan

Concerns about human and labour rights violations stalled the US Congress approval of the Colombia-US Trade Promotion Agreement of 2006 and led to the "Colombian Action Plan Related to Labour Rights" (so-called Labour Action Plan; LAP). The LAP was announced by the governments of Colombia and the United States on 7 April 2011, and provides a roadmap for Colombia, with the assistance of the US Government, to protect internationally-recognised labour rights, prevent violence against labour leaders and prosecute the perpetrators of such crimes. The commitments made in the LAP included administrative, legislative and technical co-operation measures to: 1) enhance the institutional capacity of the Ministry of Labour; 2) reduce informality and illegal or abusive forms of hiring; 3) protect the right to organise and bargain collectively; and 4) reduce threats, violence and impunity (USTR, 2011).

The free trade agreement between the US and Colombia was eventually ratified by US Congress in October 2011, just a couple of months after the signing of the LAP, without conditions to reach benchmarks for measuring the implementation or quantifying results on the ground. It did not go into effect, however, until May 2012. Since the LAP's announcement, there have been regular meetings at the technical and senior official level to follow up on the implementation of the LAP. While the US Government acknowledges that the Colombian Government has made meaningful progress, the country continues to face significant challenges. Reports published on the occasion of the third anniversary of the LAP in April 2014 describe continued violations of freedom of association and the right to bargain, inefficient labour inspection and fines collection systems, and lack of justice for crimes against trade union members and leaders (Executive Office of the President of the United States and U.S. Department of Labor, 2014; CTC/CUT, 2014; AFL-CIO, 2014; and U.S. House of Representatives, 2013). All reports agree that important work remains to be done to improve respect for labour rights in Colombia.

Benchmarks of the US-Colombia Labour Action Plan, results achieved and remaining challenges

On 7 April 2011, the government of Colombia and the government of the United States agreed in the Colombian Action Plan Related to Labour Rights on the following elements:

I. Labour ministry: creation of a specialised Labour Ministry; hiring of 480 new labour inspectors over a four-year period; improvement of the system for workers to file complaints concerning labour rights violations; and improvement of the ministry's mediation and conflict resolution system.

- *Results achieved:* a stand-alone specialised Ministry of Labour was created in 2011; 279 new labour inspectors were hired by October 2014; a new web-based mechanism for registering complaints was set up; and a tripartite conflict resolution system was developed.
- *Remaining challenges:* labour inspection system remains under-resourced, the collection of fines continues to be problematic and formalisation agreements are not fully implemented.

Box 3.1. US-Colombia Labour Action Plan *(cont.)*

II. Criminal code reform: establishing criminal penalties for employers that undermine the right to organise and bargain collectively.

- *Results achieved:* the criminal code was reformed and criminal penalties and possible imprisonment were introduced.
- *Remaining challenges:* It will be important to see whether the cases of alleged violations that the Prosecutor General's Office is currently investigating will lead to convictions, where warranted.

III. Associated Work Co-operatives: prohibition of the misuse of co-operatives or any other kind of relationship that affects labour rights and imposition of significant fines for violations; exclusive assignation of 100 labour inspectors to address cases involving co-operatives; establishment of five priority sectors for labour inspections: palm oil, sugar, mines, ports and flowers and exclusive assignation of 100 labour inspectors to those sectors; and development of outreach programmes to inform and advise workers.

- *Results achieved:* regulations prohibiting illegal labour intermediation through co-operatives were passed, the priority sectors were established, and the outreach programme was implemented.
- *Remaining challenges:* due to flaws in the new legislation, employers have shifted to other types of civil-law contracts, such as simplified stock companies and union services contracts. It is unclear whether the fines of the sanctioned companies have been collected.

IV. Temporary service agencies: implementation of a regime to prevent the use of TWAs to circumvent labour rights which includes actions such as improving the inspection system and enforcement regime, designing a new training programme for labour inspectors, and building databases to identify regions and sectors where there has been abuse.

- *Results achieved:* More than one hundred TWA agencies were fined over the period 2011-13 and some lost their operating licenses.
- *Remaining challenges:* It is unclear whether the fines have been collected. The very high number of TWA workers seems to indicate further abuse.

V. Collective accords: penalisation of illegal use of collective accords (i.e. agreements between employers and non-unionised workers, see Section 3) to undermine the right to organise and bargain collectively; organisation of a public outreach campaign about the criminal reform; and implementation of a robust enforcement regime.

- *Results achieved:* criminal penalties were introduced, inspections were conducted and a few firms were sanctioned.
- *Remaining challenges:* collective accords continue to be used by employers to prevent the emergence of trade unions or weaken their influence. It is unclear whether the fines have been collected.

Box 3.1. US-Colombia Labour Action Plan *(cont.)*

VI. Essential services: collection of the Colombian legal doctrine, case law and jurisprudence that has narrowed the definition of essential services, in order to disseminate the information to labour inspectors, judicial branch, trade unions and employers.

- *Results achieved:* conditions fulfilled.

VII. International Labour Organization Office: co-operation, advice and technical assistance of the ILO to help in the implementation of the measures outlined in the LAP related to labour rights with financial support from the US Government.

- *Results achieved:* The US Department of Labour started in 2011 with the funding of a five-year project with the ILO to strengthen 1) the capacity of the Colombian Ministry of Labour, especially the labour inspectorate, to effectively enforce labour laws; 2) existing social dialogue institutions; and 3) the institutional capacity of the Colombian Government to enhance protection measures for trade unionists and to combat impunity for perpetrators of violence against them.

VIII. Protection programmes: broadening of the scope of the programme, allocation of additional resources, elimination of the backlog of risk assessments, reform of the committee that reviews risk assessments, implementation of administrative measures to strengthen the protection programme.

- *Results achieved:* the government protection system was substantially reformed through the creation of a National Protection Unit, the budget was significantly expanded, several corruption scandals were revealed and the functioning of the Unit was improved with more staff, better material, a reformed risk assessment process and shorter delays.
- *Remaining challenges:* the programme's budget remains unstable and the risk assessment process too long, the provided protection measures are not always adequate and there is no monitoring system to prevent corruption. Violence rates remain high.

IX. Criminal justice reform: appointment of 95 additional full-time judicial police investigators to support the prosecutors in charge of investigating criminal cases involving union members; increased resources to finance additional activities for reducing impunity, including determining during the initial phase of an investigation whether a victim was an active or retired union member; evidence and information sharing between the Unit of Justice and Peace and the Unit of Human Rights about cases involving trade unionists.

- *Results achieved:* the budget of the Prosecutor General's Office was increased, a specialised Context and Analysis Unit was created and the ILO has been training Colombian prosecutors.
- *Remaining challenges:* the implementation of the measures is not always optimal (e.g. homicide cases in which trade union members are involved are not automatically transferred to the Subunit), remain informal and have so far not led to substantial results.

Box 3.1. US-Colombia Labour Action Plan *(cont.)*

Source:

AFL-CIO (2014), "Making the Colombia Labor Action Plan Work for Workers", April 2014, Washington.

CTC/CUT (2014), "Tres años de incumplimiento del plan de acción Obama-Santos. Informe sobre los tres primeros años de implementación del Plan de Acción Laboral (PAL)", April 2014.

Executive Office of the President of the United States and Department of Labor United States of America (2014), "Update: The Colombian Labor Action Plan: Three Years Later", 7 April 2014.

U.S. House of Representatives (2013), "The U.S.-Colombia Labor Action Plan: Failing on the ground, A Staff Report on behalf of U.S. Representatives George Miller and Jim McGovern to the Congressional Monitoring Group on Labor Rights in Colombia", October 2013, Washington.

USTR (2011), "Colombian Action Plan Related to Labor Rights", April 7, 2011, The Office of the United States Trade Representative, Executive Office of the President of the United States, Washington, www.ustr.gov/webfm_send/2787 [accessed 15 October 2014].

Data provided by the Colombian Government illustrate that the budget of the National Protection Unit was significantly expanded – from USD 120 million in 2012 to USD 210 million in 2014 (up to September) – but remains very unstable, and each year there is a risk that the budget will be cut. Also for the year 2015 a lower budget than for 2014 is currently foreseen.[2] In line with the decline in requests from trade union activists for protection – there were 973 risk assessments in 2012, 837 in 2013 and 442 until September 2014 – a decreasing share of the budget is devoted to the protection of trade union activists (from 20.8% in 2012 to 8.6% in 2014).

At the same time, several corruption scandals in the National Protection Unit were revealed, related to budgetary and administrative mismanagement and misallocation of funds. The corruption cases are now being investigated by the Prosecutor General's Office, the Office of the Inspector General of Colombia (*Procuraduría*), and the Office of the Comptroller General of the Republic (*Contraloría*). The National Protection Unit intends to directly hire 1 500 bodyguards to ensure that they undergo thorough background checks and to reduce the likelihood of corruption with the protection schemes that are subcontracted to private agencies. This measure would also safeguards continuity in the protection services if a private agency ceases to exist. Yet, while originally foreseen for the first semester of 2015, the hiring is now postponed to 2016.

In response to the problems of mismanagement, the functioning of the Unit was improved, with more staff, better material, a reformed risk assessment process and shorter delays.[3] The time to undertake a risk assessment was reduced from six months to about 33 business days on average; the biggest delay is waiting for third-party information. Not only direct threats are investigated, but also high risk or vulnerability is enough to open a case. Every threat is treated as real until proven otherwise and each person undergoes a personal interview and committee review as part of a thorough risk assessment process. For trade union cases, about 40% of the requests are approved. The risk for people under the protection programme is re-evaluated every year.

At present, according to data provided by the National Protection Unit, the programme protects 677 trade union activists, with 609 bodyguards, 248 vehicles (of which 61 are armoured), bullet proof vests and cell phones. Protected trade union activists are concentrated in Valle del Cauca, Santander, Atlántico, Antioquia (Medellin) and Bogota (together accounting for 53% of the protected trade union activists). In 2013, 350 teachers were temporarily reassigned under the protection programme. So far, none of the trade unionists covered by the protection programme has been killed.

While the protection programme was significantly improved by the reforms described above, serious challenges remain. First, it will be crucial to ensure sufficient and permanent resources for the continuation of the protection programme for all people under high risk. Second, a risk assessment process of 33 business days remains too long. To ensure adequate protection for people under immediate risk, a maximum delay of one week would be critical. Third, an evaluation system should be put in place to continuously monitor the adequacy of the provided protection measures and to stay alert for the possibility of corruption. Finally, protection is currently provided on an individual basis and in reaction to a risk or vulnerability. To ensure stability of trade union activities, it would be important to design, in collaboration with the trade union confederations, an evaluation instrument for collective risks to give collective protection to trade unions at high risk.

Recent measures to address impunity have yet to deliver

The vast majority of homicides remain unresolved and the intellectual authors of murders and attacks are seldom prosecuted. Only 600 perpetrators have been sentenced out of nearly 3 000 homicides of trade union activists that occurred since 1986 (Executive Office of the President of the United States and Department of Labor United States of America, 2014). As argued by the International Commission of Jurists (2013), authorities rarely investigate corporate actors due to the perceived complexity of the cases;

technical and organisational shortcomings internal to the Prosecutor's Office that prevents it from being able to gather the evidence necessary for successful prosecution; and political pressure on police and investigative authorities sometimes coupled with credible threats. Moreover, Colombia does not have a developed criminal law establishing direct criminal liability for legal entities, including corporations. In only two cases, the Colombian courts convicted the intellectual authors of the 2001 murders of two trade union leaders and sentenced them to prison – both are incarcerated.

Over the past few years, the Colombian Government took a number of initiatives to address the impunity for trade-union related cases of violence. To start, the budget of the Prosecutor General's Office was increased, partly to expand resources for law enforcement and to increase the number of staff responsible for investigating and prosecuting crimes against trade union activists. The Office now counts 24 prosecutors exclusively assigned to crimes against trade unions and 80 judicial police investigators to support the prosecutors charged with investigating those cases. Judicial police is mandated to determine in the initial phase of a homicide investigation whether the victim was a trade union member. In addition, a specialised Context and Analysis Unit was created in September 2012, composed of inter-disciplinary experts who investigate patterns and context of similar cases, including trade union murders across Colombia. Finally, the ILO has been training Colombian prosecutors, investigators and judges on labour rights and investigations of crimes against trade unions (ILO, 2014a).

Yet, the implementation of the measures is not always optimal. There are important areas in need of reform, including judicial management, access to justice, access to information held in judicial offices and collection of statistics. In addition, homicide cases in which trade union members are involved are not automatically transferred to the Subunit for Violence against Trade Unionists that has been created for this purpose. For this to happen, either the victim's union or family members, the prosecutor of the case, or national or sectional directors must make a special petition through the Office of Special Assignments where a decision is made whether to transfer the case or not. Data provided by the Prosecutor General's Office illustrate that between 2011 and 2013 only 37 out of the 93 homicides that they consider to be related to trade union activists were transferred to the Subunit for Violence against Trade Unionists.[4] In February 2015, 38 additional cases were assigned to the Subunit and an internal revision process will start to reassess other cases that have not been assigned to the Unit so far. Finally, the Prosecutor General's Office decided as a matter of internal policy to give greater priority to crimes of violence against trade union activists, but this policy has not been given effect either in legislation or regulation.

The changes in the processes of crime investigation and prosecution have so far not led to substantial results. For a total of 50 cases between 2011 and 2013, the Prosecutor General's Office reports having accused 23 suspects, issued 21 arrest warrants and convicted 4 people. Yet, it is unclear whether these data refer to murders of trade union activists (37 out of the 50 cases) or other cases of violence against trade union members that the Subunit is investigating, such as death threats, forced disappearance, attempted murder or violation of freedom of association rights (13 cases in total). At least two of the four convictions are related to death threats. Finally, the Prosecutor General's Office admits that investigations go faster when there are no armed groups involved, as in the latter case the work is too dangerous for prosecutors and investigators.

3. Challenging industrial relations

Freedom of association is recognised by the Constitution and Labour Code

Colombia has ratified ILO Convention 87 on freedom of association as well as Convention 98 on the right to organise and collective bargaining.[5] Consequently, the Labour code guarantees to all "…employers, workers and self-employed people the right to associate freely to defend their interests by forming professional associations […] of their own choosing". However, despite legislative and constitutional guarantees, important obstacles to the free association of workers in trade unions and to union recognition by employers still persist (see Box 3.2 for an overview of the ILO assessment).

Box 3.2. **ILO assessment of the challenges related to the implementation of key ILO conventions**

Colombia has ratified all eight fundamental ILO conventions, three out of the four ILO governance conventions and 50 out of the 177 ILO technical conventions. Yet, there are serious concerns about the poor implementation of several conventions, including the Freedom of Association and Protection of the Right to Organise Convention (No. 87), the Right to Organise and Collective Bargaining Convention (No. 98), and the Labour Inspection Convention (No. 81). The Colombian situation has been discussed on numerous occasions at the International Labour Conferences of the ILO, and ILO High-Level Tripartite Missions to Colombia were organised in 2005 and 2011 to discuss the issues with the Colombian Government. In more recent years, Colombia is considered as a country in progress by the ILO and the latter has been working closely together with the Colombian authorities to improve the implementation of the conventions.

Fundamental conventions

Challenges related to ILO Convention 87 – Freedom of Association and Protection of the Right to Organise Convention, 1948 – Ratification Colombia: 1976

- Misuse of legal forms of civil-law contracting resulting in the obstruction of the exercise of workers' trade union rights;
- Strikes are prohibited in a wide range of services that are not strictly essential;
- Federations and confederations of trade unions do not have the right to call a strike;
- Acts of violence against trade union activists;
- Impunity for crimes against trade union activists.

Challenges related to ILO Convention 98 – Right to Organise and Collective Bargaining Convention, 1949 – Ratification Colombia: 1976

- Collective accords with non-unionised workers are allowed where the trade union represents less than one third of the company's workforce, hereby undermining the position of trade unions.

Governance conventions

Challenges related to ILO Convention 81 – Labour Inspection Convention, 1947 – Ratification Colombia: 1967 (Excluding Part II: Labour Inspection in Commerce)

- Low number of labour inspectors by ILO standards;
- Labour inspectors are not hired as career civil servants;
- Very limited resources for labour inspectors for the execution of their duties;
- Possibility for labour inspectors to seek logistical assistance from employers and trade union organisations makes them vulnerable to improper external influences;
- Lack of clarity about preventive labour inspection;
- Conciliation in labour disputes diverts resources away from the primary duties of labour inspectors and may affect their authority and impartiality;
- No legal base to ensure protection against possible reprisals by employers of workers who submit complaints to labour inspectors;

Box 3.2. **ILO assessment of the challenges related to the implementation of key ILO conventions** *(cont.)*

- No framework for co-operation between the labour inspection system and the judicial system;
- Problematic collection of fines;
- Insufficient follow-up of firms who were granted a reduction or remission of their fine in return for the formalisation of their workforce.

Source:

ILO (2014a), "Observation (CEACR) – Adopted 2013, Published 103rd ILC session (2014), Freedom of Association and Protection of the Right to Organise Convention, 1949 (No. 87) – Colombia (Ratification 1976)", International Labour Office, Geneva.

ILO (2014b), "Observation (CEACR) – Adopted 2013, Published 103rd ILC session (2014), Right to Organise and Collective Bargaining Convention, 1949 (No. 98) – Colombia (Ratification 1976)", International Labour Office, Geneva.

ILO (2014c), "Observation (CAS) – Adopted 2014, Published 103rd ILC session (2014), Labour Inspection Convention, 1947 (No.81) – Colombia (Ratification 1967)", International Labour Office, Geneva.

ILO (2014d), "Observation (CEACR) – Adopted 2013, Published 103rd ILC session (2014), Labour Inspection Convention, 1947 (No. 81) – Colombia (Ratification 1967)", International Labour Office, Geneva.

ILO (2014e), "Direct Request (CEACR) – Adopted 2013, Published 103rd ILC session (2014), Labour Inspection Convention, 1947 (No. 81) – Colombia (Ratification 1967)", International Labour Office, Geneva.

Low trade union density due to labour market segmentation and violations of trade union rights

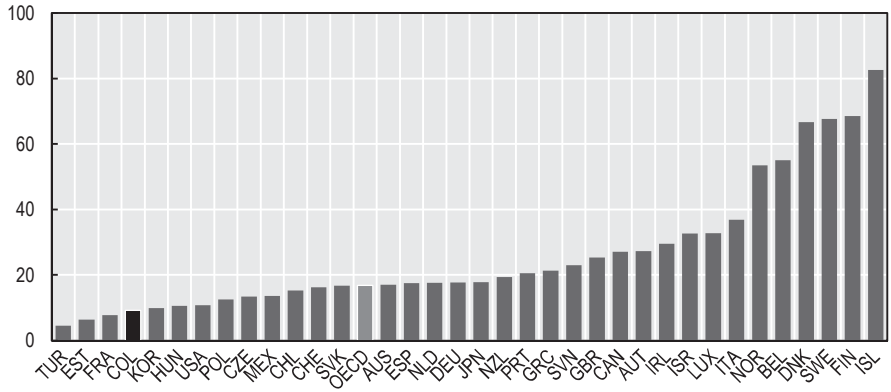
With trade union density estimated at 9.2% of salaried workers (formal and informal) in 2014 and 4.5% of the total workforce, Colombia is at the lower end of the OECD countries, close to levels in France and Korea, and even lower than the two Latin-American OECD member countries, Chile and Mexico (Figure 3.1). As in most other OECD countries, trade union density is much lower in the private sector (estimated at 5.1%) than in the public sector (55.5%); in fact, public sector workers constitute half of all trade union members in Colombia. The sectors with the highest density are mining; gas, electricity and water; and community, social and personal services – the latter sector includes public employees, hospital workers and the education sector, which all have a relatively large number of trade union members.

Almost half of the registered trade unions are craft unions, followed by company-level and industry-level unions. The average trade union has

slightly over 200 members, but the large majority (80%) have less than 100 members, limiting their bargaining power.[6] While their number grew substantially in recent years, from 3 511 in 2010 to 4 492 in 2014,[7] trade union density remained unchanged as the growth in membership was in line with the growth in the number of salaried workers. However, the number of independent workers affiliated to trade unions grew comparatively faster than that of dependent employees. This shift in affiliates may either indicate an increasing popularity of trade unions among self-employed people, or reflect the surge in third-party contracting via union service contracts (see Chapter 2).[8]

Figure 3.1. **Trade union density in Colombia is at the lower end of the OECD ranking**

Trade union membership as a percentage of the salaried workforce, latest year available



Note: Last available year for Colombia is 2014; for Israel 2007 and for other countries 2011, 2012 or 2013.

Source: OECD Labour Force Statistics and for Colombia data provided by the National Trade Union School.

StatLink http://dx.doi.org/10.1787/888933275621

The low trade union density in Colombia is related to a number of factors, including labour market segmentation, a history of anti-trade union culture and violence, and repeated violations of freedom of association rights. In particular, the consolidation of a community of interests among workers is more difficult in a segmented labour market due to high rates of informality and non-standard contracts. Even so, according to ENS, 27% of the trade unions – accounting for 16% of the total number of trade union members – represent workers in the informal sector. Subcontracting (legal and illegal) further affects the ability of the workers involved to organise

and engage in union activity. Not only does subcontracting reduce the core workforce that can directly negotiate with the company, triangular employment relationships also tend to hide the real employer, which affects the ability of workers to negotiate with the actor that has the power to improve their working conditions.[9]

It should be stressed that, until recently, industrial relations were affected by a stigma attached to trade unions with allegations about their connections with guerrillas or armed groups (Blackburn and Puerto, 2013). These conditions have contributed to a widespread anti-union culture in the country. Over many years, governments excluded trade unions from discussions of economic and labour policies, and laws were developed in dialogue primarily with business groups, and without any substantial involvement of trade union federations. Between 2002 and 2007, 253 new trade unions were even denied registration by the Ministry of Social Protection (the current Ministry of Labour), a practice immediately denounced by the ILO's Freedom-of-Association Committee and later also condemned by the Colombian Constitutional Court (Sanin Vásquez, 2009). There have been no new cases of denied registration since then. More recently, the Ministry of Labour has been organising media campaigns to improve the perception about trade unions among employers and the Colombian population more general.

In addition to violence against trade union leaders and members, freedom of association is hindered by frequent harassment and various types of pressure from employers on workers who want to form or join a trade union. These acts occur despite detailed regulations in the Labour Code outlawing any such violations of the right of association.[10] Between 2010 and mid-2014, the Ministry of Labour imposed 38 administrative sanctions against firms for violations of the right of trade union association, but it is unclear whether the fines have been collected (see Section 4 for a discussion on the collection of fines).

Despite recent reforms, the judicial system still has difficulties in ensuring labour rights in Colombia (see Section 5 for a discussion on the Colombian judicial system). By the time a decision is taken, the trade union that filed the complaint often no longer exists. To enhance trade union rights, the criminal code was reformed in 2011, establishing higher penalties (100 to 300 times the minimum wage) and possible imprisonment (one to two years) for employers who undermine the right to organise and to bargain collectively. The Prosecutor General's Office is currently investigating 277 cases of alleged violations of the reformed article that were transmitted by the Ministry of Labour and for which an official complaint has been made by the trade union. The latter is a precondition for the investigation to start, since violations against trade unions are so-called *delito querellable*.

To improve the trade unions' understanding of the justice system, training sessions have been organised to explain the complaint procedure to trade union representatives. So far, there is no information on where the investigations stand.

Limited collective bargaining coverage despite significant increase

The coverage of collective bargaining remains very low despite a significant increase in the number of collective agreements. Over the past few years, the number of collective agreements signed per year surged from 523 agreements in 2010 to 1 983 agreements in 2013 (Table 3.2). Nevertheless, the number of workers covered by collective agreements remains very limited. At 9.7% of all formal employees (defined as having a written contract) in 2013, Colombia is placed at the bottom end of the OECD ranking, close to Korea and slightly above the two Latin-American OECD member countries, Chile and Mexico (Figure 3.2). If informal employees are also taken into account, the coverage ratio in Colombia would further drop to 6.2%.

Contrary to the experience of most OECD countries, but similar to Chile and Mexico, the coverage rate for salaried workers (6.2%) is considerably lower than the trade union density rate (9.2%), which may indicate that many local trade union units are too weak to engage their employer in collective bargaining. In absolute numbers, while there were almost 1 million trade union members in 2014, little more than 600 000 benefited from collective bargaining. By contrast, in most OECD countries the share of workers covered by collective contracts is substantially higher than the union density rate. Sectoral and regional extension mechanisms by government, which substantially widen bargaining coverage in several OECD countries, are laid down in the Colombian Labour Code (art. 472), but seem to be little in use since a collective agreement needs to cover at least two-thirds of the workers in an industry in a certain region before it can be extended. Indeed, in terms of firm coverage, only 0.4% of all officially registered firms have a collective agreement.

