



Formalization: Ecuador case study 2006-2014

An integrated and inclusive approach

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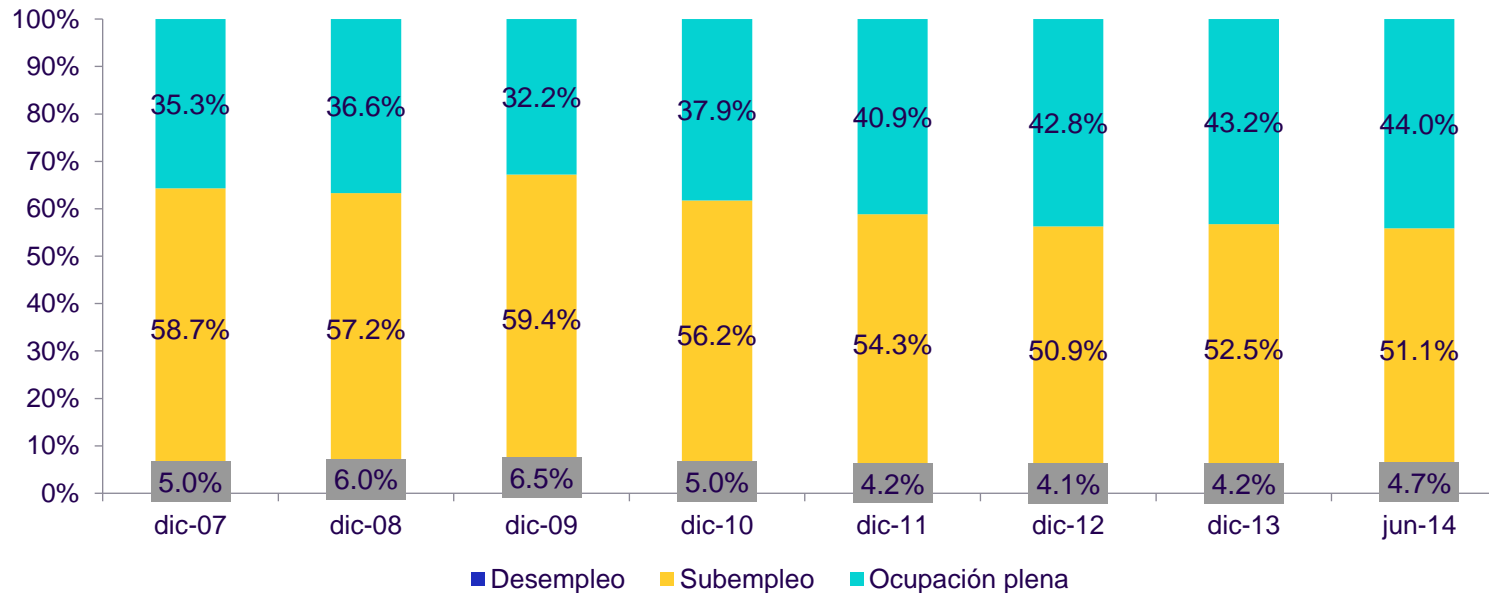
Some statistics



What can trends
tell us?

▶ Main indicators of the labour market

Unemployment, Underemployment and Full Employment in Ecuador

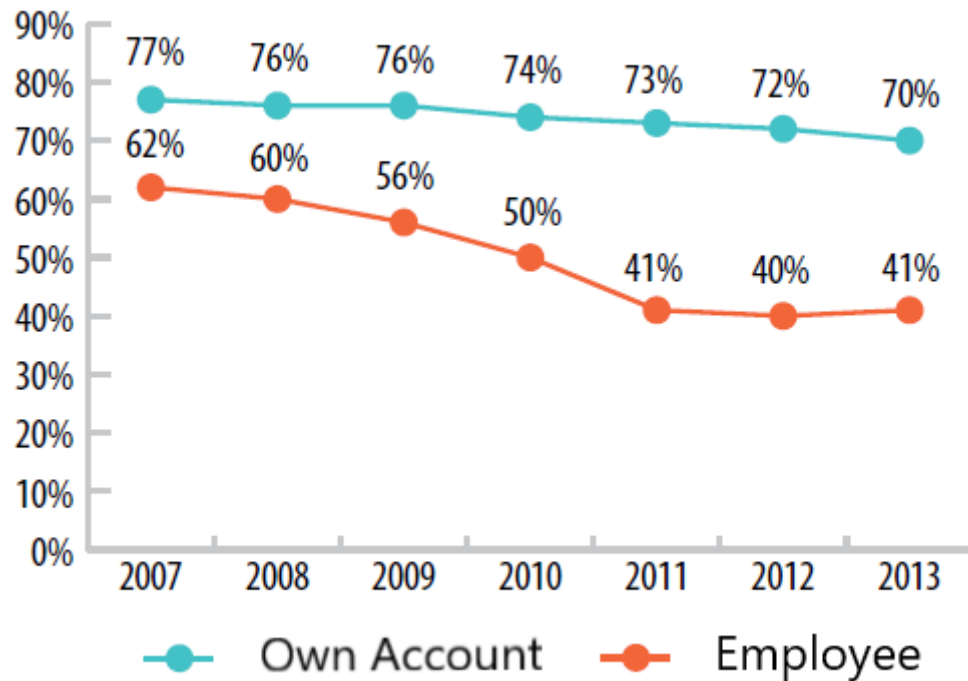


Source: ENEMDUR (2007-2013), INEC.

