

Informal Employment in Jamaica

Informal employment in Jamaica has remained practically constant over the years. There are several reasons for this, including low economic growth with low employment generation, tax incentives that give priority to capital intensive projects, sustained public spending adjustment policies, and low institutional capacity to promote and monitor compliance with labour standards or promote formality in employment. Informal employment will only fall in future if there is a strategy for growth that removes the obstacles identified.

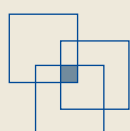


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Foreword

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.

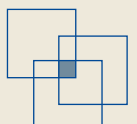
The persistence of high levels of informality is a major challenge requiring the implementation of measures that produce sustainable results.

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. The Economic Context

The Jamaican economy is predominantly an open economy with services now accounting for almost 70 per cent of GDP. It is now far more diversified in the composition of both output and the trade basket than 60 years ago when it was almost exclusively an agricultural export economy supplying the United Kingdom market. The decline of agriculture in particular has released labour to the rest of the economy.

Low incomes in the agrarian sector have combined with the pull of the urban centres to stimulate migration from the rural communities. These unplanned population shifts have spawned informal settlements or squatter communities in the margins of the towns, and as elsewhere, there has been a tendency for them to expand and occupy large sections of the urban centres. Residents of these communities have created livelihood strategies based on informal enterprises using informal employment.

The composition of output changed within a trend of persistent stagnation. The average annual rate of growth of the Jamaican economy for the 1970-2010 period was 1.5 per cent, and for the last 15 years, it has been about a third of this at 0.53 per cent per annum. The lack of response to various policy stimuli and robust investment inflows has challenged policy-makers and analysts and led to many studies by international lending agencies.

The economy has still not recovered from the impact of the global crisis in 2008 that led to the total collapse of the major export industry, bauxite and alumina, stagnation in earnings from tourism, the leading foreign exchange earner, and a decline in the inflows of remittances, the second most important source of hard currency.

The Jamaican economy is quite open following aggressive liberalization of imports in the eighties and nineties, and liberalization of the foreign exchange and capital markets in the 1990s¹. Exports of goods and services averaged 30 per cent of GDP, and imports averaged 47 per cent for the period 2006-2011.

Tourism is by far the biggest earner of gross foreign exchange, but as net expenditure by Jamaicans travelling abroad, it now comes second to transfers of remittances from migrants. Export earnings now hold the smallest share of the three categories.

The unemployment rate has also been rising since the onset of the global crisis, with youth unemployment still standing at its traditional level of almost twice the national rate.

The Jamaican economy was liberalized through the IMF and World Bank agreements of the seventies and eighties, the IDB loan agreements of the nineties, and IMF monitoring in the nineties at the same time as the liberalization of the global economy.

The basic policy prescriptions were consistent. In exchange for balance of payments and budget support from the multilateral lending agencies, the government liberalized the economy, implemented austerity measures that impacted the weakest sections of the population, and facilitated private foreign and local investors to drive export-led economic growth.

Despite more than two decades of these policies, growth continues to be marginal, the pressures on the balance of payments from weak exports and strong imports persist, and the fiscal capacity

¹ See MW – agric liberalization paper

of the government to provide social services and to stimulate economic development has been eroded.

Between 1977 and 2010, Jamaica entered into twelve agreements with the IMF, seven of which were suspended because of the failures of various performance tests, and of the five that were completed, two required special waivers of performance tests by the IMF. In 2012, Jamaica entered into yet another Extended Fund Agreement (EFF) with the IMF for four years with the most stringent conditions to date, especially with regard to fiscal constraints and policy reforms to further liberalize the economy while enhancing the capacity of the state to collect revenue.

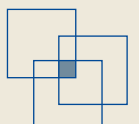
While growth continues to be the stated objective of all of the policy reforms, the economy has contracted in every year since 2008. In such a poorly performing economy where the insufficient benefits are unequally distributed and with a government whose limited fiscal resources are pre-empted by debt payments, economic hardship drives the working poor, the unemployed, those who have withdrawn from the labour force, and vulnerable individuals with limited abilities for work to create their own livelihoods for survival.

