Working papers economics - Evaluating Unemployment Insurance in a Developing Economy: Evidence from Colombia

Download Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHORS AND/OR EDITORS Morales-Zurita, Leonardo Fabio Astorga-Rojas, Diego Guida-Johnson, Nicolás
Colombia's unemployment insurance program, known as the Unemployment Protection Mechanism (MPC), does not discourage job search. Instead, it enables longer and more selective searches. This study finds that, although the program does not directly increase wages, it helps beneficiaries, particularly lower-income workers, secure more stable jobs, remain employed for longer periods, and join more productive firms. It also increases the likelihood of changing economic sectors, suggesting a reallocation toward occupations that better match each worker's skills and profile.

Publication Date: Thursday, 15 of October 2026 **Approach**
In 2013, through Law 1636, Colombia established the Unemployment Protection Mechanism (Mecanismo de Protección al Cesante, MPC) to mitigate the economic effects of job loss and facilitate re-employment. The program provides, for up to six months, health insurance contributions, pension contributions, and family allowance benefits to formal workers who lose their jobs, conditional on participation in employment services and training programs. To qualify, dependent workers must have contributed to a Family Compensation Fund for at least 12 of the previous 36 months.

In 2020, in response to the economic shock caused by COVID-19, the benefit was expanded in both amount and duration. To ensure the continuity of support measures and promote employment recovery after the pandemic, the Ministry of Labor enacted Law 2225 of 2022, which amended Law 1636 of 2013 regarding the economic benefits provided under the MPC. The reform expanded both the benefits and the monitoring mechanisms used to identify eligible beneficiaries.

Evaluating the effectiveness of such policies is particularly relevant in an economy like Colombia's, which is characterized by high levels of unemployment and informality, exceeding 55 percent. In this context, unemployment insurance coexists with a large informal sector, while liquidity constraints limit workers' ability to sustain prolonged job searches.

Contribution
This study provides a causal evaluation of the impact of the MPC on labor market outcomes in Colombia. It exploits the 12-month contribution threshold that precisely determines eligibility for benefits, comparing workers located just above and just below the cutoff point.

To ensure that the estimated effects are not driven by workers' own decisions, the analysis focuses on individuals who lost their jobs due to firm closures, an exogenous shock unrelated to their personal characteristics. The findings are further validated using an alternative source of exogenous job loss: mass layoffs. The empirical strategy relies on detailed administrative records linking employers and employees, making it possible to track workers' labor market trajectories before and after job loss.

The study's main contribution is to provide rigorous evidence on the effects of unemployment insurance in a developing economy with high informality. In addition to examining unemployment duration and re-employment wages, it analyzes dimensions of job quality, such as job stability and the type of hiring firm, which are typically absent from previous studies.

Results

The results show that eligibility for the MPC increases unemployment duration by approximately one month, without generating improvements in re-employment wages. However, eligible workers obtain, on average, more stable jobs: they remain longer in their first post-unemployment position and are more likely to return to work in more productive firms, defined as those paying wages above the median.

Eligibility also increases the likelihood of changing economic sectors, suggesting a reallocation toward occupations that better match workers' skills and profiles.

These effects are concentrated among lower-income workers, consistent with the view that unemployment insurance relaxes liquidity constraints and enables longer and more selective job searches, rather than discouraging job search efforts. The effects are also stronger among men, in line with documented gender differences in reservation wages and financial constraints.

Taken together, the evidence indicates that, even in a labor market characterized by high informality, unemployment insurance plays an important role. While it does not directly increase wages, it contributes to more efficient labor market transitions and to more stable and productive employment relationships.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/working-papers-economics/evaluating-unemployment-insurance-developing