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**Learning from Past Battles in Argentina?  
The Role of REPRO in the Prevention  
of Crisis- Induced Layoffs**

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November 2010

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## 1. Introduction

The Global Recession found Argentina with lessons learnt and muscles flexed from its own crisis in 2002 when the currency board mechanism collapsed. Eight years ago the economic meltdown had left skyrocketing unemployment, many social scars and some lessons in respect of management of social costs during a crisis. At that point the unemployment rate had peaked at 21.5% in April 2002 come hand in hand with 15.8 million people living below the poverty line, 6 million of them under 15 years of age. In this context the government launched several aid programmes under the umbrella of a Labour Emergency Law<sup>1</sup> aiming to alleviate hunger and other basic needs. The most significant initiative targeted unemployed household heads (Programa Jefes de Hogar) through a large-scale monthly cash transfer of about US\$ 40 to almost two million unemployed workers. The plan was seeking to assure minimum funds for food to families seriously hurt by the crisis.

The program we now analyse also bears the mark of the 2002 crisis. Considerably smaller than the Household Heads, both in terms of committed resources and the number of beneficiaries, it presently received a new lease of life in the context of the global crisis. In order to prevent a domino effect, this program aims to place a plug before layoffs take place; thus preventing massive layoffs that might then require further and more expensive assistance under the Heads programme. The REPRO Program (Spanish acronym for Programa de Recuperación Productiva – Programme for the Recovery of Production) had been created in 2002 under the jurisdiction of the Ministry of Labour, Employment and Social Security (MTEySS in the Spanish acronym) under the umbrella of the Labour Emergency Law. REPRO is meant for workers employed in industrial sectors and geographical areas badly hit by a temporary crisis and when businesses facing an abrupt and acute drop in demand, risk bankruptcy.

The global recession of 2008 had an immediate impact on the Argentinean economy. Once the crisis started, employment indicators in Argentina spiraled. New jobs were, in general, informal. Besides, formal jobs also began to fall. The Rebro programmed was swiftly revived as a preventive policy, a short-run temporary support to alleviate wage costs and contain massive layoffs, a scenario that the government (and civil society) dreaded as its worst nightmare.

In the next section we describe the rationale of REPRO together with a data shot on how firms and economic sectors benefiting from the program have evolved over time. Subsequently, in the third section, the information is broken down focusing on the size of the enterprises under REPRO and the number of beneficiaries by economic sector. An estimation of the cost of saving a job through REPRO is also presented in this section, including a sectoral breakdown. In the fourth section we present the geographic distribution of REPRO benefits. In the fifth and last section we draw some conclusions.

## 2. REPRO: How does it work?

In order to qualify for support, businesses need to provide evidence –with previous balance sheets, former purchasing orders and other documentation– that their firms were profitable until the crisis hit. In addition, they need to show solid prospects for the time when the crisis is finally left behind. Companies applying to REPRO must submit a form with a list of the workers that will eventually obtain the benefit. If the application is approved, the government will grant the workers listed by the firm a monthly stipend of up to US\$ 150 (AR\$ 600) paid into the worker's bank account for a period no longer than 12 months. The budget of the program must be spent within the approved fiscal year – benefits cannot be granted for any portion of the subsequent fiscal year. Although the direct beneficiaries are the workers, the companies come out better-off as well since they can deduct the amount paid by the government from each workers salary and still comply with the collective bargaining agreement reached with unions. In addition, companies enjoy a cut on the social security burden they render for their workers since they only have to pay for the reduced portion of the salary that remains on their wage bills. In return, enterprises promise to refrain from layoffs.

The National Directorate of Federal Relations at MTEySS is responsible for monitoring the agreements both by sending inspectors to visit the firms covered by the program and by checking with the tax revenue agency (SIPA-AFIP) and the social security agency (ANSES) whether or not companies have in fact retained employees. If they are found to have actually carried out layoffs or any another breach of commitments, the sanction leads to the immediate expiration of the benefits. It might also prompt legal actions for a reimbursement of improperly obtained resources.

