



## PENSION NOTES

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### YOUNG PEOPLE IN THE LABOR MARKET AND PENSION PERSPECTIVES: THE CASES OF CHILE, COLOMBIA, MEXICO AND PERU

#### Executive Summary

This report examines the working conditions and pension prospects of young people in Chile, Colombia, Mexico and Peru. Key points shared between countries are found, including:

- Higher unemployment and volatility of employment among young people. There are unemployment differences between younger groups and the other groups in all study periods. Moreover, volatility can be seen in unemployment peaks in the youngest age group during crises; it was 7.6% in Chile (Asian crisis), 8.9% in Colombia (financial crisis 1999) and 6% in Mexico (currency crisis).
- Greater propensity for future self-employment. The overall self-employed worker figures are high in all the countries studied, particularly in Colombia. The particular concern for young people is based on the emergence of jobs via digital platforms, which in countries like the United States mainly employ young people, who are usually not required to contribute.
- Late entry to the labor market. The average age for entering the formal labor market until 2018, was 27 in Chile, 26 in Colombia and 27 in Peru. The risk of this late entry for financing pensions is that the first years of contribution have a greater impact on the final accumulated balance, since they produce returns for a longer period of time. According to a study by the Chilean Association of AFPs, 43%

of the pension is financed in the first 10 years of contributions (under Chilean parameters).

- A higher percentage of people who are not in education, employment or training (NEET), with a meaningful prevalence of young people who recently came of age. In Chile, 22.6% of young people in the 19 to 22 age group are NEETs, 62.2% in Colombia; 29% in Mexico for the 17 to 21 age group, and 9% in Peru for 19 year-olds.
- Lower estimation of savings among the priorities. In Chile, 83% of young people between 18 and 30 consider saving important, compared to 94% of those over 30. In Mexico, 33% of young people do not save. In Peru, in turn, 49% of young people between 18 and 24 save, as well as 70% of adults over 25.

The report also reviews the programs for including young people in the countries being studied, paying special attention to the “hiring subsidy” implemented in Chile. The latter showed a positive impact on key indicators such as employment and formality.

It confirms the pension risk situation of young people due to higher unemployment, more volatile employment, greater propensity for independent work, late entry into the labor market, higher percentage of NEETs and lower appreciation of savings. It concludes by pointing out the importance of anticipating the possible negative effects that these factors may have on the pensions of young people.

## I. Introduction

Concerns regarding pension matters have mostly addressed the situation of current pensioners and those who are close to retirement, but the pension future of young workers is also expected to be complex, since the available information is not very promising and action is needed today to avoid future disappointments.

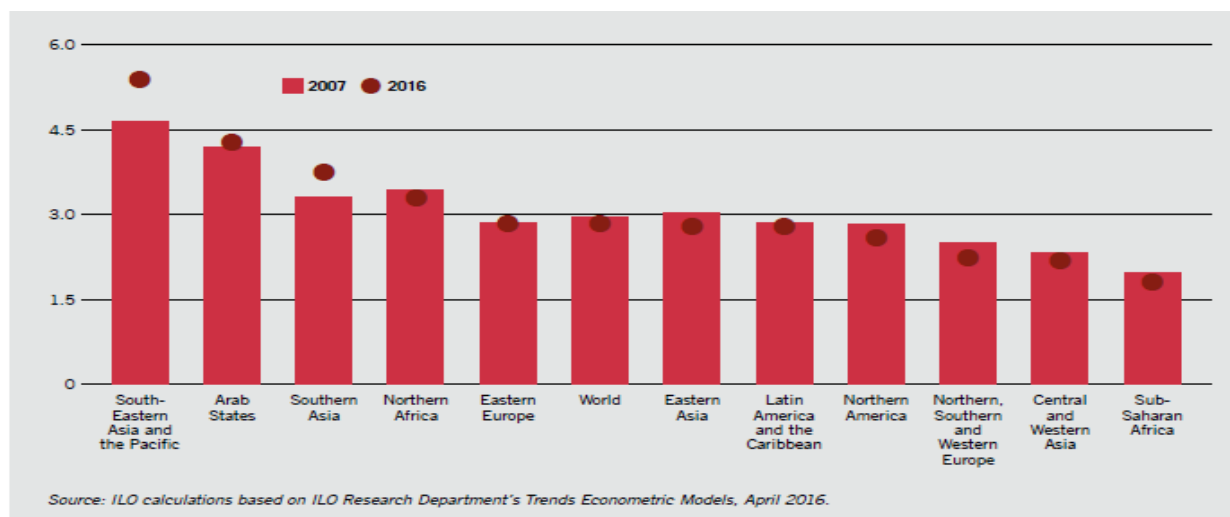
In 2016, the International Labor Organization (ILO) published a study expressing its concern regarding the working conditions of young people, with important observations on the Latin American and Caribbean region. Although this was the second region with the lowest percentage of labor poverty (employees with per capita income of less than US\$ 3.1 per day) worldwide, the high participation of young people in the informal

labor sector continues, giving rise to serious doubts regarding the quality of their jobs.