Table 3.2. **Collective agreements account for a declining share of collective bargaining**

Collective bargaining by type, 2010-14

	Agreements signed per year					Agreements in force		
	2010	2011	2012	2013	2014	2011	2012	2013
Private sector								
Collective agreements	228	213	245	501	333	692	731	793
Collective accords[1]	245	256	241	253	260	460	463	490
Union service contracts[2]	50	164	703	963	..	160	703	963
Public sector								
Collective agreements	0	0	0	266	54	0	0	266
Collective accords[1]	0	0	0	0	1	..	..	..
Total number of agreements	523	633	1 189	1 983	..	1 312	1 897	2 512
Number of workers covered	120 631	164 608	288 252	521 867	..	202 908	238 977	627 449

1. Collective accords are agreements between employers and non-unionised workers.

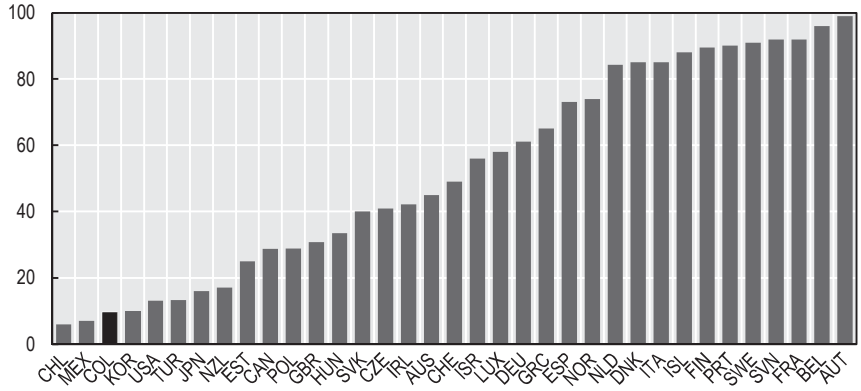
2. Union service contracts are civil-law contracts under which trade unions agree to supply their members' labour to employers.

Source: Data provided by the National Trade Union School, based on the Union and Labour Information System (Sislab), Dynamics of Collective Bargaining Subsystem, supplemented by information provided by the Ministry of Labour.

StatLink http://dx.doi.org/10.1787/888933275801

Figure 3.2. **Collective bargaining coverage in Colombia is at the lower end of the OECD ranking**

Employees covered by collective (wage) bargaining agreements as a percentage of all wage and salary earners in employment with the right to bargaining, latest available year



Source: Visser, J. (2013), "Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts, 1960-2011 (ICTWSS)", Version 4.0, University of Amsterdam. For Colombia, OECD calculations based on data provided by the National Trade Union School.

StatLink http://dx.doi.org/10.1787/888933275630

In addition, authentic collective agreements account for only 27% of all agreements signed in the private sector in 2013, down from 45% in 2010 (Table 3.2). Instead, the bulk of the growth in collective agreements occurred in union service contracts, which have become a popular instrument for third-party contracting since restrictions were imposed on associated work co-operatives in 2010 (see Section 5). The number of collective accords – i.e. agreements between employers and non-unionised workers (see below) – that are signed per year has remained stable at around 250.

Important progress in collective bargaining for public sector workers

Until 2012, public sector workers did not effectively enjoy the right to collective bargaining (apart from the capital district), despite Colombia's ratification of ILO Convention 87 on the Right to Organise and Collective Bargaining and Convention 151 on Labour Relations in the Public Service, and the regulations of public-sector collective bargaining in the Labour Code. Two new decrees, issued in 2012 and 2014, set out the bargaining procedures for public employees (with the exception of the armed forces, police and high-level officials) and allowed for substantial progress in their collective bargaining rights. In 2013, 266 collective agreements were signed covering more than 430 000 public employees (Table 3.2). In addition, for the first time in history, a national agreement was reached between the government and various trade union federations on a unified set of demands related to government service, benefitting more than 1 million public employees throughout the country.

Despite this important progress in the national agreement for public sector workers, unions have claimed that it does not contain all of the rights guaranteed by ILO Convention 151; for example, wage rates remain governed by statutory arrangements (TUAC, 2013). It should be stressed, however, that this is also the case in most OECD countries, where public sector pay (an item in the national budget) is ultimately set by a government decree or act of parliament. Nevertheless, in recent decades a type of "quasi-bargaining", including on remuneration issues, has developed in many OECD countries.

Legislative loopholes severely affect collective bargaining in the private sector

Collective bargaining in the private sector continues to be affected by a number of factors. In particular, collective agreements are only extended to all employees of a company if the trade union that negotiated the contract represents more than one third of the company's workforce. This practice contrasts with those in most OECD countries where, once an agreement has been signed, the benefits resulting from collective bargaining are normally

extended to non-unionised workers within the firm (often with the exception of managerial/supervisory staff), irrespective of the size of the trade union and even if there is no statutory regulation on the subject. For instance, in the United States, the trade union voted by the company workforce to be its bargaining representative will negotiate terms and conditions for the whole bargaining unit. In Sweden, case law has established the requirement for employers to extend bargaining results to the whole company workforce. Similarly, in other countries with prevailing industry-level bargaining, signatory employer federations will normally require member firms to apply negotiated terms and conditions to all workers in their firm (OECD, 2014). The "free-rider" problem that the extension within a firm may pose is usually considered of less relevance than the need to preserve peaceful and co-operative labour relations among all workers.

While the labour code allows higher-level trade union organisations (such as industrial unions, federations and confederations) to sign collective agreements (art. 467), sectoral or regional bargaining does hardly occur in practice as there is no further regulation by the Ministry of Labour to structure the negotiations (for instance, the Labour Code gives only rules on company-level bargaining). Frequently, employers in the private sector even refuse to initiate negotiations with union representatives from federations. In contrast, all OECD countries, with the exception of Japan, have sectoral or even national agreements in place (OECD, 2004, 2012). It is nevertheless true that, over the past few decades, many OECD countries have seen a trend towards decentralisation of collective bargaining towards the company level. With few exceptions, Canada, Chile Japan, Korea and the United States have always bargained mainly at this level; Australia, New Zealand, the United Kingdom and several European countries have joined this group more recently or have at least introduced a two-tier system, with sectoral bargaining on basic wages and working conditions being coupled with firm-level bargaining.

Trade union fragmentation within companies further reduces the negotiating power of trade unions and can be burdensome for employers. In Colombia, in some cases five or more different trade unions operate in one company and, until recently, the latter had to negotiate with each union separately even though some workers would belong to more than one union. Union fragmentation is driven by competition among trade unions, but also the result of trade union members searching for protection against dismissal. Trade union immunity (*fuero sindical*) is granted to the trade union's founders and initial members for a maximum of six months, as well as to elected board members of trade unions and higher-level trade union organisations. It implies that they cannot be fired or transferred and their working conditions cannot be downgraded, without just cause as determined by a labour judge.

To address the adverse effects of having multiple collective bargaining processes, the Ministry of Labour issued Decree 089 in January 2014. The decree gives trade unions the opportunity to join forces and strengthen their bargaining power vis-à-vis the employer, and encourages them to sign one single collective agreement at the company level. The decree is in line with regulations in most OECD countries that require a "single bargaining channel" in order to prevent or attenuate the costs involved in trade union rivalry, Korea being the latest example of an OECD country passing regulation to prevent multiple bargaining within one enterprise. Other examples are in certain European countries like France, Italy and Spain, where the law obliges the often ideologically diverse unions existing at firms, but also at industry level, to form bargaining teams to ensure a single agreement.

Similar to Chile and Mexico, but unlike in most OECD countries (see Box 3.3), employers in Colombia have the possibility to negotiate collective accords (*pactos colectivos*) with non-unionised workers if trade unions represent less than one third of the company's workforce, even though they are not allowed to offer better conditions than those agreed upon in the collective agreements with the trade unions in their company. Yet, the trade union federations complain that some employers have used the promise of a collective accord to entice workers to resign from the union, leaving membership below the one-third threshold and making such agreements legal. Employers also hold negotiations in parallel with union and non-union groups (that was the case of 24% of the collective pacts signed in 2012), and some seem to violate legal requirements by offering better conditions to non-unionised parties. Between January 2013 and August 2014, the Workers' Rights Centres (*Centro de Atención Laboral*, CAL; see Section 5 for more information) reported 29 claims of illegal use of collective accords to the Ministry of Labour, and a case study by ENS on collective accords in seven large enterprises reveals that six of them did not follow the procedures required by law, such as democratic election of the representatives of the non-unionised workers, free negotiation of the pact's elements and their subsequent publication.

In 2011, the Colombian Government introduced criminal penalties to discourage employers from undermining the right to bargain collectively. Illegal usage of collective accords is even more heavily sanctioned than violations of the right of association (see above), with criminal penalties of 300 to 500 times the minimum wage and possible imprisonment for three to five years. As mentioned earlier, there is no information available on the investigations by the Prosecutor General's Office of the nearly 280 cases of alleged violations of the reformed article. Similarly, it is unclear whether the 14 administrative sanctions for violations of the right to negotiate and bargain collectively that were imposed by the Ministry of Labour in 2013

have been collected (see Section 5 for a discussion on the collection of fines). So far, and contrary to previously published statistics by the Ministry of Labour, the number of collective accords has not declined since the penalisation of its illegal usage.[11]

Box 3.3. **Union and non-union bargaining in OECD countries**

In OECD countries, with few exceptions, only trade unions, rather than employees themselves or other employee groupings, are entitled to bargain collectively with the employer. The terminology used in the relevant ILO instruments refers to negotiation of terms and conditions of employment between employers or employer organisations on the one hand, and representative worker organisations, on the other (in the public sector, between the public authorities concerned and public employees' organisations).

The recognition of one or more unions as partners in collective bargaining raises the question as to how to determine their representativity. Countries differ widely on this matter, between legislative and voluntary approaches. However, in the large majority of OECD countries, for example Austria, France, Germany Japan, Italy, Norway and Sweden, a collective agreement is by definition an agreement signed by a trade union. De facto, this is also the case in Canada and the United States; under US labour law, only "labour organisations" (i.e. trade unions) tend to qualify as *bona fide* bargaining agents.

In the 1990s, the "individual" bargaining approach without trade union interference was emphasised in legislation by New Zealand and Australia. In its move towards decentralising labour and industrial relations, the Australian Government introduced "Australian Workplace agreements", which were to be signed individually by employees. The government also laid the conditions for signing "non-union certified agreements", which around 2000 had gained a share of over 10% among employees covered through collective contracts. However, the governments of both Australia and New Zealand largely abandoned the shift away from collective bargaining after changes in government around or after 2000.

With declining trade union density, situations tend to arise where the employer no longer finds trade union members, or a trade union chapter, in the enterprise as bargaining partners. As a general principle, the ILO instruments permit in such cases the conclusion of agreements with "the representatives of the workers duly elected and authorised by them" (while recalling that accords with non-unionised workers should only be possible in the absence of trade unions).

France, where bargaining coverage exceeds 90% due to extensions, nevertheless has comparatively little union representation in companies on the ground. To cope with this situation, French legislation allows for exceptions with the usual requirement to bargain with "the most representative unions". For example, in companies with no union delegates, but other elected employee representatives (for example on the works council), such representatives may sign company- or establishment-level collective agreements – which, however, need to be vetted by the trade unions with sector-wide representative status in the industry concerned. In Germany as well, works councils negotiate certain terms and conditions, but independent approaches to bargaining are usually prevented or attenuated by strong existing links between unions and works councils.

Box 3.3. **Union and non-union bargaining in OECD countries** *(cont.)*

As can be seen above, non-union bargaining is much more restricted in most OECD countries than in Colombia. The exceptions may be Chile and Mexico. In Chile, around 2010 a quarter of collective bargains were negotiated by non-union ad hoc groups of employees. In Mexico, "protection contracts" (*contratos de proteccion al empleador*) are widespread instruments circumventing the right to free collective bargaining. They are either produced unilaterally by employers or signed with representatives of "yellow unions" to protect the employer from trade union demands. According to the International Trade Union Confederation (ITUC), protection contracts are common not only in the maquila sector, but also the auto industry and supermarket chains.

Source:

ILO (2006), "Freedom of Association, Digest of Decisions and Principles of the Freedom of Association Committee of the Governing Body of the ILO", 5th edition, Geneva.

ITUC (2011), "Annual Survey of Trade Union Violations 2011", International Trade Union Confederation; available on http://www.ituc-csi.org/.

OECD (2009), *OECD Reviews of Labour Market and Social Policies: Chile*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264060616-en.

OECD (2001), *Innovations in Labour Market Policy: The Australian Way*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264194502-en.

Sheldon, P., B. Gan and G.J. Bamber (2014), "Collective Bargaining: Globalising Economies and Diverse Outcomes", in R. Blanpain (ed.), *Comparative Labour Law and Industrial Relations in Industrialised Market Economies*, Wolters Kluwer, The Netherlands.

Collective dispute mechanisms are increasingly used due to restricted right to strike

The Colombian Constitution recognises the right to strike and employers are prevented from using strike breakers at any time during the course of a strike. Yet, while trade union federations and confederations are allowed by law to sign collective agreements (see above), the labour code forbids them to organise strikes. As such, strikes can only be organised by unions at the company level, in contrast to most OECD countries where strikes can also be declared in an industry. Yet, in line with procedural restrictions of the exercise of the right to strike in many OECD countries, strikes in Colombia have to be approved, via secret ballot, by the absolute majority of a company's workforce (or the general assembly of the trade union if the latter represents more than half of the workers). The rule is supposed to protect individual workers against strikes that are not democratically mandated.[12]

The Labour Code does not allow trade unions representing less than a third of a company's workforce to organise strikes. OECD countries differ as to how they regulate strikes proclaimed by unions that do not represent a

majority in the company or industry concerned. Where countries require a single bargaining representative (United States, Canada) or the set-up of a joint bargaining team (France, Italy), industrial action cannot be initiated by minority unions. In some other countries without such detailed regulation of bargaining procedures (e.g. Sweden), whenever a trade union bound to the employer by a collective agreement feels strong enough to make its own demands that may be different from those of the majority union, the law would not prevent resorting to strike action.

In a certain number of cases the Colombian Labour Code defines strikes as illegal, in particular when 1) the dispute arises in public services considered essential; 2) the trade union has not observed the legal requirements for calling a strike; and 3) the strike pursues political or other non-economic purposes. The list of essential services includes 1) civil servants not exercising authority of the state; 2) transportation by land, water and air; 3) electricity and telecommunications; 4) social assistance, charity and welfare; 5) hospitals and clinics; 6) production, refining, transport and distribution of oil and oil products – exactly those sectors where the largest trade unions operate.

In OECD countries, provisions that ban or restrict labour disputes in the civil service, the public sector and/or in industries defined as essential are widespread, based on the idea that strikes in the public sector are different from those in private industry and should also be regulated differently, in particular to guarantee the continuous provision of certain services to the general public. First, Colombia is certainly not the only country to have a blanket ban on strikes for civil servants. Next, concerning essential services, while there is a diversity of positions mong OECD member countries on the sectors in which the public interest in securing an uninterrupted service justifies restricting the freedom of workers to initiate industrial action, Colombia would fall into the group of the more restrictive countries. The government could reflect on alternatives to the outright prohibition of strikes in public and essential services, such as introducing a requirement of "skeleton" or minimum service, while allowing the majority of employees in a particular industry to participate in strike action.

In all, strikes do not seem to be particularly widespread in Colombia; there were 18-19 strikes in 2012 and 2013 and only two strikes in the period January-June 2014 (Ministerio del Trabajo, 2012a, 2013 and 2014), while ENS reports that 400 to 600 industrial disputes are resolved annually without industrial action.

In 1990, through Law 50, the Colombian Government dropped most provisions on mediation of industrial disputes in the private sector, which used to be mandatory before calling a strike or taking a conflict to the

arbitration tribunal. However, the Labour Code still contains the provision that gives the Ministry of Labour the right to exert pressure on the bargaining parties to set up arbitration and, after 60 days of strike action, a compulsory arbitration tribunal is set up. Such compulsory arbitration is in contrast with OECD practices. By contrast, the Colombian Government could reflect on the introduction of voluntary mediation and conciliation services, in view of the positive experience some OECD countries have made with assisting the bargaining parties with such voluntary mechanisms. The services offered by the US Federal Conciliation and Mediation Service (FMCS), the Advisory, Conciliation and Arbitration Service in the United Kingdom (ACAS), the Danish Public Conciliation Service and the Japanese Labour Commission are just some of a long list of examples.

For conflicts related to public and other essential services, as well as for conflicts that did not obtain the absolute majority vote of the company's workforce, arbitration is the only option if the conflict cannot be solved through direct negotiation. The arbitration tribunal for collective conflicts is composed of three members: a representative from the trade union, a representative from the company and a third person, the arbiter. The latter has to be approved by both the trade union and the company. In case there is no agreement on the arbiter, the Ministry of Labour assigns the arbiter. In the past couple of years, the number of convened arbitration tribunals increased substantially (Table 3.3). At the same time, the share of cases that were solved dropped considerably. In addition, ENS argues that arbitration tribunals are regularly delayed by companies, and even by the Ministry of Labour, by withholding the assignation of an arbiter. Indeed, in the past three years, there was no arbiter assigned in 30 to 43% of the convened arbitration tribunals.

Table 3.3. **Arbitration tribunals are increasingly used to solve labour conflicts**

Number of arbitration tribunals convened and solved between 2011 and 2014

	Jul 2011 - Apr 2012	Jul 2012 - Jun 2013	Jul 2013 - Jun 2014
Tribunals convened	49	103	165
Assignation of an arbiter	61%	57%	70%
Reached agreements	41%	21%	28%

Source: OECD calculations based on Ministerio del Trabajo (2012a, 2013 and 2014), "Informe de Actividades al Congreso 2011-2012, 2012-2013, 2013-2014", Bogotá.

StatLink http://dx.doi.org/10.1787/888933275812

Disputes in the areas of freedom of association and collective bargaining that cannot be solved by any other instance, can be submitted to the Special Committee for the Handling of Conflicts referred to the ILO (CETCOIT). The committee is composed of nine persons, i.e. three representatives each of the trade union federations, the employer federations and the government. With the financial support of the ILO, CETCOIT was strengthened in 2011 and an independent facilitator who is respected by all parties has been appointed. These measures improved the efficiency of the committee and, by October 2014, an agreement was reached for 64 out of 99 cases, many of which were longstanding conflicts (11 years or longer).[13] It was also agreed to create regional structures, but there are not enough funds available to do so. All in all, however, both the employers and trade union federations have confidence in CETCOIT and it is positively contributing to social dialogue in the country.

4. The labour inspection system has been strengthened but challenges remain

Colombia has ratified the ILO Convention 81 on Labour Inspection in 1967 (with the exception of Part II on inspection in commerce),[14] but there are several controversies about the precarious implementation of the convention in Colombia. Related to international pressure – in particular by the ILO and by the United States through the 2011 US-Colombia Labour Action Plan – the Colombian Ministry of Labour has undertaken significant efforts in recent years to improve the functioning of the labour inspection system. Nevertheless, more reforms are needed as there continue to be important challenges in this field.

Under-resourced labour inspection in spite of recent improvements

Labour and social security inspectors are officials of the Ministry of Labour and responsible for the surveillance and control of compliance with labour norms and social obligations. They are divided into 36 territorial directorates and 154 municipal labour inspection services.

A more than doubling of the number of labour inspectors over the past four years has brought Colombia closer to international standards. The number of labour inspectors was gradually increased from 289 inspectors in 2008 to 766 inspectors by end February 2015 (Table 3.4). Yet, despite the recent hirings, the number of workers per labour inspector (about 28 500) remains higher than in many OECD countries (Figure 3.3). The high share of self-employment in Colombia (52% compared with 17% in the OECD on average; see Chapter 1) implies, however, that a much smaller share of the workforce than in OECD countries is subject to labour inspection. The

Colombian authorities intend to hire 138 additional labour inspectors, but the hiring process is taking longer than expected (they were foreseen for end 2014). Yet, even the envisaged total of 904 inspectors would still imply about 23 400 workers per labour inspector. While a number of OECD countries, including the United States, have fewer labour inspectors per worker, the high frequency of labour law violations and the low coverage of collective bargaining in Colombia make a well-functioning labour inspection system all the more important to ensure decent working conditions for Colombian employees.

As will be discussed in Section 5, labour inspectors frequently act as conciliator in labour disputes. While conciliation is an important aspect of dispute resolution to save time and money compared with a court process, the high number of conciliation hearings in Colombia takes up a lot of the labour inspectors' time and might divert resources away from other duties. On an annual basis, Colombian labour inspectors perform about 86 000 conciliation hearings, compared with only 10 000 inspection visits (Table 3.4). While a group of 37 labour inspectors has been designated in 2014 to deal with conflict resolution and conciliation, it would still mean about 14 hearings per inspector per working day. More human resources would be necessary to ensure that conciliation does not come at the cost of prevention and inspection.

Career stability of labour inspectors is vital to limit staff turnover and prevent corruption. Although very few labour inspectors (15% of the total in 2014) in Colombia are appointed as career civil servants, the Ministry of Labour states that they all have open-ended contracts and that the Constitutional Court ruled in 2008 that they can only be fired for disciplinary reasons such as bad performance or unsuitability, or replacement by somebody who passed the career exam. Nevertheless, some concerns have been expressed that the new labour inspectors have not been hired through competitive entrance examinations and that the lack of a permanent civil-servant contract endangers job security and independence from government interference (CTC/CUT, 2014; ILO, 2014d). Human resources management in the public sector has a limited capacity to oversee and evaluate merit-based recruitments and the pace of recruitment is slow. The challenges are particularly acute at the local level where significant disparities in capacity to recruit and retain civil-service talent persist. It will therefore be important to continue improving the recruitment system to ensure optimal quality of the labour inspection system.

Table 3.4. **Number of labour inspectors and their activities**

	2008	2009	2010	2011	2012	2013	Mid-2014[1]
Labour inspectors in place, *of those*	289	..	..	410	462	546	703
Direction and office	..	..	..	..	..	..	403
Prevention, inspection, surveillance and contro	..	..	..	..	..	..	140
Conciliation of labour disputes	..	..	..	..	..	..	37
Councelling and other procedures	..	..	..	..	..	..	100
Special investigations	..	..	..	..	..	..	23
Actions undertaken							
Inspection visits	6 390	7 027	9 066	9 609	10 006	10 438	..
Administrative labour investigations	..	..	24 631	12 536	25 585	21 844	13 507
Fines imposed	..	..	1 749	3 311	2 295	1 694	726
Councelling services	..	..	..	..	496 678	943 681	757 237
Conciliation hearings[2]	..	..	86 458	87 303	86 430	104 940	48 186

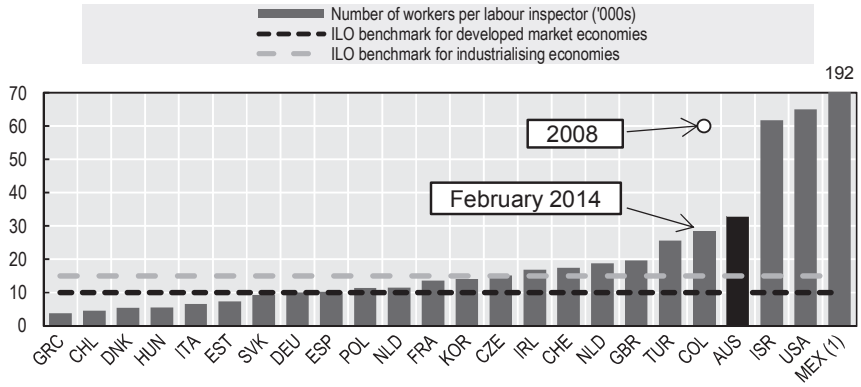
1. The number of labour inspectors in place for 2014 refers to 22 October 2014, the number of citizens attended refers to end July 2014, and the remaining figures refer to August 2014.

2. The number of conciliation hearings for 2013 is questionable, as the annual report of the Ministry of Labour to Congress reports 74 986 conciliation hearings in that year (Ministerio de Trabajo, 2014).

Source: Data provided by the Colombian Ministry of Labour.

StatLink http://dx.doi.org/10.1787/888933275829

Figure 3.3. **Recent hirings have brought the number of workers per labour inspector closer to international standards**



1. For Mexico, the bar goes well beyond the top of the axis: the number of employees per labour inspector is about 192 000.