These strategies include predatory behaviour, gambling, dependence on remittances and other forms of family support, illegal activities that provide incomes, own-account activities, and employment in informal enterprises. The most recent estimate of the size of the informal sector, which excluded illegal activities, was 43 per cent of GDP².

2. Informal Employment

The Statistical Institute of Jamaica (STATIN) has adopted the ILO's definition of the informal sector. In its estimates of informal employment it excluded people working in agriculture, fishing, forestry and hunting, because of the difficulty of estimating the numbers, and it excluded those performing domestic service in households because they are not classifiable in either the formal or informal sectors.

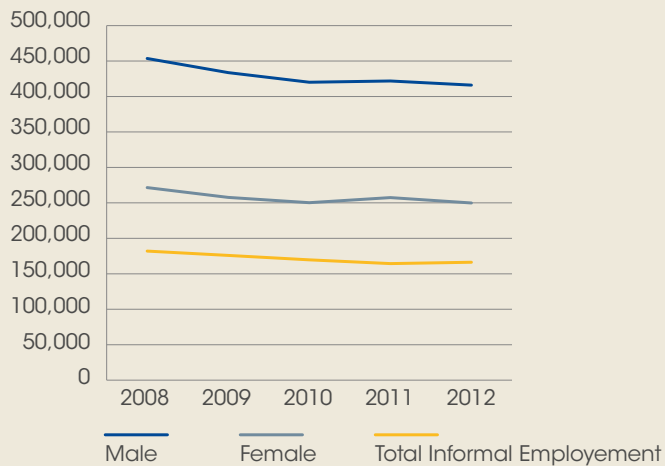
Chart 1 presents STATIN's estimates of informal employment, for the years 2008-2012. The data suggest that informal employment has been declining in absolute terms but has been fairly constant as a share of total employment, over the four years 2009-2012. Except for 2011, the rate of decline of informal employment has been marginally greater than the rate of decline of total employment.



² GRADE Consultants. 2006, "The Informal Sector in Jamaica". IDB.

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Chart 1: Jamaica. Informal Employment: 2008 – 2012 (% of total employment)



Source: STATIN, Jamaica Survey of Living Conditions, Annual.

3. Factors determining informality in Jamaica

3.1 Informality in general

Several factors have been advanced to explain the existence and pervasiveness of informal economic activity. In 2003 a study of the “informal economy” in Jamaica³, cited the *demand for informal services*, including illegal goods and services, by tourists as well as Jamaican households. Specific reference was made to the demand for marijuana and other illegal substances, personal services (e.g. hair braiding and prostitution) and music and entertainment.

Most of the activities involved in producing and distributing music in Jamaica may have been informal, and appear to be increasingly so⁴. The demand for informal employment is often derived from the demand for services produced by informal economic activities.

In the rural communities, “propertylessness” perhaps explains a large part of the proliferation of informal economic activities, both agricultural and non-agricultural. Non-agricultural services refer to passenger and freight transport services, construction, crafts (e.g. carpentry, electrical, plumbing, tailoring, dressmaking, barbering etc.) and retail trade.

The most common explanation for why enterprises remain informal is the *high cost of doing business* as a formal establishment. The World Bank’s *Doing Business 2014* ranked Jamaica 94th of 189 countries, with the worst scores for *paying taxes (168)*, *getting electricity (132)* and *enforcing contracts (131)*.⁵ Negotiating the bureaucracy has long been a complaint of the investor community and one of the challenges governments have accepted in crafting growth strategies. The costs are probably most burdensome on small enterprises that do not have the margin of employee time and resources to spend in compliance, particularly tax payments. Tax avoidance is perhaps the single most common reason.

3 M. Witter, “The Informal Economy in Jamaica”, in D. Pantin, 2005

4 M. Witter, “The Music Sub-Sector of the Jamaican Economy in 2012”, prepared for the Mona School of Business and Management”, December, 2012

5 See “Ease of Doing Business in Jamaica”, <http://www.doingbusiness.org/data/exploreeconomies/jamaica/>

The World Economic Forum's Global Competitiveness Report, 2013-14 cited the *inefficient government bureaucracy and crime* as the most important challenges of doing business in Jamaica. Avoidance of the costs of the bureaucracy is perhaps the main motivating factor for enterprises to remain informal.

