

**LABOUR MARKET INSTITUTIONS AND LEARNING ECONOMY
IN CENTRAL AMERICA**

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Abstract

The increasing pressure for firms and countries to innovate in order to remain competitive comes from many different forces. In the case of Central America, one important factor has been the movement towards a more open economy, and therefore greater competition. The capacity to find niches or increase competitive ability may be improved with higher levels of innovation, reached by means of more capabilities and knowledge, and by interiorising and building on this knowledge base. This movement towards a learning economy can be seen as desirable for Central America and as a new model that could go beyond mere export-promotion. However, this reorientation towards a learning economy does not occur haphazardly; it must be promoted actively.

The core of the discussion is centred here on the question of how much labour market institutions support the development of a learning economy in the Central American countries. Furthermore, it reflects on the inter-linkages existing between labour market institutions and learning capability building.

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1. Introduction

Within the framework of the changes that have taken place in Central America, and the imperious need for a better performance of the region's economies, it is possible to identify ever more competent human resources and recognise their ability to learn as an important factor.

The core of this discussion is related to how labour market institutions support the development process of the Central American countries.¹ It will address the stimulating or hampering effects that labour market institutions have on the building of learning capability within the labour force. This paper provides a general mapping of labour market institutions in Costa Rica, El Salvador and Nicaragua, and is also an attempt to establish an approach for the movement towards a learning economy in developing countries.

The concept of "learning economy," as used here, refers to an economy characterised by abilities to learn, interiorise, and furthermore, build on what has been learnt, in such a way as to adapt or create new competences. It is an economy where the rate of new knowledge and skill creation has increased, but also where the rate of knowledge obsolescence is evident (Gregersen and Johnson, 2001).² It relates more to understanding, interiorising and forgetting than to having access to information (Gregersen and Johnson, 2002). This is the main distinction from the concept of "information economy," in which it is accepted that the economies have used increasingly more information and knowledge in productive activities. "Learning economy" pushes further; it shows not only that knowledge is used more and more, but also that it indispensable for faster knowledge acquisition and adaptation (Lundvall, 2002).

Institutions may be defined as the rules, norms, habits, patterns that shape the interactions between individuals; they are more than mere laws, because they include the non-written parts of behaviour (North, 2002). Hence, in behaviour and action, be it of an individual, an organisation or a government, it is essential to understand the institutions that guide or limit this behaviour and action. The analysis of the different macroeconomic markets must thus include the analysis of institutions.

Institutions shape the patterns of interactions in a learning economy (Gregersen, Johnson and Segura, 2004), and set the foundations for strengthening the social basis required to streamline and promote the country's development process continuously.

In this document, the emphasis lies on labour market institutions, and it will be argued that these institutions are important for the learning economy (the human part of production-product and processes), because they affect the learning capabilities of the labour force and the possibilities of fostering them.

¹ The countries considered in this analysis are El Salvador, Nicaragua and Costa Rica, chosen because of the information available, and because of their being the participants in the SUDESCA project, <http://www.sudesc.org/>

² "The learning economy is not necessarily a high-tech economy. Learning is an activity which takes place in all parts of the economy, including low-tech and traditional sectors" (Gregersen and Johnson, 2001:2).

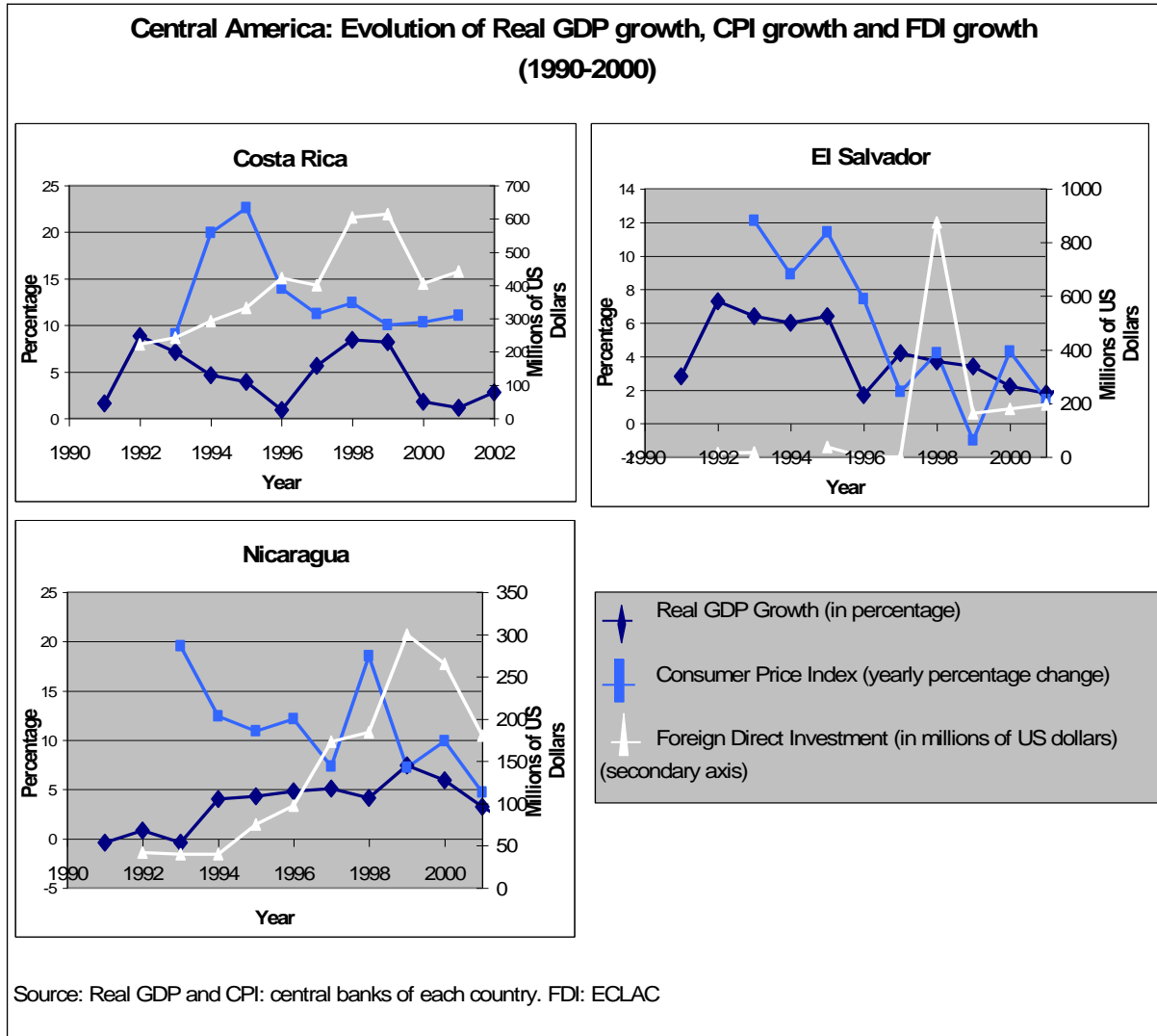
Labour institutions deal with social security, working conditions and employability, as well as other supporting activities for the labour force and the firms. They will be analysed and presented as a platform for generating the conditions necessary to create the ability to interiorise and build upon the knowledge and experience of individuals and groups.

