OVERVIEW

Latin American Economic Outlook 2017

YOUTH, SKILLS AND ENTREPRENEURSHIP

OECD
DEVELOPMENT CENTRE

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DEVELOPMENT BANK OF LATIN AMERICA

UNITED NATIONS
ECLAC

Overview: Improving youth inclusion through better skills and entrepreneurship opportunities

This chapter sets the scene for the entire publication by offering an overview of the recent economic trends as well as of the main opportunities and challenges faced by youth in Latin America. It also explores how better skills and entrepreneurship opportunities can provide better prospects for youth inclusion today and for the future. Finally, the chapter summarises a set of policy goals and recommendations emerging from the analysis conducted in the following chapters.

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.

The *Latin American Economic Outlook* 2017 (LEO 2017) shines a spotlight on youth by analysing their behaviour, challenges and opportunities. Youth in Latin America and the Caribbean (LAC) aged 15 to 29 number more than 163 million – around a quarter of the region's total population. LAC's once promising economy is now slowing down, challenging the social, political and economic progress of the last decade. As such, young people stand at the crossroads, embodying the region's promise and perils.

This overview sets the scene for the entire publication by summarising key findings:

- Macroeconomic conditions are testing Latin America's recent socio-economic progress. Investing in youth is one way to overcome these conditions and fuel endogenous engines of growth to chart a future of greater social and economic inclusion.
- Latin America's youth lack good employment prospects today. Changing this reality requires investing in skills and entrepreneurship to improve and facilitate youth transition from school to work and adult life.
- Investing in skills and entrepreneurship also means embracing trends in these areas and mobilising youth to steer – and not be derailed by – social, political and economic changes.

Based on these findings, the report makes a series of recommendations for skills and entrepreneurship policies to empower youth as economic actors:

- strengthen the education system and promote lifelong skills-enhancing programmes;
- combine classroom teaching with practical on-the-job training to better prepare youth for the world of work;
- develop skills programmes that are more responsive to the needs of the marketplace;
- collect information on the skills of the population and those demanded by businesses to build better national skills-enhancing strategies;
- connect young entrepreneurs with business networks through mentoring and supply-chain development programmes;
- support entrepreneurial training among youth to develop management and financial skills;
- introduce staged financing instruments adapted to the needs of young entrepreneurs, including early-stage grants, seed capital, asset-based finance, angel investors and venture capital networks;
- reduce regulatory barriers for young entrepreneurs, simplifying legislation for firm creation and licence permits, and consider incentives (e.g. temporary exemptions of taxes and social security contributions) to support young entrepreneurs;
- apply systematic evaluations of youth training and entrepreneurship programmes to identify what works and what needs to be redesigned;
- support access to broadband services, improving infrastructure and affordability to help youth make the most of opportunities brought about by the digital economy.

Creating a healthy supply of youth ready to work and create competitive businesses must be matched by generating demand for their skills and entrepreneurial activities. Latin American economies have to diversify and upgrade their productive structure to take full advantage of skilled and entrepreneurial youth, and respond to their aspirations. Economies in the region depend too much on natural resources and on activities with relatively low value-added. The region has to explore innovative productive development policies to better participate in global value chains and boost economic diversification to become more competitive (OECD/CAF/ECLAC, 2015). This will create more quality jobs to address the opportunities posed by the demographic change, and employ skilled and entrepreneurial youth.

Better-skilled youth with improved entrepreneurial opportunities will propel inclusive economic growth. In times of economic hardship, the region should look for internal sources of sustainable progress. Skills and entrepreneurship can empower youth to develop knowledge-intensive economic activities to transition successfully from schools to jobs, creating the future they seek and promoting gains in productivity for the region. Investing in the most disadvantaged will help close the skills and entrepreneurship opportunity gap, offering better job market conditions and ultimately reducing income inequality (OECD, 2016a). The region now faces a unique moment. The unfolding youth demographic opportunity and 18 presidential elections coming up in the next two years set the stage to fuel changes and place youth inclusion, skills and entrepreneurship at the top of the policy agenda.

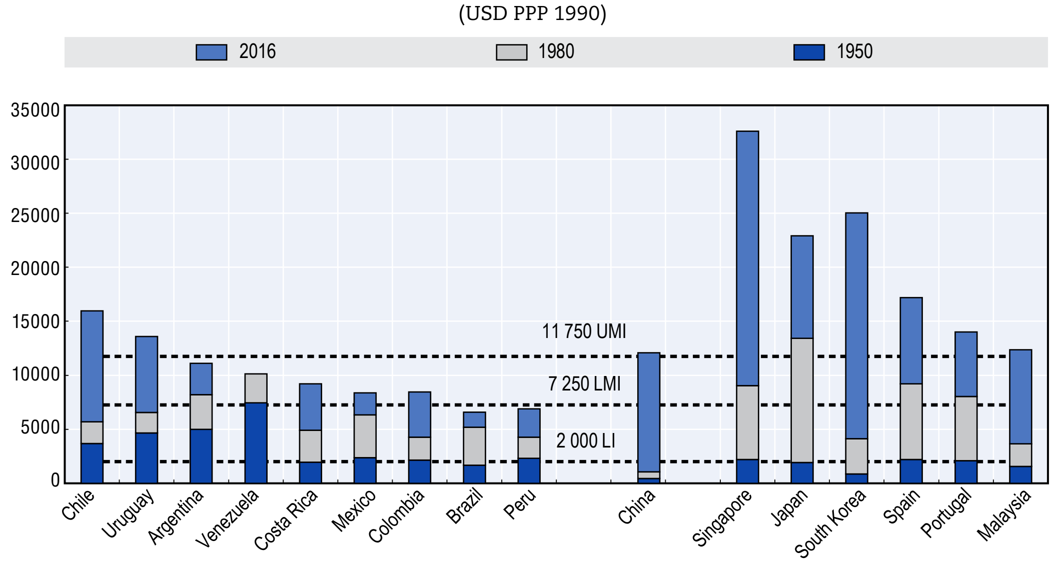
Challenging macroeconomic conditions and stagnant productivity growth in Latin America will test socio-economic progress and the ability to fulfil people's expectations…

The tailwinds that propelled economic growth in LAC in the past decade are gone. The region is undergoing a prolonged economic slowdown, with contrasts among countries. After five years of economic slowdown, the growth rate was negative in 2015. Gross domestic product (GDP) in the region is expected to fall between -0.5 and -1.0 percentage points in 2016, before slightly recovering in 2017. Weak global growth prospects, low commodity prices and tight financing conditions have undermined potential for the region's growth (OECD, 2016b). Short-term economic projections depict a more challenging picture for net commodity exporters in South America, particularly for those with weaker policy frameworks, than for Mexico, Central America and the Caribbean. However, mounting evidence points to the deterioration of productivity and potential output growth in most LAC countries (Pagés, 2010; OECD/CAF/ECLAC, 2015; Cavallo and Serebrisky, 2016; IMF, 2016; Powell, 2016).

Potential growth is weaker than previously expected, confirming the region's challenge to overcome the middle-income trap. The middle-income trap refers to the long-lasting slowdown in growth that many countries experience when they approach middle levels of per capita income. This is tied to the inability of countries to restructure towards innovation and more knowledge-intensive production. So far, only Chile and Uruguay have managed to escape the middle-income trap in Latin America (Figure 1.1). The trap is especially prevalent in the rest of Latin American economies due to shortcomings related to the rule of law, rent-seeking behaviours and productive structures less concentrated in knowledge-intensive activities (OECD/CAF/ECLAC, 2015).

Figure 1.1. **GDP per capita in selected Latin American economies, OECD and People's Republic of China**

(USD PPP 1990)



Note: UMI = upper-middle income; LMI = lower-middle income; LI = low income.

Source: OECD/CAF/ECLAC calculations.

