

Trends in informal employment in Colombia: 2009 – 2013

Non-agricultural informal employment in Colombia declined from 58% in 2009 to 55% in 2013. The favourable economic cycle accompanied by job creation contributed to this decrease, as did institutional factors such as the creation of the National MSE System, labour formalization agreements, the Plan of Action for Labour Rights and programmes such as “Colombia becomes formal,” which promoted the formalization of enterprises and employment.

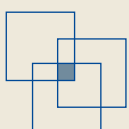


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Foreword

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.

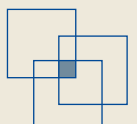
Formalization strategies require a favourable economic context, as well as articulated policies that allow us to address a multidimensional and highly heterogeneous phenomenon.

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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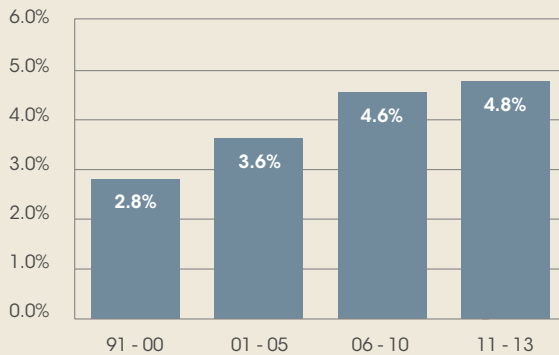
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1. Recent economic and labour market performance in Colombia

The Colombian economy experienced strong growth over the past decade, at an annual average rate of 4.3% in the period 2001-2012, with the rate exceeding 6.6% in some years, including 2006, 2007 and 2011. Growth in this decade has surpassed that of the 1990s (2.8%) and the 1980s (3.6%). This growth process enabled the country to weather the 2009 global crisis reasonably well, as well as the subsequent crisis in the euro zone and the recent economic slowdown in the United States and China.

Figure 1. Colombia: Economic growth, 1991 – 2013.
(% average annual change for each sub-period)



Source: ILO, based on IMF (2013).¹

The benefits of the increase in basic commodities, improved security conditions and the strengthening of monetary and fiscal policies with specific inflation and fiscal deficit targets² contributed to the vigorous growth observed over the past decade. Following the crisis, economic growth recovered, at rates above 3.5%, driven mainly by the expansion of the mining sector and the significant increase in international prices, domestic consumption and investment.³

Social indicators also showed positive trends. Between 2002 and 2013, GDP per capita grew 44.2% in real terms, and the poverty rate fell sharply, from 49.7% to 30.6%, as a result of economic growth and social policies associated with a more efficient tax system and increased fiscal solvency. Between 2010 and 2013, personal income inequality also fell, although to a lesser extent, from 56 to 53.9 points on the Gini Index.⁴ Nevertheless, the participation of remunerations in GDP remains one of the lowest in the region.⁵

For its part, the labour market experienced a growth in employment of approximately 5.3 million workers between 2001 and 2013, in particular in non-traded goods sectors (retail, hotels and restaurants, financial intermediation, insurance and real estate).⁶ Output per worker grew at approximately 26.4% in real terms whereas open unemployment ranged from 8% to 12% nationwide in 2013, among the highest rates in the region.

1 IMF (2013). World Economic Outlook Database, October 2013.

2 Fedesarrollo (2012). "Prospectiva Económica." Bogota, Colombia.

3 OECD (2013). "Economic Assessment of Colombia."

4 DANE (2013). "Boletín de pobreza monetaria y multidimensional 2013".

5 ECLAC(2012). "Structural Change for Equality, an Integrated Approach to Development." Thirty-fourth session. San Salvador, El Salvador.

6 OECD (2013). "Economic Assessment of Colombia."

2. Trends in informal employment and informal enterprises, 2009-2013

All informality indicators demonstrated a slight decline in 2013 as compared with 2009, regardless of the methodology used. Following the measurement criteria of the National Administrative Department of Statistics (DANE)⁷ for national figures, labour informality declined from 64.1% to 62.2% between the first quarters of 2009 and 2013. In addition, the percentage of workers not affiliated to a pension system, an informality indicator of the Ministry of Labour, fell from 68.1% to 65.5% in the same period.

