

NOTES ON FORMALIZATION

Employment formalization in Argentina: recent developments and the road ahead

Between 2003 and 2012, Argentina experienced a remarkable process of employment formalization. Non-registered wage employment (NWE) fell 15 percentage points; however, informality rates at the aggregate level remained relatively high, well above 30%. The purpose of this note is to ascertain the characteristics of this process of reduction of labour informality over the last decade, and to identify critical labour sectors with a high incidence of persistent informality. Finally, a review is made of the role of public policies and the challenges for the future.

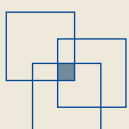


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Foreword

Informal employment is a persistent problem in Latin America and the Caribbean. Following a decade of economic growth and decline in unemployment rates, there are still 130 million workers holding informal jobs, deprived of social protection and labour rights.

This does not mean, however, that there has not been any progress made on the issue of formalization.

Formal employment, wage labour and social protection coverage have increased in Latin America and the Caribbean. Now, it is important to speed up this process to confront the long-time growth and consolidation of informality in the region.

We cannot forget that the reduction of informality is a key component of the efforts to reduce inequality and social exclusion.

The experience of the last few years confirms that economic growth is essential for the generation of more and better jobs, but it is not enough. To reduce informality, it is necessary to implement deliberate and integrated economic, social and labour policies and actions that complement economic growth, in the framework of sustainable development.

In fact, the policies implemented in several countries were key components of the progress achieved on the subject of formalization. This formalization process has not been uniform. In some countries, processes were faster and took a relatively short time. In others, progress has been slower.

In 2013, the ILO Regional Office for Latin America and the Caribbean launched the **Programme for the Promotion of Formalization in Latin America and the Caribbean, FORLAC**. The programme has three components: a) generation and dissemination of knowledge on formalization policies, b) technical assistance to specific countries, and c) capacity-building of workers' and employers' organizations in formalization issues.

The ILO FORLAC Notes presented here are part of the first component. We analyze public policy experiences trying to identify the most remarkable ones according to the academic or political discussion.

Formalization strategies require a favourable economic context, as well as articulated policies that allow us to address a multidimensional and highly heterogeneous phenomenon.

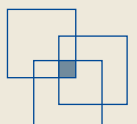
The persistence of high levels of informality is a major challenge requiring the implementation of measures that produce sustainable results.

The ILO expects that the dissemination of these experiences will help promote broader discussion on the strategies that countries may use to facilitate the transition to formality in the region.

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1. Recent history: 2003-2012

The new macroeconomic scheme implemented in Argentina following the Convertibility Crisis, transformed the employment generation pattern favouring the creation of formal jobs. Between 2003 and 2012, non-registered wage employment (NWE) fell 14,5 percentage points, from 49,1% to 34,6%. This behaviour, together with the increased proportion of wage employment in the total working population, clearly indicates that the weight of informality on total employment fell.

The magnitude of the fall indicates a break in the upward trend of NWE recorded since the middle of the 1970s –when the keeping of systematic statistics on the subject started–, a trend that became more pronounced during the 1990s. Despite the fact that current NWE levels are lower than the average for the rest of Latin American economies, they are still above the levels recorded in Argentina at the beginning of the 1990s.

Chart 1. Evolution of NWE and of the proportion of wage employment in total employment, 2003-2012



Source: Bertranou and Casanova (2013)

If independent workers –for which, the incidence of non-enrolment in social security is 58%– and unpaid family workers are added to the group of wage workers, the employment informality rate estimated for the total working population in 2010 is of 44%.

While there are few similar experiences of informality reduction at global level, it still reaches, as mentioned above, more than 40% of the working population, two thirds of which are wage workers and one third self-employed workers. In view of the scale of this phenomenon, it is necessary to strengthen actions undertaken, and to implement new policies within a general strategic framework.