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The current slowdown is reducing available resources to finance crucial long-term investments, particularly in physical and human capital. Lower economic growth and a setback in commodity-related revenues have deteriorated fiscal balances and increased debt levels in LAC economies. Fiscal authorities must tread carefully to avoid large spending cuts, particularly on infrastructures and skills. Nonetheless, the scope for fiscal action varies across countries. Some economies in the region have accumulated public savings and moderate debt levels that allow some room to manoeuvre, although in some cases they remain bound by structural fiscal rules (Alberola et al., 2016). Other countries are already undergoing some form of fiscal consolidation, including spending cuts and tax reforms. Finally, given their low fiscal pressure and moderate debt levels, some economies have space to strengthen taxation. Overall, all countries need more efficient and focused allocation of available resources based on improving state capacity to deliver goods and services.

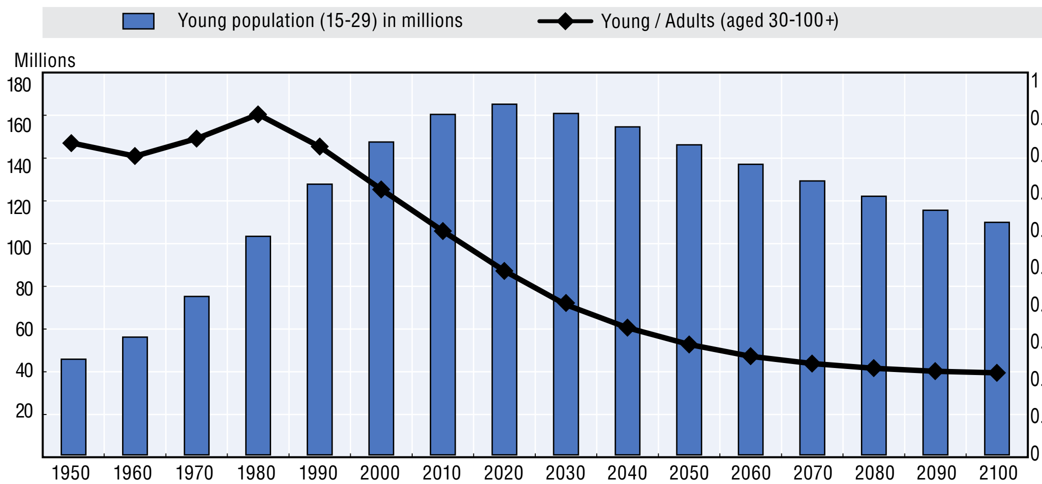
The weaker macroeconomic context in Latin America is testing socio-economic progress, notably the reduction of poverty and inequality, and the emergence of the middle class. Over the last decade, LAC has achieved important progress, boosting income growth and reducing poverty from 42.8% to 23.3% between 2000-14 (CEDLAS and World Bank, 2016). Most of the decline in poverty can be attributed to higher labour income, due to both higher employment rates and higher earnings per worker, as well as the spread of cash transfers (World Bank, 2013). Still, around 7 million Latin Americans became poor in 2015, increasing the total regional poverty rate to 29.2% and totalling more than 175 million Latin Americans (ECLAC, 2016). Likewise, income inequality has declined at a slower pace since the 2010s in Latin American economies with the exception of Colombia, Ecuador and Uruguay (Gasparini, Cruces and Tornarrolli, 2016). In the current economic environment, 25-30 million vulnerable Latin Americans might fall back into poverty (UNDP, 2016).

…but investing in youth could ignite endogenous engines of growth and build a solid basis for future progress

Latin America and the Caribbean is still a young region, facing a unique demographic opportunity to prepare for the future by investing in youth. One-quarter of the Latin American population is aged between 15 and 29. The large share of the young population relative to other age groups opens a window of opportunity for the region. This demographic dividend, in full force today in most countries of the region, will not last long (Figure 1.2). Demographic conditions will shift gradually towards a less favourable structure as in OECD member countries; in around three decades, more pressure will fall on the productive share of the population.

Social and economic progress of the last few decades raised expectations, especially among youth, by lifting millions out of poverty and reducing inequality; still, more is needed. Public policies became more inclusive and long-time neglected sectors began participating in society. The consolidated middle class grew by 14 percentage points in the last decade, reaching 35% of Latin Americans. Yet 64% of young Latin Americans – more than 100 million – live in poor or vulnerable households (compared to 57% of adults in 2014) and have been unable to enter the middle class. Simultaneously, most youth, especially those from households in the bottom of the income distribution, have access only to poor quality services, precarious jobs, low and informal savings, and little social mobility. This sharp disconnection between society's expectations and demands on the one hand, and actual socio-economic outcomes on the other has fueled social dissatisfaction and weakened trust levels in democratic institutions. For the first generation born and raised in democracy, this gap widened the distance between societies and their governments, and increased protests and social dissatisfaction in the region.

Figure 1.2. **Youth population in Latin America and the Caribbean**



Source: OECD/CAF/ECLAC, based on United Nations, Population Division, (2015), *World Population Prospects*, 2015 Revision.

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Economic, political and social inclusion of young people in the region, therefore, remains unfinished, preventing youth from playing a full role in their societies and advancing up the social ladder. Young people are exposed to a remarkable number of vulnerabilities and threats — from poor access to quality education and health services to low civic participation — all of which set the stage for their ability to participate in labour markets and productive activities. Fostering youth inclusion requires recognising the multiple dimensions of exclusion. Limited access to decent employment, education, health services and civic participation all prevent young people from playing a full role in their societies. This is particularly dangerous in countries with high demographic growth and inequality, such as in Latin America, where new generations put pressure on economic and social development (OECD, forthcoming). Good health and living in a safe environment are pre-conditions for studying, working, participating in political life and, ultimately, being included in society. Despite being a demographic group with good health outcomes, youth in LAC face health risks associated with exogenous factors such as mental health, substance abuse and early pregnancy that might affect their transition to adulthood. Likewise, certain youth segments are often stigmatised for supposedly violent tendencies and participation in urban violence, two factors that are both causes and consequences of social isolation and economic exclusion.

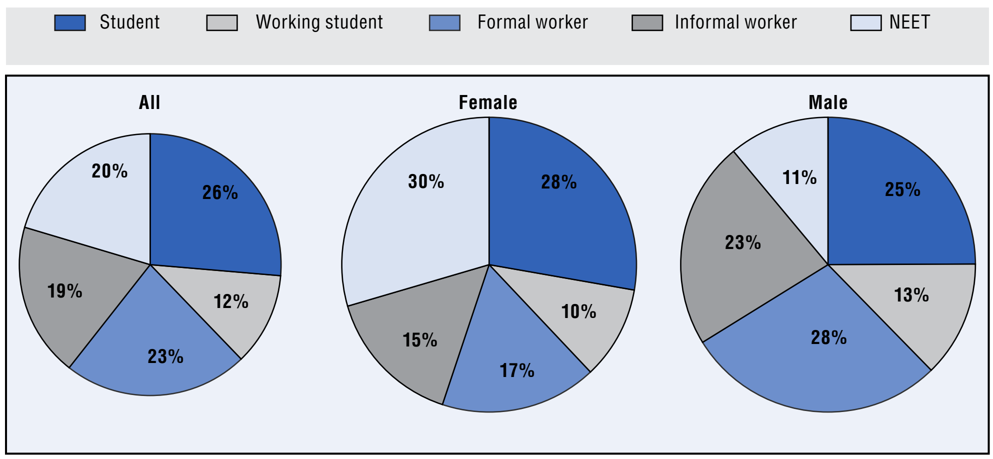
Latin American youth lack good employment prospects today

Lack of good employment opportunities is one of the most significant factors hindering the inclusion of youth in society. The jobs that youth in Latin America hold are typically less productive, more insecure and less rewarding than the ones for youth in OECD countries. Latin American youth also hold fewer and worse jobs than adults in the region. One-fifth of the 163 million youth living in Latin America work in informal jobs. An equal share is not engaged in employment, education or training (NEET), compared to

15% among OECD countries. On the other hand, 23% are formal workers and almost 40% are students. Additionally, unemployment rates are almost three times higher for youth (11.2%) than for adults (3.7%) in all countries in Latin America and the Caribbean; this situation is prevalent among the most disadvantaged youth. These poor employment opportunities, which are even worse for young women, result in lower well-being and a pattern of self-reinforcing aspiration gaps (Figure 1.3).

