



International
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Panel

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TECHNICAL NOTES FOR THE DIALOGUES



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The path to equity: from the informal to the formal economy

1. Integrated policies for the transition to formality

Informality is a reflection of inequality in the labour market, which arises from the characteristics of current economic growth, as well as from legal and institutional factors that operate simultaneously. Countries must take urgent, appropriate measures to facilitate the transition of workers and economic units of the informal sector to the formal sector.

The informal economy is a multi-causal, heterogeneous phenomenon encompassing different realities. Accordingly, policies and processes to promote formalization are also diverse and should address the situation of micro and small enterprises, self-employed and domestic workers, atypical forms of employment, the extension of social security coverage to groups with limited coverage (such as rural workers), labour market

institutions and the role of workers' and employers' organizations, among other subjects and actors.

In many cases, attempts to formalize the informal economy have separated economic and productive development issues from policies to strengthen institutions, the labour market and social protection. Nevertheless, a balanced, comprehensive and coherent policy approach is needed to achieve the formalization of the economy, which should include the promotion of and respect for social and labour rights. The Recommendation on this subject, which will be adopted at the 104th Session of the International Labour Conference in 2015, will contribute elements for the development of national formalization strategies.



Discussion questions

Why has the region's economic growth been insufficient for reducing informality? How can a country significantly reduce informality in a context of sustainable, equitable growth?

How can countries of the region develop coherent regulatory frameworks that encourage the transition to formality?

In international experience, informality has experienced greater reductions when an integrated formalization strategy was implemented with several actors and interventions. How can a coordinated strategy be implemented to facilitate the transition to formality? What characteristics should this strategy have in the region?

What impact does labour and tax law, particularly that regarding social security, have on informal employment in the region?

 The ILO Regional Office for Latin America and the Caribbean prepared these technical notes for the purpose of contributing to the discussions of the American Regional Meeting. The contents are the responsibility of the Office and do not necessarily reflect the concerted position of the constituents of the Organization.



Relevant data and facts

► The constituents of the ILO have expressed a keen interest in formalization strategies, as demonstrated at the 103rd Session of the International Labour Conference. Members of the commission responsible for this discussion agreed on the need for an instrument on the topic that could assume the form of a **Recommendation**. Differences exist concerning policy recommendations on some key issues, thus further analysis and discussion are needed. For example, the recognition and respect for formal labour relations in sub-contracting regimes and supply chains; the definition of the role of employment, macroeconomic and development policies; and the treatment of employment that is unregistered to deliberately evade standards and laws. In the discussions of the 103rd Session of the International Labour Conference (June 2014), it was agreed that these issues would be further discussed at the 2015 meeting. The discussion and definitions of the International Labour Conference in 2015 should guide the activities of constituents and the ILO in these areas, taking into account the specific characteristics of the countries of the region.

► The **definition of informality** has changed over time. The concept of the “informal sector” based on the characteristics of the production unit was introduced in the 1970s as a reference to low-productivity sectors. In 2003 the ILO adopted the concept of “informal employment” based on job characteristics, for which reason informality can exist in both the informal and formal sectors.

ILO: Measuring informality: A statistical manual on the informal sector and informal employment. Geneva: International Labour Office, 2013.

► At least **130 million workers have informal employment** in the region, which represents 47.7% of the total employed labour force. This situation exists despite economic growth and poverty reduction. Informality has also declined, but to a much smaller extent. This downward trend stagnated in 2012.

ILO: Labour overview of Latin America and the Caribbean 2013. Lima: Regional Office of the ILO for Latin America and the Caribbean, 2013.

► Between 2007 and 2012, GDP of the region grew 14.3% in real terms, whereas formal employment increased just 4.4%. This means **that for formal employment to increase by 1%, the economy needs to grow at least 3.2%**.

Estimations based on ECLAC and ILO data.

► The region's informal employment rate (47.7%) is distributed as follows: **31% in the informal sector, 11.6% in the formal sector and 5.1% in the sector of domestic workers**.

ILO: FORLAC Notes. Lima: Regional Office of the ILO for Latin America and the Caribbean, 2014.