The ILO figures also show stagnation in the relationship between the number of unemployed youths versus unemployed adults in Latin America. As can be seen in Graph 1, seven regions recorded drops in this relationship between 2007 and 2016, whereas it remained stable in Latin America and the Caribbean, at levels slightly below 3.

Based on these data, the future pension situation of young people in countries with individually funded pension systems must be analyzed, in order to anticipate how cultural changes and changes in the labor market can affect their future pensions, and take appropriate measures to improve their benefits.

**Figure 1.- Number of unemployed young people per unemployed adult 2007 and 2016**



Source: International Labor Organization (ILO) calculations.

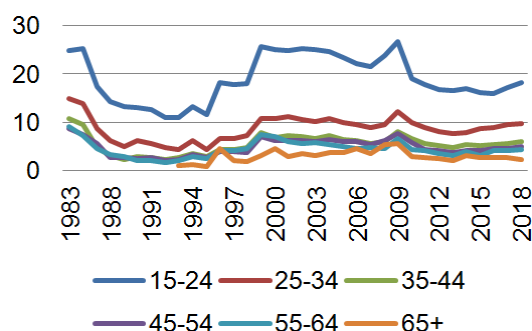
## II. Working conditions of youth in countries under study

### II 1. Unemployment

In the case of Chile, Graph 2 shows that the estimated unemployment rate in younger age groups (particularly between 15 and 24 and between 25 and 34) is higher than in the other age groups throughout the study period. In 2018 (most recent estimate) this figure was 18% for the 15 to 24 age group, 9.7% from 25 to 34, 6.1% from 35 to 44, 5% from 45 to 54, 4.4% from 55 to 64, and 2.4% for people aged 65 or older.

Graph 2, on the other hand, also shows the greater exposure of young people to changes in the economy. For the 1998-1999 period (Asian crisis), the unemployment rate increased by 7.6 and 3.7 percentage points (pp) in the 15-24 and 25-34 age groups, respectively, while rising only 2.7% on average for other age groups. For the 2008-2009 period (subprime crisis), the unemployment rate increased by 3 and 2.6 pp for the 15-24 and 25-34 age groups, respectively, and by 1.5 pp on average for the other groups.

**Graph 2.- Unemployment rate by age bands - Chile**



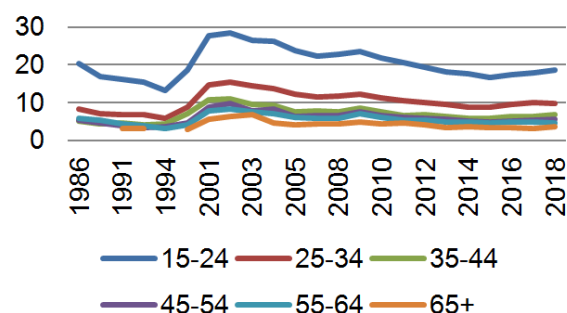
Source: National Employment Survey (Chile), respective years.

Graph 3 shows the unemployment situation in Colombia. Here, higher levels of unemployment can also be observed among the younger groups. In 2018, the estimated unemployment rate was 19% for the 15 - 24 group, 9.9% for the 25 - 34 group, 6.8% for the 35 - 44 group, 5.8% for the 45 - 54 group,

4.7% for the 55 - 64 group and 3.6% for people over 64.

Greater exposure of young people to crises was also observed in this case. Although there are no data available for the 1997-2000 period, the 15 - 24 and 25 - 34 age groups show increases in unemployment of 8.9 and 5.8 pp, between 1996 and 2001, respectively (the period in which the 1999 Colombian financial crisis occurred), while the unemployment rate increased by only 3.6 pp in the other groups in the same period.

**Graph 3.- Unemployment rate by age bands - Colombia**

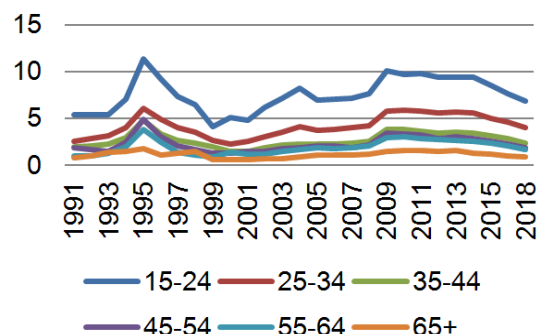


Source: National Integrated Household Survey (Colombia), respective years.