For an overall understanding of the countries analysed, the following section will provide a brief overview of their socio-economic situation, including real GDP growth, foreign direct investment, sectoral composition of production, labour market performance, inflation and others. Section 3 is the analytical basis for the exploration of the topic. It presents the defining characteristics of the learning economy, the role of the labour market institutions and the need for learning capability building along with what is required to enhance it. Section 4 includes a description of the labour market institutions involved in establishing the foundations for generating learning capability building and a discussion of what they are doing to promote it. Section 5 contains a deeper analysis of why these otherwise similar countries have had different results and how far their economies have advanced towards the learning economy. Finally, section 6 includes a discussion of policy implications; although these guidelines are primarily for the government, they should be taken into consideration by all actors involved in the economy.

2. The current economic situation and its problems

Almost two decades after the model of export promotion came into effect in Central America, the results are ambiguous. On the one hand, growth rates have returned to positive (as opposed to the negative rates in the 1980s), inflation has been controlled and is relatively low (almost single digit, but very much lower in El Salvador than in the two other countries), and foreign direct investment and exports have been increasing constantly.

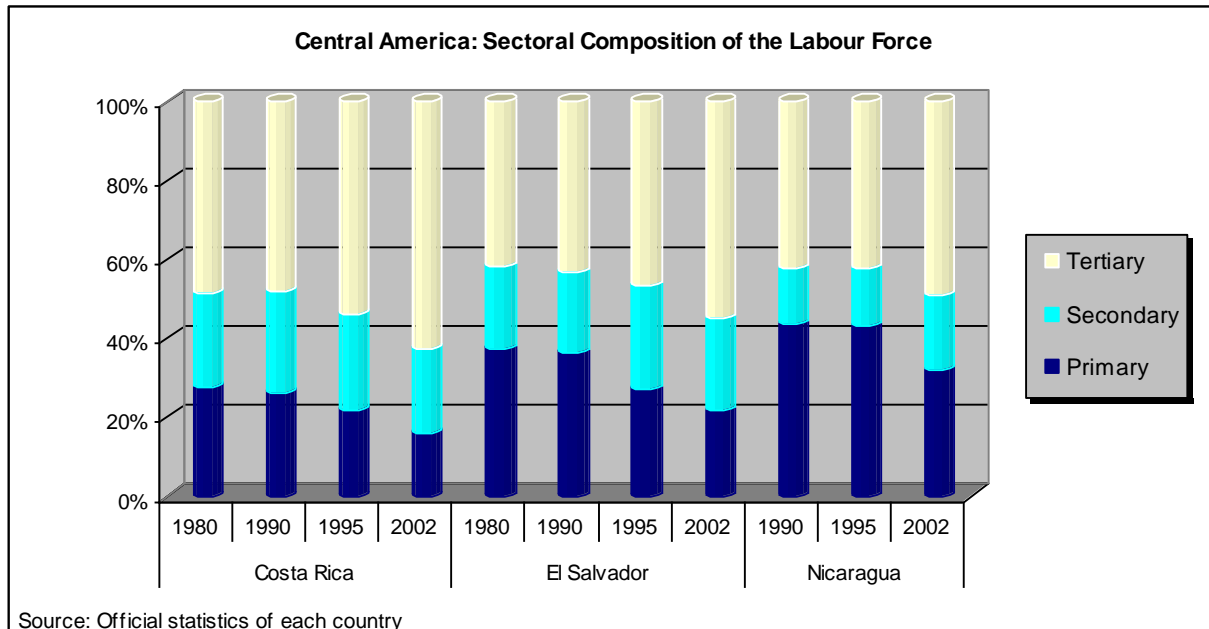
Figure 1



On the other hand, agricultural commodities and low value-added sweatshop products continue to be important in these economies, and poverty levels are still high. In productive activities, there has been a shift from the primary to the tertiary sector, with a significant impact on the sectoral composition of the labour market.³

³ In 1980, the sectoral composition of the labour force was 27%, 21% and 38% in agriculture for Costa Rica, El Salvador and Nicaragua respectively; in 2002, it was 16%, 22% and 32%. The tertiary sector grew 14 percentage points in Costa Rica, and 13 in El Salvador in the same period.