2. Multidimensional characterization of employment informality in Argentina

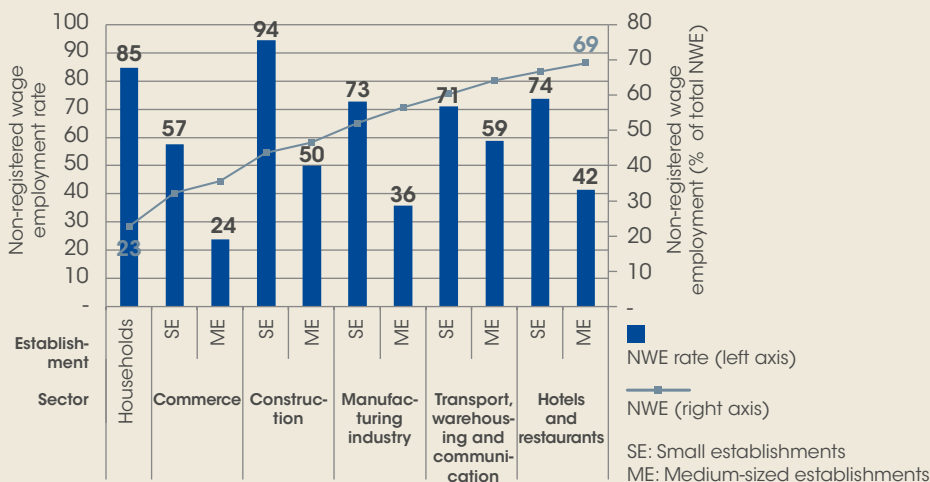
The main reductions of sectoral NWE rates, between 2003 and 2012, occurred in the social and health services, commerce, construction and manufacturing sectors. Due to the structure of wage employment, these sectors, together with domestic work, explain the 75% total reduction in NWE.

Global improvements in NWE levels hide substantial differences by activity sector, establishment size and workers' skill level, among other characteristics of the employees and of the production units where they work.

With some minor changes, the sectors with a high degree of informality in 2012 are still the same that prevailed in 2003. Domestic work, self-employment, agricultural work (in rural areas), and wage employment in microbusinesses in the construction and commerce sectors are critical areas with a higher degree of informality

On the other hand, activity sectors with a relatively lower incidence of informal employment contain segments where the phenomenon has reached significant proportions, as is the case of the garment industry within the manufacturing sector. Thus, in 2012, small and medium-sized enterprises in five sectors (construction; commerce; transport, warehousing and communications; hotels and restaurants; and manufacturing), together with domestic work, accounted for almost 70% of NWE (Chart 2). Precise knowledge of the multiple dimensions of informality is needed for the design of a comprehensive approach.

Chart 2. Incidence and structure of NWE¹ by activity sector and type of establishment, 2012

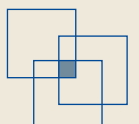


Note: (1) The chart line showing the NWE structure indicates the percentage (accumulated) of non-registered wage workers in these sectors and establishments with respect to total NWE.

Source: Bertranou and Casanova (2013)

- **Domestic work:** The levels of employment informality in the private household sector are more than twice as high as the average for the Argentine economy. This high sectoral employment informality goes hand in hand, additionally, with various forms of job precariousness. Female domestic workers –more than 90% of the total are women– account for 22,7% of all non-registered wage workers in the country. In Argentina, the higher middle class households where both man and woman work are, to a large extent, the ones requiring domestic workers to balance work and family life. Although there are a number of fiscal incentives for employers (who many times do not see themselves as such) to register their workers, the levels of informality (and precarious situations) in the sector are among the highest in the local economy. Monitoring difficulties contribute to the persistence of this irregular situation.

In addition to noncompliance of employment regulations, there is a lower level of legal protection of domestic workers with respect to the rest of dependent workers. In this regard, at the beginning



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of 2013, a Special Scheme for Employment Contracts of Private Household Workers was approved, replacing previous legislation in place since 1956. The new legislation advocates for the rights of domestic workers, on equal footing with the general scheme. Nonetheless, in order to achieve extension of these rights to all domestic workers, the State needs to undertake widespread monitoring and awareness-raising efforts

-Textile industry: This is a sector characterized by informality and other forms of employment precariousness, such as slave labour in sweatshops. In 2012, only 37,4% of total employment in the textile sector corresponded to a dependency relationship registered with the social security system. The rest was informal wage employment (36,5% of the total) and independent employment (26,1%). Over the first decade of the 21st century, the level of sectoral activity remained above the growth rate of the entire manufacturing sector; however, its dynamism in job creation (and in particular, registered jobs) was significantly lower. This behaviour results, in part, from changes in the industrial organization of the sector, some of which originated in the 1970s and others in the 1990s. The sector's industrial organization changed towards a structure where older manufacturers outsourced the production process and focused on the most profitable aspects of the activity, shifting the entrepreneurial risk to the shops where garments are made, and these, in turn, to their workers.