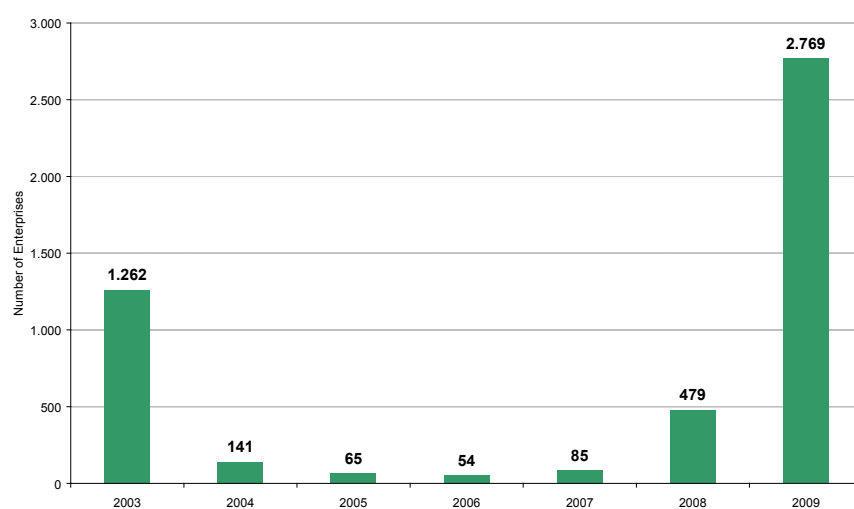
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1 Decree 165, January 22, 2002.

The program is de facto countercyclical, as support for its financing strengthens when employment falls. The program does not differentiate between foreign and local capital as long as the company has presence in the domestic market. When initially conceived in 2002, REPRO was expected to run only for a year; nonetheless it has since been renewed every year without interruption until the latest extension which now runs up to December 31, 2010. Throughout its lifetime actual use has not been steady but has shown a close correlation with the business cycle. It showed a sharp drop when the level of activity improved between 2003 and 2004 to regain momentum with the sudden eruption of the Great Recession in 2008 (see Figure 1). In 2007 only 85 firms received support for 14.151 jobs from the program.

Figure 1 illustrates the extraordinary annual increase in 2008 and 2009 –468% and 478%, respectively– in the amount of firms receiving REPRO benefits to cope with the crisis. Detailed data on firms covered by REPRO in 2009 indicates that fruit and vegetable growers ranked first in the list (832 firms), followed by mechanical goods (175 firms), textiles (169 firms), and tourism (166 firms). These four sectors accounted for nearly half (48%) of the enterprises under REPRO during the last year (see Table 1). It is also worth noting that most of the firms that benefited from REPRO in 2009 produce tradables (about 80-85 percent)<sup>2</sup> while the rest are service producers.

**Table 1: Number of Firms where Workers Receive Benefits, by Economic Sector (2009)**



Source: Ministry of Labor, Employment and Social Security of Argentina

2 In this estimation Tourism has been included with services.

**Table 1: Number of Firms where Workers Receive Benefits, by Economic Sector (2009)**

Economic Sector	Firms	Share
Fruits and Vegetable Growers	832	30,0%
Mechanical Goods	175	6,3%
Textiles	169	6,1%
Hotels - Tourism	166	6,0%
Food, Beverages and Tobacco	119	4,3%
Other businesses	108	3,9%
Wholesale and Retail Trading	104	3,8%
Production of Automotive Parts	92	3,3%
Viticulture	70	2,5%
Health Services	64	2,3%
Agricultural Machinery	63	2,3%
Fishing Industry	62	2,2%
Meat Processing Plants	61	2,2%
Machinery and Equipment production for Industry	55	2,0%
Timber Logging	47	1,7%
Leather Goods	45	1,6%
Post Services, Telecommunications and other Information Technologies	39	1,4%
Furniture Production	39	1,4%
Plastic Goods	37	1,3%
Agriculture	37	1,3%
Ceramics	36	1,3%
Industrial Production of Wood and Paper	36	1,3%
Cargo Storage and Transportation	34	1,2%
Cattle Farming	31	1,1%
Production of Electronics and Household Appliances	29	1,0%
Editing and Printing Activities	29	1,0%
Construction	25	0,9%
Production of Construction Material	23	0,8%
Production of Inputs for Agriculture	21	0,8%
Mining	17	0,6%
Other Manufacture Industries	17	0,6%
Restaurants	15	0,5%
Automotive Industry	12	0,4%
Chemical Products	12	0,4%
Home Products	10	0,4%
Office Supplies	9	0,3%
Public Transportation	9	0,3%
Shipyard	6	0,2%
Production of Mineral By-Products	5	0,2%
Electricity, Gas, and Water Services	4	0,1%
Coal, Oil, and Gas Exploitation	3	0,1%
Educational Services	2	0,1%
Port Terminal	1	0,0%
Milk Production	1	0,0%