Figure 2



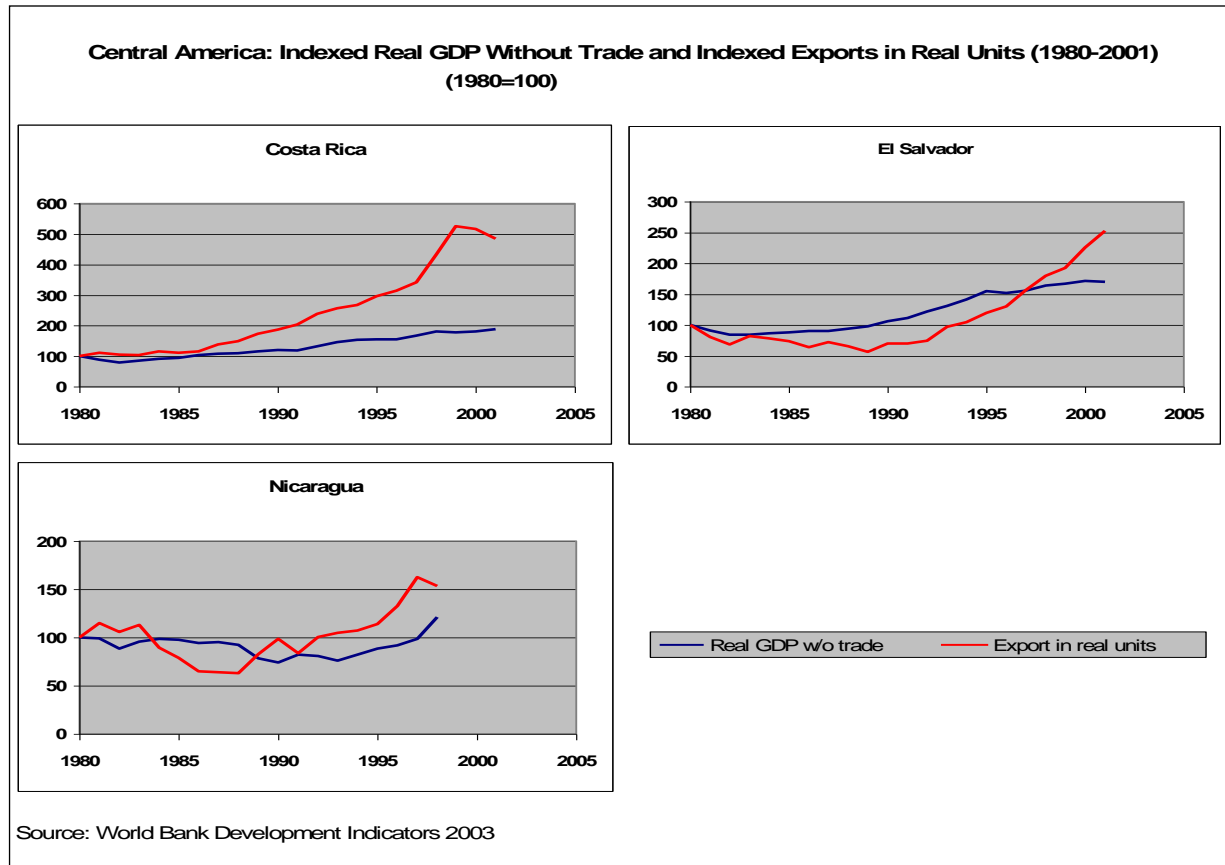
Nevertheless, even though gross unemployment is relatively low, labour market problems still exist, including sub-employment⁴ and the fact that the growth of sectors with a high degree of informality and self-employment has predominated and has characterised this market, particularly in commerce and retail; this partly explains the growth of the tertiary sector.⁵

With respect to the productive structure, the results of the actions aimed at increasing the involvement of sectors producing for the internal or sub-regional markets have been limited. During the last few years, it has become more evident that the spill-over effect of the export sector towards the rest of the economy has not been automatic as expected. There has been a marked difference between these two sectors, showing what could be identified as two “growth engines,” which are – under a panorama of disarticulation – working at different speeds and generating dynamics that contribute very little to the development of these countries.

⁴ Sub-employment refers to underpayment or lack of hours worked. In these countries, in 2000 the labour force with employment problems (unemployment plus sub-employment) totalled 27.7% in Costa Rica, 28.7% in El Salvador and 50.5% in Nicaragua (according to official statistics).

⁵ According to the Economic Council for Latin America and the Caribbean, the degree of employment in the informal sector has been above 40% for all three economies for the last 20 years, with El Salvador and Nicaragua having figures around 50%.

Figure 3



One aspect in these dynamics refers to the behaviour of the labour market in the generation of workplaces. In this regard, for the last few years the reference framework of the discussion on labour issues has included: 1) the low capacity of the region's economies to absorb the labour force (particularly formal segments); 2) the vulnerability of specific groups and the occurrence of new forms of income generation; and 3) the manifestation of the problems of precarious employment, the infringement of workers' rights, unemployment, and visible and invisible sub-employment.

In general, the labour market has been set aside as a necessary motivator in the dynamics that are generated around development processes. This market has been assumed to be a "mirror" market. It would reflect, through to the labour force, the tendencies shown by other markets (such as the goods and services markets). One manifestation of this view of a re-active market is the absence of employment policies and the limitations in monitoring labour relationships (Nowalski and Ruiz, 2001).

From a systemic perspective, the labour market, and more specifically the institutions regulating it, should be playing a more active role in supporting the development process. This should take

place not only through the protection of labour rights, which are important components in the sustainability of the system, but also through a greater promotion of learning capability building fostered by vocational activities for training, re-training etc. Such a basis would not only support the productive sectors, but also be an instrument for personal satisfaction.

In the last two decades, policies in this area have emphasised the attraction of foreign direct investment, stimulation of the external sector and a reduction of the role of the state. Domestic production activities have been neglected, and this has resulted in survival mechanisms that the working population engages in to generate income. The role of the labour market is not significant if there is a framework of palliative policies for the problems of short-term growth. The re-thinking of the role of labour market institutions is complementary to the existence of a development strategy in these countries. It is considered complementary since this strategy is what gives significance to the relationships between the actors of this systemic conformation aimed at development.