The same trend occurs in Mexico. Graph 4 shows that the 15 - 24 and 25 - 34 age groups have the highest unemployment rates. In 2018, this rate was estimated at 6.9% for the 15 - 24 age group, 4% for the 25 - 34 group, 2.4% for the 35 - 44 group, 1.9% for the 45 - 54 group, 1.7% for the 55 - 64 group and 0.9% for people over 64.

Young people in Mexico are also exposed to greater unemployment when crises occur. According to Graph 4, between 1993 and 1995 (exchange crisis in Mexico), the unemployment rate of the 15 - 24 age group increased by 6pp and that of the 25 - 34 age group by 2.9pp, while increasing by 2.24pp for the other groups.

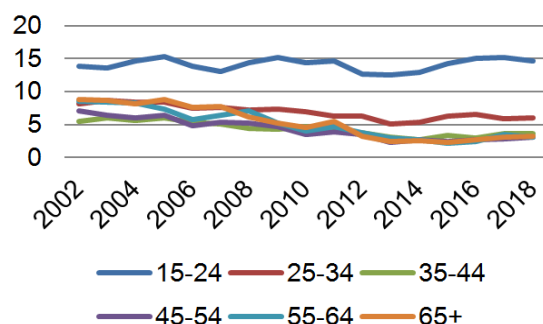
**Graph 4.- Unemployment rate by age bands – Mexico**



Source: National Occupation and Employment Survey (Mexico), respective years.

The situation in Peru is similar, but not identical. According to Graph 5, the 15 - 24 age group is the one with the highest unemployment rate in the study, and the 25 - 34 age group is the one with the second highest rate as of 2008. The unemployment rate was 14.7% in the 15 - 24 age group in 2018, 6% in the 25 - 34 age group, 3.6% in the 35 - 44 age group, 3.1% in the 45 - 54 age group, 3% in the 55 - 64 age group and 3.2% for people aged 65 and over.

**Graph 5.- Unemployment rate by age bands – Peru**



Source: Permanent Employment Survey (Peru), respective years.

## II.2. Work Quality: young self-employed workers

An important indicator of the social protection of workers is their ability to access formal employment. Formal contracts are key, among other things, because they allow coverage of the pension programs and improvement of the benefits received in old age, since the laws governing pension systems require formally employed workers to contribute to social security, which is not the case for informal workers.

To be able to approximate informality data, the percentage of workers who operate independently in the countries under study was analyzed, for the year with the most recent information (2018) and 8 years before.

Graph 6 shows that Chile and Mexico had similar proportions of self-employed workers (close to 22%) in 2018. Although these figures are high, they are the lowest of the countries under study. Peru and Colombia have higher self-employed worker data. The indicator is 29% in Peru and 44% in Colombia.

An important aspect to bear in mind is that there have been no significant changes in self-employment rates for young people, or people of all ages, in the countries under study. This means that although the situation has not worsened, there have also been no improvements. Graph 7 illustrates the latter points, showing the percentage of self-employed workers for all available years. It can be clearly seen that the trend is flat for the countries under study.

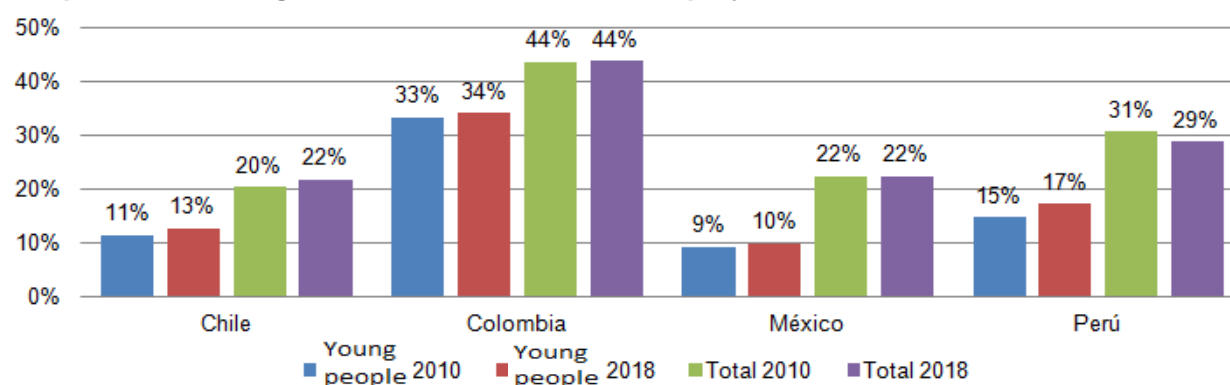
Graph 6 shows that for all countries under study, the self-employment rate among young people is lower than in the overall population. For example, 34% of young workers in Colombia are self-employed, whereas 44% of people of all ages are in this situation. This implies that young people are not the age group currently most affected by self-employment.