Table 1. Colombia: Informal employment, 2009- 2013
(% of total employment and total non-agricultural employment)

Period	National Total (%)		Non-agricultural, National Total (%)			PILA (thousands)
	DANE	No pension coverage	DANE	No pension coverage	ILO	
2009-1	64.1	68.1	59.0	62.5	57.5	n.d.
2009-2	63.7	68.0	59.5	63.5	57.4	n.d.
2009-3	63.2	67.3	58.1	61.7	56.3	n.d.
2009-4	64.7	69.3	60.0	64.1	58.6	9,348
2010-1	63.8	68.0	59.0	62.6	57.2	9,470
2010-2	63.1	67.3	58.8	62.7	57.0	9,639
2010-3	63.2	68.1	58.7	63.2	57.7	9,767
2010-4	63.8	68.7	59.0	63.7	58.1	9,881
2011-1	63.4	67.7	58.5	62.4	56.4	10,030
2011-2	62.9	67.2	58.5	62.8	56.8	10,200
2011-3	62.2	67.0	57.4	62.2	55.6	10,352
2011-4	63.7	69.5	58.8	64.2	58.1	10,525
2012-1	62.7	66.9	58.0	61.7	56.1	10,680
2012-2	62.6	66.7	58.4	62.3	56.6	10,850
2012-3	62.4	66.4	57.9	61.3	56.1	10,971
2012-4	63.1	67.5	58.5	62.3	57.0	11,087
2013-1	62.1	65.5	57.3	60.0	55.2	n.d.
2013-2	61.0	64.1	56.7	59.0	55.0	n.d.
2013-3	60.6	n.d.	n.d.	n.d.	53.7	n.d.
2013-4	62.1	n.d.	n.d.	n.d.	55.4	n.d.

Source: Farné (2013), based on DANE national household surveys and the Ministry of Labour's Statistical Data System. Note: Information for 2012-2014 for PILA includes only the months of October and November.

Using the ILO definition of informal employment,⁸ in early 2009, nearly 58% of non-agricultural workers had informal employment, a percentage that declined to around 55% in the same period of 2013. In addition, the reduction in informal employment in recent years occurred in all components. For example, the percentage of non-agricultural informal employment in the second quarter of 2012 was composed of 47.3% of informal employment in the formal sector, 5.6% in the informal sector and 3.6% in domestic work.

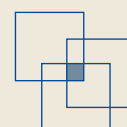
Table 2. Colombia: Components of non-agricultural informal employment, 2009-2012 (% of total non-agricultural employment)

	2009-2	2010-2	2011-2	2012-2
Non-agricultural informal employment	57.4	57.0	56.8	56.6
In the informal sector	47.5	47.7	47.6	47.3
In the formal sector	5.9	5.5	5.5	5.6
In domestic service	4.0	3.7	3.6	3.6

Source: SIALC ILO, based on national household surveys.

⁷ These follow the Resolution of the 15th ICLS (ILO, 1993) and are based on the criteria of size of the establishment, status in employment and educational level of workers.

⁸ For a more detailed discussion on the definition of informal employment, see ILO (2012). *Measuring Informality: A Statistical Manual on the Informal Sector and Informal Employment*. Geneva: ILO.



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Informality is more prevalent among own-account workers, domestic workers and contributing family workers, where 71.8% of all non-agricultural informal employment is concentrated.

Table 3. Colombia: Non-agricultural informal employment, by status in employment, annual average, 2012 (% of total non-agricultural employment and % in each category)

	% of informal employment	Informality rate
Status in employment	100.0	56.6
Wage workers and employers	27.9	31.7
Enterprises with 1 to 10 workers	22.3	66.4
Enterprises with more than 10 workers	5.7	10.4
Own-account workers	58.7	77.8
Domestic workers	6.5	82.4
Contributing family workers	6.6	100.0
Others	0.2	98.6

Source: SIALC ILO, based on national household surveys.