Historically importance has been given to investment in human/social capital (education and health). This has enabled the economies (in some better than in others) to build a platform of preconditions that would make it possible to attend to the requirements of the productive sectors, while having a positive effect on the population's living conditions.⁶ Thus, since a historical reference exists of the interaction of the different factors contributing to the development process of the Central American countries, one could conclude that an institutional basis exists for these interactions and even causes them. This does not mean that currently they are the same or that they have been, or are, the only decisive ones. In the face of this, the analysis of the support that the institutions have given to the development process is a key-stone, and due to the important role of the labour market, the focus will be on labour market institutions.

3. Labour market institutions and learning economy

As indicated above, institutions – for our purposes – are the routines, habits, customs, norms, laws, rules, rights, and incentives and disincentives that shape the pattern of social and economic relationships between the members of the group (North, 2002). Institutions – and not only markets – also govern the behaviour of organisations (Scott, 2001).

Institutions may be classified as either formal or informal institutions. Formal institutions are those based on legislation and other explicit rules. Informal institutions consist of the norms, habits and rituals adopted by people and the groups and organisations in which they interact. They are unwritten rules, but they are accepted and adopted by people as guidelines for behaviour. This separation is useful to recognise the appropriate channels to shape or change these institutions (North, 2002).

⁶

In Costa Rica, the concern for social investment has a long history. It began in the 1940s with the establishment of social security and free education, along with the abolition of the army. In El Salvador, it has been more recent and slower, but gradual. Regarding Nicaragua, it is a more recent phenomenon that can be placed during the Sandinista regime starting in the late 1970s, and the export-oriented model started with the signature of the Structural Adjustment Programmes in the administration of Violeta Chamorro.

At a national level, one could separate the different types of institutions affecting the way of life of the general population. These institutions could be divided into a myriad of typologies, but when referring to the productive sector, they can be divided more coherently according to the manner in which they affect the learning and innovation capabilities of firms or organisations. Several groups of institutions have been identified as critical for learning and innovation. One of the key components identified is the labour market, or more precisely, the institutions related to this market. These institutions are interdependent and overlap, evolving interdependently with one another (Gregersen and Johnson, 1997). Although this points to the necessity of considering the system as a whole, it is still fruitful to consider them separately for a better understanding of each component. It is essential to understand the labour market institutions beyond static allocation and understand how they specifically affect competence building.

In developing countries, employment issues are an important element to comprehend the vulnerability, socio-political stability, and cultural and ethnical diversity. This means that employment problems should be considered beyond the simple lack of labour opportunities, sub-employment or over-exploitation. They should be seen also as a reason for low human development and as an obstacle to development.

In this context, employment also goes beyond a mere labour contract. It is the way that the employees begin to obtain means to satisfy their necessities and those of their families, and it is a potential means for higher self-esteem and personal dignity. Likewise for firms, it is the starting point where they can hire human resources, not only as a static production factor, but also to increase through time the capabilities of these individuals, which can reflect positively on the firm's competitive position. It is not a once-off exchange; it has to do with expectations and a relationship over time both for employee and employer, geared in the end to increase development and the firms' and individuals' goals (Hamermesh and Rees, 1984).

One of the global trends observed in the last few decades is that firms have aimed more towards the usage of knowledge- and skill-endowed resources. This trend has been suggested as one of the factors determining the learning economy (Lundvall, 1996). It is also apparent in the higher demands for a more skilled labour force at all levels of the firm. However, the most critical part in the increased demand for skill and knowledge is no longer the ability to replicate already existing knowledge and skills. It is now necessary to be able to build upon them, eliminate learning difficulties, and create new knowledge and skills based on those already acquired. This is due to two factors: One refers to the increasing rate of knowledge obsolescence, and the other to the potential gain in competitive advantage through innovation due to new competences.

“A learning economy is one in which the ability to attain *new competencies* is crucial to the performance of individuals, firms, regions and countries” (Lundvall, 2002:101). In this context learning refers to building and distributing new knowledge, competence and skill and not just having access to information (OECD, 2000). Also, obtaining innovation by importing ‘packages’ is insufficient unless it is accompanied by the internalisation of the knowledge and skills that come along with innovation (van Dijk and Sandee, 2002). Thus, the stimulus to build the capabilities for learning to learn quickly is essential in order to achieve new competencies constantly and face knowledge obsolescence.

Compared to other developing regions, Latin American countries in general have had high levels of human development, but also high levels of poverty and inequality. In the specific case of Central America, all the countries are still developing, although very slowly in comparison to world growth rates. Despite homogeneous cultural backgrounds, very different results can be observed. Therefore, it is important to study this region, particularly if its need for development is also taken into account.

The increasing pressure for firms and countries to innovate in order to remain competitive comes from many different forces. In the case of Central America one important factor has been the movement towards a more open economy, and thus to greater competition. The improvement in the capacity to find niches or increase competitiveness is created through higher levels of innovation, which can be reached through additional skills and knowledge, and the ability to interiorise and build on top of this base. This movement towards a learning economy can thus be seen as desirable for Central America, and could be a new model going beyond mere export-promotion. However, this reorientation towards a learning economy does not occur haphazardly; it must be actively promoted by the government.

Innovation can be conceptualised in two non-exclusive dimensions. One dimension distinguishes between process, product, and institutional and organisational innovation; the other dimension, between radical and incremental innovation. *Process innovation* means new ways of producing existing commodities, *product innovation* is a change in the qualities of products, *institutional innovation* reflects changes in the institutional environment and *organisational innovation* refers to changes in the way productive activities are organised. *Radical innovation* implies that altogether new processes, products, institutions or organisations are invented and implemented, whereas *incremental innovation* refers to changes in existing ones. Incremental innovation has been identified as a successful promoter of development (Gregersen and Johnson, 2001; Lundvall, 2001). Much of current innovation has been identified as occurring at the workplace (Lam, 1998).