Despite the above, there is growing concern that this may change in the future due to the working conditions of young people. This is due to the emergence of jobs on digital

platforms (gig economy), that could be considered self-employment, which is currently informal employment. According to the *Bureau of Labor Statistics*, the Gig economy includes 1% of the employed population in the United States.

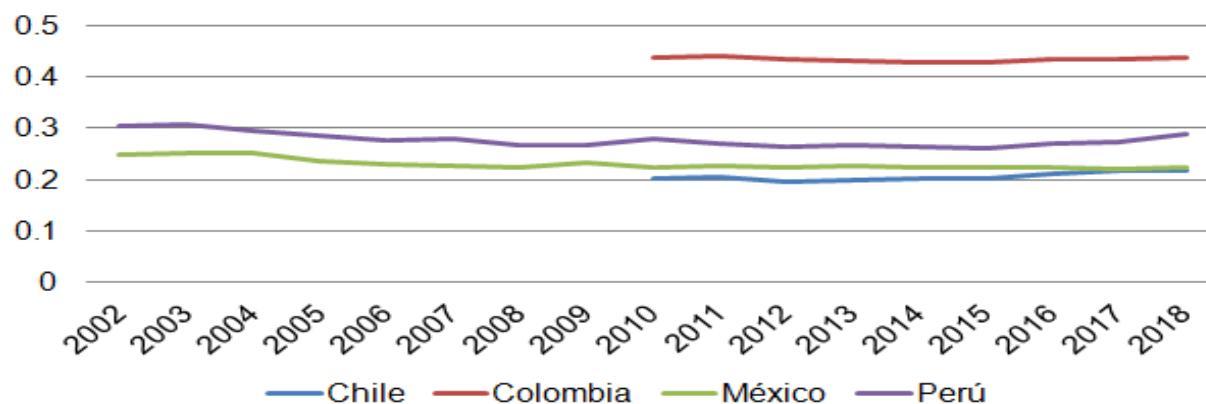
The high rates of self-employment in the countries under study, and the danger of young people increasingly working in informal jobs due to new trends in employment, makes mandatory contribution necessary not only in the Gig economies but also for all self-employed workers.

**Graph 6.- Percentage of workers that are self employed, 2010 and 2018**



Source: International Labor Organization Data.

**Graph 7.- Percentage of workers that are self employed, 2010 - 2018**



Source: International Labor Organization Data.

## II. 3. Entry into the labor market

There has been a substantial increase in the age at which young people enter the Latin America labor market in recent years. To get a better idea of this phenomenon, Table 1 shows the average formal labor market entry age for three countries in the region.

**Table 1.- Average age of entry into the formal labor market**

Chile	Colombia	Mexico	Peru
27	26	W/I	27

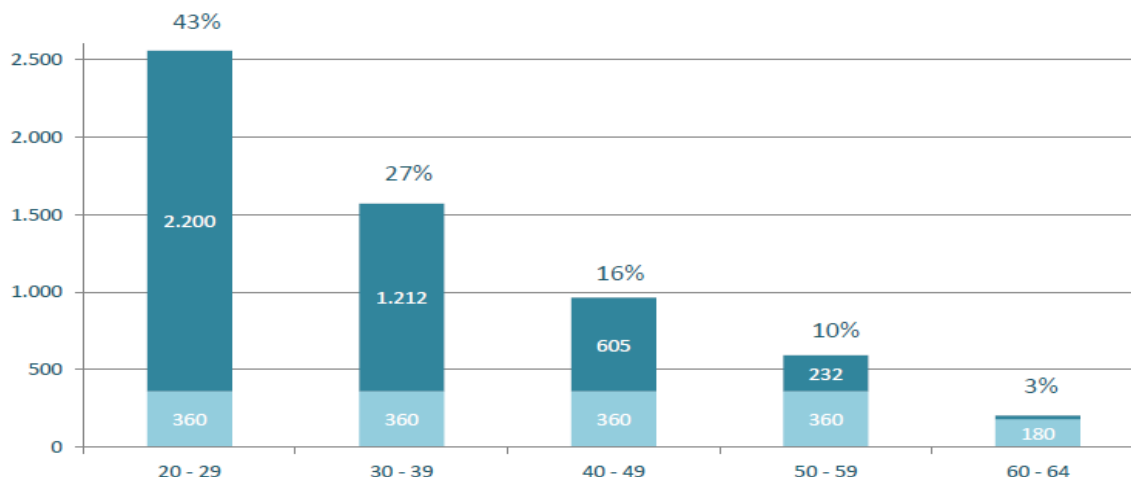
Source: FIAP, information to the year 2018.