Figure 1.3. **Activity status of youth by gender in Latin America and the Caribbean, 2014**

(percentage of youth aged 15-29)



Note: LAC weighted average of 17 countries: Argentina, Plurinational State of Bolivia (hereafter Bolivia), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

Source: OECD and World Bank tabulations of SEDLAC (CEDLAS and the World Bank).

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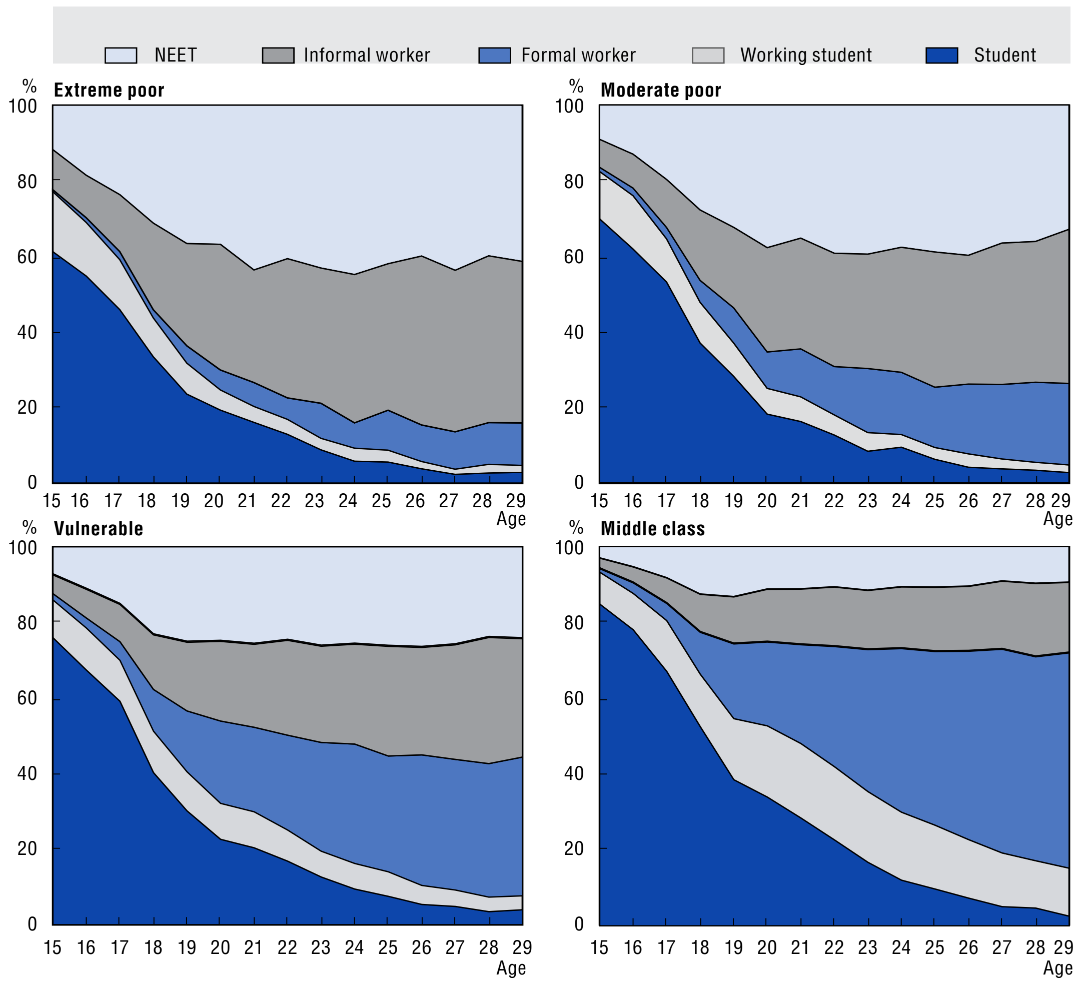
The challenges that young Latin Americans face in their path to work are severe, particularly among those from disadvantaged socio-economic backgrounds. The transition from school to work explains the poor labour market outcomes experienced by young people in LAC, especially those from poor and vulnerable households. Youth from these households leave school earlier than their peers in better-off households, and when employed mainly work in informal jobs (Figure 1.4). At age 15, almost seven out of ten youth living in moderate poor households are in school; at age 29, however, almost three out of ten youth in this group are NEET, another four work in the informal sector, only two work in the formal sector and the remaining one is either a working student or a student. In vulnerable households, more than half of young people aged 29 are either working in the informal sector or NEET. In contrast, remarkable differences are observed among consolidated middle-class households: around 85% of youth are in school at age 15, while more than 56% of youth are working in the formal sector at age 29.

Figure 1.4. **Activity status of youth by single year of age and socio-economic status in Latin America and the Caribbean, 2014**

(percentage of youth aged 15-29)



Note: Socio-economic classes are defined using the World Bank classification: "Extreme poor" = youth belonging to households with a daily per capita income lower than USD 2.50. "Moderate poor" = youth belonging to households with a daily per capita income of USD 2.50-4.00. "Vulnerable" = individuals with a daily per capita income of USD 4.00-10.00 "Middle class" = youth from households with a daily per capita income higher than USD 10.00. Poverty lines and incomes are expressed in 2005 USD PPP per day (PPP = purchasing power parity). LAC weighted average of 16 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru and Uruguay.

Source: OECD and World Bank tabulations of SEDLAC (CEDLAS and the World Bank).

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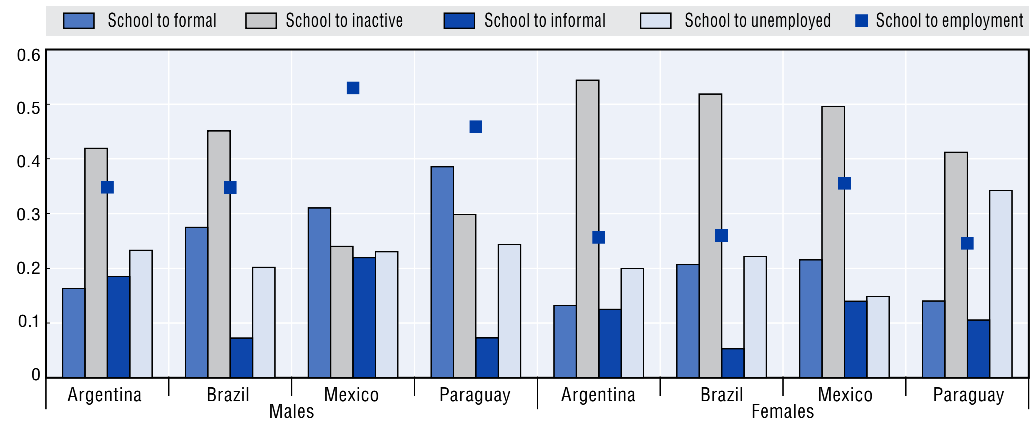
Most youth leaving school enter inactivity or informal low-quality jobs in Latin America (Figure 1.5). Nearly half (47%) of young workers are employed in an informal job. The incidence of informality is much larger for youth from poor and vulnerable households than for those belonging to the middle class. The analysis for Argentina, Brazil, Mexico and Paraguay shows that around 60% of those working in informal jobs will stay in an informal job one year later, while less than 30% will move to a formal job. Similarly, more than 70% of those working in a formal job will stay in a formal job one year later, and only around 5% will move to an informal job. Thus, starting in the informal rather than in the formal sector can lead to very different labour market outcomes. This suggests that a certain degree of labour market segmentation exists in Latin America, making the transition from school to work a particularly relevant stage in young people's careers and futures.

