Latin America's informal economy
Some formalisation strategies

SUMMARY
Informal employment affects around 130 million workers in Latin America and the Caribbean, of whom at least 27 million are young people, and represents nearly half of non-agricultural employment. Its incidence varies across the region’s countries (from 30.7% in Costa Rica to 73.6% in Guatemala), sectors and population groups. Fighting informality has become a clear objective in the region.

Some Latin American countries have taken big steps to reduce informality, applying a different mix of specific policies and strategies and obtaining generally positive results; however, more efforts are needed. Moreover, the current crisis can endanger this positive trend. International institutions, such as the International Labour Organization (ILO) and the EU, are also promoting measures to support the transition to the formal economy in the region, and the European Parliament has shown a special interest in this issue. Yet, formalisation in Latin America remains an important challenge, and economic growth alone is not enough to achieve it: the ILO insists on an integrated and comprehensive approach that would complement public policies with efforts by social actors as a way to achieve broad-based consensus. Experts agree that the focus should be on workers' social and labour inclusion.

This briefing examines the strategies applied by five big Latin American economies – Argentina, Brazil, Colombia, Mexico and Peru – based on recent ILO studies, and looks at the results obtained thus far and the assistance provided by the EU and the ILO.

In this briefing:
- Definitions
- The informal economy as a concept
- The case of Latin America
- Recent situation and formalisation experiences in the region (Argentina, Brazil, Colombia, Mexico, Peru)
- The role of the ILO
- The role of the EU
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Glossary

**Informal economy:** economic activities, enterprises, jobs and workers not regulated or protected by the State and either not covered or covered insufficiently by formal arrangements.

**Informal employment:** ‘the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given period’.

**FORLAC:** the International Labour Organization’s programme for the promotion of formalisation in Latin America and the Caribbean.

**The informal economy as a concept**

Although the International Labour Organization (ILO) admits that ‘there is no universally accurate or accepted description or definition’, the general features of the informal economy are easily identifiable. In a 2002 resolution concerning decent work and the informal economy, the ILO states that the term ‘refers to all economic activities by workers and economic units that are – in law or practice – not covered or insufficiently covered by formal arrangements’. It includes both autonomous and salaried workers, who often cannot escape poverty because they lack protection, rights and representation. Goods and services produced by the informal economy are usually legal, allowing workers to obtain work or income to which they would otherwise have no access. As taxes are often not levied on such activities, they do not generate public revenue, thus limiting the government’s ability to extend social services. The phenomenon can also be described as ‘the diversified set of economic activities, enterprises, jobs, and workers that are not regulated or protected by the state’. While the term originally covered self-employment in micro- and small unregistered enterprises, it now also includes wage employment in unprotected jobs (such as domestic work). It can also be described as a part of the economy which is not regulated or protected by the State, or is not taxed or monitored by the government. Associated by the ILO with a lack of decent work and high vulnerability, the informal economy is estimated at 50-75% of all non-agricultural employment in developing countries.

**The case of Latin America**

In 2013, informal employment affected 130 million workers in Latin America and the Caribbean, of whom at least 27 million youth, and represented 46.8% of total non-agricultural employment, showing a constant, though modest, downward trend (from 50.1% in 2009). The share of informal employment in non-agricultural activities varies from country to country, ranging from 30.7% in Costa Rica to 73.6% in Guatemala. Only sub-Saharan Africa and south and east Asia have higher informality rates.

**Figure 1: Latin America, non-agricultural informal employment, 2009-2013**

Source: ILO, based on country home surveys.

**Features of informal employment**

- no protection against unpaid wages;
- compulsory overtime/extra shifts;
- lay-offs without notice or compensation;
- unsafe working conditions; and
- no social benefits (such as pensions, sick leave or health insurance).
Informal employment was highest in the informal sector, with 30.5% of the total. It reached 11.4% in the formal sector and 4.9% in the domestic sector, mostly in the area of domestic services (see Figure 1). All three components experienced a decline during this period. The highest rate of informal jobs (49.7%) was among women, compared with 44.5% among men. More than half of the workers aged 15 to 24 (55.7%) also worked in the informal sector, as did 44.9% of those over 25. Those with the lowest educational level were also more likely to have informal employment: 64.4% of workers with no formal education or primary education, compared with only 26.3% of those with higher education (Table 2). Own-account and domestic workers were also over-represented (82.3% and 77.5% respectively), as were private sector micro-enterprise workers, while informal work in the public sector was only 15.9%. Regarding income level, among the 20% of the population with the lowest income (1st quintile), nearly three quarters worked in the informal economy, compared with just only 29.8% of those with the highest income level (5th quintile). Wage workers made up more than half of those engaged in the informal economy, while own-account workers accounted for only 40.9%.