In countries with available information, a tendency to postpone entry into the labor market is evident. If in 1981 young people in Chile entered the labor market at age 20, they did so at age 27 in 2018. On the other hand, young people in Peru and Colombia were entering the labor market at age 27 and 26, respectively, in 2018. This trend is worrisome

from a pension standpoint, since the years of contribution lost in youth can finance a significant part of the final pension. Graph 8, prepared by the Chilean Association of AFPs, shows the proportion of the final balance of individual accounts financed with contributions at different stages (age groups) of working life. According to the graph, 43% of the pension is built in the first 10 years of contribution. This is because the funds accumulated in the first years generate returns for a longer period of time.

Although people are entering the labor market later, it is also true that an important part of this effect is due to the permanence of young people in the educational system, which could compensate for years without contributions through a higher income associated to the return on investment in education. This, in turn, increases pension amounts and could also increase contribution frequency and replacement rates.

**Graph 8.<sup>1</sup> Importance of contributions at each stage of the life of a member**



Source: Chilean Association of AFPs. (2008)

<sup>1</sup> The contributions (light blue) and returns (blue) on contributions in the different age groups are shown at retirement age. Members who contribute for 100% of their working lives with a constant real salary (36 UF per year); start contributing at 20 years of age (contribution rate equal to 10%) and retire the day they turn 65. Fund yield 5% per year on average. It is worth mentioning that for people with increasing salaries, the relative importance of the first years will be less.

### III. Cultural changes: new habits of young people

#### III. 1. Proportion of NEETs among young people

A study of new customs among young people, complementary to the employment situation, is necessary. To begin to understand how these changes can have an impact, special attention must be given to the "NEET" group. The "NEET" are people who are not in education, employment or training. Their importance in the social security area lies in the fact that they are mostly young people who, when not carrying out productive activities, find themselves wasting valuable years of contribution, as stated in the previous section.

In 2018, the Inter-American Development Bank published a compilation of studies called "Millennials en América Latina y el Caribe ¿Trabajar o estudiar?". This study contains

several surveys that attempt to gauge the size of the NEET group, and some of its essential characteristics.

Table 2 shows the situation for Chile. Here it can be seen that 15.3% of people in the country declare themselves to be NEETs. It is worth mentioning that the proportion of NEETs in the 19 - 22 and 23 - 24 age groups is higher than the national average (20.6% and 18.3% respectively). On the other hand, it can be seen that 34% of the total number of NEETs nationwide declare "None of these activities," i.e., they are not looking for work, do not have disabilities or diseases, are not engaged in household cleaning or taking care of a family member. The percentages of people who declare "None of these activities" in the 15 - 18, 19 - 22 and 23 - 24 age groups, are 51%, 33.5% and 22.2%, respectively. One can conclude that of the total number of NEETs, there are many who are not engaged in any productive activities of their own accord, especially in the younger group.

**Table 2.- Educational and labor category of Chilean youth and activities of NEETs by gender and age group.**

	National Average	Men	Women	15-18 Years	19-22 Years	23-24 Years
<b>A. Educational and labor category (%)</b>						
Only studying	56,3	55,4	57,2	87,1	43,2	27,4
Only working	18,4	22,2	14,5	2,5	23,2	37,2
Works and studies	10,0	10,6	9,4	2,7	13,0	17,2
NEET	15,3	11,8	18,8	7,8	20,6	18,3
<b>B. Main NEETs activities</b>						
Looking for a job	26,7	37,7	19,7	16,7	27,9	31,7
Diseased/disabled	6,9	10,0	4,9	7,9	6,4	7,3
Taking care of family member	23,6	1,2	37,8	17,6	23,6	28,2
Housework	19,0	2,7	29,3	12,8	18,9	23,7
None of these activities	34	49,9	23,9	51,0	33,5	22,2

Source: Inter-American Development Bank with data from the Millennials Survey in Chile.



The results of the Millennials' survey in Colombia are reviewed below, bearing in mind that young people between 15 and 24 in the city of Bogotá were surveyed. According to this survey, 42% of the young people in the sample only study, 19% only work, 23% work and study, and the remaining 15.5% belong to the NEET category.

In Table 3 it can be seen that two thirds of the NEETs in Bogotá are women. The proportion

of NEETs in the 15 - 16, 17 - 21 and 22 - 24 age groups is 9%, 62.2% and 28.8%, respectively. The table does not show the proportion of NEETs compared to the national population, so no comparisons can be made with older age groups. However, the results are very worrying, especially for the 17 to 21 age group, because of the high risk that young people who do not study or work may be exposed to, not merely because of the negative effect on contributions and pensions.