Source: Ministry of Labour, Employment and Social Security of Argentina

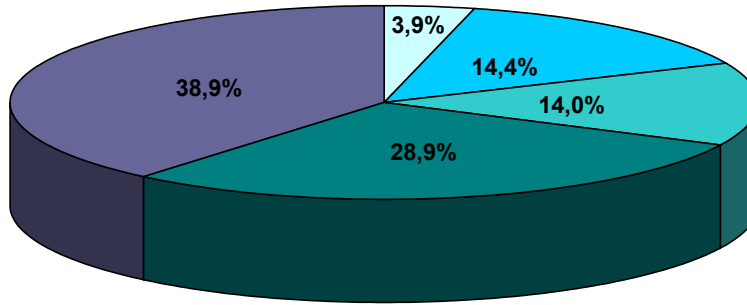
### 3. Breaking down the programme: size of firms and sectors

There is a lack of public data on how these benefits were distributed by firm size in 2009, although there are available figures for the period August 2008 – September 2009 that can be used as a proxy to gauge shares by firm size. In this regard, the Ministry of Labour, Employment and Social Security has informed that for the mentioned one-year period REPRO benefits were granted to workers in 2.317 firms; 96.3% of which were small and medium enterprises. According to the Ministry 1.050 of such firms (45.3% of the total) were employing between 1 and 10 workers, 724 firms (31.2%) employed between 11 and 50 workers, 241 firms (10.4%) employed between 51 and 100 workers, and 217 firms (9.4% of the total) employed between 101 and 300 workers. Only 85 firms employing more than 300 workers received REPRO. At first glance, it is possible to conclude that there is an overwhelming prevalence of small and medium enterprises in REPRO benefits.

Nevertheless, a closer examination reveals that such prevalence is less clear when focusing on the number of beneficiaries. Indeed, of every 10 workers receiving REPRO during the same one-year period, 4 of them were working for an enterprise employing more than 300 workers, 3 were employed by a firm with between 101 to 300 employees, and 3 more were working for a firm employing between 11 to 100 workers. Only 3.9 percent of the REPRO recipients were working for a firm employing between 1 to 10 workers (see Figure 2). Therefore, a first conclusion is that the prevalence of small and medium enterprises covered by the programme is offset by the predominance of workers covered by REPRO in firms employing more than 300 workers.

Figure 2: Period August 2008–September 2009: Share of REPRO Recipients by Firms Employing:

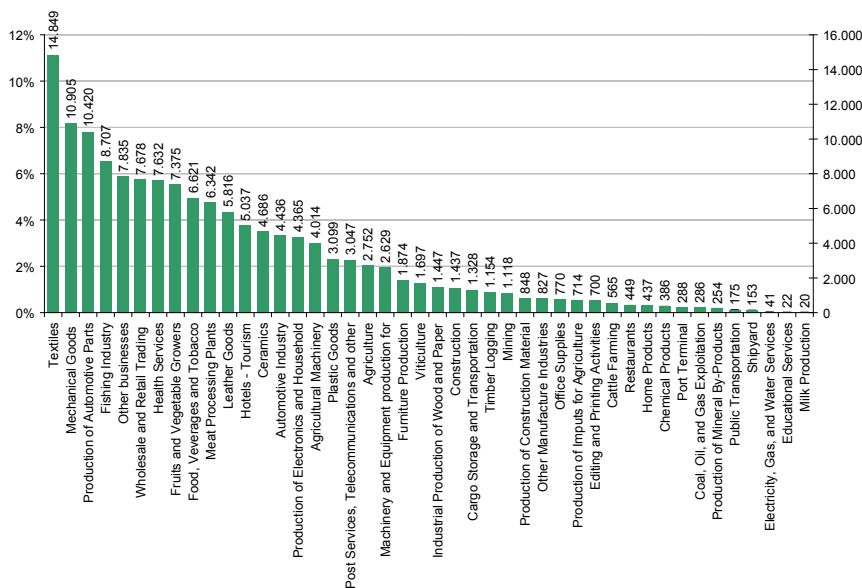
- 1 to 10 workers
- 11 to 50 workers
- 51 to 100 workers
- 101 to 300 workers
- More than 300 workers