Table 2 – Percentage of non-agricultural informal employment -Latin America by categories (13 countries, % of total employment in each category), 2009-2013

<table>
<thead>
<tr>
<th>Category</th>
<th>2009</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>47.20%</td>
<td>45.50%</td>
<td>45.20%</td>
<td>44.50%</td>
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<tr>
<td>Female</td>
<td>53.80%</td>
<td>51.10%</td>
<td>51.10%</td>
<td>49.70%</td>
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<tr>
<td>15-24 years</td>
<td>60.20%</td>
<td>56.30%</td>
<td>56.90%</td>
<td>55.70%</td>
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<tr>
<td>25+ years</td>
<td>47.70%</td>
<td>46.00%</td>
<td>45.70%</td>
<td>44.90%</td>
</tr>
<tr>
<td>Primary/no education</td>
<td>66.60%</td>
<td>64.80%</td>
<td>65.30%</td>
<td>64.40%</td>
</tr>
<tr>
<td>Secondary education</td>
<td>47.50%</td>
<td>46.70%</td>
<td>46.80%</td>
<td>46.20%</td>
</tr>
<tr>
<td>Higher education</td>
<td>28.20%</td>
<td>27.30%</td>
<td>27.00%</td>
<td>26.30%</td>
</tr>
<tr>
<td>Public sector employee</td>
<td>15.70%</td>
<td>15.45%</td>
<td>15.40%</td>
<td>15.90%</td>
</tr>
<tr>
<td>Private sector employee (including employers)</td>
<td>36.20%</td>
<td>34.00%</td>
<td>33.70%</td>
<td>32.90%</td>
</tr>
<tr>
<td>Micro-enterprises (1-10 workers)</td>
<td>61.40%</td>
<td>59.70%</td>
<td>60.30%</td>
<td>58.60%</td>
</tr>
<tr>
<td>Enterprises with more than 10 workers</td>
<td>17.20%</td>
<td>15.10%</td>
<td>15.10%</td>
<td>14.40%</td>
</tr>
<tr>
<td>Own-account workers</td>
<td>85%</td>
<td>83.70%</td>
<td>83.20%</td>
<td>82.30%</td>
</tr>
<tr>
<td>Domestic workers</td>
<td>80.10%</td>
<td>78.10%</td>
<td>79.30%</td>
<td>77.50%</td>
</tr>
<tr>
<td>Contributing family workers</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>1st quintile income level</td>
<td>77.20%</td>
<td>73.80%</td>
<td>73.20%</td>
<td>72.50%</td>
</tr>
<tr>
<td>2nd quintile income level</td>
<td>64.20%</td>
<td>61.70%</td>
<td>61.20%</td>
<td>59.70%</td>
</tr>
<tr>
<td>3rd quintile income level</td>
<td>55.30%</td>
<td>53.20%</td>
<td>53.20%</td>
<td>51.95%</td>
</tr>
<tr>
<td>4th quintile income level</td>
<td>45%</td>
<td>43.30%</td>
<td>42.90%</td>
<td>41.90%</td>
</tr>
<tr>
<td>5th quintile income level</td>
<td>31.70%</td>
<td>30.90%</td>
<td>30.80%</td>
<td>29.80%</td>
</tr>
</tbody>
</table>

Source: ILO, Recent experiences of formalisation in Latin America and the Caribbean.