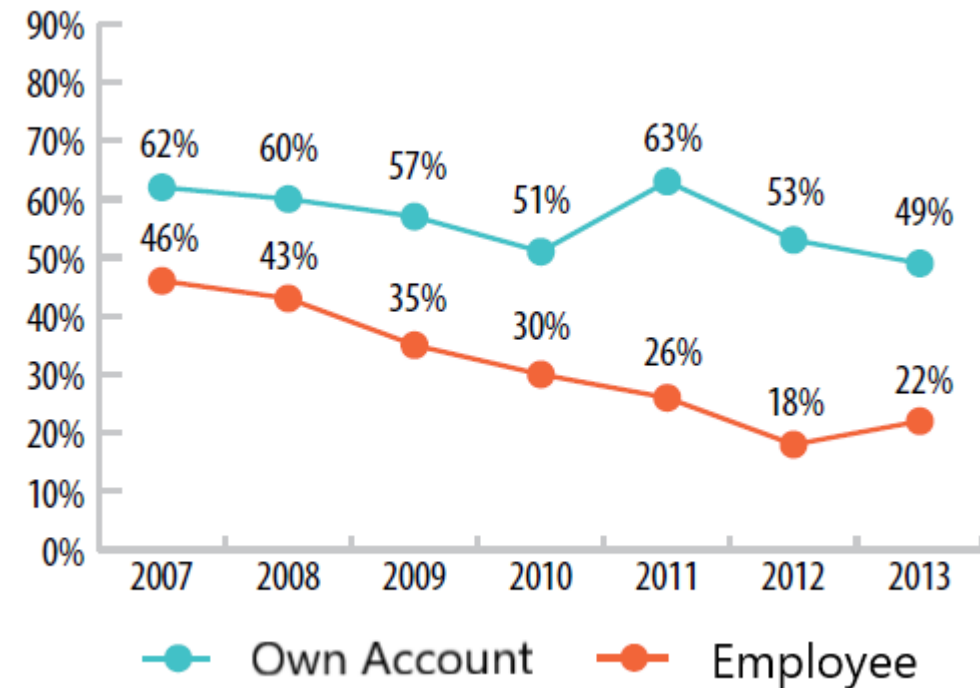
- ▶ Between 2007-June 2014, national unemployment decreased from 5% to 4.7% (0.3 pp. less).
- ▶ Similarly, underemployment fell from 58.7% in 2007 to 51.1% in 2013.
- ▶ While full occupancy increased by 8.7 pp. from 35.3% to 44.0%.

Informal employment number

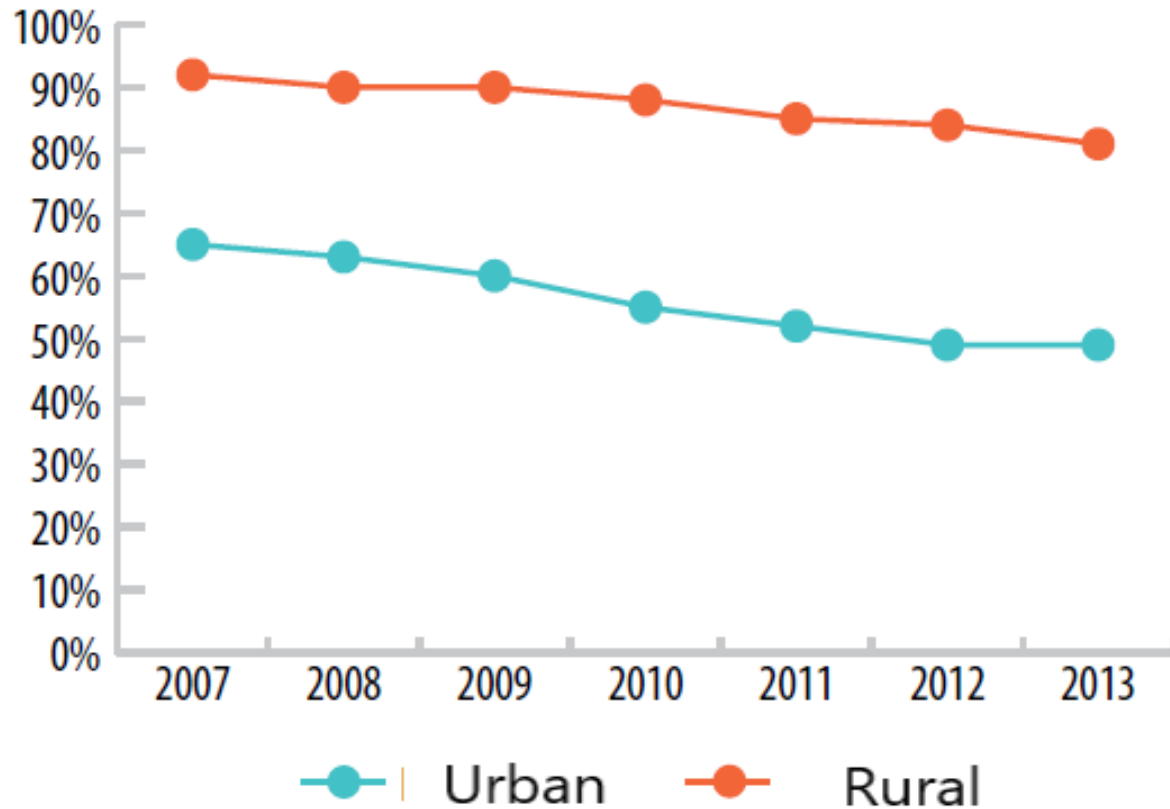
ECUADOR – Urban Area



QUITO – Urban Area



Urban and rural divide



- ▶ Informality is considerably higher in rural areas compared to urban.
- ▶ In 2013, informality rates are significantly higher in rural areas than in urban areas.
- ▶ 81% of workers in rural areas were informal, compared to 49% in urban areas

► Positive outcomes 2007-2013

- Informality is basically concentrated in four sectors of activity, Agriculture, Commerce/Repairs (tertiary sector), Manufacturing, and Construction (secondary sectors).
- Informality rates fell significantly in all sectors, both in urban and rural areas.
- Although the sectors with the highest rates of informality remained unchanged – **Domestic Service** was replaced by Agriculture as the sector with the second highest informality index in urban areas

Advancing social justice, promoting decent work

	Urbana			Rural		
	2007	2013	Δ '07'13	2007	2013	Δ '07'13
Agric/Ganad/Caza/Pesca	84%	75%	-9%	97%	93%	-5%
Minería	49%	13%	-36%	64%	40%	-24%
Manufactura	65%	7%	-1%	83%	70%	13%
Electricidad/Agua/Gas	2%	38%	18%	41%	23%	-18%
Construcción	88%	79%	-9%	93%	88%	-6%
Comercio/Reparaciones	73%	57%	-16%	88%	68%	-20%
Hotelería/Restaurantes	78%	65%	-13%	86%	74%	-11%
Transp/Alm/Com	67%	49%	-18%	83%	60%	-23%
Serv financieros	22%	5%	-17%	28%	3%	-25%
Bienes raíces	50%	24%	-25%	71%	33%	-38%
Adm Púb/Defensa Púb	8%	2%	-6%	20%	7%	-14%
Enseñanza	28%	10%	-18%	38%	7%	-32%
Serv de salud/social	39%	15%	-24%	64%	27%	-37%
Otros Pers/Comunidad	77%	47%	-30%	93%	58%	-35%
Serv doméstico	88%	65%	-23%	93%	76%	-17%
Sector primario	82%	69%	-13%	97%	92%	-5%
Sector secundario	72%	58%	-13%	87%	76%	-11%
Sector terciario	61%	43%	-18%	77%	54%	-23%