Figure 1.5. **School to labour market transitions of youth in selected Latin American countries, 2005-15**



Notes: Yearly transition rates out of school for the pooled period 2005-15. Transition rates are calculated as the ratio between flow of people moving that transitioned from Condition 1 (school) to Condition 2 between time 0 and time 1, over the total stock of people in the population in Condition 1 in time 0 (i.e. in school: only in school, and in school and working). The transitions are year to year. This analysis focuses on urban populations due to data availability.

Source: OECD and World Bank tabulations of Labor Database for Latin America and the Caribbean – LABLAC (CEDLAS and the World Bank).

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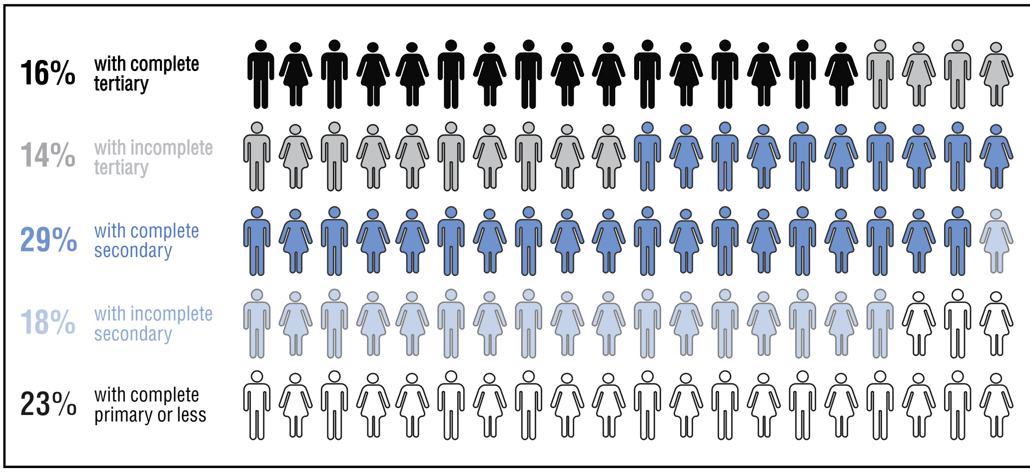
Around one-fifth of young people in Latin America are neither working nor engaged in education or training (NEET) – nearly 30 million young people. This means they are not positioned within either one of the main channels of social and economic inclusion: the education system or labour markets. The largest percentages of NEETs are found in Honduras, El Salvador, Guatemala and Mexico, where NEET rates surpass 25%. The NEET phenomenon is strongly linked to socio-economic background: 83% of NEET women and 76% of NEET men come from poor or vulnerable households. This status contributes to the intergenerational persistence of inequality, prevents economies in the region from exploiting the demographic window of opportunity and can even be associated with risky behaviour such as crime and violence (de Hoyos et al., 2016).

NEET is primarily a female phenomenon in Latin America, since 76% of NEETs are women; but many of these young women actually contribute to the economy from unpaid jobs. NEET rates for women reach levels of around 30%, much higher than for men (11%). However, some NEETs, particularly young women working in households, are productive and contribute to the total economy. In fact, 70% of NEET women are engaged in unpaid domestic work or caregiving, compared to 10% of NEET men.

More than two-thirds of LAC youth are low-skilled without college, university or high-level technical school education, representing a challenge for structural transformation (Figure 1.6). Many young Latin Americans find themselves out of school too early, as shown by the region's high drop-out and low completion rates for school. As a result, 43 million young Latin Americans aged 15 to 29, or 31% of the youth population, have not completed secondary education and are not enrolled in school. Even those who graduate suffer from poor quality education and transition into adult life with skills far down the ranks in comparative international evaluations such as the Programme for International Student Assessment of the OECD, known as PISA (OECD, 2015a; OECD/CAF/ECLAC, 2014).

Figure 1.6. **Youth population by maximum educational level achieved in Latin America and the Caribbean, 2014**

(percentage of youth aged 25-29)



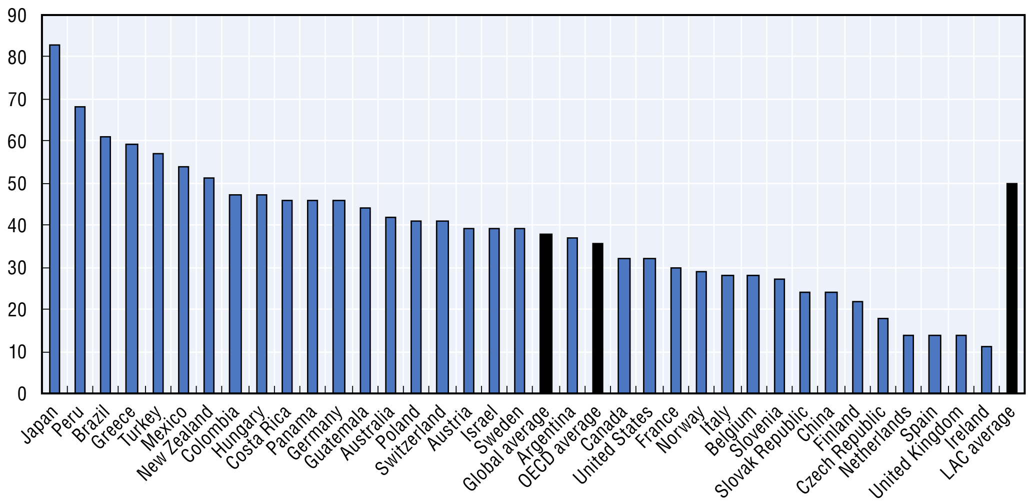
Source: OECD and World Bank tabulations of SEDLAC (CEDLAS and the World Bank).

Skills levels are poor in the region, due to the low quality of primary and secondary education and structural barriers. Young Latin Americans perform poorly in reading, mathematics and science compared to their counterparts in OECD countries. More than half of young Latin Americans enrolled in school do not acquire basic-level proficiency in reading, mathematics and science, according to PISA results (OECD, 2015a). Less than 1% of LAC students perform among the highest levels of proficiency in mathematics, reading or science (OECD, 2016c). This constitutes an obstacle to further develop more specific skills and, at the same time, the small portion of top performers may hamper innovation and entrepreneurship. It also presents a major challenge for LAC countries that are transitioning into knowledge-based economies where citizens need to innovate, adapt and leverage advanced human capital.

LAC has the widest gap between the pool of available skills and those skills that economies and businesses require. In Latin America, around 50% of formal firms do not find the workforce with the skills they need, compared to 36% of firms in OECD countries (Manpower Group, 2015). This is a particularly pressing issue in countries like Peru, Brazil and Mexico (Figure 1.7). As a consequence, one-third of employers need to use foreign talent to meet skills shortages, and firms take longer than in any other region to fill job vacancies (Aedo and Walker, 2012). Among sectors, motor vehicles and machinery shows the most acute skill gaps, accentuating the challenge to diversify into activities deemed more beneficial for development and industrial upgrading (OECD/CAF/ECLAC, 2014; Melguizo and Perea, 2016).