Source: Ministry of Labour and Social Security of Argentina

The sectoral distribution of REPRO by the number of workers in each economic sector differs from the previously presented distribution by size of firms. In 2009, the largest number of recipients came from the textile sector (10.2%). As is widely known, this is a typical easy-entry / easy-exit industry, very sensitive to changes in demand and therefore highly pro-cyclical. Due to the high sensitivity of this industry, this sector is among the first to feel a slowdown in the business cycle with the associate impact on the labour market. Since the government had made an active push to increase formal jobs in this widely informal labour market, the impact of the crisis risked the progress achieved in the preceding years. The textile industry is followed (see Figure 3 below) by mechanical goods (7.5%), automotive parts (7.2%), and the fishing industry (6.0%).

Figure 3: Sectoral Distribution of Benefits by Number of Workers Receiving the Benefit (in absolute values and percent) (2009)



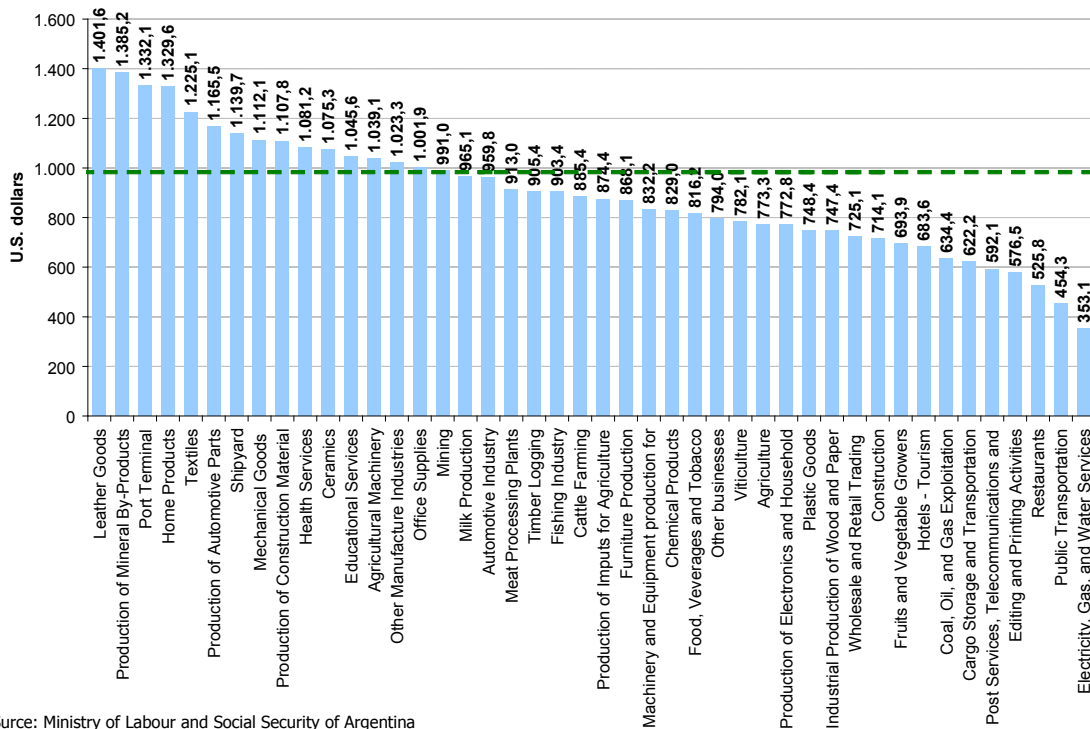
Source: Ministry of Labour and Social Security of Argentina

Fruits and vegetable growers ranked first in the classification by number of firms, ranked 8<sup>th</sup> when sorting by the number of workers receiving REPRO. Mechanical goods remained second; tourism falls to the 12<sup>th</sup> position in the list while food and vegetables fall to the 9<sup>th</sup>. Unlike these differences within the ranking, the share of tradable and non-tradable goods presents a similar pattern in both classification criteria, since sorting by amount of workers gives a result between 18 and 23 percent for non-tradable goods.