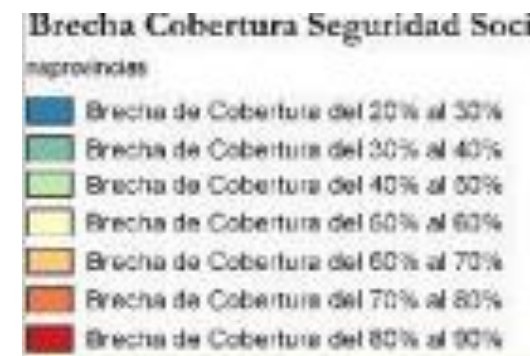
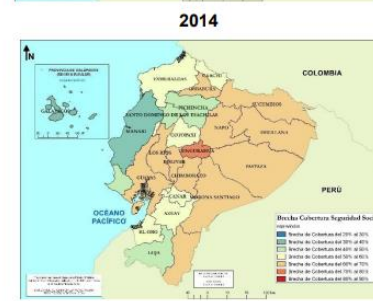
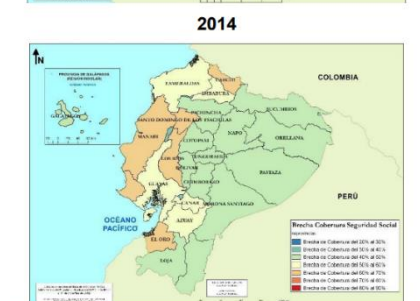
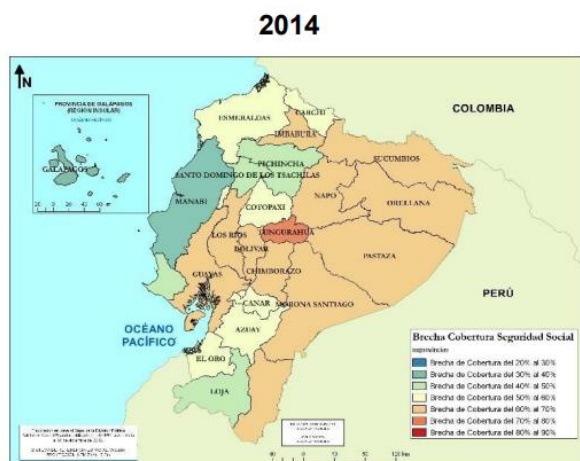
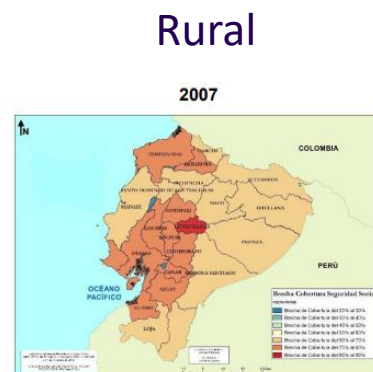
Fuente: ENEMDU.

► Social security a proxy of formalization



- Social Security coverage by employers increased from 11% in 2007 to 28% in 2012, a significant increase of 17 percentage points.
- The increase in the number of domestic workers returning to their pre-2009 level by 2013.
- While membership increased by 32%, the lower number of hours worked suggests that there are now more domestic workers working part-time.

Social security coverage gap – more effort is needed



▶ **How was this possible?**

- ✓ **Macroeconomic Policy defining a productive matrix with strategic public investment projects**
- ✓ **Labour and employment policies**
- ✓ **Vocational training and labor certification**
- ✓ **Social protection coverage extensión**

Umbrella of inclusive growth policies that facilitated some level of integrated strategies towards employment formalization

► Integrated strategies towards an inclusive formalization



What experience
do we have?

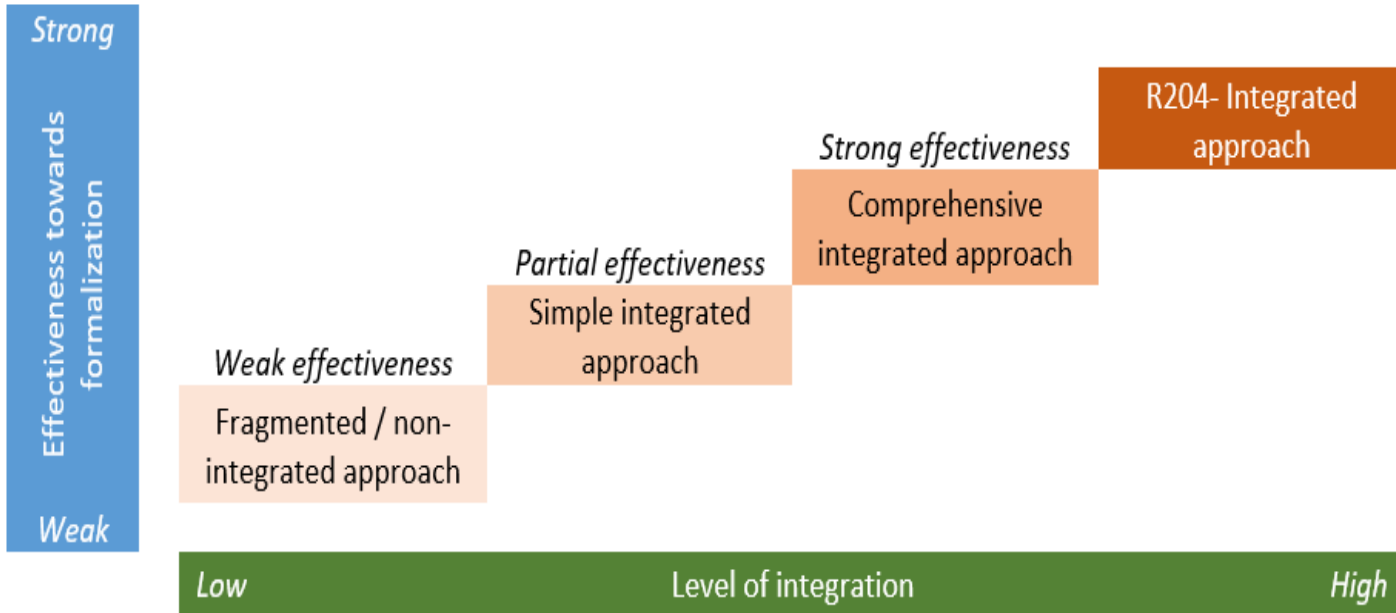
Development and refinement of a Formalization Strategy and Plan