In this period, the number of workers registered in the Integrated Contribution Register (PILA) rose sharply. Between the last quarter of 2009 and that of 2012, more than 1.7 million people were added to this register. Moreover, the number of workers contributing to the health system increased by 23.5% between 2007 and 2012, from approximately 8.3 million to some 10.2 million. The number of contributors to the pension system had similar performance in this period, from 5.2 million to nearly 6.5 million, an increase of 24.3%.⁹

The informal-enterprise sector also declined in Colombia, although at a slower rate than informal employment. An enterprise is considered formal if it keeps accounting records or is a registered establishment. Based on national information on establishments located in urban areas and associated with the trade, services and manufacturing sectors, it is estimated that the percentage of enterprises that kept accounting records increased from 53.1% to 77.3% and the share of registered establishments rose from 45.1% to 69.7% between 2007 and 2012. National information provided by households reported similar levels, although the decline in informality is less rapid or even reversed, such as in the case of the requirement to keep accounting records.

Table 4. Colombia: Informality among enterprises, 2007-2012

Period	Survey of Enterprises (National urban)		Household surveys (National, employers and own-account with own business)		
	No accounting records (%)	No business registration (%)	No accounting records (%)	No business registration (%)	No accounting records and no business registration (%)
2007 - 1	48.2	56.9	n.d	n.d	n.d
2007 - 2	46.4	58.5	n.d	n.d	n.d
2007 - 3	47.4	58.4	n.d	n.d	n.d
2007 - 4	46.9	54.9	n.d	n.d	n.d
2008 - 1	47.0	64.3	n.d	n.d	n.d
2008 - 4	45.1	55.5	n.d	n.d	n.d
2009 - 1	49.6	63.9	n.d	73.7	n.d
2009 - 2	43.8	58.3	76.3	73.5	61.4
2009 - 3	45.1	55.0	76.3	72.7	61.7
2009 - 4	41.5	56.0	75.0	71.1	58.9
2010 - 1	42.5	61.5	73.6	68.2	57.3
2010 - 2	41.8	53.7	76.5	69.2	59.8

⁹ Isaza (2014). "Políticas y esquemas de la formalización en las micro y pequeñas empresas en Colombia".

Period	Survey of Enterprises (National urban)		Household surveys (National, employers and own-account with own business)		
	No accounting records (%)	No business registration (%)	No accounting records (%)	No business registration (%)	No accounting records and no business registration (%)
2010 - 3	39.4	51.6	76.1	66.5	56.2
2010 - 4	39.2	57.1	81.0	68.2	60.7
2011 - 1	n.d	n.d	80.8	65.9	58.6
2011 - 2	n.d	n.d	79.0	65.8	57.2
2011 - 3	n.d	n.d	75.7	62.9	53.0
2011 - 4	n.d	n.d	76.2	66.6	56.0
2012 - 1	n.d	n.d	76.0	65.5	53.9
2012 - 2	n.d	n.d	78.2	62.7	53.4
2012 - 3	n.d	n.d	80.8	63.8	56.2
2012 - 4	22.7	30.3	78.2	64.6	55.0
2013 - 1	n.d	n.d	80.2	60.3	53.0
2013 - 2	n.d	n.d	80.3	61.7	54.9

Source: Farné (2013), based on DANE Survey of Establishments.

3. Factors contributing to the decline in informal employment

The reduction in informal employment observed in recent years in Colombia resulted from a combination of economic growth, legislative initiatives and institutional reforms.

3.1 Economic growth

The strong economic growth in recent years contributed to a decline in informal employment. Between 2001 and 2013, output per worker grew 26%, representing a growth rate of nearly 2% annually. Informal employment indicators also experienced a downward trend although at a slower rate than the reduction in poverty, for example. This is because economic growth is a necessary but insufficient condition for the formalization of employment.