Source: For Colombia, Latvia and Turkey: data provided by the authorities; for Australia, France, Hungary, Ireland, Netherlands, New Zealand, Poland and Switzerland: ILO (2011b); for the Czech Republic, Denmark, Greece, Italy, Spain and the United Kingdom: EPSU (2012); for Chile: OECD (2009); for Estonia: OECD (2010a); for the rest of the countries: OECD (2010b). The number of workers is taken from the OECD Labour Force Survey.

StatLink http://dx.doi.org/10.1787/888933275647

While the salary scales of labour inspectors were raised to 4-6 times the minimum wage in 2014 to attract better candidates and avoid high staff turnover, insufficient resources continue to hinder labour inspectors in their work and make them vulnerable to improper external influences. Despite the mobile character of their job, Muñoz Cañas (2010) and ILO (2014d) note that labour inspectors do not have service vehicles at their disposal. Instead, labour inspectors may, subject to authorisation from the territorial directorate, seek logistical assistance from employers, workers or trade unions to finance their travel expenses. This provision could potentially weaken the authority and impartiality of the labour inspectors. Also other government bodies are allowed to provide transport assistance to labour inspectors, but that does not solve the dependence issue labour inspectors face in their mobility. In addition, labour inspectors neither have the resources nor the authority to hire technical experts to accompany them in their visits in case their advice is needed. There is also limited possibility for rotation between regions to reduce opportunities for corruption and there is no compensation for labour inspectors who work in areas that have high violence rates or are controlled by paramilitary groups.

Labour inspectors undertake both preventive inspections and inspections following complaints, but the relative importance is not known as the Ministry of Labour only collects data on the total number of inspections. While it is important for complaints to be investigated, sufficient additional inspections should be undertaken, as these are typically less confrontational and provide opportunities for information dissemination (Schrank and Piore, 2007). Also, the weakest workers are often not aware of their rights and/or not in a position to file a complaint. According to the Ministry of Labour, the territorial directorates undertake risk assessments to identify the regions and sectors with the highest levels of conflict and labour norms and social security violations. These assessments are then used by the ministry to develop their prevention and intervention strategy (Ministerio de Trabajo, 2014). The ministry is currently developing a new information system to collect data on the number of preventive versus targeted inspections.

Successful training programmes for labour inspectors and workers

To improve the technical capabilities of the labour inspectors, the ILO, with US funding, has been organising intensive training sessions and developing practical guidelines, checklists and methodologies through tripartite consultations. Besides strengthening general labour inspection practices, these training courses and guidelines focus on a range of specific problems that Colombia encounters, such as ambiguous and disguised employment relationships, violations to the right of freedom of association and the misuse of collective accords. An evaluation report by the ILO

illustrated that by mid-October 2014 between 59 and 87% of the labour inspectors had been trained over the span of 16 months (with the percentages depending on the training module) and between 69 and 90% (depending on the inspection tool) of the labour inspectors who followed the training effectively use the ILO labour inspection tools in their daily work (ILO, 2014f). Even so, the application of this knowledge in practice remains problematic as labour inspectors continue to have difficulties in interpreting the laws and handling complicated cases. Recent training sessions have therefore used actual complaints (rather than hypothetical cases) to directly support the inspectors in their investigations. To ensure training for new hires and promote continuous education among labour inspectors, virtual classrooms with interactive sessions and an exam at the end of the course are being developed. Two inspection tools were also adopted by the Ministry of Labour as annexes to the new Labour Inspector Manual. Nevertheless, it will be important to make sure that all labour inspectors soon finalised all the training programmes to improve their technical capabilities and further strengthen the labour inspection system.

In order to promote the reduction of unsubstantiated claims and the presentation of well-founded and documented complaints to the Ministry of Labour, the ILO organised a separate training programme for workers from priority sectors – defined by the United States as palm oil, sugar, mines, ports, and flowers (USTR, 2011). Workers who received the training reported the submission of over 100 complaints that were developed utilising the tools taught by ILO (ILO, 2014f).

As part of the US-Colombian Labour Action Plan, the Ministry of Labour also improved its services to workers to address their questions concerning labour rights and complaints about violations to those rights. A new web-based mechanism for registering complaints was set up (though only individuals can register complaints, not trade union), and the services providing advice to workers were enhanced through a new programme, called *COLabora* – Centre for Employment Advisory and Guidance Services. More specifically, the number of counselling centres was increased from 1 to 5 (though only in the capital of Colombia, Bogotá), a toll-free telephone hotline was set up and the number of call centre agents was increased from 5 to 40. As a result, nearly 1 million workers were served in 2013 (see Table 3.4 above), of which 43% in person in one of the five counselling centres, another 43% through telephone and the remaining 14% were served through the internet or in writing – as illustrated by documentation provided by the Ministry of Labour to the OECD Secretariat.

In addition, the US Department of Labour funded a separate programme in collaboration with ENS to set up Workers' Rights Centres (*Centro de*

Atención Laboral, CAL) in four cities to provide free legal advice to workers to raise their awareness of the labour laws and improve their ability to protect and claim their labour rights (Executive Office of the President of the United States and U.S. Department of Labor, 2014). Statistics provided by the Workers' Rights Centres illustrate that they attended 5 700 workers in the first semester of 2014 and presented 50 complaints to the Ministry of Labour for illegal labour intermediation and 29 complaints for the violations of freedom of association through collective accords.

Complicated collection of fines despite substantial reforms

The greatest potential impact of labour inspection comes through deterrence, i.e. the perception that the expected costs of investigation are significant enough for firms to comply voluntarily (Weil, 2008). In a country like Colombia, the deterrence effect is particularly important given the limited resources of the labour inspection services and the increasing complexity of labour relations through subcontracting. The expected costs of investigation not only depend on the likelihood that a firm is visited, but also on the size of the fines and their effective collection. The maximum applicable fines in Colombia were increased from 1-100 to 1-5 000 monthly minimum wages in 2013, even though they were already in line with some lower- and middle-income OECD countries (such as Hungary, the Czech Republic, Korea, Poland and Mexico; see OECD, 2008). Nevertheless, Colombia's greatest concern lies with the collection of fines.

The great majority of fines imposed by the Ministry of Labour are related to a lack of co-operation by the firm, while only few fines relate to illegal subcontracting and violations of rights of freedom of association and collective bargaining (Table 3.5, Panel A). Fines for evasion of the pension system list high on the ranking, in part the result of the creation of a unified payment system of social contributions in 2008. Despite the low *number* of fines imposed for violations of rights of freedom of association and collective bargaining, the total *value* of those fines ranks much higher (Table 3.5, Panel B). Nevertheless, there is no information available on whether these fines have effectively been collected.

Fines imposed by the labour inspectors on employers are collected by the National Training Service (SENA) – a government body attached to the Ministry of Labour. Moreover, until recently, SENA was barred from collecting the fines if an enterprise could demonstrate that it had filed a judicial appeal of the case, which nearly all firms would effectively do. Resolution 1235 of June 2014 profoundly changed the fines collection procedures of SENA and gave the institution the authorisation to require and hold collateral payment from an enterprise pending the outcome of the judicial appeal. The immediate effect was that firms are no longer filing appeals.

Table 3.5. **The majority of fines are related to a lack of co-operation by the firm**

Panel A: Number of fines imposed by labour inspectors, by type of sanction, 2013

Ranking (out of 31)	Fines imposed in 2013	Number of fines
1	Neglect of requests from the Ministry of Labour (art. 486 CST)	1 513
2	Violation of the rules for Health, Safety and Hygiene at Work	601
3	No payment for Sundays and holidays	267
4	No adoption of the labour regulations	226
5	Evasion of the pension system	173
15	Undermining the rights of association	12
18	Violation of collective pacts, collective agreements and abitral awards	10
21	Refusal to negotiate	4
	Total	**3 153**

Panel B: Value of sanctions imposed by labour inspectors, by type of sanction, 2013

Ranking (out of 37)	Type of violation	Total amount of fines (EURx1000)
1	Neglect of requests from the Ministry of Labour (art. 486 CST)	2 523.1
2	Violation of the rules of associated work cooperatives	576.7
3	Mortal work accident	390.7
4	Violation of the rules for Health, Safety and Hygiene at Work	339.9
5	Refusal to negotiate	321.3
7	Evasion of the pension system	278.2
13	Undermining the rights of association	55.9
15	Violation of art. 77 of Law 50/90 on temporary work agencies	45.8
19	Violation of collective pacts, collective agreements and abitral awards	33.8
	Total	**5 764.1**

Source: Data provided by the Ministry of Labour.

StatLink http://dx.doi.org/10.1787/888933275838

SENA is slowly starting to collect the fines, but many have expired in the meantime. Statistics provided by the Ministry of Labour illustrate that, by end-September 2014, SENA had received 7 701 fines from the labour inspection services for execution. Of those, 4 223 (for the total value of EUR 16 million) have been handed down to the employer for payment and 1 986 are in the process of being paid. However, only the more recent fines can be collected, since fines related to labour rights violations expire in three years and those related to social security and trade union rights in five years. By the end of September, already 150 fines had expired. The latter implies that many of the large fines that were imposed by the labour

inspection services in 2011, and which received so much media attention, will never be collected. As such, there is a strong argument for re-visiting those companies and re-fining them if they continue violating the labour legislation. In addition, while the administrative process of the fines collection was shortened from 484 to 417 working days in June 2014, the process should become much shorter to ensure a proper fines-collection mechanism.

Firms that were fined for third-party contracting through associated work co-operatives (see Section 5) can obtain a reduction or even remission of their fine if they hire the workers directly with an open-ended contract. While this option ensures job security for the involved workers, there is insufficient follow-up by the Ministry of Labour to verify the content of the formalisation agreements (some agreements do not offer workers open-ended contracts but just fixed-term contracts for only a year) or to ascertain if these workers are effectively hired within the terms set out in the agreement (CTC/CUT, 2014; AFL-CIO, 2014; and U.S. House of Representatives, 2013). The agreements are negotiated between the employer and the Ministry of Labour, without the involvement of the workers or their trade union organisations. It is unclear whether the labour inspectors or regional directors involved in the process have received guidance or training to draw up the agreements. The number of workers that have been formalised so far is marginal compared with the misuse of associated work co-operatives.[15]

There is no structural co-operation between the labour inspection and judicial system. Labour inspectors are required to forward any complaint they receive for violations of the right of association to the Prosecutor General's Office, but there is no information system on judicial proceedings, nor is there a protocol for collaboration between the two institutions. Conversely, decisions taken by labour inspectors are typically not used by the Prosecutor General's Office as evidence in a case. As has been done by several OECD countries (e.g. Germany, Poland, Portugal and the United Kingdom; ILO, 2011), Colombia could improve the efficiency of its labour inspection system by concluding formal collaboration agreements with other government agencies that are responsible for enforcing labour rights, such as tax authorities and the judiciary. Spain, Portugal, Italy and Norway also have national tripartite consultative bodies in place to ensure effective consultation between the labour inspection system and employers and workers organisations.

5. Slow labour justice system despite efficient pre-court conciliation mechanism

The efficiency of dispute resolution is another key determinant for the protection of labour rights. If it is difficult or costly for employees to pursue cases of labour rights violations, the law may be less strictly adhered to by employers (OECD, 2013). As in most OECD countries, Colombia has pre-court and pre-trial dispute-resolution procedures in place to help the involved parties resolve the dispute before an official complaint is made (Ministerio del Trabajo, 2012b). While conciliation is not mandatory in Colombia (unlike in some OECD countries; see OECD, 2013), it is free of charge and frequently used. In the past five years, there were on average about 86 000 pre-court conciliation hearings organised by labour inspectors per year, of which around 85% led to a full or partial agreement (Table 3.6). Given the long delay in the labour justice system (see below), conciliation saves a lot of time and money for the involved parties and improves the efficiency of the dispute resolution system.

Despite the success of early dispute resolution, labour courts are heavily congested in Colombia. Similar to more than half of the OECD countries (see OECD, 2013), Colombia has specialised judges to hear labour disputes and there are simplified procedures for dealing with labour law cases. Evidence may be taken orally and the verdict should be pronounced within six months. Yet, while evidence from OECD countries illustrates that specialised courts or tribunals to hear labour dispute are associated with faster appeals, the Colombian labour courts are so congested that a trial usually takes one to two years before the final decision is taken, plus an additional year if one of the parties appeals. Despite wide cross-country variation, the average time in OECD countries for decisions in labour cases is ten months (OECD, 2013). Also the Labour Chamber of the Supreme Court in Colombia has accumulated significant delays over the years and is currently dealing with cases from 2009 and 2010.[16] The delay will further grow if no action is undertaken since the Labour Chamber receives each year around 3 700 new cases while it can only handle 1 300 cases per year. Two recent attempts to decongest the Labour Chamber failed in Congress.

Table 3.6. **Conciliation is frequently used**

Number of pre-court conciliation hearings organised by the Ministry of Labour, 2010-14

	Full agreement (nb of cases)	Partial agreement (nb of cases)	No agreement (nb of cases)	Total
2010	70 029	938	15 491	86 458
2011	72 184	621	14 498	87 303
2012	70 563	861	15 006	86 430
2013	89 506	1 298	14 136	104 940
Jan to Aug 2014	36 513	387	11 286	48 186

1. The number of conciliation hearings for 2013 is questionable, as the annual report of the Ministry of Labour to Congress reports 74 986 conciliation hearings in that year (Ministerio de Trabajo, 2014).

Source: Data provided by the Ministry of Labour.

StatLink http://dx.doi.org/10.1787/888933275846

In certain cases, a petition for guardianship (*acción de tutela*)[17] can be used to claim fundamental constitutional rights, including for some labour rights, such as non-payment of wages (but not social security benefits) of workers earning the minimum wage, violations of freedom of association and trade union immunities, and liquidation of trade unions. The guardianship action is much faster than other juridical options as the judge has to take a decision within ten days. The number of guardianship actions (related to any issue, not only labour) has been steadily increasing since the 1990s: from 45 500 cases in 1997 (equal to 3% of all judiciary processes) to approximately 547 000 cases in 2012 (18% of all judiciary processes) (Consejo Superior de la Judicatura, 2013). This rise reflects increasing levels of awareness of, and access to, the judicial system, and higher levels of trust of citizens in this particular redress and protection tool. Yet, practice has shown that these judges are not specialised in trade union issues and typically refer the case to a labour judge.

6. Conclusions

Colombia has made significant progress in reducing violence, but the crime rates remains high in international comparison. Trade union members and leaders are affected by the overall high crime rate, with 20 homicides of trade unionists in 2014 (down from over 200 per year in the 1990s) and more than three hundred registered cases of assaults, threats, harassments and other types of violence.

Over the past few years, the protection for trade union members and leaders has been considerably improved through the creation of a National Protection Unit, an expansion of the programme's coverage, better material, a reformed risk assessment process, shorter delays and investigation of several corruption scandals. These initiatives have produced important results: since their introduction, none of the persons covered by the protection programme has been killed and all the trade union activists who were assassinated in recent years had not asked for protection.

Nevertheless, serious challenges remain. In particular, it will be crucial to put the budget of the National Protection Unit on a more stable footing to ensure sufficient and permanent resources for the continuation of the protection programme for all people under high risk. Second, to ensure adequate protection for people under immediate risk, the risk assessment process should have a maximum delay of one week. Third, an evaluation system could be put in place to continuously monitor the sufficiency of the provided protection measures and to prevent corruption. Fourth, protection is currently provided on an individual basis and in reaction to a risk or vulnerability. To ensure the stability of trade union activities, it would be important to implement an evaluation instrument for collective risks and to provide participants the option of becoming part of a collective protection scheme. Finally, the low rate of conviction for crimes against trade unionists, resulting from challenges in the judicial branch, should be addressed.

Colombia has ratified all fundamental ILO conventions and freedom of association is recognised by the Constitution and the Labour Code. However, important obstacles to the free association of workers in trade unions and to union recognition by employers persist. Despite recent growth, trade union density and collective bargaining coverage remain low by OECD standards as a result of labour market segmentation, but also due to legislative restrictions that weaken trade unions and their bargaining possibilities. To enhance trade union rights, the criminal code was reformed in 2011, establishing higher penalties and possible imprisonment for employers who undermine the right to organise and to bargain collectively. It will be important to see whether the investigations by the Prosecutor General's Office of alleged violations of the reformed article lead to convictions, where warranted.

Following the important progress in collective bargaining for public sector workers, it is vital to enhance industrial relations in the private sector as well and develop a constructive framework for social dialogue. In this respect, Colombia should promote the development of a two-tier system of collective bargaining in which bargaining at the company level is coupled with sectoral bargaining on basic wage and working conditions. Following

OECD practices, collective agreements should be automatically extended to all employees of a company irrespective of their union status and the option to negotiate collective accords with non-unionised workers should be eliminated. To reduce the negative effects of trade union fragmentation on the bargaining process, different unions in a company should be required to form a bargaining team to ensure a single collective agreement. Higher-level trade union organisations should be given the right to strike and the government could reflect on alternatives to the full prohibition of strikes in essential services, such as introducing a requirement of minimum service, while allowing the majority of employees in a particular industry to participate in strikes. The government should also abolish the clause of compulsory arbitration after 60 days of strike action, but may want to reintroduce mediation in the collective dispute resolution process, as is the case in many OECD countries, ideally organised by an autonomous body that is respected by both the trade unions and the employers.

Labour inspectors have an important role to play in the enforcement of employment regulations. Colombia has taken an impressive amount of measures in the past four years to improve the labour inspection system, including a more than doubling of the number of labour inspectors and a significant increase in their salary to attract better candidates and avoid staff turnover; the organisation of intensive training sessions for labour inspectors and workers; the improvement of services to workers to address their questions and complaints about labour rights violations; and a revision of the fines collection system.

In spite of these important efforts, given the high frequency of labour law violations and the low coverage of collective bargaining, additional improvements to the labour inspection system appear to be necessary. In this context, it is recommended to further increase the number of labour inspectors to international standards and ensure sufficient resources for the proper execution of their task. In addition, the fines collection process should be shortened significantly and firms whose fines have expired should be re-visited and re-fined, as appropriate. Firms that obtained a reduction or remission of their fine for third-party contracting should be obliged to hire these workers through regular employment contracts without delay, and under close monitoring of the Ministry of Labour. Finally, the government should set up a framework of co-operation between the Ministry of Labour and the Prosecutor General's Office to improve the prosecution of labour cases under the Penal Code.

Notes

1. The Colombian authorities report lower statistics for homicides, i.e. 37 cases in 2010, 29 in 2011 and 20 in 2012, compared with ENS numbers of 53 cases in 2010, 30 in 2011 and 24 in 2012 (Table 3.1). The divergence is related to differences in the methodology of recording and counting of events, selection of variables, inclusion criteria and sources (UNDP, 2012).

2. www.eltiempo.com/politica/justicia/habla-andres-villamizar-a-su-salida-de-la-unidad-nacional-de-proteccion/15030192.

3. The National Protection Unit counts 120 risk analysts and the protection material was improved, for instance, by replacing old bullet-proof cars (on average nine years old) with newer ones (two years old).

4. The number of homicides of trade union activists reported by ENS (110 cases between 2011 and October 2014) differs from the one reported by the Prosecutor General's Office (93 cases in the same period). The divergence is related to differences in the methodology of recording and counting of events, selection of variables, inclusion criteria and sources (UNDP, 2012).

5. The conventions are also ratified by most OECD countries, apart from Korea, New Zealand and the United States for Convention 87, and Canada, Korea, Mexico and the United States for Convention 98.

6. At least 25 people are required to found a trade union.

7. The trade union numbers were provided by ENS. It should be noted, however, that they are substantially lower than the statistics provided by the Ministry of Labour (i.e. 9 982 trade unions in 2010 and 11 527 in 2014). ENS gives two reasons for the difference, namely the Ministry of Labour 1) does not remove the trade unions from the list that are no longer active; and 2) registers sub-directions or local sections of industry-level trade unions as if they were trade unions with an independent union register. The Ministry of Labour admits that their numbers are under revision; they are currently undertaking an actualisation of the registration system.

8. According to the ENS, 29% of the trade unions created between 2012 and June 2013 are either unions created with the main purpose of organising

third-party contracting through union service contracts, or other types of organisation registered as trade unions but under effective supervision and control of employers and without links to organised labour. In 2014, there were 984 firms with registered union service contracts (see Table 2.4 in Chapter 2), accounting for 22% of the total number of trade unions in that year.

9. Recognising the persisting practices of many employers, in emerging and developed economies alike, of disguising the primary employment relationship, the OECD, by means of its Guidelines for Multinational Enterprises, has asked companies "…to structure their relationship with workers so as to avoid supporting, encouraging or participating in disguised employment practices" (OECD, 2011). See also ILO Recommendation 198 on the Employment Relationship, 2006.

10. Art. 354 of the Labour Code specifies, *inter alia*, the following actions by employers as illegal: 1) obstructing personal affiliation to a trade union through gifts and promises; 2) dismissing, suspending, or modifying conditions of work of employees because of freedom-of-association activities; and 3) refusing to negotiate with unions that have submitted specific demands in accordance with legal procedures.

11. Data provided by the Ministry of Labour to the OECD Secretariat in October 2014 significantly differ from the statistics that have been annually reported to Congress – see Ministerio del Trabajo (2012, 2013, and 2014). These data showed a decrease in the number of collective accords between 2011 and 2013. The ministry has confirmed the difference and argues that there were several calculation errors in the previously published data.

12. Nevertheless, a number of OECD countries, such as Germany, Sweden and Switzerland, have decided to leave the respective procedure to trade union autonomy (Jacobs, 2014).

13. Even so, the trade union federations complain that the obtained agreements are not always honoured (e.g. employers retaliate against the trade union members involved) and the decisions are not enforced by the Ministry of Labour (CTC/CUT, 2014).

14. Apart from Canada, Mexico and the United States, all OECD countries have ratified ILO Convention 81; three countries (Australia, New Zealand and the United Kingdom) did not sign Part II.

15. In 2013 and 2014, labour inspectors signed 45 formalisation agreements covering 14 600 workers, equal to 4.5% of the total of number of workers in associated work co-operatives (Ministerio del Trabajo, 2014).

16. Information taken from an interview with the president of the Labour Chamber of the Supreme Court, Rigoberto Echeverri, for Ámbito Jurídico on 2 October 2014 (see www.ambitojuridico.com).

17. According to Article 86 of the Constitution of 1991, a petition for guardianship (*acción de tutela*) is the mechanism through which people can present a claim to a judge for immediate protection of their fundamental constitutional rights when these rights are violated or threatened by the action or omission of any public official or particular elements in cases established by law.

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Chapter 4

Improving redistribution in Colombia through social policy

Public social spending in Colombia, albeit increasing, remains low and has a very limited redistributive impact. The Colombian pension system is complex, restrictive and concentrated among higher income groups. While recently introduced programmes for vulnerable elderly have made significant inroads, coverage is low and payments are very limited. The family cash allowance is restricted to formal workers and does not reach most low-income families. Social policy programmes for poor and vulnerable groups are well targeted but more resources are needed to improve outcomes. The design of the programmes could also be revised to improve equity, work incentives and labour formalisation. Finally, higher spending and targeted measures for the large displaced population due to violence are paying off as shown by a significant reduction in (extreme) poverty for this group.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

1. Introduction

In the last decade, the combination of strong economic growth and policies targeted to the most vulnerable has improved considerably the living standards of most Colombians, reducing poverty and inequality. According to official estimates, in the last decade income inequality (measured by the Gini coefficient) fell from 0.57 to 0.54 and poverty (measured against an absolute threshold) from 48% to 31% (Chapter 1 and DANE, 2014). Notwithstanding this progress, Colombia remains a highly unequal country, above any OECD country and most of Latin American countries (see also Chapter 1).