► **Informal employment has a greater impact on certain groups, including women, youth, domestic workers and own-account workers**. Almost eighty percent of informal employment in the region is made up of own-account workers, workers in enterprises with a maximum of 10 workers and domestic workers. Although there are no exact statistics available, informality rates are most likely higher in rural areas than in urban areas.

ILO: FORLAC Notes. Lima: Regional Office of the ILO for Latin America and the Caribbean, 2014.

► There is a link between **informality and poverty**. The poorest 20% of workers have an informal employment rate of 73.4% whereas the wealthiest 20% have a rate of 30.6%.

ILO: FORLAC Notes. Lima: Regional Office of the ILO for Latin America and the Caribbean, 2014.

► Most **measures implemented in the region to promote formalization** focus on simplifying administrative procedures and strengthening labour inspection systems.

ILO: FORLAC Notes. Lima: Regional Office of the ILO for Latin America and the Caribbean, 2014.

► Recently, **social protection** coverage has increased in terms of health and pensions, although significant gaps remain. Some 40% of all workers lack health coverage and a similar



2. Productive linkages, youth and skills training

Inclusive growth requires innovation, thus youth involvement and training of the labour force are crucial.

Given the more difficult conditions young workers experience in accessing quality employment, policies should be developed that promote decent work for youth, in accordance with the resolution and conclusions of the 101st Session of the International Labour

Conference (2012) “The Youth Employment Crisis: A Call for Action.”

The focus should be on policies that help keep children and youth in the education system, facilitate the school-employment transition, promote entry into the formal labour market and strengthen vocational training.



Discussion questions

How can governments and social partners address the fact that education does not always guarantee access to formal employment and decent work?

What spaces for innovation and promotion of an entrepreneurial culture and a culture of rights can be incorporated into youth employment policies in the region to address this pressing problem?

What participation and consultation mechanisms among social partners, including youth, can be implemented to improve vocational training?



Relevant data and facts

► Despite the growth observed in recent years, in 2011 **labour productivity** in the region was equivalent to 15% of that of the United States (in 1990, it was 18%). Closing productivity gaps requires a certain level of knowledge-intensive productive structures driven by public and private investment, and the incorporation of the rapid technological advances of the recent years. To this end, working with youth is essential.

ECLAC: Compacts for Equality. Towards a Sustainable Future. Santiago: ECLAC, 2014.

► Over the next 10 years, the region must create some **44 million jobs** simply to ensure employment opportunities for the people entering the labour market. This is in addition to the 27 million youth who already work in conditions of informality, the 7.6 million youth who are unemployed and the 20 million youth who neither study nor work.

ILO: Labour overview of Latin America and the Caribbean 2013. Lima: Regional Office of the ILO for Latin America and the Caribbean, 2013.

► It is estimated that in 2011, **55.6% of youth ages 15 to 24 years had informal employment** in the region. Of this total, more than half worked in the informal sector, 40% in the formal sector and 9% in domestic work. Approximately one of every three youth who work in formal sector enterprises have informal jobs.

ILO: Trabajo decente y juventud en América Latina. Políticas para la acción. Lima: ILO Regional Office for Latin America and the Caribbean, 2013.

► Disaggregating informal employment by age demonstrates that whereas informal employment among adults tends to be concentrated in self-employment, among **youth there is a higher incidence of wage employment**, particularly in small enterprises.

ILO: Trabajo decente y juventud en América Latina. Políticas para la acción. Lima: ILO Regional Office for Latin America and the Caribbean, 2013.

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► There is a high concentration of youth in categories of status in employment such as **contributing family workers**, where informality is 100% by definition. At the regional level, 12% of youth are contributing family workers, although in some countries the percentage exceeds 20%.

ILO: Trabajo decente y juventud en América Latina. Políticas para la acción. Lima: ILO Regional Office for Latin America and the Caribbean, 2013.

► **Domestic work** accounts for 4.2% of youth employment; however, this percentage increases to 10.4% among women. In this sector, where informal employment reaches 91%, more than 90% of workers are women.