Recent situation and formalisation experiences in the region

With the significant growth experienced by Latin American and Caribbean economies since the mid-2000s (4.8% annually from 2003 to 2007, which did not stop despite the global financial crisis), and the significant reduction in unemployment (reaching a historic low of 6.3% of the labour force in 2013), the main focus has gradually shifted from creating enough jobs to the quality of the employment created, and in particular to the transition from informal to formal employment. Several countries in the region have
made substantial efforts to reduce informality, applying a different mix of specific policies and obtaining generally positive results (Table 3).

<table>
<thead>
<tr>
<th>Country</th>
<th>Indicator</th>
<th>Period</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Unregistered wage employment</td>
<td>2003-2012</td>
<td>-14.50%</td>
</tr>
<tr>
<td>Brazil</td>
<td>Informal employment (% of total employment)</td>
<td>2002-2012</td>
<td>-13.90%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Informal employment (% of total employment)</td>
<td>2009-2012</td>
<td>-10.80%</td>
</tr>
<tr>
<td>Jamaica</td>
<td>Informal employment (% of total employment)</td>
<td>2008-2012</td>
<td>-3.10%</td>
</tr>
<tr>
<td>Mexico</td>
<td>Informal employment (% of total employment)</td>
<td>2010-2013</td>
<td>-0.70%</td>
</tr>
<tr>
<td>Paraguay</td>
<td>Informal employment (% of total employment)</td>
<td>2001-2011</td>
<td>-5.80%</td>
</tr>
<tr>
<td>Peru</td>
<td>Informal employment (% of total employment)</td>
<td>2004-2012</td>
<td>-6.60%</td>
</tr>
<tr>
<td>Colombia</td>
<td>Informal employment (% of total employment)</td>
<td>2009-2012</td>
<td>-2.30%</td>
</tr>
<tr>
<td>Dominican Rep.</td>
<td>Urban informal employment</td>
<td>2005-2010</td>
<td>-10.70%</td>
</tr>
<tr>
<td>Uruguay</td>
<td>Employment registered with social security</td>
<td>2004-2012</td>
<td>-15.10%</td>
</tr>
</tbody>
</table>

Source: ILO, based on FORLAC notes, 2014.

**Argentina**

Between 2003 and 2012, Argentina made substantial progress in employment formalisation (which lasted until recently), favoured by the new macroeconomic scheme applied after the peso convertibility crisis. Non-registered wage employment (NWE) fell by 14.5% (from 49.1% to 34.6%), while the proportion of wage employment in the total working population increased. If independent workers (with an informality rate of 58%) and unpaid family workers are added to wage workers, the informality rate, estimated for the total working population in 2012, stood at 44%. There are sizeable differences by sector, enterprise size and workers’ skills level, but the sectors most affected by informality in 2012 remained essentially the same as in 2003 (domestic work, self-employment, where the informality rate was around 60%, agricultural work in rural areas and wage employment in micro-businesses, construction and commerce). Small and medium-sized enterprises in the construction, warehousing and communications, hotels and restaurants, and manufacturing sectors, plus domestic workers, accounted for 69% of non-registered wage employment. The highest sectoral reductions of non-registered wage employment rates were seen in the social and health services, trade, building and manufacturing sectors, which together with domestic work represented 75% of the total NWE reduction.

Public policies have addressed the problem of informal work in Argentina from a new perspective, seeking to integrate and connect an array of social, occupational and economic programmes and actions to target its main causes. These strategies and policies seek to formalise all activities carried out outside the legal framework and, at the same time, to prevent and alleviate the effects of informal employment:

- **macroeconomic scheme**: an active role of the state in the promotion of decent work through fiscal, monetary and other macroeconomic policies; through improved tax administration; and through linkages between the labour institutions in their work on issues such as collective bargaining and the minimum vital wage;