Some micro and small entrepreneurs claim that they were informal because they did not know what the legal and other requirements were for starting and operating their businesses. The Ministry of Labour and Social Security (MLSS) National Report of 2006 cited the reference in the GRADE study on the informal sector to a survey by the Jamaica Employer's Federation which reported that *some informal operators were ignorant of the legal requirements of establishing a business*.

The World Bank has argued that *tax incentives are biased in favour of capital intensive activities*.⁶ The current EFF agreement with the IMF has targeted a radical reform of the incentive legislation.

The survey by the GRADE study of the Informal Sector in Jamaica reported that some of the reasons for the proliferation of informal enterprises were *regulatory distortions, tax evasion, or the pursuit of illegal activities, and the desire for independence*.⁷ GRADE went on to point out some costs of informality.⁸

3.2 Informal Employment

The MLSS National Report of 2006 has cited the *lack of employment* opportunities in the formal sector due to the persistent slow growth of the economy as a major reason for informal employment. This is also implied by the World Bank's recommendation to stimulate formal employment as the strategy for reducing informal employment. It is clear that many persons who are not otherwise gainfully employed undertake informal activities as survival livelihoods.

Low education levels are one cause of ineligibility for formal employment, and conversely, a reason for informal employment. Education levels among informal workers are much lower than among formal employees. More than 80 per cent of males and more than 75 per cent of females in informal employment had no passes in external examinations, which means that they had very little formal education⁹.

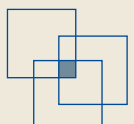
The corresponding data for males and females in formal employment was more than 40 per cent for males and a little more than 25 per cent for females. On the other hand, whereas for informal employment, less than 2 per cent of males and 2-3 per cent of females had a degree, the corresponding data for formal employment was about 22 per cent of males and 35 per cent of females.

⁶ World Bank, "Unlocking Potential": p.17: "Such tax exemptions encourage informality in the business sector and penalize firms with small amounts of capital."

⁷ GRADE: p. ii

⁸ GRADE: p.27: "On the other, there are significant financial and legal penalties if a firm gets caught engaging in informal activities. Additionally, participating in the business sector may impose certain restrictions: exclusion from the formal sector, limited access to public services and/or goods, and the need to maintain a low "legal" profile. [In addition] advertising problems, restrictions on the size of the establishment and a limited number of customers are among the most cited disadvantages."

⁹ STATIN, Jamaica Survey of Living Conditions, Annual.



4. Public policy and informality

Perhaps, the first modern attempt to deal with informality was the registration of small importers of consumer goods in the early eighties, known informally as 'higglers'¹⁰, but formally as Informal Commercial Importers (ICI). These were mainly women who travelled overseas to the USA and its territories and regionally to free zone markets to buy consumer goods for re-sale in Jamaica. Registration was an attempt to regulate the trade for tax purposes, for managing the demand for foreign exchange by these traders, and instilling some order in their trading activities on sidewalks and other public places.

Policy-makers have been primarily concerned with the loss of tax revenue from unregistered businesses. The Budget Memorandum for 2012/13 notes that: "Additionally, a special Public Relations (PR) campaign aimed at reducing tolerance of the "shadow economy" will be launched. The negative effect of tax evasion and the role of taxes in providing public services will be emphasized."¹¹ Increasing tax compliance to enhance the government's fiscal capabilities is a central theme of the current EFF with the IMF.

On the obverse side of "tax expenditure", the World Bank has argued that: "Some studies of Jamaica's incentives suggest a substantial bias in favour of capital intensive projects, particularly larger projects. Such tax exemptions encourage informality in the business sector and penalize firms with small amounts of capital, a characteristic of the large majority of native firms."¹² Also central to the current EFF with the IMF is a radical reform of the government's incentive legislation to reduce the loss of revenue and the discretionary powers of the Ministry of Finance.

There is also extensive labour legislation - documented by O. Taylor, 2001 and confirmed in an interview with a former senior officer of the National Workers' Union and now Head of the Trade Union Education Institute at the University of the West Indies.