**Table 3.- Educational and employment category of young Colombians by age group.**

Variables	Only Studying	Only Working	Works and studies	NEET
Male (%)	47,2	51,8	52,9'	33,5'''
15-16 (%)	41,1	1,8'''	16,4'''	9,0'''
17-21 (%)	49,0	49,7	57,5''	62,2'''
22-24 (%)	9,9	48,6'''	26,2'''	28,8'''

Source: Inter-American Development Bank with data from the Millennials Survey in Colombia. Survey conducted on young people between 15 and 24 in the city of Bogotá.

Table 4 shows the situation in Mexico. The proportions of NEETs in the 15 - 18, 19 - 22 and 23 - 24 age groups, are 16%, 29% and 29%, respectively. National data are not presented for comparison in this case either.

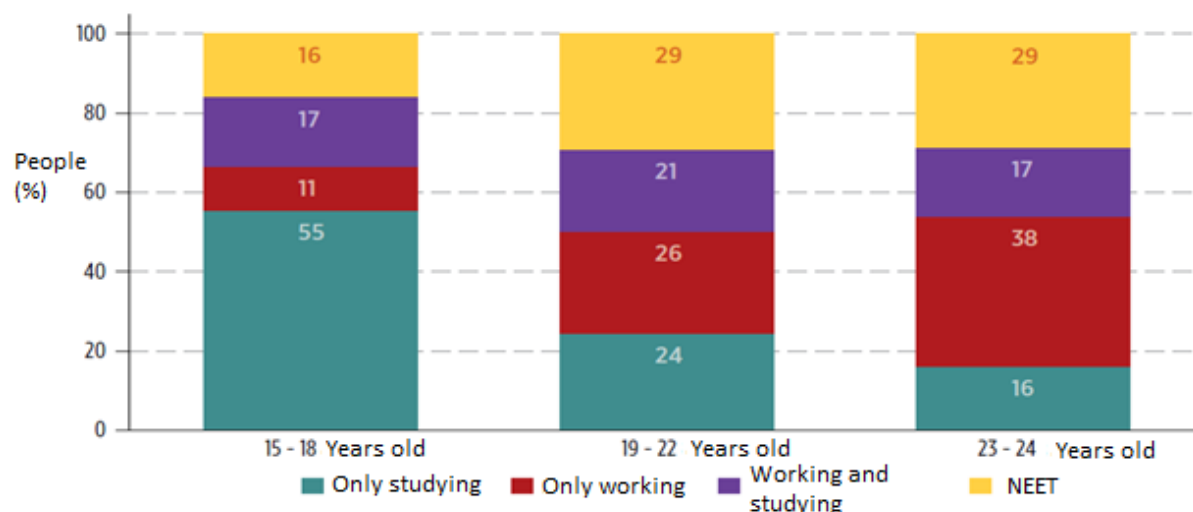
Table 5 shows the reasons why young Mexicans do not attend school. The percentages of young people who declare "personal" reasons (i.e., not related to performance, economics, or access) for not attending school are 13.6%, 29.2% and 38.6%

in the 15 - 18, 19 - 22 and 23 - 24 age groups, respectively.

The prevailing risk due to the high proportions of NEETs is also evident in this case, in addition to the high rates of non-attendance in schools.

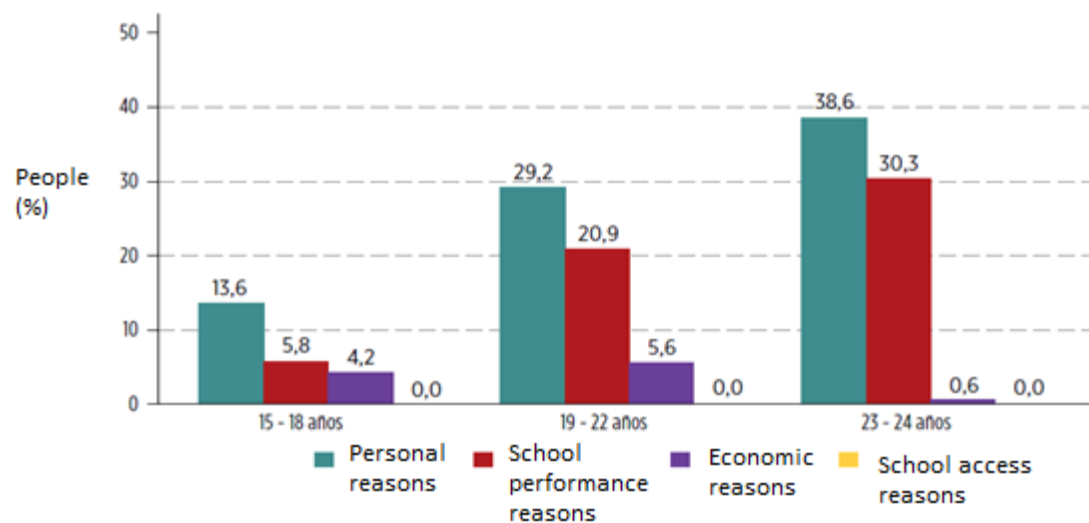


**Table 4.- Educational and employment category of Mexican youth by age group.**



Source: Inter-American Development Bank with data from the Millennials Survey in Mexico.