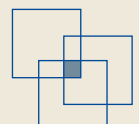
Recent economic growth in Colombia was driven by high-productivity, capital-intensive sectors but with low levels of formal job creation and weak sector linkages, such as mining.¹⁰

A similar trend was observed when the productive structure was analyzed by strata, since high-productivity strata concentrate a large share of output but have a low percentage of the labour force, whereas strata with very low productivity levels absorb the majority of employed workers in the country.

Table 5. Colombia: Share of GDP and employment by strata (%), 2011 and annual GDP growth, 2008-2012

	Annual GDP growth, 2008-2012	GDP 2011	Employment 2011
High productivity	1.6	34.0	9.6
Electricity, gas and water supply	0.8	4.0	0.6
Mining and quarrying	3.1	8.4	1.2
Financial intermediation	1.2	21.6	7.8
Medium productivity	0.7	29.1	27.2
Construction	1.2	7.0	5.8
Manufacturing	0.2	13.9	13.0
Transport, storage and communications	1.0	8.2	8.3

10 OECD (2013). "Economic Assessment of Colombia."



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	Annual GDP growth, 2008-2012	GDP 2011	Employment 2011
Low productivity	0.8	36.9	63.2
Trade, restaurants and hotels	1.0	13.3	26.4
Services	1.0	16.7	19.2
Agriculture, forestry, hunting and fishing	0.1	6.9	17.7

Source: ILO, based on SIALC and DANE.

For this reason, it is also important to analyze informality trends by the productive structure and structure of employment. Using output per worker to classify productive strata, a break-down of the changes in informality by strata in the period 2009-2012 was carried out (high, intermediate and low productivity).

During that period, the rate of non-agricultural informal employment fell by approximately one percentage point. It is estimated that over 90% of this reduction is associated with changes in the informality rate within productive strata, whereas 6% is related to changes in the structure of employment between strata. In addition, most of the reduction in the informality rate associated with the change in the employment structure is linked to its static factor. In other words, much of the change in the structure is associated with the transposition of employment between strata.

Table 6. Colombia: Break-down of the change in the rate of non-agricultural informal employment, 2009-2012

	Change	%
Change total	-0.0099	
Change within eco. act.	-0.0093	93.9%
Change in structure	-0.0006	6.1%
<i>Static</i>	-0.0005	5.4%
<i>Dynamic</i>	-0.0001	0.8%

Source: ILO, based on SIALC and the National Household Survey.

3.2 Institutional factors¹¹

Since 2000, several legislative initiatives have been adopted to create new institutions and allocate increased resources in an effort to promote entrepreneurship and the formalization of production units.

Between 2000 and 2011, Law 590 was passed, which was later modified by laws 905, 1151 and 1450, whose main goal is to support micro and small enterprises (MSE). To this end, the National MSE System was created (made up of regional MSE councils, the Superior Council on Microenterprise and the Superior Council on Small and Medium-sized Enterprise), which is responsible for providing MSEs with financial and non-financial support. Financial instruments of the system include credit and micro-insurance lines (through Bancoldex), loan guarantees (through the National Guarantee Fund), a seed capital fund (Fondo Emprender), a modernization and innovation fund (Fondo iNNpulsa) and private funds.

Table 7. Colombia: Initiatives to promote formalization, 2000-2013

Year	Instruments	Description
2000	Law 590	MSE Law.
2004	Law 905	Law for MSE promotion and development.
2007	Law 1151	National Development Plan, 2006-2010.

¹¹ A detailed discussion of the policies implemented can be found in Isaza (2014) and Farné (2013).