In addition to 'physical' capital, two types of capital influence the faculties of individuals, namely social capital and human capital. The definition of social capital is still under discussion but ranges from "informal norms that promote cooperation between two or more individuals" (Fukuyama, 1999:1) to the definition given by the World Bank: "social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's interactions" (Shuller, 2000:26). Thus social capital can be seen as the tacit rules and norms that define the quality and quantity of interaction between at least two individuals with the goal of promoting cooperation. The notion of social capital is therefore closely related to the concept of institutions. While social capital refers to relations between people, human capital relates to the people's knowledge and skills. Thus, human capital is understood as the knowledge and skills of individuals, together with their ability to acquire more and build upon it.

The acquisition of knowledge depends to a great extent on interactions between individuals, as well as on their practical application of the knowledge. Hence, the use of knowledge is enhanced in a virtuous circle. The capacity to learn depends on various aspects, some individual and some external to the individual. The relationship between masters and pupils is an example of what is

needed to acquire knowledge. One important element is the trust existing between the two: the master must trust the pupil to learn and the pupil must trust the master to know. It is trust based on the needs of each with respect to the other's role.

Trust is closely related with social cohesion, which is an integral part of social capital. Social capital consists of informal institutions promoting cooperation between two or more individuals (Fukuyama, 1999). The long-term perspective and repetitive nature of the interactions for cooperation require this trust to be inter-temporal. Insecurity about the future and distrust in perspectives erodes social capital and its institutions. It is essential to recognise that institutions do not only constrain, but also support and empower activities and actors. Social capital needs stability both at the present time and inter-temporally. As a result, rapid change and insecurity could undermine knowledge acquisition.

Capacity building refers to creating the ability of individuals to learn, acquire new skills, understand and have new insights on any knowledge or information they acquire. It is not exclusively dependent on what workers learn before they enter the labour force; it can be generated at a firm level or through professional training institutes. It refers also to the atmosphere in which individuals develop, and to the way that learning potential is promoted. With different ends for firms and labour, the same means are required to obtain them.

Learning institutions such as professional training institutes give individuals an opportunity to create competences. These institutes must be well aware of what the labour market requires and what technologies can endow people with the necessary capabilities. Furthermore, in this process they should enable the individual to find it easier to absorb new knowledge, interiorise it and take advantage of it. Thus, if reward mechanisms exist in society and within the firms themselves, learning capability building will be promoted.

A greater effectiveness of the professional training system will allow a smoother internalisation of knowledge, and "learning capability is one of the most important of the human capabilities. Not only does it have an instrumental role in development, but it also contributes directly to constituting human well-being" (Johnson, Gregersen and Segura, 2004:2).

4. Labour market institutions involved in learning capability building⁷

For a better understanding of the role labour market institutions play with respect to the potential for innovative activity in the economy, a description and an assessment of the institutions will be provided below. Labour market institutions work through indirect and direct effects. The indirect effects on innovative activities are those which set the foundations for the labour force through a good level of health, nutrition, social security and a basic level of stability in the sense that they smooth out the interaction between labour market actors, thereby creating sustainability within the system. A good foundation, one that promotes learning capability

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This section is based on laws and databases regarding institutions in each country: Ministry of Labour and Social Security (Costa Rica); Ministry of Labour and Social Protection (El Salvador); and Nicaraguan Institute of Social Security. No other types of associations have been included.

building, frees individuals to pursue long-term planning and gives them a sense of security.

The direct effects on learning capability building are through training (intra- or extra-firm training) and employee participation. With a well-educated labour force, it is true that productivity increases, but what is more critical is how well the employees react to new knowledge and how fast they absorb it, and how much of their own knowledge they generate. For the latter, the labour force must have some degree of freedom of action to execute new ideas.

A description is given below of the main formal and informal institutions involved in the labour relations system. The genesis of some of these institutions has taken place through heteronomous (foreign) influence, such as the ILO's fundamental rights,⁸ either through international agreements or foreign influence. The foreign influence is manifest as the legislation has not been a local phenomenon; it has been the result of the role that all the different elements play. Still, the implementation of the heteronomous laws is autonomous and reflects the particularities of the different countries. Sometimes a benefactor state has been reflected, whereas in other instances the firms or labour organisations, amongst them the labour unions, have been influential. These institutions have been created due to the interest of the government and society, along with international influences to guarantee a healthy, well-trained, and safe and insured labour force to promote a good level of productivity. In this way, the labour market institutions contribute to make the labour market sustainable.

Distinguishing between the different components of the labour system according to their role for skill-creation, health, social security, intermediation, monitoring and participation is useful to understand the role they each play in the system. They complement one another in creating the potential to motivate learning capability building – leading to innovation – but it is important to understand that they all must be integrated in order to run smoothly. It is essential to notice where the gaps or leads are in their role, instead of focusing on their relative significance.

The main participating organisations with influence in the labour market are presented first. After this description, the formal institutions are analysed, starting with labour conditions, determining the work-days, work-weeks, minimum payments, collective bargaining rights and collective action. Social security, disability coverage, death, pensions, accidents and worker safety are also discussed. Then technical training institutes are addressed, and finally comments are made on certain informal institutions.

4.1 *Participating organisations*

The main organised actors include: the workers, grouped under the workers' social organisation; the firms, grouped under the employers' organisations; and the government. These social actors interact, with ends and interests that are social as much as economic and can be in conflict or operate in harmony with one another.

There are a number of organisations with co-responsibility in the labour relationships which have

⁸ Another foreign driving force consists of the multinational corporations established in these countries. They have many innovative (relative to the country) types of administration, organisation and training. Their effect has not been intentionally directed to change the labour institutions, but they have had indirect consequences due to their demonstrative role.

a direct effect on labour policies, wage policies and on the workers' occupational health. These entities are tripartite bodies within the labour relations system. There are three very important councils: namely the National Wage-Setting Council, the Occupational Health Council, and the Superior Labour Council. Other state organisations also have a role as collateral organisations for the labour market. Social security agencies and insurance institutes, for example, play an important role in health care, along with minimum safety networks and workers' insurance. They offer a means for protecting the employees' health and stability. In addition, training institutes provide their expertise in transferring knowledge, and enhancing the employability and productivity of labour force.