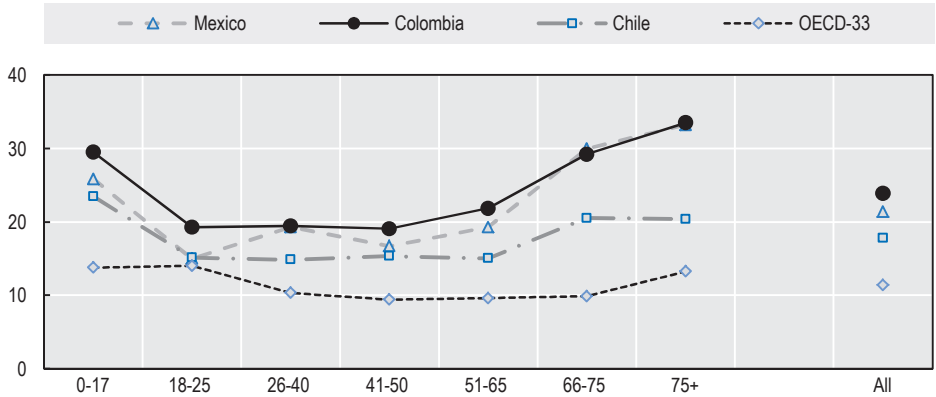
While declining in absolute terms, poverty rates measured against a relative threshold of half the current median income have hardly changed in the last decade, staying around 24% (see Chapter 1), more than twice the OECD average rate and higher than Chile and Mexico (see Figure 4.1, Panel A). Relative poverty rates among children and the elderly are around 30%, about one-fifth higher than the population average, much higher than the OECD average, but similar to Mexico.

Low and not always well targeted, social protection spending in Colombia has, overall, a very limited redistributive impact, especially before accounting for in-kind transfers. Differences in income inequality before and after cash benefits are very small. Personal income taxes play an even smaller role, as inequality before and after such taxes are virtually the same. In contrast, among OECD countries, on average, taxes and benefits considerably reduce the income gap (see Figure 4.1, Panel B), although the redistributive impact of taxes and benefits is low in some OECD countries such as Turkey and Chile.

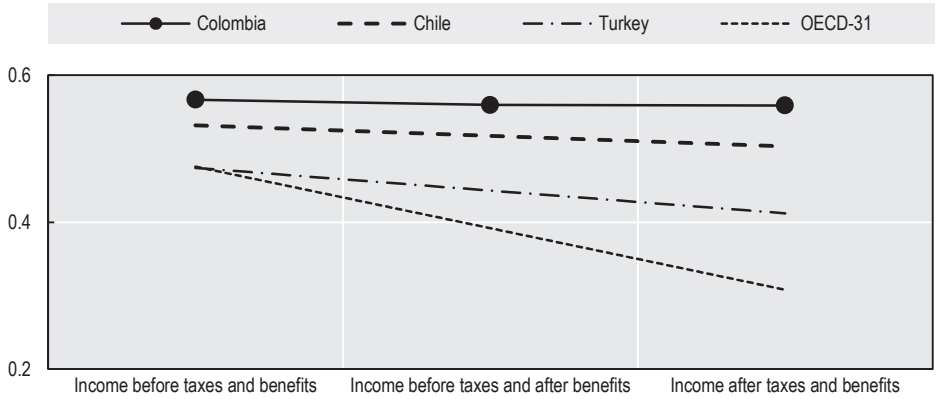
This chapter gives a summary of pensions, health, family and housing policies, and poverty alleviation policies (unemployment and active labour market programmes are discussed in Chapter 2). The analysis focuses on the public expenditure, redistributive impact, design and effectiveness in identifying clients and successfully targeting and supporting those most in need.

Figure 4.1. **High child and elderly poverty and small income redistribution in Colombia and OECD**

Panel A. Relative income poverty by age group, 2011



Panel B. Gini coefficient by income definition, 2011



Note: OECD-31 refers to the simple (unweighted) average, and excludes Hungary, Mexico and Turkey, for which market incomes are reported net of taxes. OECD-33 refers to the simple (unweighted) average, and excludes Korea, for which poverty estimates for above 75 years old are not available. Gini coefficient for income before taxes and after benefits is not available for OECD countries.

Source: Estimates based on *OECD Income Distribution Database*'s definitions (see www.oecd.org/els/soc/income-distribution-database.htm). Estimates for Colombia were provided by the National Department of Statistics (DANE) and based on National Quality of Life Survey (*Encuesta Nacional de Calidad de Vida*, ECV).

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Public social spending is low but rising

Social spending in Colombia is considerably lower than the OECD average. In 2011, public and mandatory private social expenditure in Colombia was 12% of GDP, while the OECD average is 22% (Figure 4.2, Panel A); only Korea and Mexico spend less as a proportion of GDP among OECD countries. Voluntary private spending on health amounts to 0.6% of GDP, just slightly less than the OECD average at 0.7% (Adema et al., 2011).

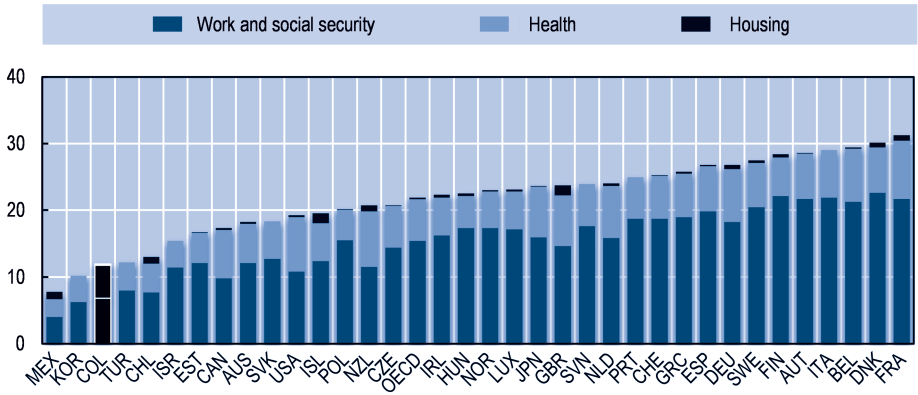
The Colombian Government follows a different classification of social expenditure than that used by the OECD Social Expenditure Database (SOCX). In Colombia, public social spending is divided in the following categories: "work and social security" (including programmes for old-age, survivors, incapacity, family, active labour market programmes, unemployment and other social policy areas – in particular, social assistance), education, health, water, housing and culture. This policy review focuses on "work and social security", health and housing. Education, water and culture are not within the scope of the analysis of this policy review. Education and water as well as health (which is briefly discussed in this review), will be discussed in detail in separate OECD reviews.

Public social spending on "work and social security" accounts for around 7% of GDP. Public spending on pensions is the largest item of public social spending (4% of GDP in 2011, Ministerio de Hacienda y Crédito Público, 2014). Although a private pension system was introduced in the early 1990s, few pensions are yet paid by it. Health expenditure amounts to 4.9% of GDP, which is lower than the OECD average (6.2%) but higher than in eight OECD countries. Housing support accounts for 0.2% of GDP, which is about half the average expenditure among OECD countries.

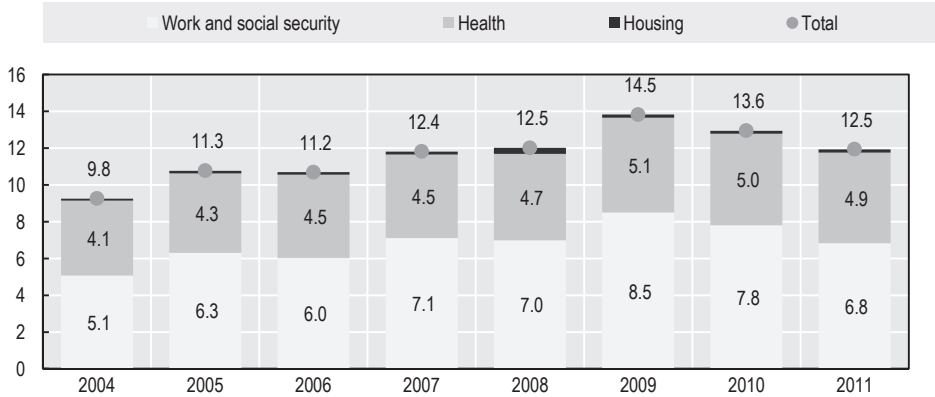
Public social spending in Colombia has been increasing in recent decades. In the 1950s, social spending (including education) accounted for 1% of GDP, 5.3% in 1970, 6% in 1990 and 13% in 2013 (Escobar and Olivera, 2013). Social spending increased considerably since the 1990s, as a result of the commitments made in the Colombian Constitution and higher decentralisation of public expenditure. In recent years, social spending has grown mainly due to social security, with pensions being the largest spending item (see Figure 4.2, Panel B).

Figure 4.2. **Public and mandatory private social spending in Colombia is much lower than the OECD average**

Panel A. Public and mandatory private social spending as a percentage of GDP by main components, 2011



Panel B. Public and mandatory private social spending as a percentage of GDP by main components, 2004-11



Note: Social spending components based on classification used by Colombian Ministry of Finance. In the case of OECD countries, the SOCX social protection branches classified as follows: old-age, survivors, incapacity active labour market programmes and unemployment (Work and social security), health (Health), housing (Housing) and family and other social policy areas (Other).

Source: OECD Social Expenditure Database (SOCX), http://dx.doi.org/10.1787/data-00166-en, Ministerio de Hacienda y Crédito Público (2014), "Bitácora de Cifras Presupuestales 2000-2014, actualizada a junio 30 de 2014".

StatLink http://dx.doi.org/10.1787/888933275663

Public social spending reduces income inequality and poverty, but is regressive in absolute terms

Social spending in Colombia reduces income inequality and poverty, but it is not well targeted to the groups most in need. Using 2008 data, Núñez (2009) estimates that the top 20% of the income distribution benefits from 45% of social spending and the bottom 60% of the income distribution obtains 40% (see Table 4.1). Despite this regressive distribution, social spending still reduces income inequality: the Gini coefficient decreases by 5.11 percentage points (from 0.585 to 0.534) and income poverty by 14.4 percentage points (from 46.8% to 32.4%). Education is the social spending component that contributes the most to the reduction of inequality and poverty, through pre-school, primary and secondary education. By contrast, public expenditure on tertiary education is concentrated in the top quintiles. Health also contributes considerably to the reduction of inequality and poverty. Cash transfers reduce poverty but increase income inequality, as the distribution of pensions (by far the largest component of cash transfers) is very regressive. Expenditure on other programmes (e.g. conditional cash transfers and child protection) is well targeted but the impact on inequality and poverty is limited due to their small size (see also Vélez, 1995; Núñez and Sanchez, 2000; Lustig and Meléndez, 2014 for similar results).

Table 4.1. **Public social spending reduces poverty and inequality, but benefits the rich most**

Distribution by income quintile and absolute reduction in income poverty and inequality by social policy programme, 2008

	Distribution per quintile (%)					Absolute reduction	
	Q1	Q2	Q3	Q4	Q5	Poverty	Gini
Education	26.8	23.9	20.8	16.7	11.8	6.66	3.85
Health	17.4	19.4	19.9	21.1	22.0	4.78	2.54
Childhood	32.4	27.0	21.7	15.8	3.1	0.58	0.41
Cash transfers	3.1	2.6	3.8	11.5	79.0	1.08	-0.97
Familas en Acción	44.9	29.5	16.1	8.2	1.3	0.36	0.39
Colombia Mayor	37.2	24.6	20.2	12.3	5.6	0.08	0.09
Pensions	0.1	0.2	2.3	11.1	86.3	0.29	-1.63
Family Allow ance	1.9	12.8	21.7	31.7	31.9	0.09	0.05
Total except pensions	**18.7**	**17.8**	**16.5**	**16.3**	**30.7**	**14.23**	**6.25**
Total including pensions	**13.7**	**13.1**	**12.9**	**15.5**	**44.8**	**14.40**	**5.11**

Source: Nuñez, J. (2009), "Incidencia del Gasto Público Social en la Distribución del Ingreso, la Pobreza y la Indigencia", Departamento Nacional de Planeación, Archivos de Macroeconomía, No. 359.

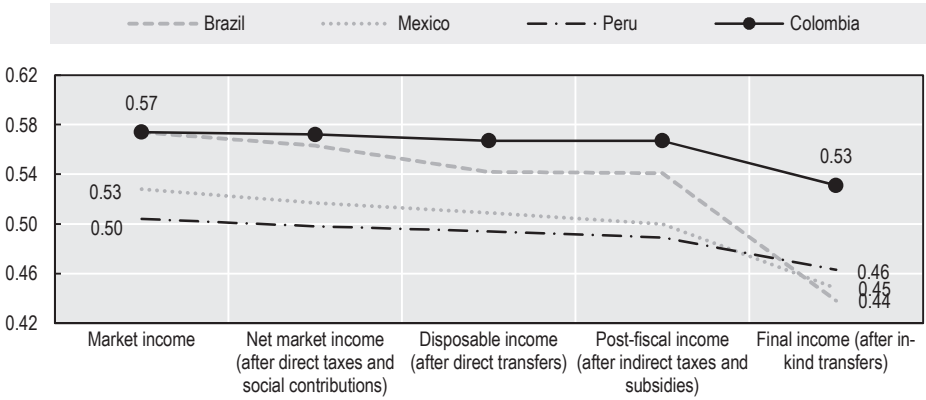
StatLink http://dx.doi.org/10.1787/888933275853

The Colombian tax system has only a very small redistributive impact. Tax revenue relative to GDP is low, mainly relying on consumption and corporate taxes while the personal income tax is riddled by tax expenditures which benefit mostly the rich (Joumard and Londoño Vélez, 2013). Tax allowances, deductions and exemptions are so generous that less than 40% of the income of the top 1% is deemed taxable and decreases further to 11% for the top 0.01%.[1] The incidence of social contributions is also low at the top of the income distribution as they are capped and not charged on capital income (Alvaredo and Londoño, 2013). Despite that, Lustig and Meléndez (2014) estimate that direct taxes and social contributions are progressive (their share increases by income deciles), however the impact on income inequality is limited (0.2 points of Gini), mainly due to their relatively small size. Direct transfers (except pensions) also contribute to reduce inequality (0.5 points of Gini). Indirect taxes are regressive, but their redistributive impact is limited due to their small size.

In comparison to other Latin American countires, income inequality in Colombia is high due both to very unequal distribution of labour and capital income and low redistribution (Joumard and Londoño Vélez, 2013). Lustig and Meléndez (2014) show that income inequality before taxes and social benefits in Colombia is similar to Brazil; but taxes, direct transfers and especially in-kind transfers reduce inequality in Brazil on a much larger scale. In Peru, taxes and social spending redistribute as much as in Colombia, but inequality before taxes and social spending is considerably lower. Mexico is an intermediate case, with somewhat lower inequality before taxes and social spending and higher redistribution. In all four countries, the largest reduction in inequality happens through in-kind transfers (see Figure 4.3).

Figure 4.3. **Colombia redistributes less than Brazil and is more unequal than Mexico and Peru**

Gini coefficient of market income and final income after taxes and transfers, 2010



Source: Lustig, N. and M. Meléndez (2014), "Social Spending, Taxes and Income Redistribution in Colombia", Mimeo, CEQ.

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2. Targeting social protection in Colombia

Different methods to target social protection are used but they do not account for income

Different methods are used in Colombia to select the population eligible for programmes targeted to families in poverty and/or vulnerability. The strata system (*estratos*) is a geographical classification that identifies areas according to the external characteristics of the neighbourhood and dwellings where people live. Areas are classified in 6 strata (ranging from poor to rich), which are used to determine the beneficiaries of subsidies for public services. About two-thirds of the Colombian population lives in areas classified as strata 1 to 3, in rural areas most of the population lives in strata 1 or 2 (Bottia et al., 2012).

A second method, SISBEN, is an information system designed to identify families that are potential beneficiaries of social programmes, similar to the Chilean Social Protection Record (*Ficha de Protección Social*, OECD, 2009). The system is used as a targeting tool by eight government agencies in 31 programmes, such as conditional cash transfers, housing, health and several other types of means-tested benefits (DNP, 2008a). Using data from a register about individual and household characteristics and taking into account local circumstances, a set of algorithms (confidential to

prevent fraud and misreporting) computes a continuous index that ranges between 0 (highest vulnerability) and 100% (lowest vulnerability) (DNP, 2008b). Within this range, social programmes apply different cut-off points to determine their target group, in some programmes cut-off points also depend on the area of residence. Groups within cut-off points are referred to as SISBEN levels (*niveles SISBEN*). Households are eligible to targeted social benefits if within levels 1 to 3. The register questionnaire and scoring method are revised every few years. The first version (SISBEN I) was implemented in 1995 and the present (SISBEN III) in 2008. A new version is currently being designed.

SISBEN registration is available (free of charge) to all adults. People living in more vulnerable areas are actively encouraged by social workers from local government to take part in the register. The data is sent electronically to SISBEN's central office that validates and includes them in a central database. Currently, the database contains about 34 million records (71% of the Colombian population) (see Table 4.2). Every year, 80% of the records are updated, 2 million excluded due to the duplication and another 400 000 due to death. Since the objective of the database is to identify vulnerable population, households reporting or found to earn more than three minimum wages per capita are marked as "suspended" and not entitled to benefits linked to the SISBEN system. In 2014, almost half the Colombian population were in level 1 and another 7% in level 2 of the subsidised health insurance programme (see below).

Table 4.2. **SISBEN registration**

Number of households and individuals registered at SISBEN, by register and SISBEN level, 2014

		Households	Individuals	% population
Register	Suspended	271 621	499 882	1
	Validated	9 522 179	33 430 145	70
Level	1		22 755 843	48
	2		3 180 807	7
	Other		7 993 377	17
Total SISBEN		**9 793 800**	**33 930 027**	**71**

Source: SISBEN (*Sistema de Identificación de Potenciales Beneficiarios de Programas Sociales*).

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Conceptually, the SISBEN index is considered as an indicator of living standards based on the "capabilities approach" (Sen, 1985) and partly

reflects the same dimensions measured by the Index of Multidimensional Poverty (Angulo et al., 2013) , one of the indicators used by the Colombian government to monitor poverty (see Box 1.2). The SISBEN questionnaire collects information on household income, however this data is not used to determine eligibility as it is not considered sufficiently reliable (for example, 40% of the adult population who respond the questionnaire declares earning no income). This non-monetary assessment of living standards can be problematic particularly in determining the eligibility for cash benefits, as the need that is addressed by transfers (low levels of income) is not used directly but inferred by other characteristics. Recently, the Colombian Government has been exchanging experiences with the Brazilian Government about the *Cadastro Único* (used to target the conditional cash transfers *Bolsa Familia*), which is based on income assessment. However, questions regarding the accuracy of self-reported income in the Brazilian system have also been raised (Assis and Ferreira, 2010). Using other indicators to infer "real" household income and cross-checking it against data from household surveys can help to address problems of underreporting (Larrañaga, 2003; Assis and Ferreira, 2010).

Finally, there are databases and distinctive targeting systems for some special groups of the population that are prioritised by the social protection system (e.g. displaced people, victims of conflict, Afro-Colombians and indigenous people).

3. Pensions[2]

The Colombian pension system is very complex. It unusually comprises two mutually-exclusive parallel schemes (i.e. workers can only register in one), a public PAYG defined-benefit (RPM) and a fully-funded private scheme (RAIS). Workers are allowed to switch between the two systems every five years up to ten years before reaching the retirement age (since 2014, 57 years for women and 62 for men),with no possibility for late retirement in the public scheme. In both systems workers contribute 4% of their wage and employers 12% (self-employed pay 16%). The monthly minimum pension is equal to the legal minimum wage (see Section 3 in Chapter 2). The minimum contribution period is 1 300 weeks in the public scheme. In the private scheme, people can retire as long as their accounts can finance an annuity of at least 110% of the minimum pension. Workers older than the official retirement age, who have contributed for at least 1 150 weeks in the private scheme, but whose individual account balance is insufficient, are entitled to the minimum pension. In both systems, those who have contributed for less than the minimum contributory period are entitled to a refund. According to OECD estimates, the long-term net replacement rate is 74% in the public scheme, a level that would be obtained

if the future net real rate of return in the private scheme was to be equal to 6% per year on average (OECD/IDB/The World Bank, 2014).

Most young workers choose to contribute to the private scheme, possibly due to better reimbursement conditions in case they fail to qualify for a pension (the reimbursement in the private system includes interests, while the public system only corrects for inflation). On the other hand, most pensions are paid by the public system, as the private system is still rather recent (started in 1993) and many workers switch to the public scheme when closer to the retirement age (OECD, 2015). According to Ministerio del Trabajo (2014), in 2014, 74% of workers were affiliated to the private scheme and 96% of pensions were paid by the public scheme. Due to low past pension contribution rates (6% before the 1993 reform), a pension floor set at the minimum wage, and high replacement rates, pensioners in the public system receive amounts that are higher than their individual savings could finance and are subsidised with transfers from the General National Budget. In 2011, these subsidies accounted for 44% of public pension spending (Ministerio de Hacienda y Crédito Público, 2012).

Pension coverage is low and regressive

The most worrying aspect of the Colombian pension system is its low coverage. About 35% of the population above retirement age receive a pension (Ministerio del Trabajo, 2014), which is low compared to the OECD average (around 90%) and many Latin American countries (OECD, 2015). A high proportion of workers do not contribute enough to be entitled to a pension due to high informality in the labour market and rigid pension legislation. Many workers have fragmented and low density contribution histories (on average contributing only 15 years throughout their working life) as they frequently migrate between unemployment, informality and formality. While 80% of the economically active population is affiliated to the pension system, only 28% are actively contributing (Ministerio del Trabajo, 2014). Since the Constitution requires that pensions cannot be lower than the minimum wage, no reduced pension scheme is available to workers who contributed less than the mandatory 1 300 weeks.

Pension coverage is not only low but also concentrated among those with higher incomes. Households at the top income quintile receive 86% of pension spending (see Table 4.1 above). In fact, pensions increase income inequality by 1.63 Gini points (Núñez, 2009) and less than 6% of pension spending targets households in poverty (Lustig and Meléndez, 2014). These results reflect the unequal distribution of contributory histories. Núñez and Castañeda (2012) estimate that only men in the top 30% of the income distribution and women in the top 10% contribute enough to be eligible to a pension. Given their average contribution histories – i.e. spells of

unemployment and informal employment – people at the bottom 10% contribute on average five weeks per year, thus not enough to reach the required 1 300 weeks within a normal working life.

New programmes aim to increase coverage of vulnerable elderly

Recently, two programmes were announced aiming to cover vulnerable elderly people who reach pension age and have not contributed enough for a pension. *Pension Familiar* (PF, Family Pension) allows couples, under certain conditions, where both spouses/partners have reached pension age but do not have enough contributions to be eligible for a pension individually, to combine their individual contribution records in order to receive a pension jointly.[3] The second programme, *Beneficios Económicos Periódicos* (BEPS, Periodic Economic Benefits), supplements by 20% the pension contributions of those who have not contributed enough to be eligible for a pension. BEPS also offers working-age individuals in informal jobs and earning less than the minimum wage to contribute to the programme during their working life and benefit from the 20% supplement when reaching retirement age. The supplemented contributions can be paid out in a lump-sum at retirement or used to buy an annuity (which cannot exceed 85% of the minimum wage).[4]

Elderly social assistance is neither generous nor comprehensive

C*olombia Mayor* is a means-tested benefit for low-income elderly people. Besides the very low benefit amount (ranging between USD 20 and USD 38 per month, or 7% to 12% of minimum wage), not all those potentially eligible are actually entitled as access is determined by the budget allocated to the programme. Although the number of recipients has increased considerably in recent years, only half of the 2.4 million people estimated to be eligible received the benefit in 2014. The programme is financed by the *Fondo de Solidaridad Pensional* (FSP, Pension Solidarity Fund). Resources to the fund come from social contributions on wages and pensions (above income thresholds) and resources from the General National Budget.

4. Health[5]

The *Sistema General de Seguridad Social en Salud* (General Social Security System for Health) is comprised of a contributory scheme for workers in the formal sector and a non-contributory scheme for people in poverty or vulnerability (i.e. without work, work contract, or sufficient income). The contributory system is financed by employee social contributions and a corporate income surtax (CREE) that replaced the

employer contribution on salaries below ten minimum wages (OECD, 2015). The non-contributory system is financed by several sources including part of the contributions of workers in the formal sector and funds from central and local government (see Chapter 2, Box 2.2).

Coverage of health care has been increasing in the last two decades and currently is almost universal. In 2014, 97% of the population was protected, 45% via the contributory scheme, 50% via the non-contributory scheme and 5% via special schemes such as for teachers in the public sector. Those not registered in the system (referred as *población vinculada*) may or may not be identified by SISBEN and their medical care is provided by local authorities and state social companies (ESE). The main reasons reported for not being covered by the health system are, in order of importance, lack of money, pending affiliation, lack of labour contract, and lack of interest or neglect (DANE, 2014).

Health expenditure has been rising, pushed mainly by the increase of the non-contributory scheme, as well as the contributory scheme and private health care spending. Between 2004 and 2011, health spending increased from 5.4% to 6.5% of GDP. The non-contributory system accounted for half the rise, part of that resulted from the inclusion of population previously not covered by the system. In 2011, about three quarters of health expenditure was public and one quarter private. Almost 60% of public spending was due to the contributory scheme, 26% due to the non-contributory scheme and the rest to population not covered and other health services (Ministerio de Salud y Protección Social, 2014).