Figure 1.7. **Firms reporting difficulties to hire in Latin America and the Caribbean, China and OECD countries, 2014**

(percentages of formal firms)



Note: LAC average includes Argentina, Brazil, Colombia, Costa Rica, Guatemala, Mexico and Peru. OECD includes Australia, Austria, Belgium, Canada, Czech Republic, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Netherlands, New Zealand, Poland, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States. Global average includes the 42 countries in the 2015 Talent Shortage Survey.

Source: Manpower Group (2015).

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Investing in skills can improve youth's transition from school to work…

Education and skills are widely recognised as key elements to support youth transition from school to work and inclusive development. Education is central to improve LAC's current low productivity and find new engines to foster long-term growth, reduce poverty, bridge inequalities, and build social stability and cohesion. In fact, education and skills are areas of investment that can support productivity and inclusiveness at the same time and reinforce synergies between the two (OECD, 2016a; OECD/CAF/ECLAC, 2014).

Access to higher education has expanded in LAC during the last decade, but remains below OECD levels. Between 2004 and 2014, enrolment in higher education increased from 29% to 44% of the population aged 15 to 64. However, completion of tertiary education still remains a major problem in LAC, and the potential for higher education remains unrealised. While 41% of the population aged 15-64 began tertiary education, on average, only 14% completed this cycle across LAC countries. This percentage is particularly low compared to OECD countries, where 39% of young people graduate from higher education.

Technical and vocational education (TVET) in LAC rarely train youth in mid- and high-level trade, technical, professional and management skills. National vocational training institutes have expanded and developed better connections with private-sector needs. They play an important role in providing basic technical skills to high school drop-outs and disadvantaged youth, but, with a few exceptions, programmes are limited in size. Public spending in training programmes in LAC ranges from 0.02% of GDP in Peru to more than 0.30% in Colombia and Costa Rica, compared to an OECD average of 0.14%. At secondary and tertiary levels, Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru are making significant advances in coverage, quality and adequacy of the programmes to meet the needs of the private sector. However, the quality of the technical schools is heterogeneous. High-quality schools that are highly respected and generate positive returns for students and employers coexist with low quality ones. These high-quality schools represent an important source of innovation and experimentation in the design of technical education that benefits the sector as a whole. However, in some countries they are too few to drive change.

Low pertinence of education is another crucial challenge in the region, with few higher education students focusing on science, technology, engineering and mathematics (STEM), disciplines associated with higher earnings. An average of 39% of tertiary education students in LAC are focused on social sciences, business and law. The region lags behind in STEM fields of study, mainly in science, with enrolment rates ranging between 2-7%, compared to an average of 10% in OECD countries, and of 13% and 18% in strong research and innovation economies such as Germany, France, Ireland, United Kingdom and also the People's Republic of China. STEM qualifications and earnings are positively associated in Uruguay, Peru and Panama. On average, STEM graduates earn 20% more than non-STEM tertiary degree holders in Peru and 10% in Uruguay (Cerutti, Crivellaro and De Sousa, forthcoming). Such a premium arises from the fact that the labour market may value some sets of skills more than others, such as those needed for higher productivity tasks. In particular, skill-biased technological changes favour more skilled workers. Given the increasing role of technology and digitisation in driving the demand side of the market for skills, STEM degrees might be particularly relevant for LAC economies.

The lack of skills among youth has led countries to develop programmes to enhance the skills of youth who had dropped out of school or who had poorly integrated into the labour markets and adult life. These programmes disseminated throughout the region deliver new solutions to an old, but growing, problem: youth's economic and social exclusion. Although they provide disadvantaged youth with training and services to find more and better jobs, there are not enough to satisfy the large pool of high school drop-outs in most countries. Still, lifelong learning policies and productive inclusion programmes both for youth and the broader population can pick up from where these small, but effective, programmes left off and provide longer term solutions.

Skills-enhancing programmes for youth that combine classroom teaching, workplace learning and job search services help young Latin Americans transition to employment. Training interventions for youth in the region, such as *Jovenes con más y mejor trabajo* in Argentina, *ProJovem* in Brazil, *Jovenes en Acción* in Colombia and *ProJoven* in Peru, prove that comprehensive interventions have positive results on youth employability, earnings and especially job quality (ILO, 2016) (Table 1.1). At the same time, the interaction between design components and programme implementation is important for their effectiveness.

Training programmes that respond to the needs of the marketplace, thanks to private sector participation in their design and implementation, facilitate youth's transition into quality jobs and better earnings. Impact evaluations of the early experiences of these comprehensive programmes in Latin America show that coordinating course content with the private sector to better satisfy youth needs, as well as providing participants with a stipend, are central for programmes to work well. Although foundational skills are important, individuals should be trained to participate in knowledge-based and skills-based economies. General education and TVET should expand their links with the region's productive sector to underpin on-the-job-training systems, which should be a cornerstone of education and training across the life cycle.

Upgrading human capital by boosting formal education, training programmes and "learning-by-doing" is paramount, and needs to be paired with promoting organisational change and transforming productive structures to maximise the benefits of technology for productivity. Translating technological change into productivity gains will necessitate a range of firm-level organisational changes to increase flexibility, particularly relating to work arrangements, networking and multi-skilling of the labour force.

Table 1.1. **Components and outcomes in youth training programmes in Latin America and the Caribbean**

		Employability	Formality	Earnings
Components	**Labour intermediation services**			
	Information / counselling	Effective	Neutral	Neutral
	Support for job search	Neutral	Effective	Effective
	Job placement	Effective	Effective	Effective
	Public works	Neutral	Neutral	Neutral
	Training for unemployed			
	School based training	Neutral	Neutral	Neutral
	School + work experience	Neutral	Effective	Effective
	Workplace training	Neutral	Effective	Neutral
	For self-employment	Effective	Effective	Effective
	Soft skills training	Effective	Effective	Effective
	Training for active workers	Neutral	Neutral	Neutral
Mechanism	**Service provision**			
	Dual training and labour intermediation	Effective	Effective	Effective
	Dual training	Neutral	Neutral	Neutral
	Single training option	Not effective	Not effective	Not effective
	Demand driven	Effective	Effective	Effective
	Demand and supply driven	Effective	Effective	Effective
	Supply driven	Not effective	Not effective	Not effective
	Stipend to participants			
	Transport/ lunch/health insurance	Effective	Effective	Effective
	Income support	Neutral	Effective	Effective
	Publicly funded training	Effective	Effective	Effective
	Provision of training courses			
	Public	Effective	Effective	Effective
	Private	Effective	Effective	Effective
	Internships arranged by training provider	Neutral	Effective	Effective

Note: = Effective Neutral given mixed results Not effective.

Sources: OECD/CAF/ECLAC, 2016, based on programme evaluations (see Table 4.8).

… and broadening entrepreneurship opportunities can also improve youth's transition from school to work

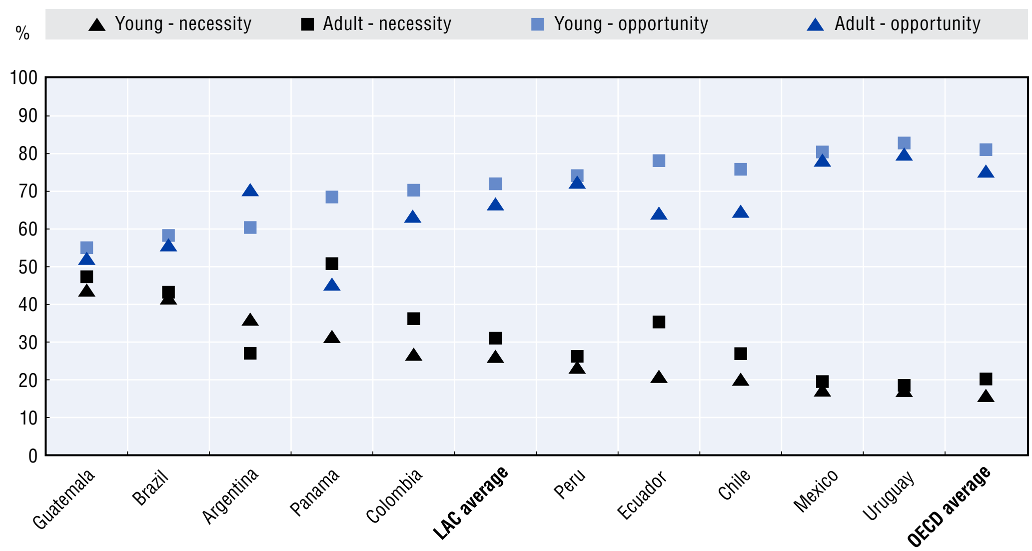
Youth entrepreneurship is a vehicle for improving employability and social mobility in LAC. Through entrepreneurship, youth can raise their capacity to integrate into labour markets, accumulate skills and improve their own and society's well-being. At the same time, fostering entrepreneurship is fundamental for innovation, which could serve as a driver for much-needed productive transformation and contribute to surpassing the middle-income trap.