Intervention model for integrated strategies



Points of entry and the level of integration

Levels of an integrated approach for employment formalization

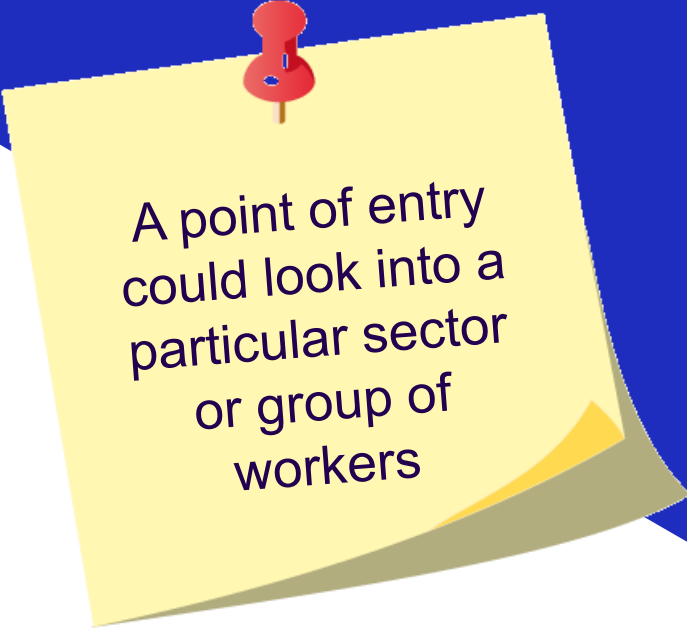


Source: *Integrated approaches for formalization in Asia and the Pacific: A policy brief (forthcoming)*

Pathways to formalization

		Pathways to formality			
		Productivity	Standards	Incentives	Oversight
Vertical integration	Macro (environment, inclusive growth)	Information and skills development	Linkage to formal sector (registration, taxes)	Culture of compliance	
	Meso (sectors, value-chains)	Simplification (process, registry, taxes, social security)	Linkage to social security (emphasis on collectives with limited coverage and unconventional methods)	Institutional strengthening (advocacy, management, automation)	
	Micro (enterprise and individual level)	Social dialogue (improvement, modification)	Specific approaches (formalization laws, specific agreements etc)	Specific approaches (substitution of fines, formalization agreements etc.)	
	Horizontal integration				
Applied to wage and salaried workers, own-account workers and other types of <u>worker</u> (including those working in new forms of work)					

► Construction and domestic workers considered priority groups of attention



A point of entry could look into a particular sector or group of workers

► Vulnerable and informal workers

- In the Ecuadorian economy there is evidence that domestic work has been one of the most precarious jobs; often paid below the minimum remuneration, deprived of their labor rights, invisible so that the work is done behind the doors of a home, exposed to extensive hour of work
- Construction worker, have not completed secondary, self taught. vulnerable workers without a regular job or income security. Usually get work from “middle men”, with petty contracts and even households pick them to work. Alternatively, they stand at construction sites, or in public gathering sites hoping to get daily work. Some others depend on contractors and labour agents for work.



88-93%
Informal
employment



Diagnosis: priority attention
groups

2015
2014
2013
2012
2011
2010
2009
2008
2007

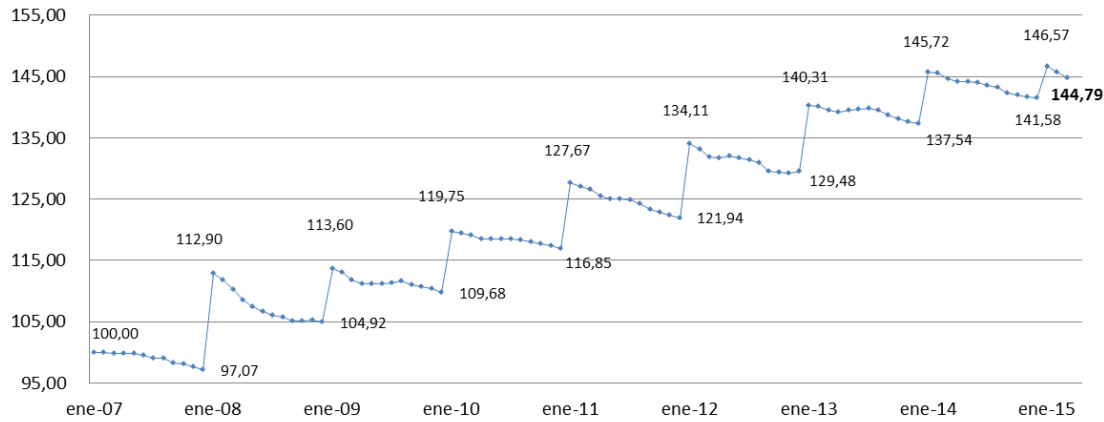
► **Various policies initially fragmented and progressively more articulated**



Policy integration
proves to be
more effective

Minimum wage policy

Salario Real (Base Enero 2007=100)



Years	General Worker	Domestic Service	Artesans	Microenterprise workers
2007	170		120	
2008	200		170	
2009	218	200		185
2010	240			
2011	264			
2012	292			
2013	318			

- ▶ Minimum wages were set taking into consideration both the needs of the workers and their families and the productivity levels
- ▶ Since 2010, a single minimum wage was determined for all workers including, domestic workers.
- ▶ Similarly in the Construction sector differentiated minimum wages were set according to the qualification of the worker