Within this activity, we need to distinguish between the textile sector and the garment sector. While the former reveals a greater degree of formality, the latter exhibits the highest levels of precariousness. In consequence, formal wage employment accounts for 72,4% of employment in the textile manufacturing sector, while in the garment sector, it accounts for 22,0%. The rest of employment in the latter sector is composed by 45,5% of NWE and 32,5% of independent employment. This high percentage of independent employment in the garment industry (in relation to the textile industry and the rest of the manufacturing sector) could in turn be representing a proportion of the weakest links in the production chain, i.e., outsourced and independent shop owners and homeworkers who enter the textile chain with an apparent degree of autonomy, although, in practice, they become part of a precarious employment dependency situation.

The high levels of NWE in the garment industry are explained by a number of factors: the production technical specificities with relatively low entry and exit barriers due to the few physical capital requirements; the relative ease to learn the skills needed; and the fact that the production process does not need to be carried out wholly in the same physical space. In turn, the lack of competitiveness of the sector could be an excuse to resort to certain coping strategies for production, which would explain the levels of NWE.

In addition to employment informality, the garment sector also exhibits a high informality in the production units (which in turn, explains the high levels of employment informality).

On the other hand, it should be noted that, together with the sector's economic boom after 2001, the number of garment sweatshops, where extreme violations of labour standards take place, also grew. In particular, the percentage of immigrants working in these sweatshops is very high, and some of them are brought into the country by human trafficking networks.

-Microbusinesses: trading and construction. Statistics show that 83,2% of total informality is concentrated in businesses with less than 40 workers. By the end of 2012, the NWE rate among firms with up to five workers reached 73,1%, while in large businesses, it reached 8,6%. However, in this group of businesses, the informality issue is compounded by the fact that informal labourers work

in establishments that are also illegal. Therefore, the percentage of workers operating in informal production units reaches 90% among construction microbusinesses. This is why the challenges for public policies are bigger, since, in addition to formalizing the employment relationship, it is also necessary to formalize the activity.

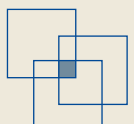
Furthermore, it should be kept in mind that the small establishments are harder to monitor and that, consequently, the amounts collected on account of their informality (such as fines) are small due to the difficulties faced by monitoring bodies to detect breaches of labour and tax legislation in this type of businesses. On the other hand, microbusinesses face obstacles to comply with the regulations due to a number of factors such as low productivity levels.

Another issue observed in the construction sector is that people who work in establishments with up to five workers usually do not work in building projects but instead in basically unreported tasks such as home repairs, improvements or additions. Similarly, an important number of workers are hired mainly by private households to make repairs. In 2012, 78,5% of the total of wage workers in the construction sector who worked in small businesses carried out their tasks at the client's home or business. The performance of these tasks implies an unstable employment relationship (many are short-term jobs), which makes registration difficult. Additionally, the nature of the work itself, usually carried out inside the homes –with the widespread geographical distribution implied– made it difficult for the competent bodies to undertake the needed monitoring efforts. Furthermore, cultural patterns underlying this type of tasks, such as employment relationships based on personal relationships, are also some of the key factors behind the high level of informality.

With respect to the commerce sector, in 2012 three out of every four employees worked in establishments or offices, while the rest were roadside or street vendors. The highest rates of precarious employment –comprising informal wage and independent employment– were found in the food, beverages and tobacco trade (e.g., neighbourhood shops), as well as in the sale and repair of automobiles and motorcycles (e.g., small-scale repair shops). The barriers preventing the formalization of small commerce establishments, with some distinguishing nuances, are the same faced in general by microbusinesses wishing to carry out a productive and profitable activity. Nevertheless, other workers within the trading sector, such as roadside or street vendors face additional restrictions, for instance, the lack of a physical space to carry out their activities and the difficulties to get organized at market level in order to increase their scale.