ILO: Trabajo decente y juventud en América Latina. Políticas para la acción. Lima: ILO Regional Office for Latin America and the Caribbean, 2013.

► **Informality is more widespread among youth from low-income households**, which generally lack access to networks that facilitate labour market entry. According to recent statistics, 81% of youth belonging to the poorest 20% of the population of the region have informal employment, as compared with 41.2% for the wealthiest 20%.

ILO: Trabajo decente y juventud en América Latina. Políticas para la acción. Lima: ILO Regional Office for Latin America and the Caribbean, 2013.

► **Youth enterprise initiatives** can also help promote decent work. Of the 13.6% of youth employed as own-account workers in the region, 87% work in conditions of informality. In several Latin American countries, “entrepreneurial greenhouses” have been established to develop new enterprises, which provide a relatively protected environment that enables pooling of expenses for communications, secretarial or marketing services.

ILO: Trabajo decente y juventud en América Latina. Políticas para la acción. Lima: ILO Regional Office for Latin America and the Caribbean, 2013.

► **In terms of training and education, the competitiveness index** demonstrates improvements in the average for the 24 countries of Latin America and the Caribbean considered between 2006 and 2013. However, the level is still far below the average for OECD countries, which declined slightly or remained stable in the same period. On a scale

of 1 to 7, the average for the region increased from 3.39 to 3.97 for staff training (OECD average, 4.57). In availability of research and training, the regional average rose from 3.63 to 4.07 (OECD average, 5.21) and in education quality, from 3.34 to 3.68 (OECD average, 4.95).

World Economic Forum: Global Competitiveness Report 2013-2014.

► There are **innovative strategies for facilitating a good –formal– start to youth’s employment paths**, many of which have been tested in the region. These include the experiences of alternative learning (enterprises and schools), training schemes with formal insertion and economic compensation, development of labour competency standards to facilitate the incorporation of youth to formal positions, mechanisms for recognizing previous knowledge, as well as the use of innovative learning tools based on information and communication technologies and distance learning.

ILO: Trabajo decente y juventud en América Latina. Políticas para la acción. Lima: ILO Regional Office for Latin America and the Caribbean, 2013.

► The resolution and conclusions of the 101st session of International Labour Conference (2012), entitled “**The youth employment crisis: a call for action,**” proposes a series of labour and economic policies to promote youth employment and calls on governments and social actors to apply them based on tripartite consultations.

ILO. The Youth Employment Crisis: a Call for Action. Resolution and Conclusions of the 101st Session of the International Labour Conference, Geneva, 2012.

► The ILO has created a **Global Database for Policies on Youth Employment, YouthPol**, which documents experiences of innovative policies and practices implemented in several countries of the Americas. This database can serve to promote discussion, build capacities and favour horizontal cooperation and learning exchanges.

<http://www.ilo.org/employment/areas/youth-employment/youth-pol/lang--en/index.htm>.



3. Strengthening of social partners

Social partners, employers and workers, play a key role in engaging with the public sector to define and implement public policies and private initiatives to advance formalization. This is because it is in the labour market where this phenomenon is most evident. This was made clear at the 2013 Inter-American Conference of Ministries of Labour, where social partners adopted a joint declaration expressing the interest and proposals of workers' and employers' organizations on this issue. Also, ILO constituents discussed a possible legal instrument on this topic at the 2014 International Labour Conference.

A pact, consensus or agreement for formalization could help to identify priorities and lines of joint action between social partners and governments. This agreement could be based on the tripartite meeting of experts on facilitating transitions from the informal economy to the formal economy (organized by the ILO in 2013), the joint COSATE-CEATAL Declaration on the issue presented at the 2013 Inter-American Conference of Ministries of Labour, and the discussions at

the 2014 International Labour Conference. Through social dialogue in each country, governments, employers' and workers' organizations should agree on realistic but significant targets for formalization.

The ILO can support discussions for the adoption of consensus and the application of agreements achieved through knowledge, tools, experiences and the technical capacity accumulated worldwide –in the context of the Area of Critical Importance on formalization of the informal economy established by the Director-General. At the regional level, this could be accomplished through the Programme for the Promotion of Formalization in Latin America and the Caribbean, FORLAC. To this end, cooperation efforts should also continue with the Organization of American States on these issues, and efforts should be made to broaden collaboration with other international and academic institutions that can contribute to the necessarily comprehensive approach for the formalization of the informal economy.