- **regulation of informal activities**: simplifying regulations and procedures; reducing entry costs and access mechanisms to formality (tax simplification, e-government, one-stop-shop programmes at regional and local level);
actions targeted at informal workers in formal businesses: scheme for the promotion and protection of registered employment (reduction of social security contributions, payment facilities for regularising overdue debt); National plan for employment regularisation (2013, to strengthen the State’s monitoring and inspection capacities); ex officio or presumed estimate of outstanding social security contributions in the construction, textile and domestic work sectors; improvement of payment methods for employers’ obligations (for instance, collective co-responsibility agreements (CCG) in rural areas);

formalisation of undefined employment relationships and employment relationships in informal businesses: a new social security and employment scheme for domestic workers; migration policy reform (a new Immigration Act, measures for regularising the immigrant status); a new agricultural work scheme and the creation of the National register of agricultural workers and employers (Renatea); collective co-responsibility agreements; modification of the temporary service companies’ regime;

employability improvement: training actions (programmes on vocational training, completion of formal education, job skill standards register and worker certification);

social awareness of informality issues: comprehensive awareness-raising campaigns on the benefits of complying with labour and tax obligations (for instance, through corporate social responsibility plans);

formal employment protection against shocks: among others, through the crisis prevention procedures and the Programme for productive recovery (PRP);

social protection for informal workers and their families: income transfer programmes with employability promotion components (for instance, Training and employment insurance, Young people with more and better jobs, Argentina works); extension of social security coverage to informal workers (Social security inclusion plan, universal child and pregnancy allowance, social single tax);

Finally, an integrated plan to reduce non-registered employment was launched in September 2013, and in April 2014 a bill on the promotion of registered employment and prevention of labour fraud was submitted to the Parliament, with a set of measures to facilitate employment formalisation. Without renouncing previous strategies, the new plan defined new policies and instruments to make further progress on employment formalisation, aiming to:

– reinforce labour inspection;
– intervene in critical sectors (domestic work, rural sector, garment industry);
– establish a public register of employers with labour sanctions;
– create economic incentives for the formalisation of workers in micro-businesses; and
– launch awareness-raising campaigns on workers’ rights (domestic work, rural sector).

President Macri’s administration still seems intent on promoting formalisation, but this time focusing more narrowly on making the labour market more flexible.

Brazil
The falling trend in Brazil's formality rate (from 49.2% to 42.7%) between 1996 and 2002 was reversed between 2002 and 2003, when it registered a vigorous and sustained rise of 13.9% in just one decade, reaching 56.6% of the working population in 2012 and marking a further 1% rise in 2013. Of these 13.9%, wage workers accounted for 10.9%, while own-account workers and public sector workers only represented 1.9% and 1.1% respectively; this reveals that formality was strongly influenced by the economic, social
and institutional changes triggered by the country's virtuous development cycle during that period. On the other hand, the formalisation of domestic workers only experienced a tiny rise (2.9% between 2008 and 2002). In the same period, wage employment rose by 31% until it reached 56% of the total working population; the average revenue of wage workers also rose. Since 2015, informality has started rising again, due to the recent crisis.

All activity sectors experienced a similar evolution between 2002 and 2012: the industrial sector went from a formality rate of 67.5% to 78.9% in 2012 (a 11.4% rise); services, from 53.8% to 65.3% (a 11.5% rise); and agriculture, from 27.1% in 1998 to 40.8% in 2012 (a 13.7% rise in 14 years). The rise in the agricultural sector is mainly due to the rapid increase in the number of women workers (from 26.6% in 2001 to 45.1% in 2012); there has also been an increase in women workers in the public construction sector, with a formality rate of 89.1% compared to 60.8% for men in 2012. Nevertheless, taking all sectors together, male workers had a formality rate of 81.3% compared with just 62.3% for women. Regarding race, the formality rate grew by 9.8% for white wage workers, 23.6% for indigenous wage workers, and 15.2% for coloured workers. The latter two ethnic groups still showed the lowest formality rates, with 60.4% and 61.1%, respectively.

**Main factors contributing to formalisation**

The convergence of a series of complementary and mutually reinforcing factors explains Brazil's progress in formalisation between 2002 and 2012:

- **Economic dynamics and their positive effects on employment and salary levels**: in 2002, Brazil started to benefit from the rise in commodity prices, and with the trade surplus between 2003 and 2008, it paid off its external debt and accumulated international reserves. Unfortunately, the cycle has been reversed since 2014.

- **Demographic change**: the population growth rate dropped drastically in 2000, approaching 1% per year at the end of the first decade. As a result, the country's age structure is currently almost demographically ideal (the rate of the working-age population being very high). The drop in internal migration has further contributed to reducing the negative effects of the historic structural workforce surplus.