Diagnosis: priority attention groups

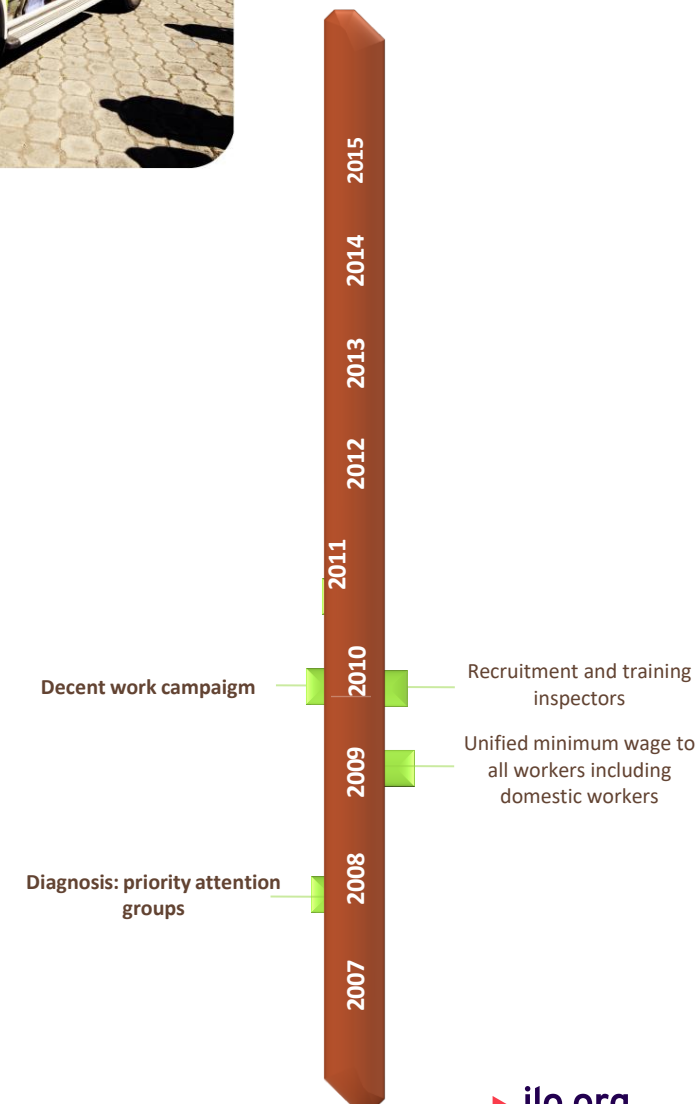
Unified minimum wage to all workers including domestic workers





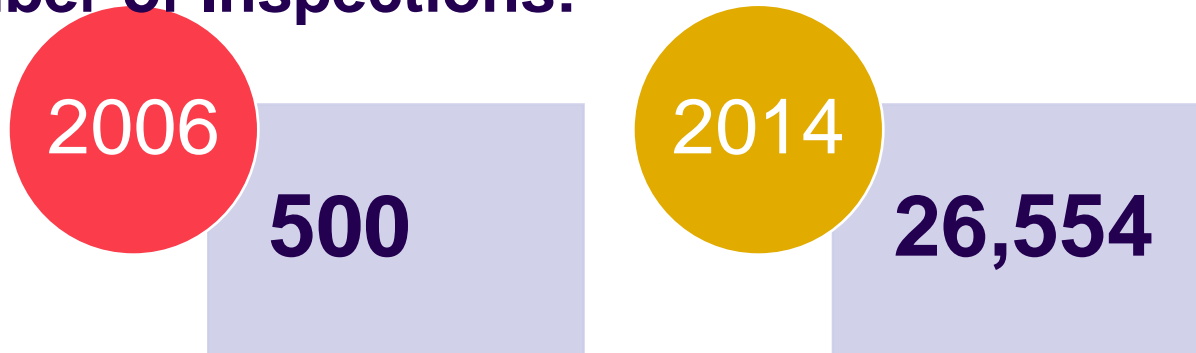
▶ Ministry of Labour – inspection campaign

- ▶ **Compliance strategy.** The plan of inspections, followed a "Decent Work" campaign. Aims to socialize labour rights and obligations. Then, taking action through planned inspections to sanction and correct inappropriate situations that violate workers' rights.
- ▶ **Recruitment and capacity building of labour inspectors.** A thorough descriptive guide, and trainer of trainers plan was implemented.
- ▶ The **preventive phase** in which employers' obligations and workers' rights were disseminated as part of a campaign to harmonize the different concepts that were part of the labour code.
- ▶ From February 13 to April 30, 2010, dissemination and training stage. From May, 2010 onwards Verification and Control stage.



▶ Strengthening institutional capacity

Number of Inspections:



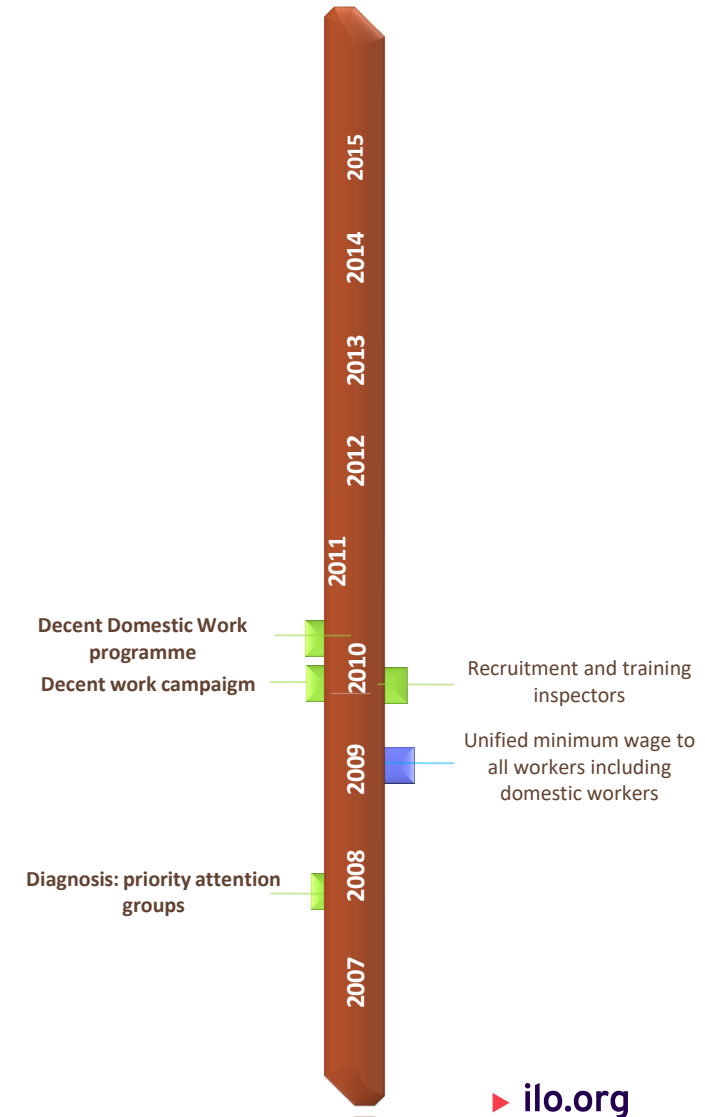
Number of Inspectors:



- ▶ Since 2010, an average of 25,000 inspections were carried out on a yearly basis
- ▶ These include those focused on construction sites and residential areas.