Public health spending considerably reduces income inequality and poverty although it is slightly skewed towards the top of the income distribution. The top quintile receives about 22% of health spending, while the bottom quintile gets 17.4%. As expected, the distributions of the contributory and non-contributory schemes are inversed; the contributory scheme is highly skewed to the top and the non-contributory scheme to the bottom. Total health spending reduces poverty by 4.8 percentage points (roughly half by each scheme) and the Gini coefficient by 2.5 points (see Table 4.1), more than two-thirds due to the non-contributory scheme (Núñez, 2009).

5. Family

Family Subsidy System

The Family Subsidy System (*Sistema de Subsidio Familiar*) was created in the early 1950s by employers as a voluntary mechanism to supplement the income of workers with family responsibilities. Since the late 1950s, it is

mandatory and financed by a compulsory employer contribution (*parafiscal*) that amounts to 4% of the employee's salary. The system delivers cash and in-kind benefits which are provided by family compensation funds (*Cajas de Compensación Familiar*, CCFs; see Box 4.1).

About 30% of the resources from the employer contribution are paid as a cash allowance (see Table 4.3). CCFs also provide a number of social services to their affiliates (including educational, training, cultural activities, leisure and holiday centres), and social housing subsidies. Administration costs account for almost 9% of resources, including 1% to a public supervisory body. Originally conceived to pool resources and redistribute income across employees of affiliated employers, the family subsidy system has been increasingly mandated by the government to provide benefits and services to the (non-affiliated) rest of the population, in particular the most vulnerable groups. Part of the budget from the contributions is earmarked to finance the subsidised health system (FOSYGA, see Section 4), the new employment services and unemployment protection (FOSFEC) and vulnerable children (FONIÑEZ).

Table 4.3. **Distribution of expenditure from resources from 4% contribution, 1982 and 2014**

Use	Beneficiaries	Expenditure distribution	
		1982	2014
Cash allowance	Affiliates	55%	30%
Social Services (mainly recreation, education and culture)	Affiliates and non-affiliates	34%	28%
Employment services and unemployment benefit (FOSFEC)	Affiliates and non-affiliates	–	11%
Housing (FOVIS)	Affiliates	–	11%
Administration	–	10%	8%
Health (FOSYGA)	Non-affiliates	–	7%
Children and complementary education (FONIÑEZ y JEC)	Non-affiliates	–	4%
Other	–	1%	1%
Total		100%	100%

Source: ILO and Ministerio del Trabajo (2014), *Libro Blanco del Sustema de Subsidio Familiar*; and Carrasco, E. and S. Farné (2010), "Las Cajas de Subsidio Familiar como Operadoras de Política Social", *Cuadernos de Trabajo 12*.

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Box 4.1. **Family compensation funds**

Family compensation funds (*Cajas de Compensación Familiar*, CCFs) are not-for-profit private organisations that receive a compulsory employer contribution, under the supervision of the Superintendence of Family Allowance, which is part of the Ministry of Labour. The employer chooses which compensation fund to affiliate to, among those available within the department. Compensation funds are headed by a council with equal representation from employers and employees. They operate at the regional level (departments). Currently, there are 43 CCFs in the 32 departments of Colombia, in 75% of the departments there is only one CCF available.

Several CCFs provide services beyond those related to the 4% contribution. CCFs are active in the provision of health services through *Entidades Promotoras de Salud* (EPS, Health Promoting Entities). Currently, CCFs have 14 EPS in the subsidised system, covering 11 million affiliates and 6 EPS in the contributory system, covering 6 million affiliates.

In 2013, health accounted for 38% of the CCFs revenue (see table below). CCFs also provide commercial services such as pharmacies, restaurants and supermarkets. Retailing accounts for 17% of revenues (OIT and Ministerio del Trabajo, 2014). Overall, the budget of CCFs accounts to 1.8% of GDP.

Distribution of resources of the family compensation funds, 2013

Use	Proportion of resources	% of GDP
4% contribution	33	0.60
Retail	17	0.30
Health	38	0.70
Social services	11	0.20
Administration	1	0.02
Total	100	1.82

Source: ILO and Ministerio del Trabajo (2014), *Libro Blanco del Sustema de Subsidio Familiar*; and own calculations.

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Cash allowance

The family cash allowance (*subsidio monetario*) is a benefit paid in cash to employees affiliated to the system (i.e. their employers pay the contribution), working at least 96 hours per month and earning less than four minimum wages (six minimum wages in case of couples). The allowance is paid per dependent (children and parents, but not spouses or

partners) and the amount differs by region (departments), following reference levels set by the Superintendence of Family Allowance.

In 2013, 2.9 million workers (41% of those affiliated to the system) received the cash allowance, covering 4.8 million dependents. Total expenditure on the cash allowance accounted to 0.18% of GDP. On average, the amount of the allowance was COP 22 940 per dependant per month (4% of minimum wage or USD 12.4). In order to finance new responsibilities added to the system without additional funds, the amount of the cash allowance has been falling in real terms (in some years even in nominal terms). The share of resources earmarked to the cash allowance fell from 55% in 1982 to 30% in 2014 (see Table 4.3).

Low-income families tend not to be eligible to the family cash allowance. While the allowance only covers those affiliate (i.e., in formal jobs), most low-income families are in informal work. Nevertheless, the programme (slightly) reduces income inequality and poverty, as its distribution is less unequal than the distribution of income (Nuñez, 2009).

The incidence and level of the cash allowance also differ considerably across regions. In 2013, the benefit's reference level in Arauca (the highest) was 35% higher than the national average, in Chocó (the lowest) the reference level was 25% lower than the national average. Similarly, the proportion of workers eligible to the benefit ranged from 27% in Norte de Santander to 88% in Córdoba.

Early childhood comprehensive care strategy

The Early Childhood Comprehensive Care Strategy – known as *De Cero a Siempre* (from zero to forever) – was introduced in 2011 as part of Colombia's National Development Plan 2011-2014.[6] The strategy aims to promote and guarantee the comprehensive development of children under six years old, through unified and cross-sector work (parental leave legislation in Colombia is described in Box 4.2). The Inter-sector Commission on Early Childhood co-ordinates a number of government institutions involved in the strategy and proposes the co-ordination and harmonisation of policies, plans, programmes and actions that are necessary to carry out the comprehensive care of early childhood (Ministerio de Educación, 2014). The components of care taken into account are 1) care and upbringing, 2) health, diet and nutrition, 3) early childhood education, 4) recreation and 5) civic education (De cero a siempre, 2013).

Box 4.2. **Parental leave in Colombia**

Maternity leave

Working mothers are entitled to a 14 weeks leave around the time of birth or adoption (usually two weeks before birth and 12 weeks after). The amount to be paid must be the same as the salary received just before the leave. The payment is directly done by the employer who can ask for a reimbursement from the health insurance company (EPS). In case the salary paid to the worker is higher than the contribution base used to pay the insurance, the insurance company refunds the amount equivalent to the contribution base and the difference is assumed by the employer.

Paternity leave

Paternity leave lasts eight working days following the child's birth or adoption. Like maternity leave, the pay must be the same as the last salary received before the leave. The payment is directly done by the employer who can ask for a reimbursement from the health insurance company (EPS).

Source: Ley 1468 de junio 30 de 2011 "Por la cual se modifican los artículos 236, 239, 57, 58 del Código Sustantivo del Trabajo y se dictan otras disposiciones".

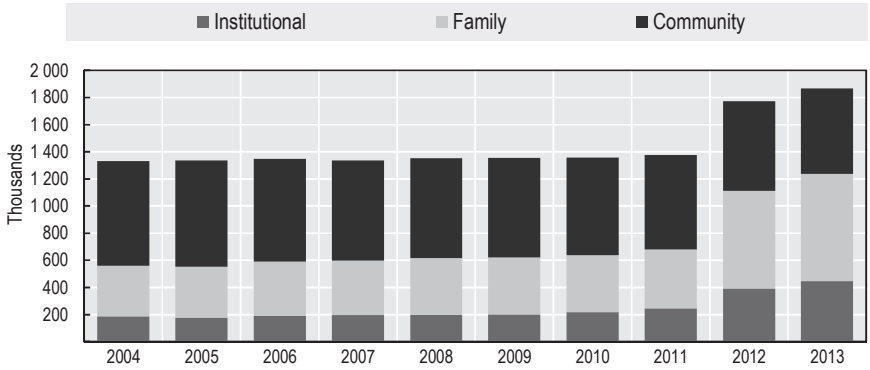
Access to early childhood education, care and nutrition services is prioritised to victims of the armed conflict, children referred by Nutritional Recovery Centres, children who belong to families registered in the *Red Unidos* database, families from ethnic minorities, disabled children, or children belonging to households in socio-economic vulnerability (SISBEN levels 1 to 3, see Section 3) and household income below 1.5 minimum wages (ICBF, 2013). The target set by the government was that, by 2014, 1.2 million children would be receiving comprehensive care from *De Cero a Siempre.*

Early childhood care is provided in three different types: institutional care, family care and community care. Institutional care is offered by entities (Child Centres and Breastfeeding Mother and Pre-school Centres), primarily to children aged two to six years old. Family care is directed to pregnant women, breastfeeding mothers (up to six months) and children up to two years old, primarily living in rural or dispersed areas, with difficult access to institutional care centres. Community care refers to nurseries based in the house of a community mother, targeting primarily children aged between two and five years old whose families need day care support. As part of the *De Cero a Siempre* strategy, training programmes were put in place to strengthen the profiles of community mothers as well as caregivers, families, educators, cultural workers and health workers. Other lines of work of the strategy include improvement of health services and nutritional care

for new-born and infants, spaces and material to promote access to culture and the arts, provide technical support to local authorities and develop schemes and information systems for monitoring child development and the impact of policies.

In 2013, 1.9 million people used early childhood care (of them about 1 million through the comprehensive care strategy), 42% in family care, 34% in community care and 24% in institutional care (Figure 4.4). In recent years, the proportion of users in community care has dropped due to higher quality standards in institutional and family care.

Figure 4.4. **Early childhood care users by type of care, 2004-13**



Source: Core Activity Information System – Social and Financial Objectives, ICBF, 2013.

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In 2013, resources allocated to the strategy accounted to 0.35% of GDP,[7] more than twice as much as two years before (Table 4.4). These resources come from employer contributions, General National Budget, and means-tested fees and charges paid by families that use the services. Bernal and Camacho (2012) estimate that to provide appropriate services to the vulnerable population (SISBEN levels 1 and 2) would require spending 0.6% of GDP. Despite the considerable institutional and financial efforts, the implementation of the programme faces challenges and difficulties. A key challenge is the co-ordination of the different sectors, institutions and government levels involved in the strategy (CIPI, 2013). Many sub-national governments have resisted engaging in the programme and are not prepared to adequately channel actions and resources as they have not implemented their early-childhood public policies (CGR, 2014). The implementation is also hindered by the lack of supply capacity in terms of human resources and infrastructure (Bernal, 2014; CGR, 2014).

Table 4.4. **Early childhood care: distribution of resources, 2013**

Source		2011		2012		2013	
		% GDP	% resources	% GDP	% resources	% GDP	% resources
Government	General budget	0.00	0	0.07	27	0.11	31
Employers	Equity/Parafiscal (1)	0.14	85	0.16	64	0.22	61
	FONIÑEZ (2)	0.00	0	0.00	0	0.00	0
Families	Participatory fees	0.02	10	0.02	7	0.02	6
	Compensation charges	0.01	5	0.01	3	0.01	2
Total		0.17	100	0.25	100	0.35	100

1. CREE source is not included since it was included into ICBF's budget only in 2014.

2. Not all FONIÑEZ funds are directed at early childhood education services.

Source: Projected calculations, ICBF Planning Office (2014).

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6. Gender

Education indicators for young female cohorts show generally a positive picture in Colombia. Girls have lower illiteracy and school dropout rates while higher years in education than boys. Similarly, among people aged 16 to 25, women have higher participation rates in post-secondary and tertiary education and lower dropout rates (World Bank, 2011). On the other hand, women choose professions in less productive sectors, thus resulting in lower wages. The wage gap among recent college graduates is 11%, and 40% of this gap can be explained by differences in subject degrees (Cepeda, Emiliani and Barón, 2012). Furthermore, women are underrepresented at graduate studies – accounting for 45% of Masters degrees and a third of PhDs (Peña et al., 2013).

Women in Colombia have a higher life expectancy – in fact, one of the highest gaps in Latin America; and, contrary to the trend in the rest of the world, lower child mortality (Chioda, 2011; World Bank, 2011). On the other hand, high teenage pregnancy is a barrier for female social mobility. One in five women aged 15 to 19 is or has been pregnant. The prevalence of teenage pregnancy is strongly associated with household socio-economic conditions and access to contraceptive information.

Female labour market participation has increased considerably in Colombia in recent decades. Despite that, about 20% of women aged 16 to 24 are neither active nor studying, in comparison to 1% of men in the same age group. Women also face higher unemployment rates (about 5 percentage points higher than men) and lower participation in formal employment (32% against 46% for men). Such disparities are also reflected

in large and persistently stable gender pay gaps (Badel and Peña, 2010; Hoyos et al., 2010).

Due to differences in labour market participation, unemployment and informality, a lower proportion of women are formally affiliated to health protection. Similarly, a lower proportion of women contributes for a retirement pension – especially women in couples or divorced. Given their lower contribution rates and higher life expectancy, old-age women face higher vulnerability regarding social security protection.

In recent years, new gender policies and legislation have been implemented. In 2010, legislation made it illegal to discriminate salaries by gender. In 2011, maternity leave was extended from 12 to 14 weeks (see Box 4.2 for details). In practice, however, these measures have limited impact as a large proportion of women work in informal jobs or self-employment, where such policies are not enforced. Many women opt for informal jobs as they provide higher flexibility, particularly the possibility to work part-time (Atal et al., 2009). Policies that increase the flexibility of working hours in the formal labour market for women and men could allow households to better reconcile working and family life (Peña et al., 2013).

Job informality also explains a considerable part of the gender pay gap in Colombia. The gap is considerably lower in the formal sector and even slightly reversed (women earn more than men) in the public sector, where recruitment and promotion processes are transparent (Badel and Peña, 2010). Peña et al. (2013) suggest that making recruitment and promotions more transparent in the private sector could contribute to reduce the wage gap. Furthermore, companies could be incentivised to be more transparent and report information on recruitment, retention and promotion.

The imbalance of responsibilities within the household is one of the most important sources of gender inequality in the Colombian labour market. Female labour market participation has created a "triple working day" for women: employment, childcare and house chores. Maternity and paternity leaves reinforce this household dynamic and roles. Gender-neutral parental leaves and/or longer paternity leaves could contribute improving the balance of family responsibilities and female labour market position as well as change entrenched cultural perceptions regarding gender roles.

7. Housing

The process of formal urbanisation of Colombia has been slow in comparison to other Latin American countries. Most households have been excluded from the formal housing market and resorted to informality. It is estimated that 65% of houses built between 1993 and 2005 were not formally

registered (Torres Ramírez, 2012). Access to formal housing is particularly limited among the most vulnerable. Most households in vulnerability have no option but to build the dwellings themselves without official supervision or technical advice, resulting in deficient houses. In 2011, 36% of households were in need of better homes; almost half of them were in urban areas (Ministerio de Vivienda, 2014). By comparison, the percentage of households in need of better homes in Chile was 19% (CChC, 2014).

In contrast to Chile and Mexico, a larger proportion of the Colombian population lives in rented accommodations. Ownership rate is just above half, in contrast to two-thirds in the OECD average and about three-quarters in Chile and Mexico. A considerable share of the population, especially in rural areas, lives in owned-occupied homes not formally registered or of unknown tenure.

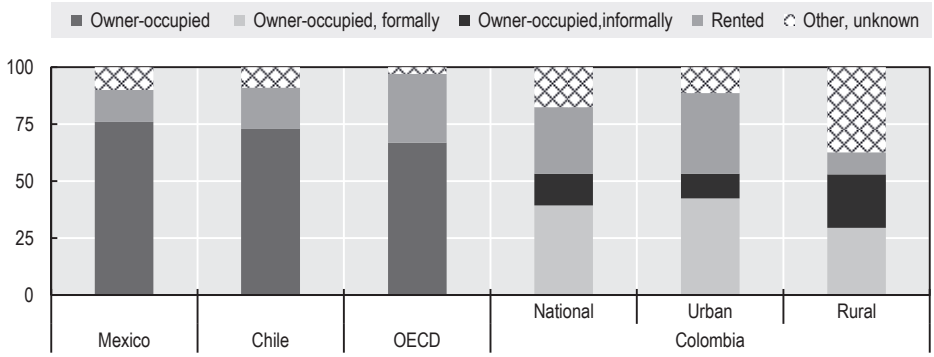
The main housing programme in Colombia is the Family Housing Subsidy (*Subsidio Familiar de Vivienda*), one-off cash grant to renovate or purchase newly-built dwellings. The amount of the grant ranges from 4 to 22 times the minimum wage. The administration of the programme and the eligibility criteria are different for families with formal and informal jobs. Employees in the formal sector receive the grant from the family compensation funds (see Box 4.1). The amount of the grant is negatively related to earnings that cannot exceed in any case 4 minimum wages. Grants to families in informality are financed by FONVIVIENDA (a fund from the Ministry of Housing). The amount of the grant depends on the SISBEN score (see Section 3), which must be lower than 34.5 points in urban areas.

In recent years, the Colombian Government, through FONVIVIENDA, has expanded the expenditure on housing policies for the construction of new dwellings for households in poverty or vulnerability. The objective of such policies is to tackle housing informality, inequality and poverty, as well as generate economic growth and employment by stimulating the construction sector. Two new programmes were implemented:

- *Vivienda Gratuita* (VIP, Free Housing): donation, free of charge, of 100 000 homes to population in extreme poverty, displacement or affected by natural disasters. Three schemes are being used to supply the new homes: purchase from the private sector, private-public partnerships (private construction on publicly-owned land) and publicly lead projects.
- *Vivienda de Interés Prioritario para Ahorradores* (VIPA, Priority Interest for Savers): down-payment or mortgage interest subsidy for the purchase of newly-built property, available to households earning less than two minimum wages and with savings that account for at least 5% of the property to be purchased.

Figure 4.5. **Housing tenure**

Percentage of dwelling stock in most recent year



Source: OECD Questionnaire on Affordable and Social Housing 2014. Pecha, C. (2011), "Programa de Vivienda de Interés Social de Colombia: Una Evaluación", Documento para Discusión, OVE/TDP-0111, BID.

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In addition, the programme *Cobertura a la tasa de interés* (Coverage of Interest Rate) subsidises mortgage interest payments in the first years of the credit, to households earning up to eight minimum wages for the purchase of newly-built property whose market value is less than 335 minimum wages. With support from the private builders and the financial sector, there is also a plan to implement a Rent-to-buy programme (*Programa masivo de alquiler*) in which households with low-to-middle income that do not qualify to the existing programmes and currently renting would have the option to purchase. In 2015, the Ministry of Housing announced a new programme *Mi Casa Ya* (My House Now), which is slightly more generous than "Coverage of Interest Rate" as it consists of mortgage interest subsidy (not only for the first years) and a down-payment. The programme is aimed at 100 000 families earning up to COP 2.5 million per month (about four minimum wages) (El Espectador, 2015).

Direct public expenditure on housing has been increasing in recent years, rising from around 0.13% of GDP in 2005 to 0.34% in 2013 (indirect public expenditure, such as forgone tax revenue for mortgage interests or preferential treatment of residential property, is not considered). Using micro-simulation techniques, Nuñez et al. (2014) estimate the distributive impact of VIPA and VIP programmes. VIPA granted 86 000 housing subsidies, which are estimated to reduce monetary poverty between 0.09 and 0.19 percentage points and extreme monetary poverty between 0.08 and 0.32 points. The effect of VIPA on multidimensional poverty would be more

limited, as it only addresses the housing dimension. VIP granted 100 000 dwellings, which are estimated to reduce urban poverty by 0.05 percentage points and extreme poverty by more than 0.32 percentage points. This policy may have also reduced income inequality, measured by the Gini coefficient, by 1 percentage point.

Housing sector and consumer debt are booming in Colombia. Housing prices have nearly doubled in real terms since 2005 and increased by 30% compared to disposable income. This has been accompanied by strong growth in household debt (OECD, 2015). Home ownership programmes can overheat the housing sector and may not be the most effective in protecting lower income families without saving capacity and/or access to credit. Furthermore, excessive indebtedness could produce housing induced poverty. Also, it would be prudent to remove housing subsidies and personal income tax exemptions for real estate savings. Rental programmes could complement the scope of housing policy for families with low saving capacity or highly mobile (e.g. displaced). Since a significant proportion of the population lives in rented accommodation, the rental market and a culture of renting must be already considerably developed.

8. Policies for population in poverty or vulnerability

Red Unidos

Red Unidos (United Network) is a social services intermediation programme to tackle extreme poverty. Targeting families in extreme poverty or displacement, it aims to strengthen their ability to manage their own development, to overcome poverty and improve living conditions. The programme started in 2008 under the name *Red Juntos* (Together Network). In 2011, as social innovation, community involvement and regional development were added to the programme it was renamed *Red Unidos*. Following the example of *Chile Solidario* (see OECD, 2009), the programme is based on two main types of interventions: the provision of family and community support through social workers (*cogestores sociales*) and preferential access to social programmes and services. As such it does not provide any cash or in-kind benefits. Instead, its focus is to ensure that families access the social programmes and services that are available.

Co-ordinated by the National Agency for Overcoming Extreme Poverty (ANSPE), *Red Unidos* is organised as a network co-ordinating 32 government agencies providing social programmes and services. Regional and municipal governments are also involved in the network by managing and implementing local policies that generate social and economic development to address extreme poverty in their territories.

Red Unidos established nine areas of intervention ("dimensions") in order to address the poverty traps of most vulnerable families. Within these dimensions there are 45 basic targets (*logros básicos,* see Table 4.A1.1) which set the minimum conditions that a family must achieve in order to overcome extreme poverty. Based on these dimensions and targets, the network must organise the institutional strengthening, management of social protection and family support.

- Institutional strengthening: the network provides assessment and advice on capacity and design of instruments for participation and social control. However, *Red Unidos* does not have budget for implementation. This task is left to municipalities to develop with their own resources.
- Management of social protection: the network assesses the supply of social programmes and services available in the territory, manages and evaluates their preferential access to programme participants.
- Family support: participants commit to the programme by signing a commitment of co-responsibility (*Compromiso de corresponsabilidad*). Families receive personal support from social workers in identifying their current strengths, setting targets, designing strategies, tracking progress and providing advice. In order to prevent dependence, programme participation is limited to five years. Support decreases as families reach their targets and terminates when families "graduate" (i.e. are ready to leave the programme).

The programme focusses on households in extreme poverty or in situation of forced displacement. Participation is determined by ANSPE, which selects from the SISBEN database families categorised as in extreme poverty. Families do not apply to the programme; instead, they are invited to take part in it. The programme includes a "graduation model", with necessary and sufficient "exit conditions" to assess whether families are ready to leave:

- Necessary condition: the family reached the mandatory minimum basic achievement equivalent to at least 50% of the set targets.
- Sufficient condition: the family has moved out of extreme income poverty or is no longer considered poor according to the Multidimensional Poverty Index (IPM).

In 2014, 1.48 million families were part of the programme and were attended by approximately 10 000 social workers in 1 037 (out of 1 102) municipalities. The budget allocated to the programme accounted, in 2013, to 0.03% of GDP – an average expenditure per family of about USD 70 per year.

Assessment

While inspired by *Chile Solidario*, the intervention of *Red Unidos* is less comprehensive. Visits to beneficiary families are less frequent, social workers are less qualified and not evaluated on a regular basis; databases are not integrated with other programmes and ministries. Furthermore, the programme does not have the resources to finance the expansion of other social programmes and the supply of social services to cover its beneficiaries. On the other hand, some interesting innovations have been introduced, such as the implementation of a community support component (Camacho et al., 2014).

The lack of tools and resources limits the ability of local governments to extend and improve the quality of their social programmes and services (DNP, 2012a). The management of the programme, centralised by the national government, reduces the visibility and thus the political incentives and willingness of local governments to actively participate in the programme. This is particularly important since, by constitutional mandate, health and education are administered by municipalities (Núñez, 2012).