Year	Instruments	Description
2008	Law 1233	Law for MSE promotion and development.
2010	Law 1429	Law for formalization and job creation.
2011	Law 1450	National Development Plan, 2010-2014.
	Action Plan for Labour Rights (FTA USA)	
	Service rounds for formalization	
2012	Law 1607	Tax reform.
	Resolution 2272	Instrument prior to Law 1610.
	Formalization brigades	
	Periodic economic benefits	
	Projects by sectors and regions	
2013	Law 1610	Regulates labour inspections and labour formalization agreements.
	Law 1636	Mechanism for the protection of dismissed workers.
	Resolution 321	Requirements for labour formalization agreements.
	Decree 2616	Social security contributions, by weeks or multiples.
	Decree 721	Mandatory affiliation of domestic workers to a household compensation fund.
2014	Decree 567	National Labour Formalization Network

Source: Farné (2013) and Isaza (2014)

Additionally, the System has different programmes to support MSEs, such as *"Emprende Colombia"* (on innovation processes), *"Colombia se formaliza"* ("Colombia becomes formal," income tax benefits, social security and payment or renewal of the business registration), the "Delco Project" (strengthening of value mini-chains), *"Colombia compra eficiente"* (access of MSEs to public bidding processes) *"Compre colombiano"* (promotion of microenterprises and their exports) and *"Exporta fácil."*

Another milestone was the 2010 adoption of Law 1429 on the Formalization and Creation of Employment. This law is designed to increase the benefits of formality through business development programmes, and to reduce its costs through the reduction of procedures and the progressive payment of some taxes and social contributions, particularly during the first years of operation of small enterprises.

Eight months after these initiatives went into effect, 173,782 new enterprises have been formed. Of these, 83.2% (144,523) have taken advantage of the benefits, representing a cost savings of 8 billion Colombian pesos. Of the 1.4 million existing enterprises, 87,043 were exonerated from the debts for renewal of their business registration, for a savings of 22 billion Colombian pesos.¹² Through December 2012, 424,197 enterprises had benefited.¹³ Ninety-nine percent of the 7,345 small enterprises that took advantage of these benefits between 2011 and 2013 were new enterprises.¹⁴ Furthermore, through March 2013, the number of workers formalized reached 121,908.¹⁵

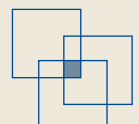
Informality is reduced not only by economic growth and income generation policies, but also through measures to monitor compliance with legislation. To this end, in addition to overseeing compliance with labour legislation through labour inspections, Colombia has recently advanced

¹² Domínguez (2011) "Impacto de la formalización empresarial en Colombia."

¹³ Farné (2013).

¹⁴ DIAN (2013) "Primer informe sobre la aplicación de la ley 1429 de 2010, Cifras y estimación del Costo fiscal año gravable 2011."

¹⁵ Farné (2013), based on information from the Pension and Parafiscal Management Unit (UGPP).



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in the promotion of the formalization of labour relations through formalization agreements to discourage informal practices. To this end, the adoption of Law 1610 and Resolution 321 of 2013 established constructive relations with employers, who can earn deductions for taxes they pay on salaries and social security contributions for the workers they formalize. Between 2012 and late 2013, 32 formalization agreements were signed, benefiting 25,962 workers who previously had precarious employment contracts.¹⁶

Likewise, for the purpose of implementing the Free Trade Agreement with the United States, the Plan of Action for Labour Rights was signed to protect the rights of Colombian workers and prevent violence against trade unions. As a result, in late 2013, the Ministry of Labour had 3.6 inspectors for every 100,000 active workers, close to the established target of 4.27 for the period 2010-2014. In addition, the inspection of temporary service firms was improved (through December 2011, 20,980 labour investigations were underway and 4,112 sanctions had been issued). In 2011, sanctions were increased for Associated Employment Cooperatives (CTA), which are involved in illegal job placement practices. This reduced the number of CTAs from 4,307 in 2010 to 2,890 in 2012. Finally, the Centre for Employment Advisory and Guidance Services (COLabora) was implemented to better process complaints and claims in the Ministry of Labour. Currently, this centre serves 100,000 Colombians monthly.¹⁷