▶ Domestic work– inspection campaign

- ▶ Awareness of the rights and obligations of domestic workers through the media.
- ▶ 260 mobile points were implemented in the main cities of the country, and nearly 50,000 people were assisted in the Decent Domestic Work Program. Processes of dissemination of rights and receipt of complaints for breach of obligations.
- ▶ In 2010, 16,854 inspections of domestic work were carried out, which allowed an increase in the affiliations of the Domestic Sector and compliance with all labour rights.
- ▶ **Part-time employment** was also promoted a working time arrangement for domestic work, as a measure to retaining domestic workers jobs in decent work conditions.



▶ **Balancing wage and labour policies**

- ▶ Advice is provided for both domestic workers and employers, and the faculty that exists to be able to sign part-time work contracts is socialized.
- ▶ The contract that generates job stability, must be registered with the Ministry of Labour. There is the facility to continue paying domestic workers for example the salary in force until 2009 (USD \$ 200.00) but for 6 1/2 hours of daily work and not for 8 hours; they can also hire part-time (4h/day) or less, which gives workers the possibility of having more than one labor dependency
- ▶ Families located in deciles 7 and 8, whose average monthly family income is between USD \$ 616.76 and USD \$ 755.32. For the convenience of employers, a calculator was built on the Ministry's website that allowed determining the hours that a domestic worker could be hired on a permanent basis taking into account the monthly budget that the employer had for the hiring of this type of worker.
- ▶ The newly PES created a database of people in construction and domestic work. With this information, the creation of associations to strengthen insertion mechanisms was facilitated, accompanied by the training provided in different topics free of charge

Inspections of Domestic Work (Paid Domestic Work):

Improvement of working conditions and living standards

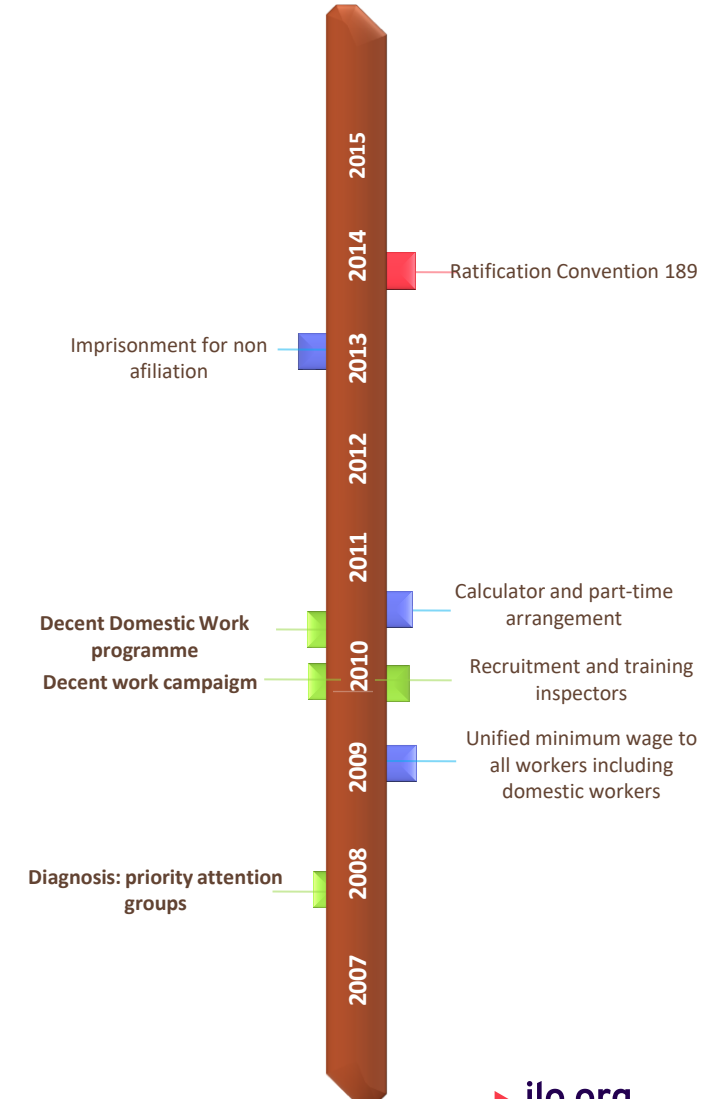


On December, 2013. Ecuador ratified C189 - Domestic Workers Convention, 2011 (No. 189)

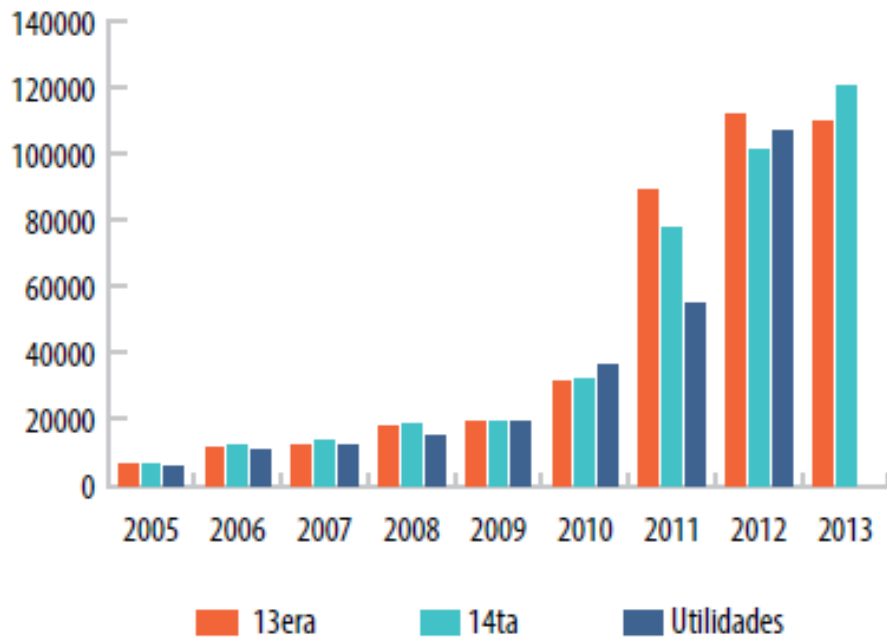
A total of 16,854 inspections of domestic work were carried out.

More than 300,000 Ecuadorians have been trained on their labour rights.

Better Wages and Decent Work with social security.