The first of these organisations can have indirect effects on innovation, by means of creating the necessary minimal conditions to build and take advantage of the capabilities of the labour force; and the others effect learning capability building directly by means of the transference of knowledge (training and re-training) and the creation of analytical skills (problem-solving capacity), in other words, competence building.

4.2 Labour conditions

Regarding labour conditions, existing legislation specifies a maximum number of hours, minimum wages and vacations, and grants the right to collective bargaining and unionisation. These laws are universal as they cover the entire labour force. Minimum wages are, except for the case of Costa Rica, below the household staple food budget (HSFB), whereas average wages are above this indicator (around double). Working hours are fixed within a maximum of 6 working days per week. Moreover, other forms of income exist, such as scholarships, food, transport, as well as training processes, with the added benefit that the latter favours both employees and employers.

Other forms of contracting, such as third-party contracting and sub-contracting, are on the rise. These are advantageous for contractors because they can avoid making social security payments and these contracts are temporary by nature. They have been used particularly for cleaning, gardening and professional services, where "professional service contracts" are found in both the private and public sphere.⁹

Minimum wages can be seen as the guarantee for the employees' immediate survival, and they do show an improvement over time; however, they still lag behind the cost of living. Moreover, the new contracts seem to be de-motivating for the labour force. Although the average wage is above the minimum level, it is uncertain whether a particular segment of the labour force is generating enough income for its immediate survival, thus deflecting attention from learning capability building to immediate survival strategies.

The laws in all the three countries prohibit anti-union behaviour. However, unionisation is not high. Strikes are legal in all of the three nations, but different procedures apply to declare a strike legal. In Costa Rica it must be approved by a judge and cannot occur in sensitive parts of the government (ports, security and some health posts); in El Salvador, any strike is legal unless a judge rules the contrary, and in Nicaragua the process takes a long time (around 6 months). For

⁹ A study by Nancy Montiel (1999) emphasises the fact that many of these contracts are illegal, because they force workers to relinquish rights which by law may not be relinquished.

this reason there are very few legal strikes in Nicaragua.¹⁰

To a certain extent, these rules guarantee employees the freedom of speech among themselves and with their employers, which in the case of Nicaragua seems to be an important issue. With maximum working hours and minimum vacation periods, they also ensure appropriate rest, so that the labour force does not become a victim of exhaustion, thus conserving its productive capacity.

Although individuals' rights to engage in collective action are fixed, the pressure against this type of organisation has historically been strong in Central America. Repressive measures are, however, decreasing. In Costa Rica, the solution was to create an alternative – known as “solidaristic associations” – which is a non-due-paying organisation whose aim is to serve as a collective bank. All of the laws appear adequate (except minimum wages); what is hindering the promotion of a highly motivated and capable population is rather a lack of practical implementation of the laws.

4.3 Social Security

Social Security coverage in these countries is low regarding disability, old age and death, with Costa Rica having a coverage of 63% of the economically active population, and El Salvador and Nicaragua with a coverage of around 36%. The benefits vary from country to country, but some generalisations may be made. Maternity rights are universal with eligibility requirements ranging from one contribution to twelve weeks of work. A certain amount of pay is granted, and the coverage period ranges from four months in El Salvador and Costa Rica, to two months in Nicaragua.

Pension schemes require people to be at least 60 years of age and increases are considered in case of a spouse or dependent children. However, the fact that costs are lower for the elderly as they are supposed to have housing and other basic durables, benefits are not very high; this can lead to a decrease in the standard of living. There are also benefits for the family in case of an employee's death. With regard to non-work-related accidents or illnesses that cause disability, similar rules apply for all three countries. Benefits are paid in the case of a loss of two-thirds of the physical or mental capacity to perform the job, when contributors have worked for two years in the case of El Salvador and three years in the case of Costa Rica and Nicaragua. One problem is that due to discontinuous work most people are not eligible for this benefit.

Regarding work-related accidents, all workers are covered and medical and hospital bills are included. In case of temporary disability, income continues to be paid at 60% or 75% of prior wages. How long these payments continue to be made can vary from one year in El Salvador, to two years in Costa Rica, or until recovery is complete in Nicaragua. If the disability turns out to be permanent, the payment depends on the degree of disability, reaching maximums between 60% and 70% compensation. If the worker dies because of an accident, the payment goes to the deceased's family during the spouse's lifetime, except in Costa Rica, where it is limited to 10

¹⁰ In general, for a strike to be declared legal, certain requirements must be satisfied. It must: 1) be of a peaceful nature and have the exclusive purpose of improving or defending common economic and social interests; 2) have exhausted conciliatory procedures; and 3) be supported by an absolute majority in Nicaragua and El Salvador, and 60% in Costa Rica.

years.

The social security regulations permit the labour force to have relatively secure living conditions and the ease-of-mind that medical attention and provisions exist in case of an employee's disability or death. This ensures stability in the market and guarantees the permanence of the workforce and a readiness for human development, all of which are required to create an adequate framework for capability building.

4.4 *Technical training*¹¹

The basic level of technical training is not very extensive in these Central American countries. The formal education system has so far concentrated on basic education in a broad sense, and is not specifically aimed at acquiring practical skills or knowledge. It does not ensure an internalisation of knowledge or critical thinking, necessary for learning capability building. In addition, coverage issues arise regarding literacy and enrolment rates.¹² Still, 18.9% of students in Costa Rica enrol in technical schools, whose emphasis is on mechanical and technical skills. This allows them to be trained to a certain level for job functions in manufacturing and certain services.