Taylor noted that: "The present legal and operational framework in Jamaica has significant shortcomings as regards the protection of workers, whose contracts of employment are disguised under the title of contractor. However, Jamaican workers, who have verified contracts of employment, by and large, do have protection under the various statutes. Workers who are unionized have even greater protection and overall higher standards of terms and conditions of work."¹³

There is currently a project to upgrade social protection with revised legislation. Inevitably, this will lead to higher labour costs, or at least the perception of increase, with the risk of cutbacks in formal employment, and by default, the subsequent increase in informal employment.

The Ministry's budget for 2008-9 listed nine objectives, six of which committed it to taking actions that would support the formalization of employment. The objectives are listed below, with the six that should support formalization of employment in italics:

- a) *Promote good working relations between employers and both unionized and non-unionized workers.*

¹⁰ The term originated with rural women who took the products of the family farm to the market, but later extended to cover traders, primarily women, in agricultural produce, and most recently, it has come to embrace the urban vendors of imported consumer goods.

¹¹ Budget Memorandum, 2012/13, Appendix 4 - Tax Administration

¹² World Bank: "Unlocking Potential", p.17

¹³ O. Taylor, 2001. "The Employment Relationship - Jamaica National Study 2001", http://www.ilo.org/wcmsp5/groups/public/-ed_dialogue/-dialogue/documents/genericdocument/wcms_205368.pdf

- b) Increase access to local and overseas employment.
- c) Establish and maintain a system of minimum wage rates for the protection of vulnerable and non-unionized workers.
- d) *Promote adherence to core labour standards as set out in the International Labour Organization (ILO) conventions.*
- e) *Facilitate the provision of a safe work environment.*
- f) *Promote the development of the Jamaica labour market within the context of the global economy.*
- g) *Ensure the operation of an effective system to facilitate information flow between job seekers, employers, educational institutions, investors etc.*
- h) *Ensure the provision for and the development of a National Occupational Safety and Health Programme.*
- i) *Enhance economic development through the promotion of productivity growth.*

He stressed the weak capacity of the Ministry of Labour and Social Security to ensure compliance, and it appears that the capacity has all but disappeared in the decade since Taylor's report. Undoubtedly, the explanation will lie in part in the tightening fiscal circumstances of the government and the pressures to reduce the size of the state that have been integral conditions to the various multilateral agreements, especially with the IMF and the World Bank.

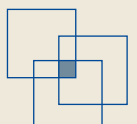
However, this may well be a rationalization for a policy posture in support of liberalization that relaxed support for organized labour. This was first evident in the establishment and expansion of the Free Zone manufacturing subsector in the eighties, apparently as an "informal" implicit understanding between the government and prospective investors.

In line with a global trend, organized labour in Jamaica has been in sharp decline for many years, and today is a shadow of what it was at Independence. Many enterprises, including some in the public sector, have substituted contract labour for permanent employment, with the inevitable ambiguity in status with respect to labour legislation, as expressed cogently by Taylor:

"Much of the problem which workers in this country are experiencing, relates to their exclusion from the statutory category of "worker" or "employee," or their inability to prove that they operate under contracts of employment. Where workers are either not defined as workers or employees under the relevant legislation, economic activity is carried on by these persons without the attendant benefits or requisite responsibility of the employer. As the phenomenon of "contract work" becomes more commonplace there is an increase in disguised employment with the worker in peril.

The context for the near disappearance of the compliance capabilities of the Ministry of Labour and Social Security is the lack of pressure of a vibrant labour movement, combined with the international pressure for liberalization of the economy, including the labour market, amidst the tightening fiscal constraints.

The government is also concerned about the low registration of small and micro entrepreneurs with the National Insurance Scheme (NIS), which eventually will mean more pressure on the social safety net programmes. Traditionally, the government's practice has been to offer social



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protection on the basis of need, without discriminating against informal employees who have not contributed to taxes or to the NIS.

One government action that might contribute to reducing informal employment is the provision of training to enhance productivity, and ultimately competitiveness of the economy. This is one of two recommendations by the World Bank for reducing informal employment. It proposed that the government should increase the demand for formal labour by ensuring “a solid business climate that gives stability for potential investors”¹⁴, and increase the supply of formal labour by providing “technical and vocational education that trains workers in job-relevant skills” so as to improve their chances of being employed in the formal sector.