-Independent employment: The rate of failure to register and to comply with regular payment of tax and social security obligations is around 60% (or even higher) among independent workers, particularly the self-employed. The incidence of informal employment among independent workers is magnified among those engaged in unskilled or semi-skilled work, with a low educational level, with short working days (underemployed), and working in undertakings with low capital investment levels and in single-person establishments. These workers remain independent for lack of a paid job and belong to the group of workers with low earned incomes.

In 2010, one out of every three informal workers was an independent worker. By 2012, the largest percentage of informal independent workers was found in three sectors: commerce, construction and manufacturing. These three sectors concentrate two thirds of independent work; in addition, the incidence of subsistence and craft-related self-employment exceeds 75%. A high proportion of non-registered wage and self-employed workers are included in the quintiles with the lowest earned income.



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In Argentina, over the past 15 years, the main instrument to achieve tax registration and to offer social security coverage to independent workers has been the simplified single-tax scheme (known as *Monotributo*). Despite the fact that the number of registered workers under this scheme shows a growing trend, it is necessary to re-evaluate it, not only in its role as a driver of formalized economic activities but also in its role as an instrument for transition to the general tax regime.

3. Strategies for employment formalization in Argentina

The strategies and policies designed on the issue of the informal economy can be classified in two groups. The first group focuses on measures aimed at incorporating into the formal circuit all activities carried out outside the framework of the law. On the other hand, the second group of interventions focuses on actions enabling the prevention and mitigation of the effects of informal employment.

During the 2003-2012 period the informality issue was tackled in Argentina, from the scope of public policies, with a different perspective to that implemented previously, through an approach that seeks to integrate and articulate various social, occupational and economic programs and actions connected to a number of factors behind the origin of informal employment (Table 1, "2003-2013 policies" column).

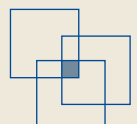
Beyond the relative success of the process started in 2003, the persistence of high labour informality rates, concentrated to a large extent on what could be considered a "hard core", and the lower dynamism of the economic activity since 2009 are two circumstances that call for the strengthening and redesign of the formalization strategies.

In this context, and in the framework of a social dialogue process on this issue, an Integrated Plan to Reduce Non-registered Employment, led by the Ministry of Labour, Employment and Social Security, was launched in September 2013. In April 2014 a bill was introduced in Congress on the "promotion of registered employment and prevention of labour fraud", including a package of measures aimed at facilitating employment formalization (see Table 1). While this plan fits in with the strategies set out since 2003, it defines new policies and instruments to make further progress on the subject of employment formalization.

In this regard, the strengthening of interventions as well as the development of new measures to reduce non-registered employment, a task to be performed by the State with the support of all social partners from the world of work, create new expectations with respect to the general goal of reducing decent work deficits.

Table 1. Policy strategies and new actions proposed within the framework of the Integrated Plan to Reduce Non-registered Employment

Strategy	Relevant policies and programs (2003-2013)
Macroeconomic scheme	Characteristics of macroeconomic policies (fiscal, monetary and exchange rate) promoting the demand for decent work. Improvements in tax administration. Articulation with the functioning of labour institutions (collective bargaining and minimum wage). Active role of the State.
Regulation of informal activities	Streamlining of regulations and procedures, reduction of entry costs and mechanisms for access to formality. Some of the more relevant are the ones on tax simplification, electronic government and single window, at municipal and provincial level.
Actions targeted at informal workers in formal businesses	<p>Scheme for the promotion and protection of registered employment. Reduction of contributions to social security and payment facilities for the regularization of overdue debts (Act 26.476). The benefit, that lasts 24 months, consists in a 50% reduction in the employer's share of the contribution for new hirings during the first 12 months, and a 25% reduction for the next 12 months. These actions enabled taking anticyclical measures when the international crisis hit.</p> <p>National Program for Employment Regularization. In force since 2003. Strengthening of the State's monitoring and inspection capacities. Significant increase in the number of inspectors and computerization of the process.</p> <p>Ex officio or presumed estimate of outstanding social security contributions. Construction, textile industry and domestic work sectors.</p> <p>Improvement of payment methods for employer's obligations. Among the most relevant ones are the collective co-responsibility agreements (CCG) in rural areas, through which the employer can replace monthly payment of contributions to social security with a deferred payment to be made at the most convenient time of the production process.</p>
Formalization of undefined employment relationships and employment relationships in informal businesses	<p>Social security scheme for domestic workers. Income tax deductions for employers. Presumption –unless proven otherwise– that every person with a certain level of income and assets employs one domestic worker (extension of the minimum workers indicator to this activity).</p> <p>Changes to the migration policy. The most relevant ones are the new Immigration Act (No. 25871) and measures for the regularization of immigrant status.</p> <p>New employment scheme for private homes' staff. Domestic workers enjoy the same rights as the rest of workers.</p> <p>New agricultural work scheme. Creation of the National Registry of Agricultural Workers and Employers (Renatea).</p> <p>Collective co-responsibility agreements.</p> <p>Changes to the regime of temporary service companies. Adaptation of regulations to the decent work concept through the establishment of new guidelines.</p>
Improvement of employability	Training actions. Some of most relevant ones are programs on vocational training, completion of formal education, register of job skill standards and worker certification.
Social awareness of informality issues	Systematic awareness-raising campaigns, through massive media, on the advantages of complying with labour and tax obligations and the resulting social protection. Through the Corporate Social Responsibility Plan, leading businesses raise awareness among their clients and suppliers about the need and obligation of complying with labour regulations.