Entrepreneurial aptitudes and perceptions are similar among LAC and OECD member countries. Qualities such as creative thinking, management skills, goal-oriented objectives and risk-taking are present among young Latin American entrepreneurs and those in industrialised economies (CAF, 2013). Entrepreneurial activity is highly regarded in both LAC and OECD member countries: among the young, nearly seven out of ten believe that successful entrepreneurs receive high status in their country (GEM, 2016).

Youth entrepreneurship in LAC is characterised by the co-existence of few high-growth and many subsistence entrepreneurs. Despite similar motivations and attitudes towards entrepreneurship than in OECD economies, youth entrepreneurship in Latin America is intrinsically related to the structure of labour markets and the region's business fabric. Young Latin American entrepreneurs are more prone to be own-account workers, less educated and from more disadvantaged socio-economic backgrounds.

Indeed, the share of subsistence entrepreneurship among young workers in Latin America is high. The prevalence of own-account workers among youth (16%) is almost three times the prevalence in the OECD (6%); only 13% of young entrepreneurs in the region possess tertiary education, compared to 33% in OECD economies. Furthermore, entrepreneurial motivation in the region is different than in the OECD: necessity-driven entrepreneurship (e.g. no better options for work) among the young is, on average, higher (26%) than in OECD countries (16%), with significant differences among countries (Figure 1.8).

Figure 1.8. **Entrepreneurial motivation in Latin American and Caribbean countries and OECD, 2015**



Note: LAC average includes Argentina, Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Peru and Uruguay.
Source: OECD/ECLAC/CAF based on Global Entrepreneurship Monitor individual data 2015.
StatLink http://dx.doi.org/10.1787/888933414605

Entrepreneurship ecosystems for high-growth entrepreneurs in Latin America are developing quickly, but are still nascent. Public spending on entrepreneurship programmes in Latin America is still low (0.04% of GDP), even when only compared to spending on start-up incentives and job creation in OECD countries (0.07% of GDP). Yet, and despite the region's economic downturn, the landscape for start-ups is encouraging (OECD, 2016a). Many countries in the region have consolidated their institutional support for start-ups, and new actors have entered the scene. Together with national governments and academia, the role of local governments and cities in enhancing entrepreneurship ecosystems is noticeable, as shown by *Ruta N* in Medellín and the regional programmes of *Start up Chile* in Valparaíso and Concepción. At the same time, private sector participation has increased, not only from the perspective of financing and investment, but also through new actors supporting the seeding of innovative entrepreneurship activities. Business associations are introducing new forms of collaboration and exchange for start-up support. The *Association of Start-ups of Campinas* in Brazil, several entrepreneurial hubs (*Parques de Emprendimiento*) in Colombia or the *Ibero-American Centre of Entrepreneurship and Innovation* in Costa Rica are good examples. Business-sharing practices and open innovation for large firms are also becoming increasingly common in the region.

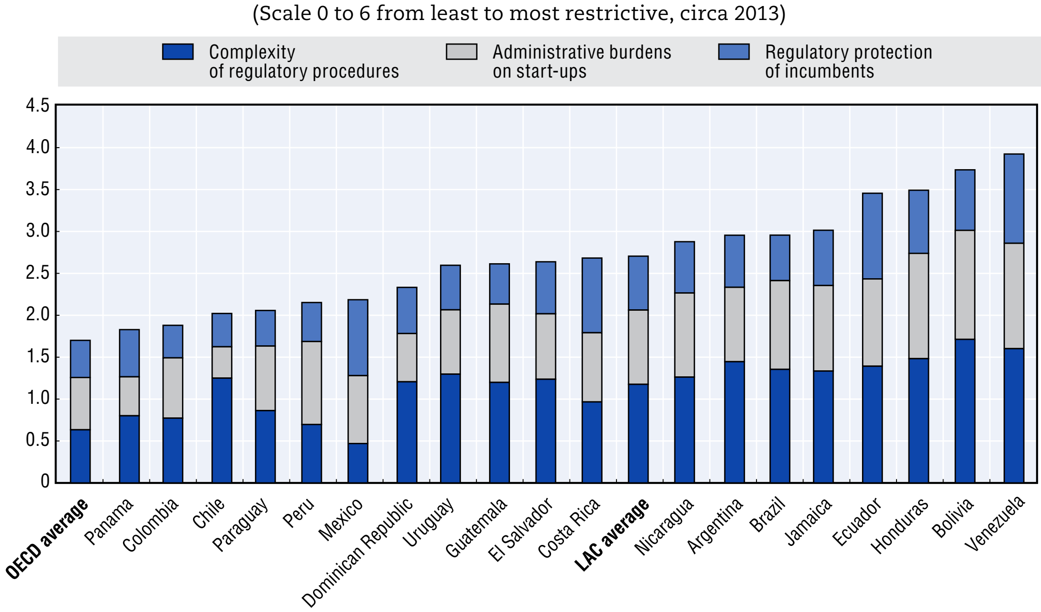
Barriers to youth entrepreneurship in LAC are, on average, higher than in other emerging economies and in the OECD, despite recent improvements. Both subsistence and high-growth young entrepreneurs face challenges in accessing financing instruments, building capacity, developing business networks and an entrepreneurial culture, accessing new markets and overcoming regulatory barriers, even more so than their adult counterparts. LAC countries have tried to tackle these dimensions and tailor their policies to young entrepreneurs.

High-growth entrepreneurs can access financing tools in early stages; however, these tools fade away as businesses grow, critically affecting their capacity to mature. Access to finance continues to be a critical constraint for young Latin American entrepreneurs to develop their businesses, as is the case for the OECD. While credit and seed/early stage capital continue to be relevant financing sources, a broader range of instruments is available to suit the diverse needs of entrepreneurs in the region. These include asset-based finance (i.e. factoring), alternative debt (i.e. crowdfunding), hybrid financing instruments and equity finance. In the case of Latin American start-ups, financing support is moving forward rapidly in the early stages of entrepreneurship (such as the *Servicio de Cooperación Técnica* – SERCOTEC – in Chile and *Red Emprender* in Uruguay). In addition to the instruments, youth entrepreneurship programmes with a financial education component have proven successful.

Young Latin American entrepreneurs' integration into international global value chains is still limited, and administrative burdens create extra hurdles. Young Latin American entrepreneurs are less integrated into global production networks than their OECD counterparts. The share of young, early-stage entrepreneurs reporting at least one-quarter of revenues from international clients in the region (10%) is half of the OECD average (21%). Moreover, administrative burdens for start-ups (e.g. number of procedures and bodies to contact to register a company) are 42% higher than in the average OECD country (Figure 1.9). Indeed, advancing in structural reforms on this front can have a considerable effect on economic performance: a 10% improvement in the Barriers to Entrepreneurship Index could represent a 0.3% gain in productivity growth (OECD, 2015b). Countries such as Chile and Mexico have made significant progress by simplifying procedures for creating start-ups with the *Ley de Empresas en un dia*. Similarly, room exists for facilitating greater access to available instruments for youth entrepreneurship in most countries. Internal barriers for providing these instruments (e.g. limits to seed capital and grants due to a higher share of non-performing loans among start-ups) could be changed.