**Table 5.- Reasons why young people do not attend school in Mexico (%)**



Source: Inter-American Development Bank with data from the Millennials Survey in Mexico.

Table 6 shows the percentages of 19 and 22-year-old NEETs in Peru: 9.2% and 7%, respectively. In this regard, the IDB notes that these statistics are "significantly lower than

national statistics, possibly due to the different age ranges considered." However, it does not provide the proportion of NEETs nationwide.

**Table 6. Educational and employment category of Peruvian youth by age group.**

	Age: 19 years old					Age: 22 years old				
	Total (%)	Men (%)	Women (%)	TEST-T P-VALUE	OBS	Total (%)	Men (%)	Women (%)	TEST-T P-VALUE	OBS
Only studying	17,9	15,2	20,9	(0,06)	619	9,1	9,0	9,1	(0,96)	596
Only working	38,9	39,9	37,8	(0,59)	619	51,2	56,6	45,3	(0,01)	596
Working and studying	33,9	39,1	28,2	(0,00)	619	32,7	33,4	31,9	(0,70)	596
NEET	9,2	5,8	13,1	(0,00)	619	7,0	1,0	13,7	(0,00)	596

Source: Inter-American Development Bank with data from Children of the Millennium (Peru).

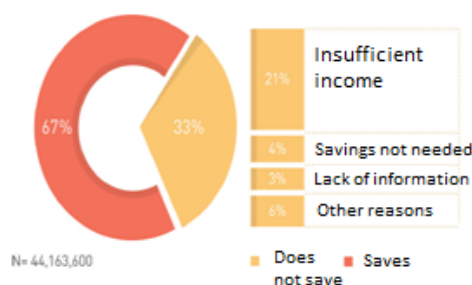
### III. 2. Perceptions and behavior of young people regarding savings

Active Research<sup>2</sup> conducted a survey on savings among people of all ages in Chile in 2017, in which it asked "How important is it for you to save money?" 88% responded "important / very important". However, when analyzing by age group, young people (between 18 and 30) had the lowest "important/very important" response rate of only 83%, versus 94% for people aged 51 or more.

The Mexican Association of Afores (AMAFORE) published the Savings and Future Survey in 2019.<sup>3</sup> How do young people prepare for retirement? According to this survey, 30% of young people (between 18 and 40) say that they are not at all prepared for old age, and 36% say that they are poorly prepared. Graph 9, on the other hand, shows that 33% of young people do not save, 21% of them say that it is because of insufficient income, 4% because they do not need to save, 3% due to lack of information and a 6% for other reasons. The survey also shows that

financial institutions are only the second most used savings mechanism for young people (30%), with piggy banks being preferred (48%).

**Graph 9.- Reasons why young Mexicans (18 - 40) do not save**



Source: Amafore, Savings and Future Survey: How do young people prepare for the future?

The latest National Survey by Demand for Financial Services and Level of Financial Culture in Peru revealed that 66% of the Peruvian population saves in one way or another. The main reasons for saving are to cover contingencies (52%) or old-age expenses (35%). Behavior differs between young people under 25 and people over 25. Thus, it was observed that while 70% of adults

<sup>2</sup> Information available at <https://www.activaresearch.cl/es/news/los-chilenos-y-el-ahorro>

<sup>3</sup> Information available at: <http://www.amafore.mx/>

over 25 save, only 49% of young people between 18 and 24 do so.<sup>4</sup>

#### **IV. Measures for improving pension savings among young people**

The Economic Commission for Latin America and the Caribbean, in its database of non-contributory social protection programs<sup>5</sup>, includes the labor and productive inclusion programs operating in Latin American countries. Labor inclusion has obvious effects on pension savings. Table 7 (in Appendices) summarizes the programs aimed at the inclusion of young people in the countries under study.

Most of the programs in Table 7 are aimed at training young people. The only direct hiring subsidy is the “Youth Employment Subsidy” in Chile, which paid more than 311 thousand subsidies between March 2009 and January 2018, equivalent to more than US\$ 3.5 million, that benefited 99 thousand workers.

The Microdata Center of the University of Chile conducted a complete assessment of this subsidy. It concluded that the youth employment subsidy had positive effects<sup>6</sup> regarding:

- The proportion of young people working, compared to the total number of young people (employment)
- The proportion of young wage earners compared to the total number of young people (formality)
- The number of young people participating in the labor market compared to the total number of young people (participation)

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<sup>4</sup> According to a study by the National Survey of Demand for Financial Services and Level of Financial Culture of Peru and SBS statements.