There are concerns with the quality and capacity of the family support provided by the social workers. The client-to-staff ratio of 145 families to 1 is well above what is needed. According to OECD (1999) a ratio of 125 individuals (not families) to 1 is the limit for providing reasonably effective help to clients. Social workers are unable to carry out some essential tasks such as helping families to access social programmes and services; organising workshops on building and improving family ties; supporting the construction of social capital for community organisation and association; and informing the authorities about families' needs. Instead, social workers are more concerned with the number of visits to families rather than the quality of care or specific family needs (Núñez, 2012).[8]

Between 2010 and 2014, almost 300 000 families achieved sufficient conditions to "graduate" (i.e. exit the programme) (DNP, 2014). However, an impact evaluation of the programme suggests that external factors (such as economic growth in the period) may have driven these results. For example, family counselling activities to participants did not result in better outcomes as compared to similarly vulnerable families that did not take part in the programme. Due to low frequency of visits by social workers (on average once every 9 to 18 months), the programme had little impact on indicators of poverty and living conditions, life expectancy or knowledge of social services available DNP (2012a).

Más Familias en Acción

Más Familias en Acción ("More Families in Action") is a conditional cash transfer to families with children identified as vulnerable (SISBEN and special groups). The programme started in 2001, as *Familias en Acción*, and conceived as a temporary measure to address the social effects of the economic crisis in the late 1990s (Acción Social and DNP, 2010). In 2012, following positive evaluations, it became a state policy. The programme includes two types of cash transfers:

- Per family (i.e. regardless of the number of children) with children aged under seven years old, subject to children's attendance to health controls.
- Per child aged 5 to 18 years old, enrolled and regularly attending school, up to the 11th grade. Children cannot fail more than twice a grade throughout their school life. The transfer is paid up to three children per family.

In 2013, 2.7 million families (4.7 million people) participated in the programme and the budget allocated represents 0.23% of GDP – an average expenditure of USD 310 per family per year (USD 173 per child), 15% of the value of the poverty line or 34% of the extreme poverty line.

The administration of the programme is shared between the national government (which pays the benefits) and local governments (which recruit and organise the staff involved in the benefit administration and contact with families). In most cases, the co-operation between national and local governments is effective; however there are exceptions. In Bogotá, due to lack of co-operation between the two governments, the programme reaches only about 60% of potential recipients and the administrative staff and social workers are provided by the national government via the Department for Social Prosperity (DPS) instead of the municipality.

Assessment

There have been several evaluations of *Más Familias en Acción*. Various studies estimate that the impact of *Más Familias en Acción* on poverty varies between 1% and 1.2%, while the Gini coefficient would be half a percentage point higher in the absence of the programme. The programme increases average school attendance by 4 percentage points; but school dropout among poor children aged 12 to 18 years is still very high (above 50%) (Núñez, 2009). Additionally, the programme has very little or no effect on the quality of education, which depend on the education system

and not on the willingness of poor family to enrol and keep their children in school (Baez and Camacho, 2011).

DNP (2012b) found that the programme significantly improves nutrition and height of children. Households that are beneficiaries of the programme have a 23% reduction in food insecurity. Children in beneficiary families have a higher probability (6.4 percentage points) of finishing secondary school and children aged 7 to 11 have a lower probability to be at work (1.3 percentage points). On average, programme participation increases by 0.6 years the education of young people aged 18 to 26.

In order to tackle the gap between urban and rural areas, DNP (2012b) recommended differentiating subsidies according to the area of residence of families. Additionally, it recommended changing the structure of education subsidies in order to create incentives to keep young people in secondary education. Finally, it emphasised the need to better co-ordinate the programme with other social programmes that exist in the country.

Following these recommendations, in 2013, *Familias en Acción* was reformed and renamed *Más Familias en Acción*. In order to address the gap between urban and rural areas, the cash transfer amounts were differentiated based on the level of urbanisation and poverty of the municipality (with higher amounts for less developed regions). In order to tackle teenage school dropout, the amounts also differ with school grade (increasing for higher levels of education). While addressing the urban-rural gap, the first change does not account for the fact that the opportunity costs of education are higher in more developed regions, even if in rural/depressed areas opportunity costs for poor families to keep children in school can also be very high. In Bogota, where the labour market is more dynamic and competitive (lower unemployment rates, higher formalisation, and higher salaries), the subsidy is the lowest in the country. The logic of increasing the amount with school grade is in line with the empirical evidence and the opportunity costs faced by young people and their families in deciding to continue their studies. Yet, given the relatively modest amount of the benefit (less than 10% of the minimum wage for pupils in 11th grade) and the low quality of education, the opportunity costs of staying at school are still perceived as high by a substantial proportion of adolescents living in poverty or vulnerability.

Finally, the programme does not differentiate the benefit level by income or any other indicator of living standards; everyone eligible (independently of income or SISBEN score) receives the same amount. Likewise, anyone just marginally above the threshold is fully excluded from the programme. This “all or nothing” approach incentivises families to be below the SISBEN threshold and may generate resentment among those just

above it, especially given that the system responds rather slowly to new applications.[9] Tapering the benefit level could reduce such distortion; however, the implementation would be difficult as the SISBEN scoring system does not account for household income (see Section 2).

Jóvenes en Acción

Jóvenes en Acción ("Youth in Action") aims to address the problems faced by young people (16 to 24 year old) in the transition from secondary education to the labour market by promoting enrolment to post-secondary education. The transition to post-secondary education can be difficult especially for youth from vulnerable families, who may lack resources and access to credit. Some young people work at daytime to fund their studies at night. But the low quality of the schools that they can afford and the lack of time for learning make their education a low-return investment.

Jóvenes en Acción is a conditional cash transfer for young people who are enrolled in post-secondary education institutions that have an agreement with the programme (basically SENA and some public universities). The programme targets people of 16 to 24 years of age in a situation of poverty or vulnerability (i.e. registered in SISBEN's levels 1 or 2, in United Network, or in the forced displacement database). The programme contains two main components:

- *Cash incentive*: a grant amounting to about 30% of the minimum wage, to support their maintenance expenses. It is paid by bank transfer every two months, after verifying compliance with the commitments in accordance with the programme's schedule;
- *Employability*: workshops and experimental activities to promote non-cognitive skills, tools to address the challenges of daily life and facilitating their social and professional integration.

The programme was started in 2013. In 2014, it covered almost 160 000 young people and the annual budget represented 0.04% of GDP – an average expenditure of approximately USD 960 per person per year.

Youth in Action has the potential to provide access to quality professional education to young people from vulnerable backgrounds and thus improve their employability and generate a higher income. If sustained over time, the programme can become a gateway for youth from poor households to improve their socioeconomic status, increasing social mobility in the long run.

The programme is still recent and has not yet been evaluated. However, Núñez and Castillo (2013) identify four possible challenges. First, there is a negative perception of technical and technological careers in Colombia,

associated with the misconception that only university graduates can have access to a formal job. Second, some participants may lack non-cognitive skills, such as the ability to follow directions, be organised or properly manage time, particularly if they have experienced long out-of-school periods before taking part in the programme. Third, the programme may not be found sufficiently attractive to ensure long-term permanence of participants, particularly those who have already worked and earned more than the benefit level. Finally, several studies have expressed doubts about the impact of SENA courses on job security and wages (Medina and Núñez, 2005; Gaviria and Núñez, 2002).

The negative perception of technical careers is, of course, beyond the scope of the programme. However, the government (particularly the ministries of education and labour) should make an effort to promote these types of jobs. However, as 160 000 people have already applied to the programme, lack of attractiveness does not appear to be a main problem.

As for the lack of non-cognitive skills, the programme's employability component appears to address some of those skills. However, additional programmes before the main programme starts could be offered to disadvantaged groups. According to Carcillo et al. (2015) preparation courses can contribute to successful transitions from traditional education to training programmes. For instance, in Germany, 'pre-apprenticeship' training exists to prepare those who are not ready to enter an apprenticeship because they lack either motivation or the basic skills needed to succeed in this type of programme. However, while successful in overall terms, its impact is limited among the most disadvantaged (Caliendo et al., 2011). Regarding the lack of financial attractiveness of the programme, the cash incentive could be combined with loans or supplemented with upfront payments from future employers. Finally, the programme could offer additional social support, such as mentoring, health / psychological services, family counselling and housing.

Policies to attend victims of the conflict

Colombia currently has 6.2 million displaced persons included in the Victims Register – this is equivalent to almost 13% of the Colombian population (RUV, 2015). Forced displacement is disproportionally concentrated among Afro-Colombians and indigenous people and has been increasingly concentrating in certain regions. Until 2007, 75% of forced displacement was concentrated in 125 municipalities, in 2013, 60% of forced displacement was concentrated in just 13 municipalities (Carrillo, 2014). A nation-wide representative survey on internally displacement undertaken in 2014 illustrates that 64% of the internally displaced population lived below the poverty line, with 33% living below the extreme

poverty line (Unidad para la atención y reparación integral a las víctimas, 2015).

The 2011 Victims and Land Restitution Act (popularly known as *Ley de Víctimas* or "Victims Act") defined an institutional framework for recognising and guaranteeing the rights of victims, particularly with regard to truth, justice, reparation and guarantees of non-repetition. Following the Act, a National Plan for Attention and Reparation of Victims (PNARIV) was implemented as a strategy to provide a comprehensive response to the needs of people affected by the armed conflict. The Victims Act calls for 2 million ha of land to be returned to its proper owners; however, this is far short of the 4 million to 6.8 million ha thought to have been abandoned or illegally occupied (OECD, 2015).

The National Plan has five main components: assistance and care, reparation, prevention and protection, ensuring truth and justice. Following the National Plan, member institutions of the National System for Attention and Reparation of Victims (SNARIV) increased their budgetary efforts to care for people affected by the armed conflict (for example, programmes such as Families in Action, *Red Unidos*, Family Housing Subsidy and others aimed at generating income for vulnerable populations). The *Programa de Rutas Integrales de Empleo Rural y Urbano para las Víctimas del Conflicto Armado* ("Comprehensive Roadmap Programme of Rural and Urban Employment for Victims of the Armed Conflict") seeks to co-ordinate the implementation of three major active labour market policies focusing on the needs of the displaced population. These active labour market policies aim to increase labour demand in the public and private sector, to increase the quality and relevance of their work and to improve the match between labour supply and demand. Following the Victims Act, resources earmarked to victims accounted to about 0.8% of GDP, in 2012 and 2013.

Some important aspects and challenges must be highlighted regarding the implementation of the policies to attend the victims of the conflict. On the one hand, there have been significant advances strengthening institutions and processes (CSOC, 2013). On the other hand, there have been shortcomings and challenges in the process of land restitution, arguably one of the key parts of the Victims Act. In particular, very few people have succeeded in restoring their land rights despite high demand for it. A number of land-claimant leaders have been assassinated and groups outside the law put pressure on the population not to exercise their rights to declare and register as victims (Junco et al., 2012). Multiple and unco-ordinated information systems, errors in the registration of victims, delays in decisions to include victims to the Victims Register and deficiencies in the quality of the information were also reported (CSOC, 2013). In order to protect vulnerable land-owners and prevent further illegal land appropriation, the

registration of land rights must be accelerated. As more than 40% of land ownership continues to be informal, it will be important to speed up the process of formalisation, while strengthening the protection of existing land rights (OECD, 2015).

Finally, as many policies are still in a design phase, most social programmes treat victims without taking into account their specific needs for having suffered human rights violations as a result of the armed conflict. While a large percentage of the victims have access to state social services, these services are not adapted or fully articulated for solving the problems associated with victimisation. CSOC (2013) recommends that the Unit for Attention and Reparation of Victims must establish a regulatory framework and methodology for better co-ordinate and design social programmes, with a clear focus on the specific needs of this population.

9. Conclusions

Despite a protracted period of strong economic growth and greater social spending, income inequality and poverty remain high in Colombia. Low and not always well targeted, spending on social protection has limited redistributive impact, especially before accounting for in-kind transfers.

Social spending in Colombia, albeit increasing, remains relatively low, just above half the OECD average; only Korea and Mexico spend less. Although the population is young and the dependency ratio is low, pensions are the largest item of public social spending. Health expenditure is also considerable and close to the OECD average. Pensions are the most regressive item of social protection and even increase income inequality. Conditional cash transfers and early childhood programmes are targeted to low-income households. However, only spending on education and health are sufficiently high to considerably reduce income inequality and poverty.

Colombia has developed tools to target social protection to those in need. The SISBEN system collects data from 70% of the population and evaluations suggest that, after a great deal of learning-by-doing and constant revisions, it accurately identifies not only those in need but, by using a multidimensional approach, also the different types of need. Nevertheless, improvements are still needed, particularly regarding the collection of income information. Furthermore, less accurate systems based on geographical classification (in particular *estratos*) are still used to target some social programmes.

The pension system in Colombia is complex and potentially confusing for the majority of the population. Due to the high informality, most workers have fragmented contribution histories and do not reach the minimum

contribution period. The minimum pension is high (the minimum wage), retirement is compulsory at pension age and no mechanism for partial pension is available. As result, people who have not reached the minimum contribution period are excluded from the system and just have their contributions reimbursed. Unfortunately, this situation is widespread and less than 40% of the population at retirement age receives a pension (compared with 90% in the OECD). Pension coverage is not only low but also concentrated among those with higher incomes. Households at the top income quintile receive 86% of pension spending, while less than 6% of pension spending targets households in poverty.

Colombia would benefit from a comprehensive reform that increased coverage and made the pension system more equitable and sustainable. Over time this could involve several options. In any case, the competition between the public defined-benefit and the private defined-contribution plans should be removed as it is costly and inefficient. The constraint of the minimum pension being at least equal to the minimum wage should be considered, although this would require a change to the Colombian constitution. Equalising the retirement age between men and women – currently at 62 and 57, respectively – would raise female pension coverage as it would provide longer contribution periods and higher chances to fulfil the requirements. Gradually moving towards a scheme that increases the retirement age in line with life expectancy would increase long-term sustainability and, despite public perception, are unlikely to reduce jobs for younger people.

Recently announced programmes (BEPS and *Pension Familiar*) and social assistance for the elderly aim to improve the situation of poor and vulnerable old-age people, but funding should be increased to provide more effective support to them. Furthermore, measures to increase awareness and take-up of BEPS and *Pension Familiar* should be put in place. Potentially eligible population could be identified (e.g. combining information from Colpensiones and SISBEN) and contacted to be made aware of the benefit. Access must be facilitated by extending the number of centres where the population can apply for the benefits (currently limited to large cities).

The safety net programme for the elderly, *Colombia Mayor*, is neither generous nor comprehensive; the amount is about 10% of the minimum wage and only covers half the people it should. The government plans to increase its coverage to all potential recipients. It is a welcome initiative that should be accompanied by an increase of the benefit level.

The dual structure of the health system reduces incentives to formalisation. On the other hand, the expansion of health care to virtually all the population has markedly improved health indicators and well-being in Colombia, particularly among those most vulnerable. Public health spending

considerably reduces income inequality and poverty. OECD (forthcoming a) will provide a more detailed analysis of the Colombian health system. Notwithstanding, it is clear that the universalisation of access to health care must be preserved. Also, it is important to continue the process of broadening of sources of funding for health to further reduce disincentives to formalisation. This would gradually reduce the share of total health funding coming from employer and employee contributions and increase funding from the general budget.

Family protection is largely provided by the family subsidy system, which is administered by not-for-profit private organisations (family compensation funds). The system provides cash and in-kind benefits to affiliated workers, whose employers pay contributions. By governmental mandate, the system also increasingly delivers or finances services to non-affiliates. The expenditure on affiliated workers is not very effective at redistributing income and the social policy priority of some provided services is questionable. Expenditure on non-affiliates is likely to be more redistributive and effective; however financing social protection to informal workers through employer contributions in the formal sector undoubtedly reduces incentives to seek and create formal sector jobs. In the short run, the Colombian Government could separate the contributory and non-contributory parts of the family subsidy system by financing services to non-affiliates from the general budget and reducing employer contributions accordingly, thus reducing disincentives to formalisation. The family compensation funds could continue to play a role in service delivery to affiliates and non-affiliates, but stricter rules and control on which services are considered of public interest and financed by the family subsidy system could be applied. Also, the redistributive effect of cash allowances could be improved by increasing the amount for lower earners and applying a tapering rate on higher earnings. In the long run, the Colombian Government could consider taking a more active role in the provision of family protection.

There is a considerable housing deficit in Colombia. Recent measures by the Colombian Government to expand the stock of housing and to target spending on the most vulnerable are welcome. Policies have focused on the ownership of newly-built homes, either by donation, or subsidy of down-payment or mortgage interests. Home ownership programmes may not be effective in protecting lower income families without saving capacity and/or access to credit. Furthermore, in case credit is granted, excessive indebtedness could produce housing induced poverty. Rental programmes could complement the scope of housing policy for families with low saving capacity or highly mobile (e.g. displaced). Since a significant proportion of

the population lives in rented accommodation, the rental market and a culture of renting must be already in place.

Social policies for populations in poverty or vulnerability, such as *Red Unidos*, *Familias en Acción* and *Jóvenes en Acción*, are generally well targeted, well designed and achieve positive outcomes. However, the expenditure level on these programmes is still small thus limiting their impact (for example, *Familias en Acción* spends less than USD 15 per child per month). Spending could be increased not only on the amount of cash benefits but particularly on the elements that could reinforce the achievement of long-term objectives. For instance, although *Familias en Acción* had increased school enrolment, the impact on education achievement was smaller due to lack of improvements in the quality of education. Similarly, the impact of *Red Unidos* was limited due to lack of resources. In comparison to *Chile Solidario*, social workers are less qualified; their visits to beneficiary families are not as frequent; and means are not available to respond to eventual increases in the demand for social programmes or services. Furthermore, lack of co-ordination between different programmes, agencies and levels of government reduce the efficiency and effectiveness of programmes.

Benefit levels of cash social programmes for the population in poverty or vulnerability are not differentiated by income or any other indicator of living standards. Most benefits are paid without tapering or grading scale – either the benefit is paid in full amount or not paid at all. This approach produces discontinuities in the income distribution thus generating very high effective marginal tax rates (or kinks) and possibly distortions both on work incentives and formalisation. It may also cause horizontal inequity, public resentment and opposition as those just marginally above the threshold (thus excluded) may end up significantly worse-off than those just marginally below the threshold (thus included) once the programme is taken into account. Currently, income tapering is not possible, due to inaccurate income data collected by SISBEN. An alternative could be to taper based on the SISBEN score (which is a continuous indicator ranging from 0 to 100); its technical and administrative feasibility could be explored while income data collection is not improved.

Through the National Plan for Attention and Reparation of Victims, the Colombian Government has increased spending on victims displaced population by implementing targeted programmes. Many challenges still persist. Until now, land restitution has been limited. Some land-claiming community leaders have been assassinated and groups outside the law put pressure on the population not to exercise their rights to declare and register as victims (Junco et al., 2012). The administration is deficient, with multiple and unco-ordinated information systems, errors in the registration of victims

and delays. Finally, as many policies are still in the design phase, most social programmes treat victims without taking into account their specific needs, as services are not adapted or fully articulated for solving the problems associated with victimisation. Better co-ordination between providers, improvements in data administration and customisation of social programmes in order to account for the special needs of the victims should be implemented. Furthermore, the definition of "victims" should remain broad to include victims of organised crime groups, such as the emergent criminal gangs (*bandas criminales emergentes* – bacrim), and take into account that while the actors are less clear-cut than in the past, violence persists.

Notes

1. Alvaredo and Londoño (2013) identify three types of tax reliefs that significantly erode the tax base and benefit top incomes disproportionately: allowances, costs and deductions and exempted income. Costs and deductions are the main component, and its importance increases the higher the income, reaching half the income of the top 0.01%. Under costs and deductions taxpayers can deduct investments in real productive fixed assets, other investments, charitable donations, expenses incurred abroad, and expenses in education and health.
2. The Colombian pension system is analysed in further detail at OECD (2015a). Bosch et al. (2015) also provide a diagnostic of the system and possible reform options.
3. Since the regulation to operationalise the programme was still ongoing, by November 2014 no benefit had been granted.
4. The implementation of BEPS has started with the population that did not meet the requirements to receive a pension. By November 2014, no benefit had been paid as the Financial Superintendence of Colombia had not yet approved the insurer to pay annuities. However, 314 people had been recognised as eligible and another 559 are being processed.
5. The Colombian health system will be analysed in detail in a review by the OECD Health Committee, to be published as OECD (forthcoming).

6. The programme is also included as part of the National Development Plan 2014-2018.

7. This figure refers to resources assigned to the Colombian Institute of Family Welfare, which account for the main bulk of overall resources. The ministries of education, culture and health have also allocated resources to the programme, however levels are significantly smaller.

8. The National Development Plan 2014-2018 includes budget to improve the availability of care in regions that are lagging behind.

9. Access to the programme is administered by a system of calls (convocatorias) which open every two to three years (calls are only permanently open for displaced population).

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Annex 4.A1

UNIDOS: Dimensions and targets

Table 4.A1.1. **Dimensions of Red UNIDOS**

1. Identification	Family members have documents that identify them as Colombian citizens and demonstrate compliance with requirements established by law.
2. Income and work	Family has access to income (monetary or in kind) through different means.
3. Education and training	Children, youth and adults accumulate human capital and access to knowledge that allows them to their full development.
4. Health	All people receive care services and participate in health promotion and prevention programmes. Hence, the family reduce avoidable mortality and morbidity.
5. Nutrition	All family members have adequate food and have good habits in handling food.
6. Housing	The family has a safe condition, habitability consistent with their cultural context.
7. Family dynamics	The family has a strong links, healthy coexistence mechanisms and expression of affection. It also recognises the importance of relations between its members for their own development.
8. Banking and saving	The family is interested in the financial system as a means of access to job opportunities, income and family security. Additionally, it creates a culture of saving to achieve goals set by itself.
9. Access to Justice	The beneficiary family has access to formal and non-formal justice to resolve their conflicts, awareness of rights, promoting the values and promote coexistence in a timely and effective manner.

Source: www.anspe.gov.co/es/programa/estrategia-unidos/dimensiones-y-logros.

Chapter 5

Making the most out of international migration for Colombia

Colombia is a net emigration country, with about 1.3 million Colombians living in OECD countries. Emigration is characterised by an over-representation of women and highly-educated people. The United States and Spain are the primary destinations, in addition to Colombia's neighbouring countries, Venezuela and Ecuador. With the global economic crisis, many Colombian emigrants in OECD countries lost their jobs and returned home. A number of initiatives have been put in place to engage with the emigrant community, but most are small scale.

Immigration to Colombia has been a marginal phenomenon until recently, although this situation is gradually changing. In contrast to most OECD countries, labour accounts for the bulk of new migration inflows, driven by free mobility within the region and a rather favourable labour migration framework. Given the small-scale nature of immigration to Colombia, integration has not been a primary policy concern to date.

1. Introduction

Colombia has been shaped by migration in many ways; at the last census, about 1.3 million Colombians lived in OECD countries – with the United States and Spain as the main destinations – and an additional 720 000 in neighbouring Venezuela. Highly-educated are largely overrepresented among the Colombian emigrants. Whereas the overall stock of immigrants in Colombia is well below those of OECD countries, there are some signs of a changing migration context – with less emigration, growing return migration of Colombians from abroad, and more immigration of foreigners. Recent institutional changes regarding migration management, with the creation of a specialised agency within the Ministry of Foreign Affairs and a special Migration Unit in the Ministry of Labour, reflect the growing interest in this issue.

Against this backdrop, this chapter reviews the policy context for international migration from and to Colombia. It begins with an analysis of the policies to engage with the diaspora, along with a description of remittance flows and the evidence on their economic impact. Section 2 discusses the policies regarding return migration. Section 3 reviews the framework governing immigration and integration of immigrants in Colombia. International co-operation in the context of migration from Colombia is discussed in Section 4. The chapter concludes with a summary of the main findings and possible directions for future policy development in this area.

2. Engaging with the diaspora

Colombia has strengthened its policies to engage with its diaspora, but they remain small-scale

Colombia has a large emigrant community, although there is some uncertainty regarding the exact scale of its emigrant population, since many emigrants are in neighbouring non-OECD countries for which data from the latest census are not yet available (see Box 5.1). In addition, an unknown number of Colombians have an irregular status and may not be adequately covered by census data.

The rapid growth of Colombian emigration around the year 2000 – driven by violence in the country and favourable economic development in other countries such as Spain – has prompted the government in 2002 to declare strengthening the relationship with Colombians abroad as a strategic objective, and entrusted the Ministry of Foreign Affairs with this task. Among key areas of focus are: the improvement of migrants' living conditions; the expansion of information provision and legal assistance services, and the creation of networks to foster the social and economic development of Colombia.