- **A renewed role of the government as a driver of economic and social development**: in the same decade, the government gradually extended its role in the economy and in the establishment of a welfare state. It improved its tax collection, budgetary execution and expenditure systems; increased the importance of the labour register; and helped to formalise labour relations by: implementing red tape-reduction initiatives such as Super Simples; institutionalising the figure of the individual micro-entrepreneur (MEI); extending social security to housewives, fishermen and rural workers; and applying coercive measures such as the negative labour certificate;

- **Improvement of the regulatory apparatus and the role of public institutions**:
  
  a) The legal and institutional base established in the 1988 constitution acquired new relevance after 2000 and was further developed by using the labour register to enable access to social protection; extending social protection and labour rights; and expanding the powers and structure of the Labour Ministry and Labour Inspection;

  b) Labour law played a significant role in the growth of formalisation through a fresh interpretation of how to implement laws (for instance, regulating outsourcing and linking it to the labour register, where simulated employment relations are treated as fraud) and a greater presence in the labour world. It was achieved through a 67% staff increase and the creation of new jurisdictions (with a 64% rise in the number of newly opened court proceedings between 2002 and 2012);
c) The **Public Labour Prosecutor’s Office** was strengthened through the establishment of specialised groups and priorities (such as child labour eradication, fight against forced work and discrimination and defence of fundamental rights at work) in 2002;

d) Labour inspections increased in frequency, thus contributing to the formalisation of new workers (746 245 in 2007);

- By increasing the negotiating power of the trade unions and workers and by steps taken by some business sectors, in order to prevent predatory competition in the economy. As a result, wage negotiations have improved (most job categories got real wage rises in 2012); the total number of unionised workers has risen (three million between 2001 and 2011); and there are better dialogue channels with government and public institutions.

**Colombia**

Non-agricultural informal employment in **Colombia** fell from 58% in 2009 to 55% in 2013, equally affecting the formal, informal and domestic sectors. It is more prevalent among own-account workers, domestic and contributing family workers (71.8% of all non-agricultural informal employment). Between 2009 and 2012, more than 1.7 million workers were added to the Integrated Contribution Register (**PILA**). Between 2007 and 2012, the number of contributors to the health system increased by 23.5% (from 8.3 million to 10.2 million), and contributors to the pension system increased by 24.3% (from 5.2 to nearly 6.5 million). Again between 2007 and 2012, the number of **formal enterprises** in urban areas also increased: from 53.1% to 77.3% in the case of those that kept accounting records, and from 45.1% to 69.7% in the case of those that got registered. This reduction in informal employment is attributed to a combination of factors such as economic growth, legislative initiatives and institutional reforms.

**Economic growth**

The Colombian **economy** has proved quite **resilient** in the last decade, registering an average annual growth of 4.3% between 2001 and 2012 (over 6.6% in 2006, 2007 and 2011). Even in 2009, when the international financial crisis struck, it grew by 1.7% and has kept **growing** despite the commodity crisis (+3.2% forecast for 2015, +3.6% for 2016). GDP per capita grew 44.2% in real terms; the poverty rate, helped by economic growth and social policies, fell from 49.7% to 30.6% between 2002 and 2013; and income inequality also experienced a reduction – the Gini index fell from 56 to 53.9 points between 2010 and 2013. From 2001 to 2013, the number of workers grew by around 5.3 million, especially in non-traded goods sectors, and output per worker grew by 26.4% in real terms. Nevertheless, unemployment rates were among the highest in the region in 2013 (between 8% and 12%), and stood at **9%** in April 2016.

**Institutional factors**

Some of the main institutional **changes** introduced to promote formal employment in Colombia can be summarised as follows:

- **Law 590** (modified by laws 90, 1151 and 1450) was adopted in 2000 with the purpose of supporting micro- and small enterprises (**MSEs**). It introduced a **national system** to facilitate the provision of financial support (such as credit lines, micro-insurance, credit guarantees, modernisation and innovation fund) and non-financial support in the form of programmes (such as Emprende Colombia, Colombia se Formaliza, Proyecto Delco and Exporta Fácil).