Figure 1.9. **Barriers to entrepreneurship in Latin American countries and OECD**

(Scale 0 to 6 from least to most restrictive, circa 2013)



Note: Preliminary results for Bolivia, Ecuador, Guatemala, Panama, Paraguay and Bolivarian Republic of Venezuela (hereafter "Venezuela"). Indicator reflects the state of legislation in 2013 for all countries, with the exception of Uruguay (2014), and Bolivia, Ecuador, Guatemala, Panama, Paraguay and Venezuela (2015).

Source: OECD-WBG product market regulation database for all countries except Brazil, Chile and Mexico; OECD product market regulation database.

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Entrepreneurship programmes offering youth business and managerial training, as well as mentoring and counselling services, show the best results in LAC. Existing impact evaluations also show that financial support mechanisms have more limited success (Table 1.2). Moreover, publicly funded programmes in the region are effective, and outcomes are independent of public or private provision of services. A comprehensive approach to entrepreneurship support, encompassing training-financing-mentoring, has produced more effective results. Strengthening these components, and giving them enough flexibility during implementation, can considerably improve programmes' effectiveness and deliver long-term effects.

Table 1.2. **Components and outcomes of youth entrepreneurship programmes in Latin America and the Caribbean**

		Main outcomes			Secondary outcomes		
		Self-employment	Formalisation	Earnings	Firm creation	Psycho-social well-being	Territorial inequality
Components	**Entrepreneurial Training**						
	Technical and vocational	Effective	Effective	Neutral	Not effective		Effective
	Business and managerial training	Effective	Neutral	Effective	Effective	Effective	Neutral
	Financial training				Neutral	Neutral	Neutral
	Financing						
	Credit for business or consumer loans			Neutral	Neutral	Neutral	Neutral
	Cash and in-kind grants				Neutral		Neutral
	Access to financial products			Neutral	Neutral	Effective	
	Counselling						
	Mentoring in business	Neutral	Neutral	Effective	Effective	Effective	
	Psycho-social support	Neutral	Neutral	Neutral			Effective
	Arrangements for on-site advice/consulting		Neutral	Effective	Effective	Neutral	Effective
	Other						
	Support for job search	Effective		Neutral	Effective	Effective	Neutral
	School + work experience	Neutral	Neutral		Effective	Effective	
	For self-employment		Neutral	Effective	Effective	Neutral	Effective
Mechanisms	**Demand driven**	Neutral	Effective	Neutral	Neutral		
	Supply driven	Effective	Neutral	Effective	Effective	Effective	Effective
	Publicly funded	Effective	Effective	Effective	Effective	Effective	Effective
	Provision of services						
	Public	Effective		Effective	Effective	Effective	Neutral
	Private	Neutral		Effective	Effective		

Note: = Effective Neutral given mixed results Not effective.
Source: OECD/CAF/ECLAC--, based on programme evaluations (see Table 5.A2.3).

Investing in skills and entrepreneurship also means embracing trends in these areas and mobilising youth to steer – and not be derailed by – social, political and economic changes

Technological and demographic changes, alongside globalisation, are driving major economic, political and social transformations that affect the world of work, the cities youth will live in and the way young Latin Americans participate in politics. The ever-larger penetration of information and communications technologies, artificial intelligence, big data, the expanding power of computing or the *Internet of things* have made the life of youth different than those of their parents. They will further change their way of life as youth become adults.

As adults, youth in LAC will face a different work world than the one adults face today as employment shifts from manufacturing and construction towards services such as trade, wholesale, and information and communications (WEF, 2016). Technological change, the main driver of these trends, is creating a wave of disruptive change understood as the fourth industrial revolution. The net impact of technological change on job creation and destruction is far from certain. Around 9% of jobs in the OECD could be automated (Arntz et al., 2016). In Latin America, less than 2% of jobs (3.4 million jobs) could be lost by 2030, but with a significant shift from traditional sectors, such as manufacturing and construction, to innovative services (WEF, 2016). Latin America must be ready for this change. In a region with high inequalities and a relative abundance of mid-range skills (more prone to be automated), job destruction could be large, while inequalities may widen. For youth to benefit from the opportunities of the digital economy, expanding access to broadband networks in the region will be essential. This involves designing digital strategies at the national level, improving infrastructure deployment and strengthening the accessibility and affordability of broadband services (OECD/IDB, 2016).

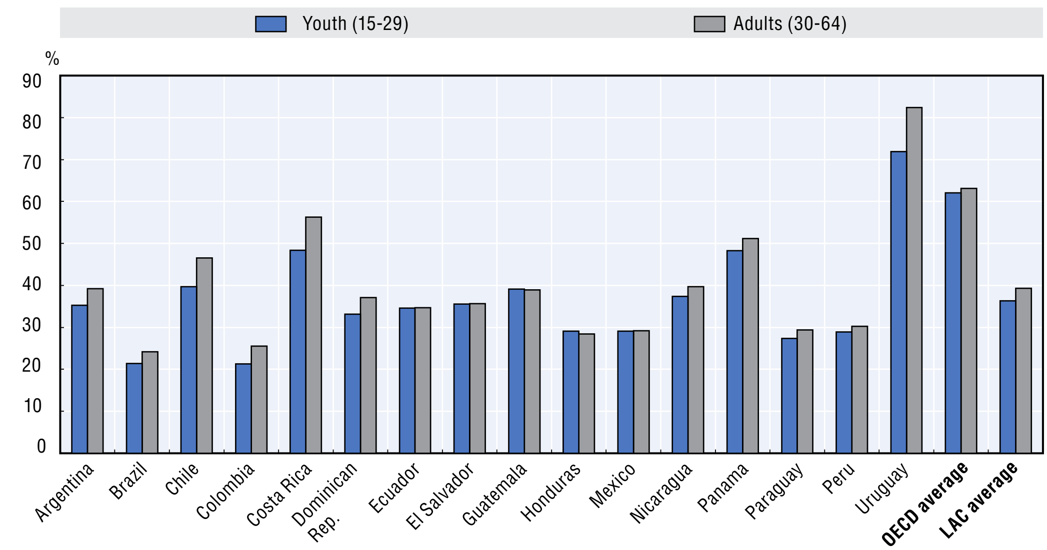
New jobs could emerge where complex tasks require genuine human skills; hence, training policies should anticipate and adapt to new demands. As the distribution of tasks between humans and machines changes (with humans performing tasks more specific and exclusive to them), companies will demand workers with skills to work with new information and solve unstructured problems. General cognitive skills, system skills and complex problem-solving skills will become more valuable as the relative importance of manual tasks and routine cognitive tasks declines. The future impact on jobs will be largely determined by both the specific characteristics of the countries and regions, as well as by the capacity to design and implement educational and skills policies to adapt to forthcoming change. Policies to provide youth with stronger foundational and generic skills to support labour mobility and adaptability to change, and mechanisms to anticipate skills demands, will be key to make the most of emerging opportunities.

Young people have the potential and technological possibilities to be drivers of smarter, more sustainable cities in the region. Youth can play a key role in transforming cities so they follow a green path to more sustainable and inclusive living environments. By 2050, LAC youth will live in a region where nine out of ten Latin Americans live in cities (United Nations, 2014). Youth represent a special opportunity as they are more connected and technologically savvy than any other generation; further developing the skills and technological proficiency of youth, while fostering their innovation capacities, will help deliver more efficient and smarter cities. These win-win associations are starting to appear in several cities in Latin America, especially through the use of new technologies (e.g. mobile mapping, user apps). These include apps for improving transport infrastructure in Ecuador and Peru through viability analysis and demand estimates, increasing citizen safety in Mexico, streamlining public procurement in Colombia and fostering sustainable tourism in Chile.