<https://www.pqs.pe/economia/jovenes-peru-menos-de-la-mitad-ahorra-como-empezar>

<sup>5</sup> Information available at:

<https://dds.cepal.org/bpsnc/ilp>

<sup>6</sup> Results obtained with control group in the age groups and SPF score plus monitoring of the law with administrative data.

- The proportion of young people who contribute compared to the total number of young people.
- The total income of young people.
- Reduction in poverty levels of families.

Notwithstanding the above, the Chilean Association of AFPs (2018) has criticized the low coverage of the program, considering the large number of eligible young people who have not accessed the benefit.

Due to the above, the youth hiring subsidy appears to be a proven measure for including young people in the labor market, but it requires better coverage to be more effective.

Finally, advice and awareness is required, since there is an underlying impression of complexity regarding private pension savings products among younger people, and they see retirement as something very distant. This means that it is important to encourage young people regarding retirement, reminding them of the benefits of long-term early savings, with clear ideas. The sooner planning starts, the easier the saving effort will be. Greater access to financial education and personal advice is also necessary.

#### **V. Conclusions**

Young people in the countries under study have many things in common, in terms of the risks of not obtaining adequate pensions in the future. They face higher levels of unemployment, most of them are self-employed, they are entering the labor market later and assign low priority to saving for old age.

The pensions issue is not part of the priorities of young people. However, the problem is that in any contributory pension system, it is essential for people to contribute from an early age to obtain better benefits. In an individually funded system, in particular, contributions at an early age are very important for maximizing the amount of savings accumulated by the retirement age, since these contributions benefit from the returns on the investment of funds for a longer period of time. In this context, pension education that informs,

educates and guides young workers in these matters is vital.

In general, young people are not aware of how their current behavior will affect their future pensions. It is therefore the task of the fund managers, authorities, specialists and policy makers to anticipate the situation and act to remedy possible effects in the future.

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## Appendices

**Table 7.- Inclusion programs for young people - Chile, Colombia, Mexico and Peru.**

Chile	Colombia	Mexico	Peru
<b>I work - Young people</b>	<b>Young rural entrepreneurs</b>	<b>Young people thrive</b>	<b>Productive young people</b>
The program is aimed at young people living in poverty and/or social vulnerability, with difficulties in developing their productive capacities. Technical advice in job training, development of a labor market access plan and support for labor insertion are performed to improve employment conditions and achieve the labor insertion of young people. Having started primary school education (at least) is essential. The program also offers the possibility of developing an independent employment project. The program has a maximum duration of 7 months and provides CLP\$ 180,000 in support of the work plan.	This program was developed for generating income, reducing unemployment and improving productivity in the rural sector, through the creation of sustainable productive projects, together with a customized training program, in which technical and entrepreneurial skills are developed.	The Prospera Program provides monetary support, with the aim of encouraging grant holders to complete high school education before the age of 22 and in less than 4 years, counted as of their initial registration at that level in the program. Grant holders who finish high school education, obtain monetary cash support of approximately 4,890 pesos.	Productive Young People (since 2014) is a program created by the Ministry of Labor and Employment Promotion (MTPE) in August 2011 (under the name of Youth to Work) to improve the training of young people in specific work areas, depending on the demand of the labor market. The program seeks to facilitate young people's access to the formal labor market through job training, technical assistance for entrepreneurship and labor intermediation.
<b>Young people's employment subsidy</b>	<b>More Youth in action</b>	<b>Young people building the future</b>	
The youth employment subsidy (SEJ) is an initiative aimed at dependent young workers, their employers and independent workers, improving their salaries and supporting those who hire them. The program seeks to encourage participation in dependent formal employment of individuals between 18 and 25, from the 40% most vulnerable members of society. Provides a subsidy of up to 30% of the minimum wage; 20% is given to the young worker and 10% to the company. The percentage of the subsidy is gradually reduced as the salary of the young person increases, extinguishing when the salary reaches 440,378 pesos per month (or its annual equivalent). On the other hand, companies receive the subsidy through deposits in their monthly account, provided they are up-to-date on their workers' social security contributions.	This program aims to improve the employment and social insertion possibilities of unemployed young people between 18 and 25, from the Beneficiary system levels (SISBEN) 1 and 2, through training courses for work in semi-skilled trades, in which they also do internships in companies. The recipients receive a monthly economic incentive during their professional training process (professional technician, technological, university professional)	The program aims to provide job training opportunities for young people between 18 and 29 who do not work or study. The program's objectives include the promotion of social and productive inclusion of young people, reduction of unemployment and inclusion of the private sector in social responsibility activities for the productive development of young people. By providing a monthly financial contribution of \$ 3600, young people are expected to acquire technical and soft skills in a work environment for a maximum period of 12 months.	

Economic Commission for Latin America and the Caribbean.