The most comprehensive explicit policy position on informal enterprises was articulated in early 2013 by the Ministry of Industry, Investment and Commerce (MIIC) in its policy paper, “Micro, Small and Medium Enterprise (MSME) and Entrepreneurship Policy”. One of the objectives of the policy is to “encourage business formalization in the MSME sector”, for which it set a hard target to “increase the number of formal MSME by 10 per cent each year”.¹⁵

It plans to do that by reforms that have been articulated within the framework of the current IMF agreement. According to the MIIC, “The present body of knowledge indicates that the major barriers to formalization are: regulatory and administrative; fees and financial requirements; socio-cultural and privacy issues.”¹⁶ The policy has hard annual targets for reforming the processes of “Paying Taxes, Trading Across Borders, Enforcing Contracts, Registering Property and Starting a Business”.¹⁷

In reality, there is a spectrum of states of non-compliance, and hence informality, which was recognized by the GRADE study of the informal sector. That study estimated that “the average micro and small business met just over one third (36 per cent) of the requirements of formality”.¹⁸

The MIIC implements its policies through a range of specialized agencies¹⁹. These agencies extend their services to both formal and informal enterprises, and in some cases use the leverage of their services to encourage formalization.

While this policy targets informal MSME, it indirectly targets the informal employment in these enterprises. Of course, it is possible that MSME that are formalized retain informal labour relations. Certainly, this policy does not recognize, even implicitly, informal employment in formal enterprises.

5. Conclusions

Estimates of informal employment in Jamaica by STATIN since 2008 suggest that it has been declining absolutely at a marginally higher rate than overall employment, but that its share of total employment has been fairly constant.

¹⁴ World Bank: “Unlocking Potential”, p.24

¹⁵ MIIC: 2013, p.33

¹⁶ *ibid*, p.35

¹⁷ *ibid*, p.8

¹⁸ *ibid*, p.26

¹⁹ These agencies are: Bureau of Standards, Companies Office of Jamaica, Department of Cooperatives and Friendly Societies, Food Storage and Prevention of Infestation (FSPID), Jamaica Business Development Centre (JBDC), Jamaica Intellectual Property Office (JIPO), Micro Investment Development Agency (MIDA), Self Start Fund.

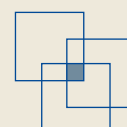
Public policy towards informal employment has been fragmented among Ministries, each with its own particular focus. The Ministry of Labour and Social Security is responsible for social protection, but has very weak enforcement capabilities. The policies of the other ministries address informal employment indirectly as it occurs in informal enterprises, but not in formal enterprises.

There has been a contrary trend arising from the trade-off between employment and investment, and sensitivity to the risks of unemployment to the social peace. Beginning in the 1980s, governments have tended to overlook enforcement of labour standards that would be perceived by investors as increases in labour costs, and thereby reduce the incentives for investment. There is a need for an overarching policy framework towards informality of enterprises, activities, and employment within which a coherent set of policies can be articulated to address the differing interests of the respective ministerial portfolios.

For progress to be made in reducing informal employment in the future, a path of economic growth needs to be consolidated which exceeds the low performance shown in recent years by the Jamaican economy. This is a considerable challenge because it involves advancing a different development strategy that progressively allows the incorporation of enterprises in value chains in expanding sectors, promoting the opening of new internal and external markets, and supporting the restructuring required to replace the economic activities in decline at the time.

In turn, measures to strengthen economic growth with employment generation need to work in close complement with a tax policy which eliminates the bias towards capital intensive projects but excludes local businesses, typically those of smaller size. Similarly, there needs to be a combination of macroeconomic policies that avoids using recession as a form of permanent control of imbalances, and which in turn includes the promotion of growth with productive employment generation in the macroeconomic policy objective.

This context will make more effective the institutional strengthening of the Ministry of Labour and Social Security and other entities directly and indirectly related to reducing informal employment and to promoting the formalization of productive activities. This will also be true of policies for ensuring compliance with labour standards, raising the skills and abilities of the labour force supply and of all those who help create a solid and stable business environment that will attract foreign and local investment.

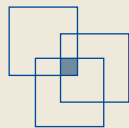




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