To satisfy the increasing knowledge demands of the labour market, each country has set up technical training institutes. The courses offered by these institutes are practice-oriented, thus providing not only codified knowledge, but also tacit knowledge, permitting the trainees to be adequately prepared for the labour market with the skills required by the firms.

These institutes cover many areas, such as agriculture, manufacturing or services, and all the courses include a basic theoretical background but are primarily oriented toward practical application and use. Hence they succeed in transferring knowledge as opposed to transmitting information. The need for these courses in the different countries has been patent in the capability building of the non-formally trained labour force, or in those searching to acquire practical knowledge in a particular field.

4.5 *Development of productive activities at the firm level*

To promote small and medium-sized enterprises, as well as individual entrepreneurs, each country has established various commissions that either train or grant credits to those interested. These funds are managed by umbrella organisations in the government. In addition, many multilateral organisations are also involved in this effort. The result of this has been to allow these enterprises to be competitive and well-trained to enter the different markets where they operate, thus expanding the societal competence level, along with employment and productive opportunities.

¹¹ The institutionality of formal education is a core determinant of innovation (Lam, 1998). However, reference is made here only to labour market institutions, and as such, the total education system is not the focus of our attention.

¹² According to the 2003 UNDP Human Development Report, the literacy rates of the 15-plus age group were 95.7%, 79.2% and 66.8% in 2001 for Costa Rica, El Salvador and Nicaragua, respectively. Their combined primary, secondary and tertiary gross enrolment ratios – which are 66%, 64% and 65% for the countries in the above order – are a cause of even greater concern.

Therefore, the formal institutions related to labour conditions, social security, training and development of productive activities at the firm level have very similar characteristics and appear to be of high quality in their ability to promote learning capability building, and thus contribute to the development effort, but they differ regarding real coverage. Labour conditions and social security set the basis for any improvements regarding learning capability building, and have a moderately good coverage in Costa Rica, whereas in El Salvador and Nicaragua the coverage is under 50%. The other two formal institutions (education and training, and support for productive activities) are the two direct activators of innovation and also have apparent problems with low enrolment ratios. Nevertheless, technical training is a feasible option in each of these countries, whereas the promotion of productive activities is rather at an incipient stage and so far has had no great effects. Consequently, there is still ample space for improvement, mainly by increasing coverage and raising the quality of the supportive activities.

4.6 *Informal institutions*

Informal institutions also affect the labour relations system and the opportunities for learning capability building. Some are initiatives of the firms themselves, such as social responsibility programmes that try to return benefits to the different stakeholders involved by creating infrastructure in the environment of the firm, improving education facilities, or other such initiatives. These initiatives aim on the one hand to enhance the image of firms in society, and on the other hand, to improve the relations with different actors or – in more general terms – to develop social and human capital.

More and more firms have come to realise the importance of supporting the surrounding environment where they carry out their productive activities. Particularly in the labour framework, some firms have desired to influence both the capabilities of the future employees that will be needed in their productive processes and the social knowledge about the requirements of the firms in specific fields.

Other initiatives at the firm level include efforts to create social cohesion by means of social activities with employees by organising trips, celebrations and tournaments. These activities are not established solely at the firm level or with a strict agenda. They can be promoted by either employers or employees. Although obtaining greater social cohesion and the identification of the employees with the firm are not formally established objectives of the firm, the option of offering these activities generates positive results in both aspects.

Another informal institution is social dialogue, which either involves the three principal actors or only employers and employee representatives. Social dialogue may lead to mutually beneficial arrangements, allow each of the parties to be informed about the activities and ideas of the other, and help to resolve conflicts between employers and employees.

The potential of formal labour market institutions regarding quality in social security, collective bargaining, and technical training is high, so there is a potential to enhance the role of the labour market as an engine for growth. However, their main weakness is a lack of coverage and implementation. The informal institutions, comprised of a mix ranging from unilateral to tripartite initiatives, try to smooth out the labour relations through better working and living conditions and more dialogue between the parties. Because these options are quite recent, their full potential to promote learning capability building through better environment and relations

has not yet been reached.

5. Labour market institutions

Labour market institutions in Central American countries have very similar characteristics regarding certain labour conditions. Regulations define relatively rigid workdays, limits in the use of overtime, high wages for these hours, shorter working hours for nightshifts than for dayshifts, less payment for the nightshift than for overtime, and additional rights such as vacations and maternity leaves. With respect to these obligatory rights for the workers, there are great gaps in the coverage mainly due to non-compliance with the legislation,¹³ in both the formal and informal sectors of the economies. This situation causes problems for workers and their families when they lack well-being and social security, and thus for the entire society.

The differences in coverage are greater than the differences in legislation. In 2000, 15.1% of the economically active population in Costa Rica belonged to solidaristic associations, 31% to worker cooperatives and 11.2% to unions (mainly in the public sector); many workers belong to two or three of these organisations. In Nicaragua, 33% of the labour force belongs to a labour union, whereas in El Salvador only 5.3% do. Regarding social security, Costa Rica has a coverage of 63.7% of the employed, whereas in El Salvador and Nicaragua the level is around 38%, and all three countries have a low coverage in the informal sector.

Central American labour legislation adapted the Spanish legislation at the beginning of the twentieth century. That situation as well as compliance with international conventions has made the laws very homogeneous. However, the changes in the legislation (which have been slow and are of recent origin) show the evolving nature of institutions and the national particularities of each country. El Salvador and Nicaragua have had a turbulent past, and only became stabilised in the early 1990s, thus resulting in a slow solidification of labour rights. In addition, all three countries have a hostile attitude towards labour unions, but in the case of Costa Rica, instead of repression the solution consisted of the creation of the “solidaristic association,” which has gained widespread acceptance among employers as well as employees.