These figures should illustrate to what extent the REPRO programme has actually accomplished its main target: to lessen job losses due to the crisis. According to the data provided by MTEySS, in 2009 REPRO prevented about 145.235 layoffs. On average, each of these preserved jobs had a cost of US\$ 951 at the expense of the taxpayer. This estimation lies on the assumption that the average time of the benefit adds up to eight and a half months.<sup>3</sup> Therefore, during the last year the overall cost of the program was about US\$ 138.047.135.

How does each sector fare in terms of costs? Are there wide cost differentials between sectors? An examination on the share each sector holds in the total cost of the program once the data is disaggregated leads to the trends detailed in figure 4.

**Figure 4 Annual cost per job saved due to REPRO, by economic sector (2009)**



Source: Ministry of Labour and Social Security of Argentina

3 The information on the number of months has been obtained from an interview with a public official at the Ministry of Labour, Employment and Social Security. According to data from the Central Bank, the average exchange rate in 2009 was 3.73 AR pesos per US dollar.

The dotted line is delimiting the sectors that are below and above the US\$ 951 annual average cost of saving a job. Thus, preventing layoffs in the sector of leather goods, production of mineral by-products, port terminals, and home products, turns out to be significantly more expensive than preserving a job in public transportation, or restaurants.<sup>4</sup> The economic sector ranking first in the number of beneficiaries (textiles) ranks fifth in the cost of job savings. Why is the government granting the largest amount of REPRO benefits to a sector that is relatively expensive in comparison to others such as public transportation or construction? Is it possible for the government to prevent a larger amount of layoffs by allocating the same quantity of resources among sectors where saving a job results cheaper?

Apparently, the answer to the second question is: No. A public official interviewed by the authors stated that the allocation of benefits depends on the initiative of the firms that spontaneously apply and obtain the benefit for their workers so long as they comply with the eligibility criteria. This solution would prevent a classic optimization of REPRO benefits based on relative costs and a budget constraint, since the supply of REPRO would chronologically follow the demand until “running out of stock” disregarding the relative costs. Therefore, the reason for the government to provide REPRO benefits to textile firms lies on the sensitivity of the sector to the business cycle and thus the high demand of such benefits by textile firms that pass the evaluation process. This provides an answer to the first question.

In sum, this programme has been widely used for saving small and medium enterprises from the clutches of the crisis although most of the jobs saved were located in large-size companies. The allocation of REPRO benefits followed demand; benefits were therefore directed towards the economic sectors most sensitive to the economic downfall such as textiles, mechanical goods and automotive parts, disregarding relative costs of job saved.

#### 4. Mapping REPRO benefits: regional distribution

Since the program targets economic sectors and geographical areas hurt by the crisis, we present below a table with the geographic distribution of REPRO in 2009. The REPRO programme lies within the jurisdiction of central government which allocates the funds according to the eligibility criteria described above. The criterion as was seen has not included special treatment upfront for regions or provinces. Yet benefits are remarkably concentrated as is illustrated in Table 2 below. Table 2 breaks down the distribution of benefits amongst the provinces