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Strategy	Relevant policies and programs (2003-2013)
Protection of formal employment in the face of shocks	Preservation of formal employment. Crisis Prevention Procedures and the Program for Productive Recovery.
Social protection for informal workers and their families	Income transfer programs that include components concerning the promotion of employability. Among the most relevant ones are the Training and Employment Insurance, the Young People with More and Better Jobs program, and the Argentina Works program. Extension of social security coverage to informal workers through the Social Security Inclusion Plan, the Universal Child and Pregnancy Allowance, and the social single tax (known as <i>monotributo social</i>).

Integrated Plan to Reduce Non-registered Employment (September 2013). Proposed actions

- * Strengthening of labour inspection
- * Specific interventions in critical sectors (domestic work, rural sector, garment industry)
- * Public registry of employers with labour sanctions
- * Economic incentives for the formalization of workers in microbusinesses
- * Awareness-raising campaigns on workers' rights (domestic work and rural sector)

Source: ILO (2011) and Bertranou and Casanova (2013)¹

4. Final thoughts: progress made and pending challenges

Argentina's experience in recent years proves that significant reductions in informality require an integrated strategy. These strategies must encompass from the macroeconomic context to specific actions, e.g., the National Program for Employment Regularization, the promotion and support of economic activities that generate decent work and the programs on employment maintenance in times of crisis, which have made it possible to prevent the transition not only to unemployment but most importantly, to informality.

Two particular circumstances call for the strengthening and redesign of the strategy: economic growth rates have slowed down and informality is now concentrated in some groups that are more difficult to formalize due to their economic and social characteristics.

This is not an easy task in view of the persistence of a heterogeneous social and productive structure, high labour turnover and incidence of self-employment, and prevalence of population segments with education and skill deficits. The formalization of domestic and rural workers will require additional efforts beyond the new labour regulations. Cultural changes involving all of society are also required to raise awareness about the degree of collective tolerance of informality, employment precariousness and inequality. On the other hand, there is a high informality rate in small economic units, either because they are informal or because they are economic units identified as *monotributistas* (small taxpayers that pay a single monthly tax) that employ one or two non-registered workers. Therefore, the single tax system needs to be re-evaluated. At the same time, there is a strong persistence of informal employment in formal businesses. The estimation of its incidence is a more complex issue because it requires special data collection tools to detect the degree of formalization of the economic unit where the worker performs his duties.

¹ Bertranou, F.; Casanova, L. (2013). *Informalidad laboral en Argentina. Segmentos críticos y políticas para la formalización*. Organización Internacional del Trabajo, Buenos Aires.

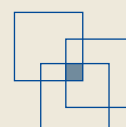
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Future strategies must involve further development of sectoral programs to reduce employment informality in critical areas such as the ones described in this note. Moreover, actions undertaken must aim at improving decent work conditions in those segments still immersed in informality. Along these lines, the extension of social protection, such as the Universal Child Allowance, represents a big step forward.

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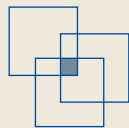




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