- **Law 1429** was adopted in 2010 with the purpose of providing incentives to people
and businesses to go formal. These involved easier access to business development programmes and lowered costs for acquiring a formal status through the reduction of red tape and the possibility to pay some taxes and social contributions progressively. In December 2012, 424 197 businesses had benefited from these incentives; 99% of businesses that took advantage of them between 2011 and 2013 were new, and the number of workers formalised by March 2013 reached 121 908.

- A number of labour formalisation agreements (AFL, Law 1610 and Resolution 321 of 2013) were signed to prevent patterns of behaviour that hinder formalisation, by creating constructive relations with employers. Some 32 AFLs were signed between 2012 and the end of 2013, benefiting 25 962 workers.

- The Action Plan for Labour Rights was signed jointly with the USA to protect Colombian workers’ rights and prevent violence against trade unions in the framework of the implementation of the Colombia-US Free Trade Agreement. It increased the number of labour inspectors to 3.6 per 100 000 active workers, the target for 2014 being 4.7; ensured closer inspection of temporary services firms; increased the sanctions for associated employment cooperatives (CTA) involved in illegal job placement practices; and established the Centre for Employment Advisory and Guidance Services (COLabora) within the Ministry of Labour, to better process complaints and claims (it currently serves 100 000 workers per month).

- Adopted in 2013, Decree 2616 enabled dependent workers working for periods under one month to be included in the pension, labour risk and family subsidy systems, and created the periodic economic benefits (BEPS), a flexible, voluntary old-age protection scheme for workers who do not reach the minimum wage and therefore cannot benefit from the general pension system.

- Other recent measures include the adoption of: Decree 721/2013, establishing the mandatory affiliation of domestic workers to compensation funds; Law 1607/2012 on tax reform; Law 1636 (2013) establishing a protection mechanism for dismissed workers and guaranteeing the social protection of unemployed workers; and Decree 567/2014, which created the national labour formalisation network.

- Finally, among the latest initiatives are the formalisation ‘brigades’, created to offer guidance and coaching; the hubs for formalisation-related services (one-stop shops centralising all of the steps involved in the formalisation process); projects and enterprise formalisation workshops for specific sectors and regions; and the development of strategies for training, professionalization and formalisation in the agricultural, construction, mining and transport sectors.

**Mexico**

Despite the fact that Mexico’s economy has grown (albeit moderately) and that it has an open unemployment rate of around 5%, the country’s informal economy still accounts for nearly 60% of the workforce (it fell slightly from 60% of total employment in the third quarter of 2012 to 58.79% in January 2014). There are also considerable differences among states, from 81.2% in Oaxaca to just 39.5% in Nuevo León. According to the National Institute for Statistics and Geography (INEGI), the informal economy accounted for 23.7% of GDP in 2014 (down from 26.8% in 2009). This falling trend seems to have stopped in 2015.

To address this issue, the Mexican authorities have implemented the following initiatives:

**2013 Programme for the formalisation of employment**

Signed in July 2013 by the governments of the different states, the federal district and the national government, this programme is an innovative instrument that aims to ease
the transition from informal to formal employment by ensuring that all workplaces comply with the Federal Employment Law and the Social Security Law. It also seeks to promote the inclusion in the social security mandatory scheme of workers who are not affiliated to it and to promote the voluntary affiliation of other workers (domestic service and non-wage workers, cooperatives members, communal and small landowners). Furthermore, it supports the affiliation of state and municipal government workers to the competent social security institution. Agreements have also been made to disseminate the programme’s measures among employers and workers and to ensure the affiliation of all suppliers and contractors of the federal administration to it. Measures will also be implemented to make Mexican Social Security Institute (IMSS) services more accessible, flexible and transparent.

Unemployment insurance and universal pension
These two social security initiatives were submitted recently by the government to the Congress of the Union, with the aim to include: the right of older adults to enjoy a universal pension covering their basic expenses in old age; and the right of workers to employment insurance so that they can satisfy their needs while looking for a new job in the formal labour market. Both proposals were envisaged in the Pact for Mexico.