A key element supporting this objective is *Colombia Nos Une*, a programme launched in 2003 which aims to promote networking and collaborative activities among Colombians living abroad through the production of newspapers, news bulletins, and the organisation of cultural and integration activities. Alongside these activities, *Colombia Nos Une*, in co-operation with consulates and local community leaders publishes a directory of the migrant associations and organisations operating in destination countries. In addition, *Colombia Nos Une* has signed an agreement with the national university for distance learning UNAD (*Universidad Nacional Abierta y a Distancia*) allowing Colombians abroad to benefit from distance learning and to be enrolled in any level of the academic cycle. In parallel, the national vocational education service SENA (*Servicio Nacional de Aprendizaje* offers online training for Colombians abroad in various fields such as health, arts, culture, entrepreneurship and social sciences.

Box 5.1. **Estimates on the number of Colombian emigrants**

Figures from the *Database of Immigrants in OECD Countries* (DIOC) show that there were about 1.3 million Colombians living in OECD countries at the time of the last census (see OECD, 2015). There are also significant numbers of Colombians in non-OECD neighbouring countries. Currently, information for the last census is only available for the two most important non-OECD destinations in the past, namely Venezuela (722 000) and Ecuador (92 000).

The most recent estimates on the global stock of Colombians abroad are from the Ministry of Foreign Affairs and date back to 2005. For that year, it is estimated that 3.38 million Colombians were living abroad (www.cancilleria.gov.co/en/colombia/migration/historical). These calculations are based on population estimates made by the National Department of Statistics which uses different sources such as population census, data from travel registers provided by the Administrative Department of Security (*Departamento Administrativo de Seguridad* – DAS), and population census from destination countries where high numbers of Colombians have been recorded.

The emigration figures were estimated using indirect methods, where the questions are addressed to the migrants' relatives such as the mother, the brothers or sisters and the household head. Two main methods were used: in the first place estimates were based upon data on the place of residence of the siblings of all persons enumerated, and the second place estimates were based on the number of children living abroad. The second of these estimation methods involves fours steps: firstly the number of emigrants whose mother is alive and present in the country is estimated; secondly the number of surviving children whose mother remained in Colombia but had died by the time of the census is estimated; thirdly the number of surviving children abroad that had travelled with their mother is estimated, and finally an estimate is made of the number of surviving children abroad that had travelled with their mother but whose mother had died by the time of the census. The results of these two methods are then combined in order to develop an estimate of the stock of Colombians living abroad for the years 1960, 1978, 1980, 1985 and 1993. In order to extrapolate the series until 2005, data from the record of entries and exits of international travellers compiled by the DAS were used.

Box 5.1. **Estimates on the number of Colombian emigrants** *(cont.)*

According to the results of the census reconciliation, the total emigrant population during the period 1985-2005 was estimated at 1 878 345. Based on this result, a rough estimate of the Colombian population residing abroad, under the assumption that the biggest share of migrants recorded are of Colombian origin, and without defining any assumption on mortality, was obtained by adding the emigrant stock of 1 500 000 estimated for 1985 to the 1 878 345 estimated for the period 1985-2005, thus obtaining a total of 3 378 345 Colombians abroad (see DANE, 2007 for more detailed information on how these estimates are produced).

In OECD countries, there were in 2005/06 only a little more than 1.03 million Colombians, according to the *Database of Immigrants in OECD Countries*. There is thus a difference of more than 2.3 million, and it is unlikely that non-OECD destinations account for all of this.

There exist, therefore, disparities between 2005 OECD figures (and in general any estimation based on data from countries of residence) and national figures. The recall data used by the Colombian authorities may render the identification of long-standing migrants less reliable, and the national estimates also do not account for mortality. At the same time, figures made up from census data collected in countries of destination may suffer from under-coverage of the undocumented population – although it appears that many undocumented emigrants are nevertheless included (see Arslan et al., 2014).

In addition to these activities, the orientation and labour attention centre COLABORA (*Centro de Orientación y Atención Laboral*) provides a counselling and assistance centre for any labour-related problems including a special telephone line, the *Línea 120*, to react in real-time to demands (see Chapter 3). This line, which allows dproirect contact with lawyers, labour inspectors and advisors, is also accessible for Colombians abroad. However, until now only 0.5% of the demands concerned migration issues, and only 0.1% of all calls came from outside of Colombia.

Finally, the programme *Colombiano Seguro en el Exterior*, designed and carried out by the Social Insurance Institute (*Instituto de Seguros Sociales*) offers the possibility to all Colombians living abroad to join and make contributions to the General Pension System or continue with contributions they had made at any point in time in Colombia.

Given the fact that Colombian emigration is rather highly educated in comparison with that of other countries (see Figure 1.12 in Chapter 1), specific attention has been paid to the highly-educated diaspora, mainly through two initiatives. The first, *Red Caldas*, is a virtual knowledge community composed of Colombian scientists and researchers living abroad. Founded in 1991, as part of a policy aimed at integrating Colombian researchers abroad in the national scientific community, Red Caldas members are now located in 30 countries – mainly in Europe and the

Americas. The second is the programme *Tiempo de Volver* (time to return), designed to facilitate the return to Colombia of senior scientists. The programme has an estimated investment of more than 17 000 million pesos, which sustain funded researchers, relocation expenses and research projects as well as other costs associated with incentives, for a period not exceeding two years. It seeks to benefit more than 200 researchers, who wish to return the country to conduct post-doctoral stays.

In sum, Colombia has a number of initiatives, but they are rather small scale, with little co-ordination. OECD countries with strong diaspora policies include Ireland, Mexico, and Portugal. In all of these, there is a co-ordinating actor, which bases on existing emigrant community organisations (see OECD, 2013; OECD and MAE, 2012). In Portugal, there is a state secretariat for Portuguese communities abroad, which also co-funds a special observatory of emigration and Portuguese emigrant communities. In Mexico, the Institute for Mexicans Abroad – a decentralised agency of the Ministry of Foreign Affairs – aims not only to strengthen ties between Mexico and its emigrant community, but also tries to improve the living conditions of vulnerable emigrants and their families. Ireland, through its "Irish Abroad Unit" in the Department of Foreign Affairs and Trade, also supports Irish emigrant communities.

In parallel, Colombia has a scholarship programme to promote study in universities abroad, similar to the programmes in other OECD countries. Financed by the National Government and by some of the most important companies in Colombia, *Colfuturo* is a non-profit foundation that offers support to students interested in undertaking their postgraduate studies abroad. Students are selected on the basis of their academic track record and can receive a scholarship of up to USD 25 000 per year for a maximum of two years to cover tuition fees and living expenses. They can be awarded 50% of the amount if they: are awarded their postgraduate degree; return to Colombia, and remain in the country for at least three to five years. Since 1992, of 18 907 applications received, 9 060 were accepted for funding. Between 2010 and 2014, 5 520 Colombian students have benefited from the programme, with the most popular destinations being the United States (1 279 scholarships) and the United Kingdom (1 216 scholarships). The scholarships mostly finance Master degrees (88%) and are largely undertaken in the fields of engineering (21%), business and management (13%), social sciences (10%) and law (9%). For the recent cohorts, statistics on loan reimbursement suggest that around 30% of Colombian international graduates do not return to Colombia – a figure that is similar to the ones generally observed for international graduates in OECD countries (see OECD, 2012).

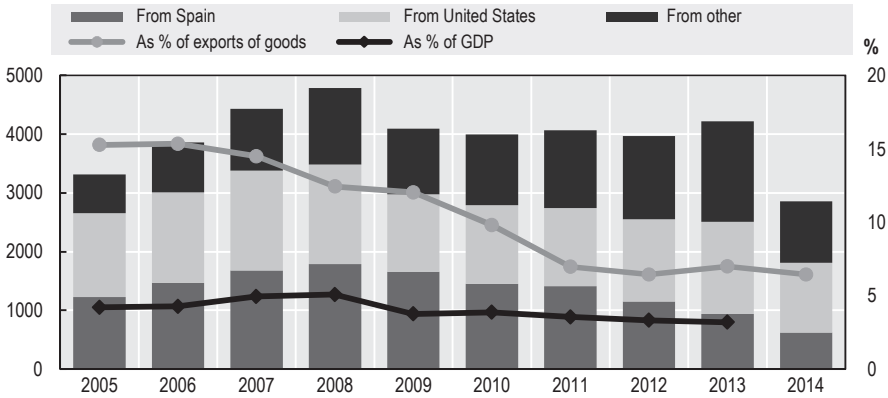
The importance of remittances has declined considerably

With more than USD 4 billion in official remittances in 2013, Colombia is the country receiving the largest remittance inflows in Latin America, after Mexico and Guatemala. However, with the onset of the global economic crisis, there has been a significant decline in remittance flows to Colombia, and relative to GDP, their importance has halved since 2008 and stood at below 1% of GDP in 2014.

Still, among OECD countries, only in Mexico (about 2% in 2013) have remittances a greater importance – as measured as a percentage of GDP. That notwithstanding, remittances are widespread and, according to estimates by Arango (2014), about 16% of Colombian households receive remittances.

Figure 5.1. **Remittance inflows to Colombia show a strong decline**

Remittance flows to Colombia in million of USD by origin (left axis), and remittances as a share of GDP and of exports (right axis)



Source: OECD Secretariat calculations on the basis of data from the Banco de la Republica.

StatLink http://dx.doi.org/10.1787/888933275703

The origin of remittances sent to Colombia has diversified in recent years, reflecting a recent diversification of the destinations of Colombian emigration. According to data from the Colombian National Bank, in 2004, half of all remittances sent to Colombia came from the United States, and remittances from Spain accounted for a further 30%. In 2013, 37% of remittances received originated in the United States, 23% in Spain, 12% in Venezuela, 3% in the United Kingdom, 3% in Ecuador and 3% in Chile.

Almost two-thirds of the remittances that pass through official channels are remitted through money transfer companies, and the remainder through

banks and financial corporations. The rather low share of the latter two is associated with the often higher costs associated of this channel, and the requirement it imposes on the sender and receiver to hold a bank account.

Overall, there has been a decline in the cost of sending remittances in recent years. According to the remittance price databank of the World Bank, the average price of sending 200 US-Dollars to Colombia is currently about USD 10, for both of the main destinations of Colombian emigrants – i.e. the United States and Spain.

Remittances seem to have contributed to better living standards among lower-income households

Most studies that have analysed the economic impact of remittances in Colombia date back to the pre-crisis period, when remittances had a larger importance than is currently the base. Cardona and Medina (2006) found that households who benefit from international remittances spend 10% more in education, compared with non-recipients. And, although the authors find no association between remittances and school enrolment, they do find evidence that recipient households are more likely to switch from public to private schools.

Cárdenas, Medina and Trejos (2010), who compare the economic and social behaviour of households receiving remittances to that of other households, find that, in remittance receiving households, the men are more likely to be unemployed, the women are more likely to report health problems and the family takes less care of children. However, households receiving remittances tend to have improved access to financial services and many use this access to fund a business. Most remittance recipients tend to be at the margin of the poverty line and, as a result, the evidence regarding poverty reduction is rather clear-cut (Khoudour-Castéras, 2007; Garay Salamanca and Rodríguez Castillo, 2005). The impact on inequality is less clear, since remittance-receiving households have not been at the very bottom end of the income distribution. Sanchez (2008), for example, found that although remittances to Colombia decrease poverty, but also increase inequality.

In a study on the effects of the 2008 financial crisis on the family left behind in Colombia, Arango, de la Mata and Ovando (2014), using data from the household survey 2006 and 2011 for urban areas and a difference-in-difference approach, present evidence suggesting a negative relationship between the unemployment rates in Spain and the United States, between 2006 and 2011, and remittances. Moreover, the contraction of remittance receipts in Colombia was associated with an increase in the labour force participation in the Colombian regions that were hardest hit by the decline in remittances.

In contrast to some OECD countries with large emigrant communities like Mexico (through its *tres por uno* programme, see e.g. Iskander, 2005) – and Israel (through "diaspora bonds", see Ratha and Kethar, 2009), Colombia has not introduced specific tools to channel remittances into local economic development and indeed, the evidence on the effectiveness of such tools has been rather mixed (see OECD, 2005). Instead, the Colombian Government has taken the approach to promote the channelling of remittances towards individual savings and investment in housing, education and training for the families of Colombians abroad.

The main instrument has been the creation of special savings accounts in Colombia, with an interest rate above the market rate and at practically no costs for the management of the account. There are a number of restrictions attached to the use of this account. The applicant has to agree on a target amount of savings during a certain period, aimed at property investment or education in Colombia. The minimum length of time for the savings has to be one year and the maximum monthly amount saved is topped at 10% of the monthly income converted in pesos. A similar, though much less targeted, instrument has existed in Turkey, through foreign exchange accounts at the Central Bank (see Köksal and Liebig, 2005).

Additionally, there have been some initiatives to promote partnerships between public and private entities to encourage investment in housing and education. Finally, under certain conditions, remittances up to USD 869 have been exempt of the tax on financial transactions since 2009.

3. Policies on return migration

Return migration has increased

Data on return migration is difficult to obtain. First, as they are Colombian nationals, return migrants do not need a permit. It is also not possible to distinguish return migration from simple holiday trips through the border statistics. The first issue is in principle different with respect to the host countries from which they return, but people do not necessarily de-register when they leave the country. And when they do, it is generally not known if they left for a third country – i.e. neither the origin nor the host country which they leave – or returned to the origin country. In addition, many migrants take on the host-country nationality after a few years, and few countries – among which is Spain – have information on outmigration by country of birth. In the case of Spain, for example, almost two-thirds of Colombians with more than ten years of residence have taken on Spanish nationality.

Mejía (2010) estimates that the returns of Colombian migrants residing abroad started to increase considerably in 2008 with the return of around 100 000 Colombian emigrants, more than twice the number returning in

2007. Official data on departures of Colombians from OECD countries are only available for some countries and go in a similar direction, i.e. a strong increase in 2008. They also point to further small increases since, although there seems to be some stabilisation since 2010. Register data for Spain suggest, for that country, annual departure rates of about 1% of the Colombian-born prior to the crisis and about 4-5% since. This is slightly lower than for emigrants from other countries from the region.

In the data sources compiled by Mejía (2010), most of the return migrants came from the United States (32%), Venezuela (27%), Spain (16%) and Ecuador (13%). Compared to emigrants abroad, Colombian return migrants seem to be somewhat less educated than the emigrant population, a selection commonly observed among return migrants (see Dumont and Spielvogel, 2008).

Due to measurement issues and the lack of reliable data, few studies analyse the phenomenon of Colombian return migration, and most of these date back to the period of high emigration prior to the global economic crisis. Gaviria and Mejía (2006) provide descriptive evidence that the desire to return, among Colombian migrants living in the United States, is related to the economic, employment and security situation within Colombia. The desire to return appears to be higher among high school graduates than among professionals, and decreases with duration of stay. In a similar vein, using the 1990 and the 2000 American Community Survey to evaluate the determinants of return migration from the United States, Medina (2008) finds that return migrants from the US are mostly represented by men, by the primary educated, by the oldest migrants, and by those having children. Similarly, Medina and Posso (2009) analyse the association between education level and the likelihood of return migration in the case of Colombian migrants living in the United States. Using data from the 1990 and the 2000 American Community Survey, the authors find that return migrants are less educated than stayers. Colombians holding a tertiary degree are, on average, 23% more likely to stay in the United States. Finally, Cárdenas, Medina and Trejos (2010), in a survey among Colombian households with return migrants, find that these household tend to increase their expenditures on home products, recreation, health and education. They posit that this finding results from the accumulation of savings during the migration period and that, as a result, households containing return migrants are less likely to be poor, women have better health indicators and report greater satisfaction with their quality of life.

In 2009, a National Survey on International Migration and Remittances was conducted. It showed that the main motivation for return invoked by return migrants was the presence of family in Colombia – almost 54% reported family reasons as their primary motivation for return, while less than

22% reported the economic context was the primary motivation. About 13% returned because of reported difficulties in adapting to the destination country.

Targeted policies have low take-up

In response to the growing numbers of return migrants since the beginning of the global economic crisis, the Colombian Government has been actively working to improve the reintegration of return migrants. The first was the implementation of the *Plan Positivo de Retorno* between 2009 and 2013, to support the return of Colombian migrants affected by the economic crisis. The programme offered guidance and support to Colombians returning to the country. The services offered under the plan include psycho-social counselling, legal advice, professional guidance and entrepreneurial consulting. However, there is no direct action targeted at insertion into the Colombian labour market. In some municipalities, authorities have taken actions to guarantee access to public schools for the children of returning families, by putting places aside for this group. Until May 2013, 5 457 Colombian nationals benefited from the programme, mainly in the regions with the highest concentration of emigrants, notably Bogotá, Risaralda, Valle del Cauca, Norte de Santander and Ipiales.

The second, as a follow-up to the *Plan Positivo de Retorno,* a law on return migration was enacted, the *Ley de Retorno* (Law 1565 of 2012). It goes beyond the previous measures by providing customs, tax and financial incentives to Colombian return migrants who have been living abroad for at least three years. Beneficiaries are exempted from payment of tax and import duties on the goods they bring with them when returning to Colombia, up to a certain threshold which depends on the category of goods concerned. In addition, there is also the possibility of tax exemptions for income resulting from the sale of property and certain categories of labour income in the host country, again up to a threshold. In addition, personalised counselling is available to those who wish to return. To date, 607 returnees have benefited of tax exemptions and 753 have received guidance in their return process.

In 2013, a specialised agency within the public employment service has been established to provide labour market information and career counselling for return migrants. The Ministry of Labour is currently working on the development of a further return plan to address the labour market re-integration of the return population. One of the main elements is a greater sensitivity of the employment agencies for the specific needs of this population.

Parallel to the efforts by the Colombian Government, Spain – as the destination country most severely affected by the crisis – has also implemented a voluntary return programme (Box 5.2).

Box 5.2. **Return migration programmes in destination countries: The case of Spain**

Spain has three voluntary return programmes aimed at non-EU immigrants: the *Programa de Abono Anticipado de Prestación a Extranjeros* – APRE, the *Retorno voluntario productivo* and the *Retorno humanitario*. By 2014, around 28 000 workers had benefited from these programmes – most of them being from Ecuador, Colombia and Peru.

The most significant programme, APRE, was launched in November 2008 and targets those immigrants who, having lost their jobs, decide to capitalise on their entitlement to unemployment benefits and return to their countries of origin. In order to be eligible, migrants should have had a regular status in Spain and have the nationality of a country with which Spain had a bilateral social security agreement. This concerns Colombia, as well as Argentina, Brazil, Chile, Ecuador, Paraguay, Peru and the Dominican Republic. Migrants who qualify for the APRE programme are entitled to free transportation to their home country, including EUR 50 per person for transportation to the nearest Spanish airport. They receive their accumulated unemployment benefits in two instalments: 40% prior to departure and 60% following return to their origin country. The average total payment runs about EUR 9 000 per person. Once migrants collect the first instalment, they must hand in their Spanish documents – including work and residence permits, national identity number card, social security card, and health-care card – and leave Spain within 30 days. Under the APRE programme, returnees are banned from returning to work in Spain for three years.

During the first year, 8 724 people applied to join the programme, representing only 10% of the potential target population. Most applicants were migrants from Latin American countries, namely from Ecuador, with 3 839 applicants (44%), Colombia, with 1 570 (18%), Argentina, with 846 (10%), from Peru, 750 (9%) and Brazil, with 462 (5%). By July 2010, the number had doubled and just over 16 000 people had benefited, with 4 000 indirect beneficiaries (Plewa, 2012). In total 1 694 Colombian migrants have benefited from this programme between 2009 and 2012.

The *Retorno Productivo* targets the non-EU immigrants who are not entitled to unemployment and therefore cannot ask for the single payment, but who have a solid business plan and are seeking assistance. They can obtain a lump sum of up to EUR 1 500 and travel grants. The programme is a partnership between the Colombian National Training Service (*Servicio Nacional de Aprendizaje* – SENA), the Chamber of Commerce Institute for Creation and Enterprise Development (*Fundación Instituto Cameral para la Creación y Desarrollo de la Empresa* – INCYDE) and the Ministry of Foreign Affairs (*Ministerio de Relaciones Exteriores*). Between 2010 and 2012, only 83 Colombian migrants benefited from this programme. In addition, the partner institutions jointly organised six days of information and entrepreneurship guidance in five Colombian consulates across Spain, during which 300 Colombians received support.

Finally, the *Retorno humanitario* is aimed non-EU immigrants who are in particularly vulnerable situations, confirmed by the Spanish social services and specialised non-governmental organisations. They are offered support for the ticket and travel expenses. A similar programme is implemented by the Colombian counterparts, with the assistance of the International Organisation for Migration.

In summary, with the global economic crisis and the growing numbers of return migrants, efforts have been stepped up to better assist return migrants. However, take-up rates are low, and the vast majority of return migrants do not take advantage of the instruments available to them. The reasons for the low take-up are not entirely clear, although similar observations have been made in OECD countries with similar programmes, such as Poland (OECD, 2013; OECD and MAE, 2012).

4. Policies on immigration and integration of immigrants

Regional integration has a strong impact on migration from and to Colombia

Apart from business-related immigration such as intra-corporate transfers from key OECD trading partners such as the United States, immigration to Colombia is predominantly from within Latin America. This can be largely explained by Colombia's membership in both the Andean Community of Nations (*Comunidad Andina de Naciones* – CAN) and the Southern Common Market (*Mercado Común del Sur* – MERCOSUR), both of which include free-installation provisions. In addition, Colombia has bilateral free installation arrangements with Chile, Ecuador and Jamaica.

In June 2003, through the Andean Labour Migration Instrument, Andean countries committed to advance the freedom of movement of Andean migrant workers within the sub-region and take no further action to restrict this right. Through this tool, Andean nationals have the right to enter another member country if they signed an employment contract, or to respond to a job offer. It also gives Andean migrant workers the right to undertake temporary agricultural and livestock activity within the border areas of member countries for a period up to 90 days without obtaining a visa. The Andean Labour Migration Instrument also includes an electronic platform for the online registry and certification of migrant workers within the region.

In contrast to free mobility regions in the OECD, such as within the EU/EFTA region, free movement in the CAN does still require a permit in the destination, although the only condition on the permit is an employment contract, and there is no labour market test or other obstacles to the installation in the destination country. National identification documents are also mutually recognised.

Nevertheless, Andean workers have to register with the Labour Immigration Office that will issue a document certifying the status of Andean migrant workers and provide the information necessary to assure their integration and knowledge about the living conditions and

requirements in the country of immigration. To complement these measures, in 2004 Andean members approved the Andean Instrument of Social Security, which seeks to guarantee equal treatment and the elimination of all forms of discrimination. Another step, in 2013, was the creation of the Andean Passport, with the purpose of providing protection and assistance to migrants from the sub-region to third countries.

With the same spirit of the CAN agreements, Colombia signed in 2012 a migration accord with the MERCOSUR. According to this agreement, nationals of Argentina, Brazil, Bolivia, Peru, Chile and Ecuador are granted temporary residence for two years in Colombia. They can opt for a special visa that allows them to develop any type of legal activity in the country, and only requires a clear criminal record issued in the country of origin or last place of residence.

Finally, in 2011, Colombia signed an agreement with the Pacific Partnership (*Alianza del Pacífico* – AP) to work jointly with other members (Chile, Colombia, México and Peru) on the movement of businesspersons and transit facilitation for immigration.

There has been significant modernisation of the framework for migration

In parallel to this regional integration, the Colombian Government has implemented in recent years a series of reforms to modernise its institutional and legislative structure governing migration. The 2010-2014 Development Plan (the document guiding government policy in Colombia), for the first time, proposed the design and implementation of policy guidelines to govern labour immigration issues. Labour migration policy is a joint responsibility of Ministry of Foreign Affairs and the Ministry of Labour. The stated policy objectives of labour migration are: to contribute to a better matching of the supply of, and the demand for, labour; to meet specific local needs; to respond to the needs of foreign investment; the arrival of new technologies; and to promote the arrival of skilled labour migrants. In the medium term, a further objective is to enable the country to have enough qualified personnel in areas where large training gaps are evident.

There have been two major changes in the institutional architecture governing immigration in recent years. The first was the creation, in 2011, of a specialised national agency under the Ministry of Foreign Affairs, the *Unidad Administrativa Especial Migración Colombia*, to monitor and control immigration. This agency is now responsible for many migration-related matters – such as border control and entry and stay regulations – and has 11 regional offices, 27 migration facilitation centres (intended for a

better catering of the migrant population) and 38 immigration checkpoints at land, sea and airports.