Youth are also using new technological instruments to voice and organise their demands and shape the emerging political developments. This results from the inability of current political institutions to respond satisfactorily to social demands. In 2014, only 36% of Latin American youth expressed confidence in the transparency of election results. This share is lower than for adults (39%), and much lower than the OECD average (62%) (Figure 1.10). Also, the maturity and consolidation of civil society in Latin America has supported social mobilisation. Protest movements bloomed and expanded through social media, rallying against inequality and urban violence and advocating for gender rights. These platforms serve as alternatives to traditional politics and attract many young individuals who have lost trust in current political institutions.

Figure 1.10. **Youth and adults who express confidence in elections in Latin American countries and the Caribbean and OECD, 2014**

(percentage)



Source: OECD/CAF/ECLAC based on Gallup World Monitor, 2015.

StatLink http://dx.doi.org/10.1787/888933413730

Skills and entrepreneurship can empower youth as social, political and economic actors

Owing to the constantly changing social, political and productive environment, skills and entrepreneurship policies must be flexible and robust enough to embrace future trends proactively. At the same time, policies should provide youth with tailored tools to shape the specific environments in which they live. The economic structure of the country/region, the available pool of skills and the institutional framework, as well as the capacity to implement policies that adapt to forthcoming change, will determine the impact on jobs, cities and politics.

Investments in skills and entrepreneurship must be taken in a credible fiscal framework. The current economic slowdown and fiscal stimuli from previous years have weakened fiscal positions in most Latin American economies. Under this complex scenario, the region's economies must rebuild fiscal space, while protecting key investments that could promote both long-term growth (including a boost in physical, human and technological capital) and short-term growth. Economies with low tax revenues should undertake structural tax reforms to increase revenues. Those with high levels of debt and taxes should reallocate expenditure towards public investment and skills. And economies with low debt should turn to the markets for financing.

Improving Latin American youth's skills involves strengthening the coverage and quality of the education system and promoting lifelong comprehensive skills-enhancing policies. Broader reforms of the education system are expected to increase access to, and quality and pertinence of, primary, secondary and tertiary education. As they do, alternative human capital policies such as the existing training and productive inclusion programmes should support the current generation of low-skilled youth and provide all future adults with training options. Education curricula and skills-enhancing programmes should provide youth with technical training for productive inclusion and foundational skills, which are critical throughout people's lives to favour their mobility and adaptability to changing external conditions. These are key skills for individuals to form a basis to learn new things and adapt to new tasks. At the same time, both traditional and TVET education (including skills training programmes for high school drop-outs) should be more responsive to the needs of the marketplace and provide wider channels for the business sector's participation in the curriculum content. Efforts to strengthen the skills that work today and for the future need to be streamlined and coordinated with private sector demands.

Combining classroom teaching with practical training and other active labour market services helps better prepare students for the world of work. This is relevant beyond the design of short vocational courses. It should inform the design of all TVET programmes from secondary to tertiary education, as well as academic education, to offer students better job prospects.

Countries need more efficient ways to collect information on the skills individuals have and those skills businesses need to design national skills-enhancing strategies. This information helps countries identify skills shortages and gaps and plan for future skills needs to become more productive and competitive. The lack of country-level comparable data hinders governments' capacity to develop policy solutions to address the current skills mismatch.

Latin American and Caribbean countries need to go beyond the current skills mismatch and define long-term strategies that aim to identify and promote new knowledge, linked to the development of the digital economy. To do that, it is essential to encourage public-private work that allows identifying future areas of knowledge and skills that will be needed in the long term, to be promoted today.

Implementing an inclusive entrepreneurship approach with different instruments will increase productivity and equity. Broad, multi-dimensional support, beyond micro-credit, is required for subsistence entrepreneurs to address vulnerabilities outside the labour market. This includes introducing tailored financing instruments adapted to the needs of young entrepreneurs, with more flexible requirements on credit history, collateral and risk. Public financial institutions can play a role in making financing instruments for the young more flexible, both through credit and new instruments. In the case of Latin American start-ups, angel investment and risk capital are still embryonic, and public policy can provide investors with more incentives to participate in the later stages of firm development.

Reducing regulatory barriers and strengthening the link between young entrepreneurs and business networks can help high-growth entrepreneurship. Access to business networks and firm performance are linked closely. They reduce information asymmetries and provide potential access to new markets, while connecting young entrepreneurs with more experienced ones. Reinforcing counselling and mentoring programmes, as shown by recent evaluations, can be effective. Adapting emerging initiatives that connect entrepreneurs to international business networks can also generate synergies for young entrepreneurial communities. Regional associations for entrepreneurs and regional financing platforms can help young entrepreneurs to integrate global production networks.

Strengthening programmes that support business and management training help young entrepreneurs develop the skills needed to develop high-growth enterprises. Entrepreneurship programmes that combine training, financing and counselling produce more effective results. Incorporating a youth perspective in entrepreneurship initiatives in the region will guarantee that these instruments are properly tailored for this population segment.

Integrating a gender perspective into youth policies is essential. Policies can help level the playing field between (young) women and men, ensuring all have the same opportunities to reach their full potential. Scholarships that prevent young women from dropping out of school and that encourage them to study in academic fields that are likely to pay off in future earnings, such as STEM fields, are crucial. Affordable and good-quality childcare, financial aid and teaching methods that do not have a gender bias can help young NEET women in their transition to higher education and employment. Improving entrepreneurship for young women involves providing financial support when they lack experience or collateral, and expanding business support to sectors where women are more concentrated and have a lower survival rate (e.g. manufacturing).

LAC needs to systematically use technical evaluations of youth training and entrepreneurship programmes to identify the most effective components. Even with advances made, few programmes are evaluated properly. Evaluations should be incorporated during the programme design phase to be effective. Moreover, current evaluations of entrepreneurship programmes assess neither their social effects nor their performance in terms of business survival or their international reach. Introducing systematic evaluations of outcomes by group, particularly related to gender and ethnicity, is also important. Evaluations should not only examine the efficiency and cost-effectiveness of programmes, but also consider deadweight (i.e. supporting an entrepreneur who would have behaved in the same way without support) and displacement effects (e.g. when supporting one entrepreneur puts another out of business).

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Latin American Economic Outlook 2017

YOUTH, SKILLS AND ENTREPRENEURSHIP

The 2017 edition of the *Latin American Economic Outlook* explores youth, skills and entrepreneurship. Young Latin Americans embody the region's promise and perils. They stand at the crossroads of a region whose once promising economy and social progress is now undergoing a slowdown. The Outlook identifies potential strategies and policy responses to help Latin America and the Caribbean revive economic growth. While development can stem from different sources, skills and entrepreneurship can empower youth to develop knowledge-intensive economic activities, boost productivity and transform the region's politics as they transition successfully from school to the world of work and create the future they seek. The report highlights valuable experiences and best practices in these fields and proposes strategies to allow Latin America to consolidate long-term growth while assuring continuity in the social agenda.

This Overview provides the key findings of the 2017 edition of the *Latin American Economic Outlook*, which includes:

This report is made possible by the joint work of the OECD Development Centre, the United Nations Economic Commission for Latin America and the Caribbean (UN/ECLAC), the Development Bank of Latin America (CAF) and the collaboration of experts from several international institutions, think tanks and governments.

The *Latin American Economic Outlook 2017* is available in English and Spanish. It can be browsed and purchased through the OECD iLibrary: *http://dx.doi.org/10.1787/leo-2017-en*.

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