**Table 2: Geographic Distribution of REPRO Benefits to Firms and Workers, by Province (2009)**

Province	Firms	Workers	% Firms	% Workers
Buenos Aires	429	45.314	15,5%	31,5%
Santa Fe	343	22.724	12,4%	15,8%
Capital Federal	167	11.002	6,0%	7,7%
Río Negro	890	8.838	32,1%	6,2%
Córdoba	80	7.593	2,9%	5,3%
San Juan	117	6.646	4,2%	4,6%
Mendoza	229	6.425	8,3%	4,5%
Chubut	51	5.647	1,8%	3,9%
La Rioja	42	3.780	1,5%	2,6%
Tierra del Fuego	15	3.346	0,5%	2,3%
La Pampa	95	3.060	3,4%	2,1%
San Luis	29	2.912	1,0%	2,0%
Misiones	39	2.774	1,4%	1,9%
Jujuy	10	2.539	0,4%	1,8%
Salta	27	1.698	1,0%	1,2%
Entre Ríos	55	1.688	2,0%	1,2%
Tucumán	16	1.568	0,6%	1,1%
Santa Cruz	11	1.551	0,4%	1,1%
Chaco	38	1.340	1,4%	0,9%
Neuquén	46	1.281	1,7%	0,9%
Corrientes	15	1.087	0,5%	0,8%
Catamarca	15	600	0,5%	0,4%
Santiago	7	217	0,3%	0,2%
Formosa	3	23	0,1%	0,0%

Source: Ministry of Labour, Employment and Social Security of Argentina

<sup>4</sup> The estimation of sectoral costs assumes that the average period receiving REPRO benefits is the same for every sector: eight and a half months.

A first conclusion derived from Table 2 is that the four most populated provinces of Argentina (Buenos Aires, Cordoba, Santa Fe, and Capital Federal) ranked in the top five of the list by the number of beneficiaries. There are three explanations to this trend. It could be indicating the priority MTEySS conferred to the sectoral criterion over the geographic dimension. Another explanation is that there was a higher demand for REPRO in the most populated districts due to the fact these suffered the strongest impact from the global recession. Finally, a third explanation is that the largest number of firms fulfilling the eligibility criteria (tax obligations up to date and in order, as well as a complete registration of their personnel in the Social Security Agency) is found in the industrial areas surrounding the big cities.

The exception has been the small province of Rio Negro in Patagonia which was doubly hit by the recession, and ranks first in the amount of firms covered by the program, highlighting the relatively large amount of small and medium enterprises under REPRO. In the first place, this province is the main contributor to Argentina's leading position in the world market for apples and pears. Rio Negro was particularly badly hit by the Great Recession due to the sharp fall in international demand of both fruits in terms of price and volume. The bountiful fruit harvests in the northern export destinations allowed them to stockpile a large amount of fruit prior to the harvest season in the southern hemisphere. This was combined with the compression of consumption due to the crisis. Finally, the weakness of the Euro eroded the ability of this industry to compete in Europe, traditionally its first export destination. Thus, abandoning these consistently successful industries to the short-run demand shocks derived from the great recession would unnecessarily have risked the dismantling of all the activities from collection to shipping, increasing the costs of putting them back on track when a highly expectable recovery finally arrives.

In addition to the compression of demand for pears and apples, the region was also hit by the 2009 swine flu pandemic which scared away the skiers that usually arrive by the thousands to the Bariloche sky center. This explains in part the relatively large share of the sector Hotels and Tourism under REPRO (4<sup>th</sup> in the list). According to a regional newspaper (*Diario El Andino*, September 11, 2009), the central government granted REPRO benefits to about 10% of the hotels in Bariloche in an attempt to offset at least some of the damages to this economic sector stemming from the 2009 swine flu. The report states that from 2,800 beneficiaries employed in tourism in this province, 60% (1,130) were assigned to four and five star hotels. The eight 5 star hotels in Bariloche received 879 REPRO benefits for their workers for a three-month period, while seven (from a total of 14) 4 star hotels received about 250. The remaining 750 REPRO benefits were distributed among 30 1-3 star hotels although one of them (Hotel Ausonia) obtained 100. Employees of restaurants, bars and discos at Bariloche were also benefited by REPRO.