The second major institutional change came along with the newly-established Ministry of Labour in 2011 and the definition of its objectives, which include full responsibility for formulating, implementing and evaluating a national policy on labour migration, with an emphasis on strengthening the rights and guarantees for migrant workers. Although the full introduction of this policy is scheduled only for 2016, the Ministry of Labour has already taken several preparatory steps and created a special labour mobility unit.

What is still lacking in Colombia is an overall co-ordination of migration-related aspects at the political level. Currently, there is a supervisory committee for *Migración Colombia* which gathers the Ministers of Tourism, Infrastructure, Defence, and Foreign Affairs – the Minister of Labour is not included. In addition, since 2003 there is a National Intersectional Commission for Migration gathering representatives all ministries and agencies involved in migration matters (including the Ministry of Labour).[1] Most OECD countries have gone much further and established specialised state secretariats to tackle this co-ordination task. The focus is either on emigration, such as in the case of Mexico, or on immigration, such as is the case in most European OECD countries.

The legal framework has improved, but flows remain marginal

The legal framework governing immigration policy has also undergone significant evolution in recent years. The most significant transformation of entry and stay regulations has been the adoption of a new Immigration Act to regulate the permits and visas granted to foreign nationals. The 2013 Immigration Act was designed to consolidate the regulatory framework to include all aspects of Colombian immigration policy.

The main innovation of the new immigration law is that it consolidates, in one single act, multiple aspects of immigration regulation. These include immigration requirements, scenarios, permitted activities and obligations to be met by foreign companies and citizens. A further major change has been the reduction of visa categories, from six in the previous Immigration Act of 2004 to three main groups: business, temporary and permanent, and a detailed specification of the activities that foreign-born workers are allowed to perform. Finally, the 2013 law removed the requirement for a professional license, issued by the regulatory Colombian authority, to apply for a visa. However, authorisation is still required to engage in a regulated profession of social or environmental impact, such as engineering, law, economics and business administration. No specific authorisation is required

for conducting a business. In any case, nationals of most Latin American countries and OECD countries do not need a visa to enter Colombia, but they need a residence permit if they want to stay in the country longer than 90 days.

Prior to the new immigration law, an important step forward towards creating a modern immigration system was the repeal of the proportionality law that was in force until 2010. According to this law, contained in the Colombian Labour Code, all employers with more than ten employees were required to employ no less than 90% Colombian workers among ordinary workers, and 80% in the case of qualified personnel, specialists and managers. In addition, the law stipulated that national workers performing the same functions as foreigner workers should be entitled to the same salary and working conditions. Proof of the fulfilment of these conditions was required as part of the visa application process for new foreign workers. The 2010 Law of Formalisation and Employment Generation repealed these regulations, because they were seen as a barrier to the arrival of multinational companies hiring foreign staff.

However, restrictions remain in the oil sector. Putting limits on recruitment of foreign workers for some key occupations or sectors is not unusual, and several OECD countries have similar restrictions. The objectives are generally to allow for specialist knowledge to be built up locally and to avoid that certain companies become overly dependent on foreign labour. That notwithstanding, the maximum shares applied in Colombia are rather low, and fixed arbitrarily, so some flexibility could be introduced.

A further important step came in 2013, when in-country status change became possible. Prior to this, someone entering with a tourist visa and wishing to remain in the country because he or she found a job had, at least in principle, to return to his/her origin country and apply for a different visa.

Compared with OECD countries, in terms of labour migration, admission is liberal in Colombia, at least in principle. There is no labour market test, and if they have a job offer, foreigners can in principle take up any employment that pays at least the minimum wage.

However, there are two caveats to this. First, obtaining a work visa can be burdensome for nationals from those countries for whom visa-free entry is not possible. This concerns mainly non-OECD countries outside of Latin America and indeed, the overwhelming majority of labour migration is either from OECD countries or from other Latin American countries.

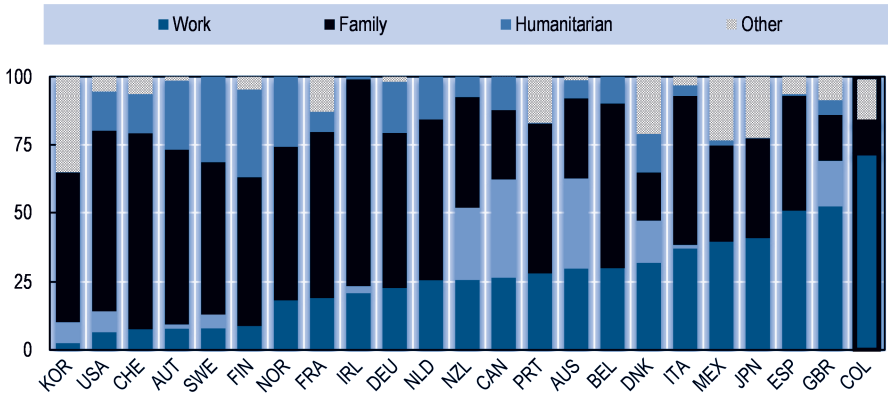
Second, work visa are always temporary and granted for one year. This permit is renewable and may, after five years, lead to permanent residence.

This is similar to the European OECD countries, whereas in the OECD settlement countries such as Australia, Canada, New Zealand and – to a more limited degree – the United States, a permanent permit can be granted upon entry.

To which degree these changes had an impact on labour migration to Colombia is difficult to establish, but certainly, labour migration has increased by threefold since 2010. The share of labour migration among all flows has also risen – indeed, labour migration has accounted for the bulk of the recent increase in migration to Colombia (Figure 5.2) (see SICREMI, forthcoming). Venezuela is the most important origin country and also accounts for a large part of the recent increase. Many of these are rather skilled and work in qualified jobs in the mining regions or as entrepreneurs, but exact figures on the occupational and sectorial distribution of employment are not available.

Figure 5.2. **The share of labour migration among inflows is high**

Composition of migration flows to Colombia compared with permanent migration to OECD countries, around 2013



Note: For European countries, as well as for Australia and New Zealand, free mobility has been excluded as it is not possible to distinguish between the labour and family components for these flows. For Colombia, some temporary migration is included as well.

Source: OECD Secretariat calculations based on the *OECD International Migration Database* and data provided by the Colombian authorities.

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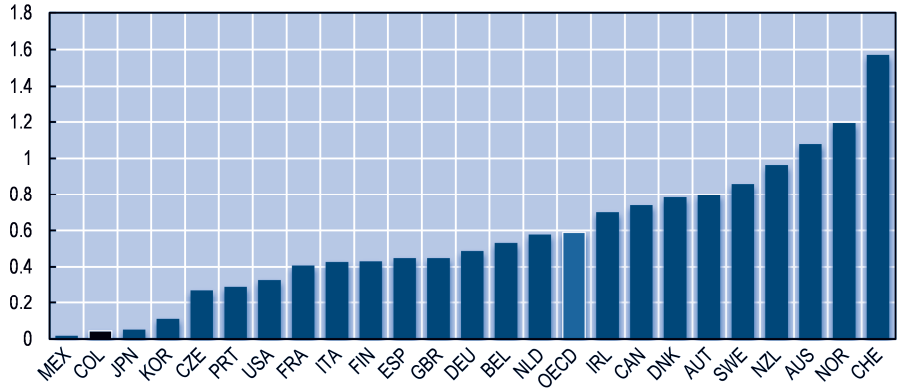
However, there are two caveats to this observation. First, immigration flows to Colombia are very low in international comparison (Figure 5.3). Among the OECD countries for which standardised migration figures are available, only Mexico has lower flows. Second, currently it is not possible to clearly distinguish between permanent-type and temporary-type labour migration, since all labour migrants obtain a temporary permit initially. This is also the case in most European OECD countries, where it is nevertheless easier to distinguish within the category of temporary permits between those which are likely to lead to permanent residence and those which do not. In Colombia, this is currently not possible.

This leads not only to a likely overestimation of the share of labour migrants, but also of the overall flows, relative to OECD countries.

Figure 5.3. **Immigration flows to Colombia are low compared with OECD countries**

Permanent immigration in percentage of the population, around 2013



Note: For Colombia, figures include both temporary and permanent migration.

Source: OECD Secretariat calculations based on the *OECD International Migration Database* and data provided by the Colombian authorities.

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The infrastructure for monitoring migration flows has also improved, but the benefits are not yet reaped

Along with the new permit system, Colombia recently invested heavily in improving the information systems that monitor migration. Two main systems have been implemented since 2010: the Platinum system, developed on order to manage the activities of *Migración Colombia*, and the SITAC

(*Sistema Integrado de Trámites al Ciudadano*), implemented by the Ministry of Foreign Affairs.

The information gathered by *Migración Colombia* through the Platinum system concerns details of the identification documents, as well as information on the migrant's education, occupation, address, nationality, photograph and fingerprints. Once fully in place, the system is in principle capable of issuing an alert to *Migración Colombia* once a permit of a migrant expires, but there is no systematic follow-up envisaged.

The SITAC was developed to manage the administrative paperwork of nationals and foreigners, both in Colombia and abroad, such as visas, passports, certifications, extraditions, detentions, nationality issues, and overseas residence. The system works via the web in 116 consulates, 28 governorships and offices of the Ministry of Foreign Affairs in Bogotá. While the Ministry of Foreign Affairs and *Migración Colombia* have integrated SITAC and Platinum systems to allow migrants and Colombians the consultation and validation of information online, none of these services is yet fully operative.

Prior to these systems, most information was paper-based, making a monitoring virtually impossible and the system prone to abuse. With this information infrastructure, Colombia has, in principle, a modern migration monitoring system in place that is more developed than those of many OECD countries. However, the information that is currently derived from the system remains opaque, due in part to the distinction of between temporary and longer-term labour migration.

In addition to the two systems just mentioned, the Ministry of Labour is conducting an employer survey to generate information about the availability of human capital and the productivity of the Colombian enterprises. This statistical system aims at monitoring the flow and stocks of migrant workers, and should also provide the basis for follow-up on possible training demands of foreign workers living in Colombia.

Furthermore, two specific databases have been developed for migrant workers. The first, the PLUMA (*Plataforma Laboral Única para el Migrante Andino*) concerns migrant workers under the CAN, allowing for web-based registry and better monitoring of the flows of these workers. The second is a statistical system for the monitoring of labour migration, both from and to Colombia

Finally, a sub-committee for "Social Trialogue on Labour Migration Management" was established in 2013 involving the Ministry of Labour, employers and trade union representatives, with the objective to promote the active participation of multiple actors in the labour migration debate through

mechanisms to generate pilot programmes, actions, strategies and recommendations to guide the national government in political and labour migration management. The main result thus has been regional workshops with representatives of departmental and local authorities in each department. The reports of these workshops highlight that the concerns most frequently raised regard the lack of a coherent policy on labour migration in border areas, and the lack of institutional commitment to labour migration.

Integration of immigrants is not yet on the radar screen

In contrast to most OECD countries, Colombia has not yet developed a comprehensive immigrant integration policy. This is not surprising given the small scale of immigration, at least until recently. Only a few small and rather isolated actions have been taken to promote the integration of foreign nationals in the Colombian society and labour market. These involved the international agreements on social security and health (see below), the modernisation of the regulations governing entry and stay of migrant workers and their families, and the recognition of qualifications acquired in foreign countries.[2]

The Colombian Constitution (Article 100) grants foreign nationals the same civil rights granted to Colombian nationals, which is also in line with another key article (Article 13) of the Constitution that dictates the impossibility of exercising discriminatory acts by reason of "national origin". Foreign nationals working in Colombia are subject to the same rules and legislation that govern individual and collective labour law of Colombian nationals. These rules, contained in the *Código Sustantivo de Trabajo*, are based on the constitutional principles of equality and non-discrimination.

Like Colombian nationals, foreigners working in Colombia can report any violation of their labour rights to the Ministry of Labour, through the Directorate of Inspection, Monitoring and Territorial Management, or the territorial Directorate and Labour Inspections.

Colombia has also ratified the *UN International Convention on the Protection of the Rights of All Migrant Workers and their Families*. Few OECD countries have ratified this convention – most parties to the convention are sending countries.

Requirements for obtaining Colombian citizenship are at the lower end compared with those in OECD countries. Colombians by birth are those persons who are born in Colombian territory, or individuals who are children of a Colombian father or mother, who are born in foreign territory and who register at a consular office or who later reside in Colombia. Colombia has thus both birth right *(jus soli*) and right of blood

(*jus sanguinis*) citizenship; it also allows for dual nationality. The minimum duration of residence on Colombian soil necessary to naturalise depends on the applicant's nationality. Whereas the delay is of only one year for persons born in Latin America or the Caribbean, it is two years for the Spanish nationals and five years for other nationalities. The five years can be reduced to two years if the person is married or in a formal partnership with a Colombian national or if they have children of Colombian nationality. By comparison, most OECD countries are in the 5-8 year range of residence requirements for the ordinary naturalisation procedure and three years for spouses of nationals. Besides the usual administrative and fiscal documents needed for the application, applicants have to provide proof of basic knowledge of the Colombian Constitution, national history and geography of Colombia and of Castilian language. Similar requirements exist in most OECD countries.

Apart from these legal provisions, there are no targeted policies in Colombia for immigrants. Many OECD countries provide such support, but the bulk targeted support relates to language training and it often only provided for free for refugees. In any case, both groups – i.e. foreign speakers and refugees – are currently very small in Colombia. Like all OECD countries (with a geographical reservation in the case of Turkey), Colombia has ratified the 1951 Convention relating to the Status of Refugees, but up to now, asylum seeking has been a marginal phenomenon – in spite of a constant increase in recent years. In 2014, there were 549 requests for asylum, compared with 227 in 2012 and 112 in 2011. Among OECD countries, only Mexico has a similarly low share of requests relative to its population.

5. International co-operation: A promising path with mutual benefits

Co-operation is most advanced with respect to social security agreements

For a country like Colombia with a large emigrant community, international co-operation with destination countries is key. A main area through which this has materialised thus far relates to social security. As a result, the Colombian Ministry of Foreign Affairs has developed a series of social security bilateral agreements. The objectives of these agreements are the following: 1) extend coverage to contributors that are part of the system social security of the two nations involved, 2) benefit the family and the survivors of foreign workers and 3) totalisation of retirement times and contributions to workers of both nations.

International co-operation in the area of social security has both a bilateral and a multilateral dimension in Colombia. At the bilateral level, two agreements are currently in force. The first, with Spain, has existed since 2008, and currently processes close to 4 000 applications. The second, with Chile, entered into force only in 2013, and has registered only 18 applications to date. Three other social security bilateral agreements – with Argentina, Uruguay and Ecuador – have entered into force, but are not yet applied. This is because application forms and information about the covered periods are still being negotiated. Colombia is currently discussing social security agreements with Brazil and Canada (with which negotiations are planned to start in 2015). In addition, Colombia has bilateral labour migration agreements with Peru, Ecuador and Brazil.

At the multilateral level, Colombia is part of the Andean Community of Nations, which has a component on social security, and is also signatory of the Multilateral Ibero-American Social Security Agreement (*Convenio Multilateral Iberoamericano de Seguridad Social*). The Andean Social Security Instrument aims to secure the preservation of acquired rights and the continuity of social security affiliation among member countries. It covers all "health and economic benefits" provided by member countries.

The objective of the Ibero-American Social Security Agreement, signed in 2007, is to preserve the acquired rights and payment of benefits for citizens moving between member countries. This involves recognising the laws regarding: economic invalidity, old-age benefits, economic survival benefits and economic benefits relating to workplace accidents and occupational diseases. The Ibero-American Multilateral Agreement covers 20 countries from the region plus Spain and Portugal, although for now only six (Brazil, Chile, Ecuador, El Salvador, Spain and Portugal) have ratified it. In the case of Colombia, ratification is still pending. The scope of the Latin American Multilateral Agreement extends to benefits relating to disability, pensions, death, accidents at work and occupational diseases.

Foreign credential recognition: An under-utilised co-operation tool of mutual benefit

The recognition of foreign qualifications is a procedure through which the Colombian Government recognises a higher education degree awarded by a foreign institution. This procedure is aimed at all professionals who have undertaken higher studies abroad and hope to work in Colombia. The recognition procedure consists of an academic evaluation of the programme (including its content, duration, intensity, number of credits, etc.); a review of the legal nature of the institution granting the degree, and an assessment of the methodology under which the academic programme is evaluated.

The recognition of foreign qualifications has three different dimensions and target groups. The first, and most important one, relates to Colombians who return to Colombia with degrees that they have obtained in their previous host countries. The second relates to foreigners who arrive in Colombia. The third, still underdeveloped, relates to international co-operation with destination countries through mutual recognition, to facilitate bilateral migration and better labour market integration of migrants with foreign degrees. This is a particularly important issue for Colombia; given that one in nine tertiary-educated Colombians live in OECD countries. In addition, among the highly-educated employed Colombians living in OECD countries, more than 34% are formally overqualified, i.e. working in jobs requiring only lower levels of education – which is above the average of migrants in general. At the same time, there is ample evidence suggesting that foreign credential recognition reduces the risk of over-education (see Liebig and Huddleston, 2014).

Given the fact that immigration to Colombia is relatively skilled and many returning Colombians have foreign degrees, the issue of the recognition of foreign qualifications is perhaps the most important one with respect to labour market integration in Colombia. There are two procedures for the recognition of tertiary qualifications in Colombia. The validation of diplomas (*convalidación*) recognises a higher education qualification awarded by a foreign higher education institution, whereas the validation of courses or credits (*homologación*) takes place when the applicant does not have a formal diploma despite having taken credits or courses overseas. Each of these recognition routes is managed by a different entity.

The validation of diplomas is led by the national government while the validation of courses or credits is led by Institutions of Higher Education, which decide which credits or courses are approved. In contrast to the system for tertiary education, recognition of non-tertiary qualifications is still poorly developed. This could be imbedded in a broader approach to certify skills, both acquired formally and informally – particularly in occupations in which there are shortages.

Colombia has also a series of international agreements on mutual recognition. However, most concern countries in Latin America – Argentina, Costa Rica, Mexico and Peru. Outside of the region, only two other countries are covered – Bulgaria and the Russian Federation, countries which have little migration ties with Colombia.

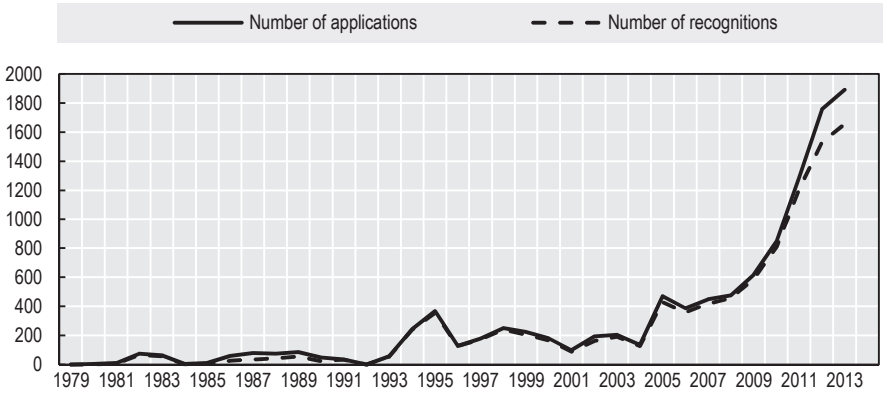
Both occupation-specific requirements and, more generally, heavy, time-consuming and costly formalities present barriers to the recognition of foreign qualifications (see Guataquí Roa, 2013 for a discussion). Indeed, for an undergraduate diploma, the cost of validation is approximately 70% of

the minimum monthly wage in Colombia. The time required for qualification recognition also presents a significant barrier, since the average time to have a diploma recognised is of 16 months.

Between 1979 and 2014, there were close to 12 000 applications for qualification recognition (Figure 5.4) of which 86% were accepted, mainly in the fields of health, engineering, architecture and urban development. The number of requests shows a sharp increase since about 2011, undoubtedly related to the return of Colombians.

Figure 5.4. **Applications for recognition of foreign qualifications show a strong upward trend**

Applications for recognitions and actual recognitions, 1979-2014



Source: Calculations based on data provided by the Ministry of Labour.

StatLink http://dx.doi.org/10.1787/888933275732

Colombia has few bilateral labour migration agreements, and most are small-scale

Until now, Colombia only has had labour migration agreements with three countries: Spain, Portugal and Canada. Since its inception in May 2001, the "Regulation and management of migration flows between Spain and Colombia", has benefited about 8 150 migrants, in both skilled and unskilled occupations. One third concerned the health sector. A labour migration agreement between Colombia and Portugal, governing flows of Colombian doctors, benefited 105 doctors since 2010.

A programme governing seasonal labour migration of agricultural workers between Colombia and Spain, in place between December 2006 and June 2009, involved about 2 800 persons. Finally, an occupation-specific

project benefited close to 600 butchers moving to Canada from Columbia in 2007-08.

In addition to these agreements, there is the MIRANDINA project, a multilateral initiative between Spain and the countries of the Andean Community – including Colombia. It aims at strengthening the capacity of governments and social institutions to improve the management of labour migration flows. In order to achieve this objective, the focus is on the improvement of inter-sectorial co-ordination on labour migration in each country, along with the organisation of information systems and the dissemination studies on labour migration that contribute to the formulation of better policies. At the same time, the project seeks to enhance employment opportunities for potential immigrants through improving vocational training and skills according to the identified labour demand in Spain.

6. Conclusions

Traditionally, Colombia has been a country of emigration and policies have largely focused on engaging with the emigrant community, but most of these have been small scale, with little policy co-ordination. Indeed, a co-ordinated approach which better involves the Colombian diaspora and informs about emerging employment and investment opportunities might convey significant benefits.

Given the large emigrant community, remittances have played an important role for Colombia's economic development, and the evidence suggests that they have improved the situation of households at the margin of the poverty line, but also contributed to enhancing inequality since remittance-receiving households are not at the bottom end of the income distribution. With the global economic crisis, remittances have declined by almost half and currently stand at 1.2% of GDP. Unlike other countries, Colombia has not developed specific instruments to try to channel remittances into local economic development. Instead, the Colombian approach has rather focused of encouraging personal and family savings. This seems adequate, given the mixed evidence on the impact of channelling remittances towards development beyond the family level.

More recently, the difficult economic situation in key destination countries – in particular Spain and Venezuela – coupled with favourable economic conditions in Colombia, has prompted many former emigrants to return. A few targeted policies have been put in place to support return migrants, mainly consisting of counselling and some tax and customs incentives. Yet, take-up has been low, for reasons which are not entirely clear. In any case, an approach more directly linked with informing return

migrants about labour market opportunities in Colombia, possibly coupled with some training, would seem more promising.

The favourable economic conditions and the crisis in Venezuela have also been associated with small but growing labour migration inflows, predominantly from other Latin American countries. These inflows have been supported by a significant modernisation and liberalisation of the immigration system, and current admission conditions are more favourable than in OECD countries. However, in spite of recent improvements in the statistical infrastructure, there is still little monitoring of the flows to date, and the transparency of the permit system could be strengthened.

Given the small-scale nature of immigration to Colombia, integration policy has not been on a policy priority. Formal protection against discrimination is similar to that provided in the OECD and conditions to take up Colombian nationality are very liberal, but there are no active integration offers, such as language training. Clearly, this would currently concern only very few migrants, namely refugees – whose number is currently negligible but has seen a strong upward trend in recent years. In this context, a small pilot for the integration of recognised refugees may be worth considering. Such a pilot should include language training – where necessary – and labour market orientation. This would enable a nascent integration system to gain some practical experience in dealing with integration, and to prepare for the eventuality that immigration flows continue to grow considerably and to diversify.

One area in which Colombia has not been particularly active in the past but which could potentially convey large benefits is international co-operation, where three domain seem particularly relevant: social security agreements; co-operation regarding recognition of foreign qualifications; and bilateral labour migration agreements. In all of these domains, Colombia has engaged in agreements, but they covered few OECD countries. Colombia seems well-placed to take an active role in promoting this international co-operation. In particular regarding mutual recognition coupled with bilateral labour migration agreements, could be tested in pilots or in selected occupations.

Notes

1. For labour migration, there is also a subcommission within the permanent tripartite commission for the concertation of wages and labour policy, involving the social partners and the Ministry of Labour.
2. In addition, Colombia has advanced a plan for the social and economic development of populations in border regions, in the frontiers with Venezuela, Ecuador, Panama, and its Island neighbours. 227 billion pesos have been put aside for this purpose.

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