Labour market institutions have experienced incremental changes (i.e. small modifications of existing institutions) and revolutionary changes (such as when social security was initially introduced). The institutions have been adapted to new pressures in the labour market. The incremental changes in labour legislation, in particular regarding working time and the types of hiring and remuneration, continue to be governed by the traditional norms, and do not mean that there has been any relaxation in the employment relations through legal channels. On the other hand, the revolutionary changes have taken place through alternatives and by direct negotiations between employers and employees.¹⁴

The social security benefits and protection of workers have – so far – been able to create a

¹³ The efforts are limited and allow non-compliance due to the ineffectiveness of the law.

¹⁴ Flexibilisation of the workday and workweek is under discussion, although some firms – particularly multinationals – already use alternative types of workday or workweek schemes.

certain degree of stability for employees, and conflict resolution measures include channels to mitigate the conflict of interest between employers and employees, even though the lack of implementation still keeps the level of trust between the two parties relatively low.

The stability and the foundations laid down by the labour conditions and social security, when they are applied, have a positive effect on firms, employees and their organisations, as they help to liberate them from the daily struggle to focus on their skills and training. This situation thus allows them to generate, through the potential incentives of better performance, a move towards incremental knowledge acquisition and to interiorise this knowledge and build upon it, i.e. to engage in learning capability building. However, the low coverage has made this stability limited and the insecurity will remain high unless action is taken. Without action to increase the desire for improvement through innovation or through the movement towards a learning economy to improve economic results, these countries – which so far have an average ranking in development – run the risk of remaining in the same position that they currently hold.

6. Policy implications

The promotion of learning capability building requires a good quality of employment; however, this good quality also enhances the learning capability of individuals. It is a virtuous circle which in the end helps to improve the labour market, the firm's competitiveness and innovation, and in turn, the development of the countries. The trajectories to pursue could start with either the quality of employment (the indirect effect) or the direct promotion of learning capability building, or even a combination of these two approaches.

Public action regarding labour policy begins with the articulation of efforts and official programs that are executed in services of employment, labour intermediation, labour inspection, wages, training, family assignments, support to micro-entrepreneurs, women, youth and handicapped people. These fields of policies respond to the guidelines of the corresponding institution and should orient the labour market towards the goal of generating high quality, sustainable employment (Pichardo and Ruiz, 1999).

In all of these countries, except El Salvador where no specific policies are registered, there are programs to generate employment. However, these programs have not had a significant impact. This could indicate the slight employment-generating capacity of these programs, as well as the reduced importance that these policies have in the governmental agendas, administrative deficiencies, and lack of pursuit of these programs.

Furthermore, one weakness in the policies and programs for employment and income generation in the Central American countries, in most of the cases, is that they have been slashed or simply reduced to two aspects: employment intermediation and vocational training. The limited or lacking coordination of state actions in this field show a high opportunity cost (Nowalski, 1998). Employment and training programs have no relationship to one another, and thus no synergy; that is, an opportunity for developing labour capabilities is being lost. This also restricts the availability of quality jobs for the new members of the labour force.

For the excluded population, be it the unskilled labourer or that of the informal sector, there is a risk of being left out of the emerging learning economy if the training programs are not directly aimed at them. A polarisation can occur between those who have and those who do not have access to knowledge and competence building initiatives.

In that perspective the countries should adopt employment generating programs that reverse the growth of precarious employment as an anti-cyclical answer to the limitations of the economies of the region. There is no one simple recipe; changes in the labour market institutions should respond to the socio-economical reality of each country. But what is common for all these countries is that their employment services should harmonise with the changes in the labour market, so a change is needed in the labour institutions referring to the systems of training and employment.

It is essential to motivate a virtuous relationship between employers and employees, if the goal is increasing knowledge-based employment. Companies should consider the advantages of having a labour force with learning capabilities and should invest directly in developing it. This would have a positive impact on wages¹⁵ and on the firms' competitive position.

Even though the current institutional set-up is necessary and helps to safeguard the workers' rights, it fails to generate conditions enabling the actors to participate responsibly in the labour relationship system. In future changes in labour institutions, the actors' management capacity should be empowered and that of the employees even more so; and more efficient mechanisms for interaction must be implemented as well. Through these efforts, an "appropriation" by the employees of the production processes could lead to a higher motivation to innovate.

Labour market institutions should lead to stable long-term employment. Career progression takes place through interconnected jobs, whereas knowledge and learning are embedded intra-firm. Formal knowledge acquired through education is only an entry qualification, and on-the-job training plays a critical role (Lam, 1998). For example, the development of participative schemes in production management is important within a process of enhancement and relaxation of the labour relationships. As a result, each part's needs can be better understood and solutions that are more appropriate can be found.

Up till now the efforts have been limited because they have not promoted knowledge acquisition and exploitation of know-how to generate innovative processes. Policies need to focus not only on generating trust and long-term stability, but also on either intra- or extra-firm skills.¹⁶ Thus, the element of "trust" is beginning to be covered, but the application of knowledge at the workplace has not been that successful; the innovative activities of firms have been somewhat dull.

For labour market institutions and policy areas, a transition towards a learning economy forces

¹⁵ Wages are a simple yet effective tool through which motivation for positive interaction can occur. Even so, wages as such do not offer many conditions for skill acquisition.

¹⁶ For instance, this may be achieved through the participation of private initiatives by means of vocational training (Nowalski and Ruiz, 2001).

them to face challenges. This would refer not only to education systems and vocational training, but also to challenges in a number of seemingly more loosely related policy areas such as the social security system, competition policies and cultural policies (Lundvall, 2002). These other institutional elements are “interdependent, and they evolve in interaction with each other, and to a certain degree are overlapping” (Gregersen and Johnson, 2002:11). This type of interaction forces us to realise that the efforts to create learning capabilities are not isolated events, but rather form part of an interconnected system with mutual implications. What ensures that these efforts are actually interconnected? It seems that the sharing of clear goals is a critical element. Moreover, mutual trust among the different actors oils this unique engine, the economy as a whole, and facilitates the movement towards these goals.

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