Good practices developed by federative entities
Finally, a series of programmes or good practices have been developed by the different states to help formalise employment. For instance, the State of Nuevo León developed specific employment workshops (JALE), which helped to place 16 300 workers in the formal sector in 2013; and the Employment for youth programme, providing training scholarships to young people aged 16 to 29 with no work experience (2 885 out of 4 000 participants found formal jobs in 2013). The federal district focused on linking more closely unemployment insurance, the Mexico City employment portal and the Federal Training Institute; and developed an initiative for the cooperative promotion of the federal district. The State of Hidalgo created the Q network in Querétaro, formalising 2 000 drivers, and Chihuahua launched the Vivebús system formalising 1 056 drivers. The State of Hidalgo also made compliance with social security obligations a prerequisite for participating in public contracts. And enterprise promotion has been supported by the Made in Nuevo León programme, providing export advisory services to SMEs.

Peru
Non-agricultural informal employment in Peru fell from 75% in 2004 to 68.6% in 2012. Of this, 18.3% corresponded to informal employment in the formal sector, 47.2% in the informal sector, and 3.1% in the domestic sector. Informality mainly affects own-account workers, domestic workers and contributing family members (57% of the total). In this same period, the number of registered workers experienced a threefold growth. The country’s good economic performance, combined with certain institutional factors, has undoubtedly contributed to this reduction.

Economic growth
The Peruvian economy enjoyed a 5.8% average growth in the 2001-2012 period (3.26% in 2015), with a 24.9% poverty-rate reduction between 2004 and 2012 and a growth in employment of 2.5 million workers over the same period, in which output per worker also increased by 44% (a 4.5% yearly average). The poverty reduction rate was evidently not matched by a similar reduction in informal employment, mainly because growth in the Peruvian economy tends to concentrate in sectors with high productivity, low job creation and limited sector linkages. Output is also concentrated in big enterprises with
high productivity, while small and micro-enterprises and own-account employment generate a small output, despite employing most of the labour force. The International Monetary Fund growth forecast for 2016 is 3.7% (second-highest in Latin America).

**Institutional factors**

Among the main institutional changes introduced to promote formal employment in Peru are the following:

- Implementation of the e-payroll (2007), forcing employers with three or more workers to send monthly reports on their workers, pensioners, service providers, trainees, outsourced workers and claimants directly to the National Tax Authority (SUNAT). That way, the Ministry of Labour has increased its capacity to supervise and monitor compliance with labour obligations. In 2008, it helped increase the number of formal jobs in enterprises with five or more workers by 270 000 to 340 000, and by 208 000 in private enterprises with less than five workers.

- Increased coverage by the different types of health insurance, especially thanks to the recent expansion of the integral health insurance scheme (SIS). In 2011, 64.5% of the Peruvian population was covered by some type of health insurance. Mainly due to the growth in formal wage employment, the number of people insured nationwide rose from 5.9 million in 2006 to 9.2 million in 2012.

- Support to small and micro-enterprises (MSEs), among others through simplified tax mechanisms such as the single simplified regime (RUS) and the special income tax regime (RER), both applied to microenterprises and individuals in order to increase tax revenue, and the special regime for MSEs, created in 2003 initially for enterprises of 10 or fewer workers and extended in 2008 to those with up to 100 workers, which provides various tax incentives and reduces labour obligations. According to the ILO, 'available evidence suggests that the application of these modifications has not had a significant effect on formalisation'.

- Other measures in support of MSEs include facilitating their access to government procurement (the current target is at least 40% of the total volume); programmes for opening, consolidating and diversifying international markets; promoting technological innovation through the Innovation, Science and Technology Fund (FINCyT) and the network of technological innovation centres (CITE); an e-government project which simplifies administrative procedures and makes it possible to set up an enterprise online, cutting the time for creating an enterprise from 10 to three days; and activities to facilitate MSEs' access to financial services.