Discussion questions

What conditions are necessary to enable consensus-building or agreements for formalization at the national level and what could be the contents of those agreements?

What other public and private institutions should be involved in agreements of this nature?

What more can the FORLAC programme do to support national and regional formalization processes?



Relevant data and facts

▶ **One of every four informally employed workers in the region works in the formal sector.** In the case of youth, this figure is one of every three.

ILO: FORLAC Notes. Lima: Regional Office of the ILO for Latin America and the Caribbean, 2014.

▶ The **domestic work sector** has an informality rate of 79%. In this sector, most workers are young women.

ILO: FORLAC Notes. Lima: Regional Office of the ILO for Latin America and the Caribbean, 2014.

▶ Although **entrepreneurship** among youth is relatively low (13.6%), it tends to increase with age. In adulthood, one of every three (31.4%) employed persons is an own-account worker.

ILO: Trabajo decente y juventud en América Latina. Políticas para la acción. Lima: ILO Regional Office for Latin America and the Caribbean, 2013.

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▶ There is increasing **political will** in Latin America and the Caribbean with respect to the formalization of employment. A growing number of governments have implemented specific measures to facilitate the transition to formality.

ILO: FORLAC Notes. Lima: Regional Office of the ILO for Latin America and the Caribbean, 2014.

▶ Formalization is a clear priority for the region's ministries of labour. The declaration adopted at the **18th Inter-American Conference of Ministries of Labour of the Organization of American States (OAS)**, held in Medellín, Colombia in 2013, establishes the will to: i) promote the dialogue on policies to "labor formalization in all its forms" (paragraph 13); ii) articulate efforts to harmonize statistics and evaluate progress in formalization (para 14); iii) "foster measures conducive to a gradual formalization of informality, while recognizing it as a heterogeneous and multidimensional phenomenon" (para 18); iv) design active policies to help young people secure access to the labour market, "addressing the school-to-work transition, and fighting precarious employment and informality" (para 22); and v) "address the situations of workers engaged in precarious work, including those in the informal sector" (para 27).

Declaration of Medellín 2013: 50 years of Inter-American dialogue for the promotion of social justice and decent work: progress and challenges towards sustainable development. XVIII Inter-American Conference of Ministers of Labor (IACML) of the OAS, November 11 and 12, 2013, Medellín, Colombia.

▶ At the same meeting, a **joint declaration of the Business Technical Advisory Committee on Labor Affairs (CEATAL) and the Trade Union Technical Advisory Council (COSATE)** urged governments of the Americas to prioritize the formalization of the economy on their agendas. It also called for the ILO and OAS to broaden collaboration with other institutions "that can assist in addressing the comprehensive approach demanded by the problem of formalizing the informal economy."

COSATE – CEATAL Joint Declaration, at the XVIII Inter-American Conference of Ministers of Labor (IACML) of the OAS, November 11 and 12, 2013, Medellín, Colombia.

▶ The ILO Director-General has defined the 2014-2015 Programme and Budget. In its guidelines for the preparation of the 2016-2017 Programme and Budget, several **Areas of Critical Importance (ACI)** are established, including the formalization of the informal economy. The ACI set the dual goals of strengthening the capacity of constituents to design and implement policies that lead to formalization and building the capacity of the Office to provide services adapted to the needs and circumstances of constituents.

ILO: Programme and Budget for the biennium 2014-2015. Geneva: International Labour Office, 2013.

▶ In June 2013, ILO launched the Programme for the Promotion of Formalization in Latin America and the Caribbean, **FORLAC**, in an effort to contribute to the proposals and actions of constituents through the generation of relevant, updated knowledge on effective policies, the standardization of statistics, training, the acknowledgement of the fundamental role of employers' and workers' organizations on the issue, as well as through direct technical assistance.

<http://ilo.org/americas/temas/econom%C3%ADa-informal/lang-es/index.htm>



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