Regionally concentration is also noted in the automotive industry, tightly linked to the Brazilian market. This industry is mainly located in the provinces of Cordoba, Santa Fe and Buenos Aires. In the case of Santa Fe, most beneficiaries work in the cities of Rafaela and Villa Constitucion, an industrial cluster for automotive parts and mechanical goods. According to the national newspaper *Pagina 12*, both European and U.S. firms such as Ford, Volkswagen and Peugeot have extensive lists of their workers receiving REPRO.<sup>5</sup> Despite the robust support provided in 2009 to carparts and mechanical goods, the economic downturn in both sectors had been reversed by the second half of the year. In this regard, Mr. Sergio Paz, National Director of Federal Relations at MTEySS –the official agency responsible of REPRO- was quoted in early 2010 saying that “there are some firms that received a strong support along the year but since they are currently recovering [from their previous economic problems derived from the crisis] they have asked to withdraw from the program. Automotive parts and mechanical goods are not only over the slump, but they have also recovered faster than other sectors”.<sup>6</sup> To a large extent, the improvement of cars sales came from abroad, particularly from Brazil.<sup>7</sup> Finally, distribution amongst provinces allows us to put an eye on the political arena in Argentina in order to find out whether or not the allocation of grants was biased in favour of political allies. It must be noted in this context that Argentina is governed by a federal system, whereby governors may or may not be aligned with the forces at national level in the Executive branch which holds the purse strings for this programme. Suspicions on how these strings are released are always simmering in the surface. However, the use of REPRO does not bear this out

Of the top five provinces in Table 2 only the Governor of the first in the list, Buenos Aires, is a member of the party currently in office. The second in the list is Santa Fe, where the governor Hermes Binner, is a socialist belonging to the loyal opposition. The Governor of Rio Negro, Miguel Saiz, belongs to an opposition party although he is considered to be friendly with the current administration. One might conclude that these provinces were viewed with sympathy at the time of distributing rewards. However, the mayor of the district capital, which ranks third in the list as well as the Governor of Cordoba, which ranks fifth, Mauricio Macri and Juan Schiaretti, respectively, present a frank and quite hard opposition to the current administration, both aspiring to be presidential candidates in 2012. Their inclusion high on the list seems to confirm that hardship rather than political affinities have been the central motives in the distribution of grants.

5 Pagina 12, Ayuda estatal para más de 90 mil empleos, June 27, 2009

6 La Nacion, Las compañías piden menos subsidio al empleo, January 31, 2010.

7 iProfesional, Por la demanda de Brasil, la industria automotriz argentina creció un 74%, April 26, 2010.

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## 5. Conclusion

Given Argentina's long tradition of informality, the retention of workers in formal employment was a paramount government concern as soon as the first signs of the global crisis were perceived. A setback in this regard was dreaded at all levels of government. This de facto countercyclical program was unearthed swiftly to provide support for employment in hard hit sectors and regions. Although REPRO has served to circumscribe the impact of the crisis, it is by nature a micro instrument, a one-year (renewable) benefit designed to retain employment in the formal sector. The eligibility criteria do not discriminate between foreign and local capital.

The extensive distribution of resources as well as the number of beneficiaries allowed the economy to weather the storm during 2009. REPRO has allowed to soften the effect of the global crisis on employment and businesses. Workers in firms of all sizes and several sectors have been covered by the program. True to its spirit, there has been a larger number of small and medium enterprises receiving the benefit in contrast to firms employing more than 300 workers. Nevertheless this trend was offset by the predominance of jobs saved at large-sized companies. The allocation of REPRO benefits followed demand and were therefore directed towards the sectors most sensitive to the economic downfall such as textiles, mechanical goods and automotive parts, disregarding relative costs of job saved.

The remarkable geographic concentration of recipients (both workers and firms) in the most populated areas might obey to three mutually reinforcing explanations: It could be indicating the priority MTEySS conferred to the sectoral criterion over the geographic dimension; it could also be indicating that the strongest impact of the global crisis has been on the most populated districts; and finally the geographical concentration of REPRO recipients might be due to the fact that the largest number of firms fulfilling the eligibility criteria (tax obligations to date and in order, as well as a complete registration of their personnel in the Social Security Agency) are found in the industrial areas surrounding big urban centres. The relatively small province of Rio Negro should be mentioned as an exception to these rules due to the particular effect the economic crisis and the swine flu pandemic both had on its main sources of income.

Political maneuvering has been largely absent. In this regard, evidence points out that the goal of preventing massive layoffs (and dreaded social unrest) was kept in line and there was little if any distribution of political favour. Fear of reenacting familiar troubles was the counsel that ruled all through.





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