**The role of the International Labour Organization**

After examining the recent evolution of the informal sector in Latin America, the International Labour Organization (ILO) has drawn the following conclusions:

- Economic growth is necessary, but not enough, to reduce informality.
- An integrated and comprehensive approach is essential to address the various dimensions of the problem and include the different actors involved.
- Consolidating and advancing in the transition to formality in the region remains an important challenge, not only as regards its establishment as a strategic development objective, but also in terms of the implementation and coordination of the various policies; improving the terms and application of standards; achieving the desired convergence in different incentives; and ensuring an effective management capacity.
- As the issue involves many actors and affects various dimensions of economic life, a
broad-based consensus is required.

– Public policies can and should be complemented with efforts by social actors.
– Given that their ultimate goal is to improve working and living conditions of informal workers, formalisation policies should focus on workers' social and labour inclusion.

In August 2013, the ILO launched the FORLAC programme to help reduce the share of the informal economy in the economies of Latin America and the Caribbean. The aim was to support governments and local actors to consolidate strategies and policies to facilitate the transition to the formal economy in the region, in order to:

– generate knowledge on the dimensions and nature of informality to enable accurate decisions;
– provide advice and technical assistance for the design of integral national and local strategies;
– train representatives of governments, employers' and workers' organisations;
– help strengthen the institutional capacities of countries;
– promote the exchange of successful experiences in the region and in the world; and
– raise awareness among socio-economic actors on the need to take specific measures.

To this effect, the following working areas have been defined:

– knowledge generation and dissemination on the transition to the formal economy, by studying the initiatives undertaken in certain countries or on specific subjects. Statistical normalisation has also been supported;
– technical assistance and applied intervention in specific countries;
– capacity-building and promotion of workers' and employers' organisations with the aim to build the capacities of social actors regarding transition to formality;
– dissemination and sharing of FORLAC.

In June 2015, the ILO issued its Recommendation No 204 concerning the transition from the informal to the formal economy, providing guidance to members.

The role of the European Union

According to the Commission, a policy agenda for the informal economy 'should aim at addressing the central decent work deficits' by creating decent employment opportunities, and promoting rights at work, social protection and social dialogue. In its staff working document, Promoting Employment through Development Cooperation (2007), the Commission underlined the importance of promoting formal work through development cooperation and listed its most typical interventions in Latin America; in its agenda for change (2011), it insisted on the promotion of decent work, with rights and social protection. Furthermore, the 2014-2020 multiannual indicative regional programme for Latin America, in its 'inclusive and sustainable growth for human development' sector, set itself as a specific objective, to 'increase ... the proportion of economic actors in the formal economy, particularly for micro, small and medium-sized enterprises (MSMEs), increasing job opportunities and decent work...to increase social cohesion'. Employment policies and social protection are working areas of the EUROsociAL programme for social cohesion in Latin America for the 2016-2021 period (one aspect of it being experience-sharing on regulation). Another example is the Informal Economy Support Facility (IESF) project (2015, with global reach).

The European Parliament

Parliament has addressed the issue of informal employment in its resolution of 14 April 2016 on
the private sector and development (SMMEs), its resolution of 12 March 2013 on the impact of the economic crisis on gender equality and women’s rights, and its resolution of 23 May 2007 on promoting decent work for all. The Euro-Latin American Parliamentary Assembly’s (EuroLat) Social Affairs Committee examined two working documents on the subject on 21 September 2016 in Montevideo, Uruguay.

Main references

Transition to Formality in Latin America and the Caribbean, ILO, 2014 (Thematic Overview)


Coyuntura laboral en América Latina y el Caribe: Protección social universal en mercados laborales con informalidad, Informe CEPAL-OIT, 13 de mayo de 2015.


Endnotes

1 To support initiatives proposed in policy dialogues on social issues; prerequisite programmes with employment components; vocational and educational training systems; urban social inclusion programmes addressing disadvantaged children and youth at further risk of exclusion; social cohesion and promotion of young people; EUROsociAL, including an employment pillar (point 23, p.28).

2 Point 3, pp. 7-9: Inclusive and sustainable economic growth for human development.

3 EUROsociAL actions include promoting national professional qualifications systems, labour information systems and labour monitoring systems. A third phase, EUROsociAL+ (2016-2021), has just been launched.

4 Launched in October 2015 with a total budget of €32 million, its actions include the promotion of national professional qualifications systems, labour information systems and labour monitoring systems.

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