

Policy Brief on harnessing the green transition to boost formal job creation and build stronger social protection systems

Key highlights

- The green transition can have positive effects in terms of formal job creation. If accompanied by ambitious investments and effective labour market policies, green policies could drive job creation in Latin America and the Caribbean by as much as 10.5% by 2030.
- Significant investments are needed in both physical and human capital, as well as in technological development. Reaching the 10.5% net job creation by 2030 will involve public and private investments that contribute to an increase of 3 percentage points in the value added of green sectors. The green transformation can also boost the quality of jobs and reduce labour informality.
- Labour market and social protection policies are essential to protect workers from job losses due to the green transformation. This can be carried out through well-designed, co-ordinated social and targeted assistance schemes, as well as with skills and training programmes that activate the most vulnerable workers negatively affected by the transformation.

What's the issue?

The green transition can drive quality job creation and represents an opportunity to strengthen social protection systems and to create quality jobs in Latin America and the Caribbean (LAC). Some jobs in brown sectors will most likely be lost as countries move towards a net zero carbon model. However, if effective policies are put in place, many other jobs can be created in green sectors. These policies include ambitious investments in green sectors, as well as effective active labour market policies to facilitate the transition from brown to green sectors, and from informal to formal jobs (OECD et al., 2022).

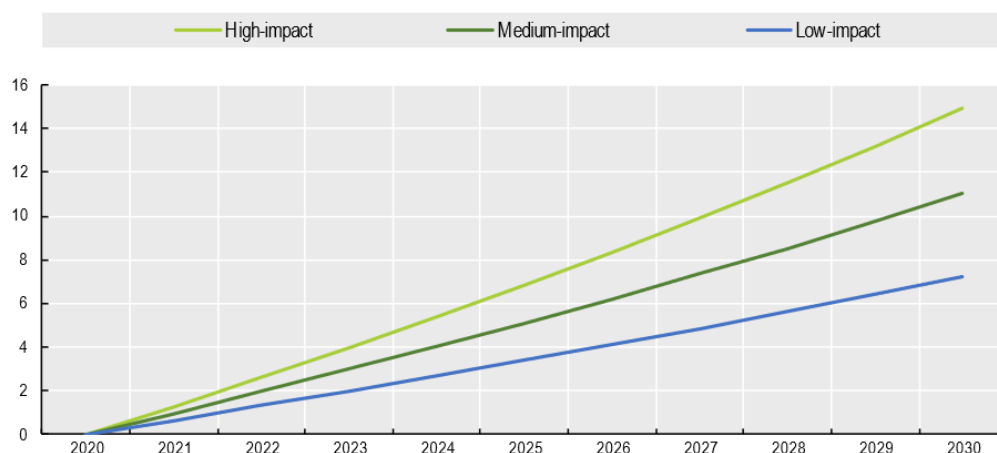
As much as 10.5% of net jobs in brown and green sectors can be created by 2030. This will involve public and private investments that contribute to an increase of 3 percentage points in the value added of green sectors (compared to the business-as-usual scenario). These investments should be targeted at both physical and human capital, including in infrastructure, and in the innovation and training systems (OECD et al., 2022).

Labour market and social protection policies play a crucial role, both in stimulating the creation of high-quality new jobs and in cushioning the downside consequences of the transition towards cleaner economies. Well-designed active labour market policies, including training programmes, hiring incentives or placement services, are crucial to promoting green jobs and boosting the skills of those workers who will lose their actual jobs. Life-long learning will be central, particularly as only 15% of LAC workers receive some form of training, compared to 56% in the OECD. In addition, well-targeted social policies, such as income support measures or conditional cash transfer programmes, can play a positive role in minimising the temporary income losses of families with workers negatively impacted by green policies (OECD et al., 2022).

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Figure 1. Job creation in green sectors in LAC, 2020-30.

Change in employment in green sectors, under various green policies scenario, in LAC, compared to the BAU, as percentage of 2020 baseline employment in green industries



Source: OECD et al. (2022), Latin American Economic Outlook 2022: Towards a Green and Just Transition

Harnessing the potential of the green transition to create quality jobs is crucial in a region where informality remains persistently high. As much as 45% of households in the region have all their working-age members employed informally. This has important socioeconomic implications, for instance in terms of social protection, as these are households particularly vulnerable to negative shocks and could be directly affected by the deep transformations associated to the green transition. In this respect, it is essential that the green agenda is made compatible with more efficient and better targeted social protection systems (OECD et al., (2022); OECD (2022a)).

Examples from LAC countries

Colombia

Governments have a variety of tools at their disposal to support the transition to cleaner activities. Regulatory frameworks can be crucial in setting emission targets and limiting certain brown sector activities.

In 2021, Colombia approved Law 2169, which promotes the country's low-carbon development by establishing minimum targets for carbon-neutrality and measures on climate resilience. This law is one of the main elements of the country's efforts to drive progress on green transition and tackle climate change (OECD, 2022b).

Indeed, green policies could promote a net creation of green and formal jobs in Colombia, provided there are sufficient investments in certain green sectors, as shown in the [OECD paper on Green transition and labour formalisation in Colombia](#). A first projection suggests that the cumulative net job creation in Colombia can be about 34% in 2030, calculated as a share of the baseline employment in 2019. This result corresponds to a scenario that assumes (i) the implementation of a high-impact mitigation policy, which would require maintaining an annual GHG emission reduction rate of 5% until 2030, as implied by the emissions reduction target included in the Law; and (ii) a steady increase in investment directed to sectors with green potential of an additional percentage point relative to the average investment in the last ten years.

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These results reaffirm that the decarbonisation of brown sectors must be accompanied by adequate levels of investment in potentially green sectors, both public and private, in both human and physical capital, to mitigate the potential disruptions that decarbonisation would generate in the labour market. Investment in potentially green sectors, in turn, could contribute to efforts to increase labour formalisation in the country, considering that green jobs are, in general, more formal than in the rest of the economy.

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Suggested policy actions

It is essential to identify the socio-demographic groups and the regions that will benefit and those most at risk, to design the best labour market and social policies to build an inclusive green agenda, where the most vulnerable people are not left behind, and share the overall economic benefit of the transition. The region should consider:

- Fostering job creation in the new green technologies with a tailored mix of innovation and employment incentives, training schemes and job placement services.
- Promoting additional public and private investments that contribute to increasing the necessary value-added of green sectors to boost the creation of formal jobs.
- Supporting workers faced with job losses due to the green transformation, through well-designed and co-ordinated social assistance schemes, individual unemployment accounts and ALMPs to activate the most vulnerable workers negatively affected by the transformation. Ensure continued social protection coverage during labour market transitions, facilitating portability of entitlements between schemes.
- Creating a social protection floor to protect living standards for those who have no access to unemployment benefits or assistance; guarantee at least universal access to essential health care and targeted basic income, while ensuring sustainable and equitable financing of these measures.
- Incentivising the transition of informal workers to new, productive firms involved in green technologies.
- Reinforcing self-employment and entrepreneurial programmes through ALMPs to help the formalisation of micro-firms negatively impacted by the transition.
- Tackling environmental health risks by expanding general health coverage and/or targeting measures to the most exposed people, such as those who lack sanitation services or adequate access to good quality air or water.

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Main references and further reading

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