Over the past two years, other actions have been carried out to reduce informal employment and the informal sector in Colombia, whose results will become evident in the coming years. In the framework of the new model for old-age protection promoted by the Ministry of Labour, Decree 2616 was approved in November 2013. This decree introduced the possibility of linking dependant workers who work for periods of less than one month with pension, labour risk and family subsidy systems, and created the flexible, voluntary old-age protection regime, called Periodic Economic Benefits (BEP). The BEP are designed for workers who earn less than the monthly minimum wage, and therefore cannot access the general pension system. Additionally, Decree 721 of April 2013 was adopted, which makes it mandatory to affiliate domestic workers to compensation funds (just over two months after this law went into effect, the number of affiliated domestic workers increased from 8,000 to 22,000)¹⁸; Law 1607 of Tax Reform, which entered into effect between May 2013 and January 2014; Law 1636 of 2013, which created the protection mechanism for dismissed workers and guarantees social protection of workers in the event of unemployment, including continued health and pension coverage, family subsidies and access to employment supply and demand services and vocational training; and Decree 567 of March 2014, which establishes the National Labour Formalization Network.

New initiatives associated with the formalization of enterprises include: (i) brigades for formalization, which raise awareness of informal production units, provide guidance and coaching in the formalization process and offer a public and private services packet for formalization (business training, credit lines, etc.). Between 2012 and 2013, 158,907 enterprise owners were informed on formalization. Of these, 57,733 decided to become formal; (ii) service rounds for formalization, which bring together in a single location all entities involved in formalization procedures. Between July 2011 and November 2013, 4,943 enterprise owners were served and 2,254 procedures were carried out; (iii) projects for sectors and regions which, in addition to assistance with formalization, seek to promote the formation of value chains and development of suppliers, such as the project "Toward the formalization of microenterprise," which raised awareness of 6,851 enterprise owners in 2012. Over 2,000 advanced in their business development stages and more than 1,000 designed a restructuring or received certificates; and (iv) enterprise formalization workshops by specific zones and sectors. By mid-2013, the project had raised awareness of 1,522 enterprise owners in 16 cities.

In addition, sectoral strategies were developed for training, professionalization and formalization in

¹⁶ Farné (2013).

¹⁷ Farné (2013).

¹⁸ Farné (2013).

the sectors of agriculture (plan of action for job creation and formalization), construction (signing of an agreement with the Colombian Construction Chamber), mining (national programme for the formalization of mining, international technical cooperation for vocational training and agreement on labour risks) and transportation (technical committee on revision of regulations on hiring methods).

4. Conclusions

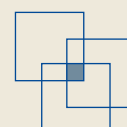
Both economic growth and institutional factors contributed to the increase in formalization in Colombia during the period 2009-2013. Among institutional factors, the financial and non-financial aid to microenterprises through the creation of the National MSE System and tax and para-fiscal incentives through the "Colombia becomes formal" programme played a key role.

Colombia's efforts to allocate increased resources to the enterprise formalization process are particularly noteworthy. Between 2008 and 2011, the budget of the National MSE System rose 44.7%, from 10.2 to 14.7 billion pesos. Most of these funds were used to provide credit lines and guarantees.¹⁹

Nevertheless, it is clear that both economic growth and institutional strengthening have limited effectiveness in achieving formalization given the diversity of the productive and labour market structures in the Colombian economy.

Even with relatively strong economic growth, such as that recorded in the years studied, results in terms of creation of formal jobs would be limited by the aforementioned characteristic of the Colombian economy, which tends to concentrate the most positive production performance in sectors that create few jobs. Consequently, it is crucial to address this characteristic if the goal is to achieve more and better results in reducing informal employment in the future.

It is also necessary to build consensus through tripartite social dialogue within the Permanent Commission for Consensus on Labour and Wage Policies on actions that should be developed over the next few years to ensure continued progress and to address pending areas, with a view to accelerating the process to formalize employment.



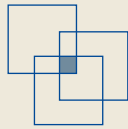
¹⁹ Isaza (2014).



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