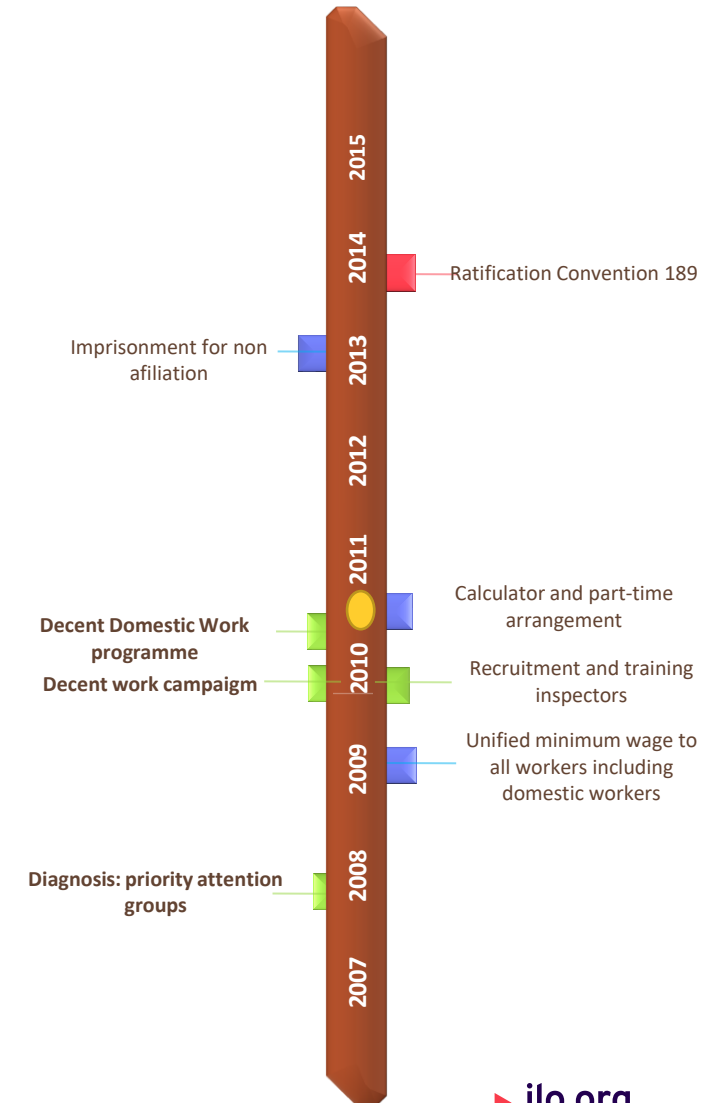
Formalization of informal work in the formal sector



Fuente: Ministerio de Relaciones Laborales.

Advancing social justice, promoting decent work

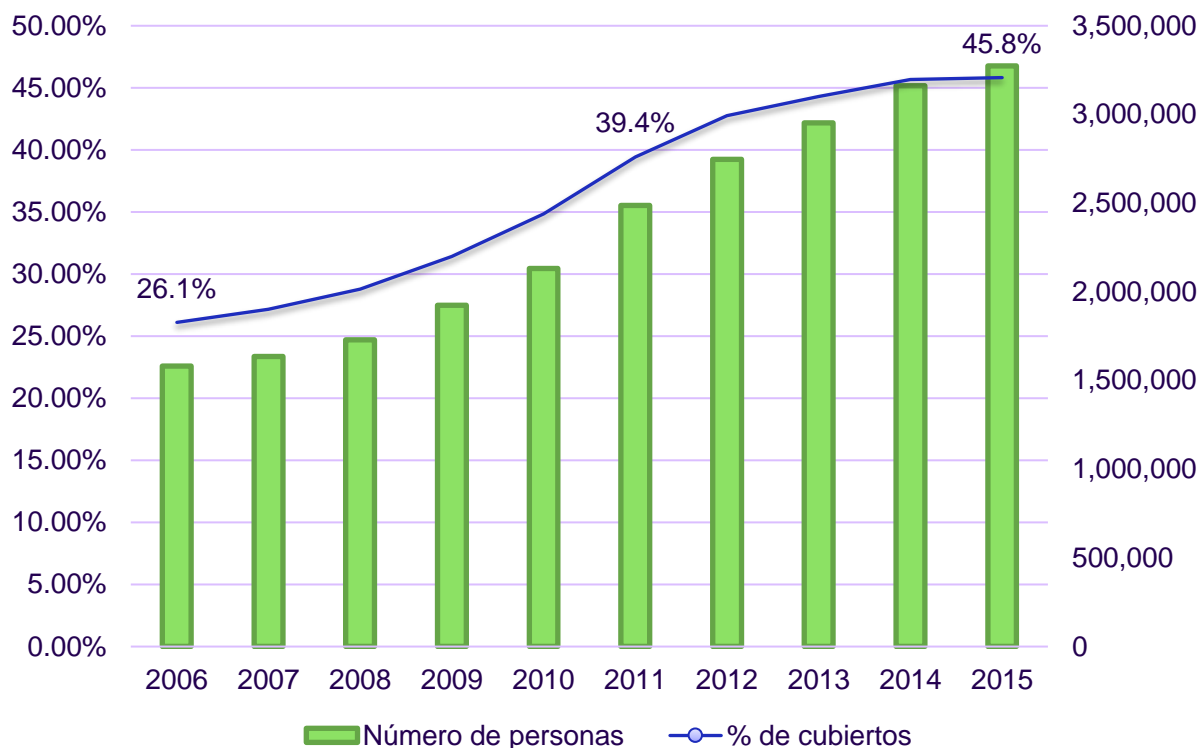
- ▶ Employers had to report payment of 13th, 14th salaries as well as 15% of profit share to workers. However, registration and reporting was limited.
- ▶ In 2010, the Ministry facilitated the registration online.
- ▶ It also **integrated its system with the income and tax office**, to identify the universe of enterprises for compliance.
- ▶ The results were impressive and the information that the Ministry obtained enabled to improve compliance, increase formalization of workers in the formal sector.



Information in 2013 and 2014 was cross referenced with social security system to enhance the level of compliance both on labour rights and social security coverage.

▶ Integrated system between ministry of labour and national social security

Percentage of people in the occupied EAP covered by the contributory security system (Period 2006 – 2015)
(In percentages and number of people over 15 years old)



The social security contributory system made significant progress, increasing in 75% the level of coverage in the WAP, and at 229% the domestic work coverage from 2006-2015

- ▶ The coordination of planned inspections with the ministry of labour of compliance both on labour rights and social security coverage.
- ▶ Initially cross referencing with the data base of ML, then through an integrated system with automatic alerts
- ▶ It also allowed to make contributions for part-time workers, and even hold registries for daily wage workers.

“This policy boosted real estate construction in the country, increased liquidity in the real economy and reduced interest rates on housing credit”

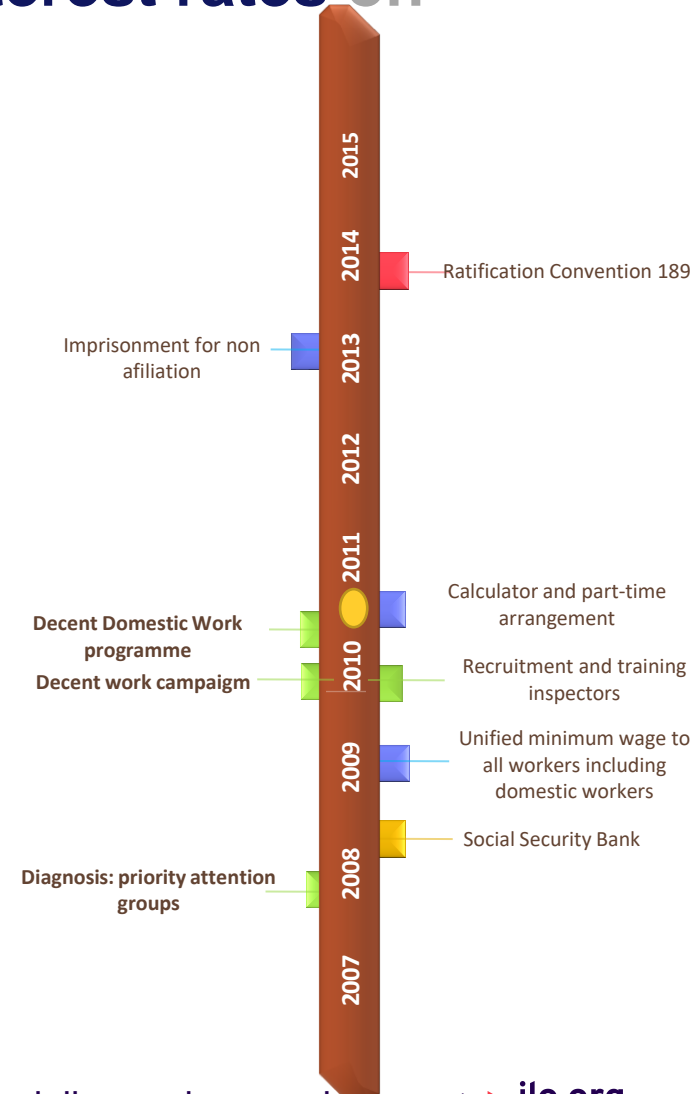
The social security bank

Change in household housing tenure by social security affiliation

	No afiliados	Afiliados
Arriendo	-1,0%	-1,7%
Propia	2,1%	3,7%
Cedida	0,3%	-0,9%

Fuente: INEC (2007), INEC (2018).
Elaboración: Propia.

- ▶ The Social Security Bank (Biess) was created in 2009. This Bank uses resources from social security reserves to grant, mortgage loans for the housing of members
- ▶ Reserves obtained a better return than those obtained in other financial instruments.
- ▶ Own housing among social security affiliates increased by almost four points between 2007 and 2018
- ▶ The mortgage loan seen as a driver to increase social security affiliation for the medium and long term,



Note: Biess grants financing not only for first homes, but also for: finished housing, housing construction, remodeling and expansion, mortgage replacement, land and construction, other real estate and mortgaged housing. 

▶ **SECAP skills and labour certification**

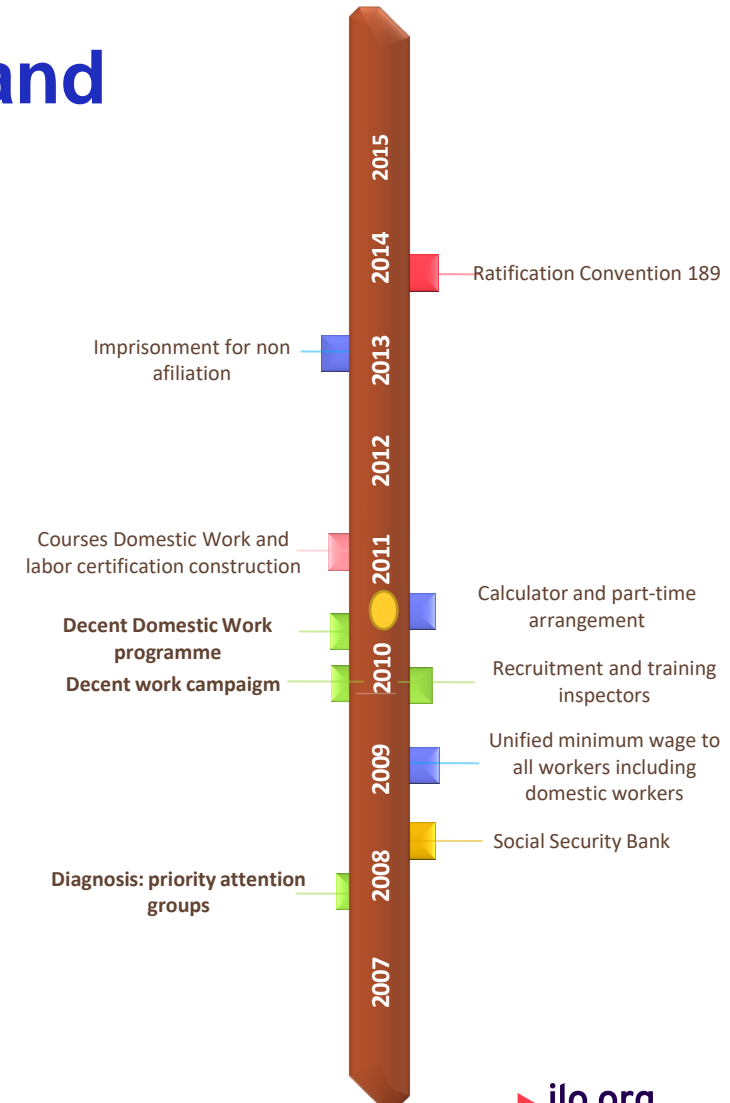
- ▶ The Technical Secretariat of Training (SETEC) designs competency-based curricula and coordinates training with accredited suppliers, including the public training agency Ecuadorian Professional Training Service (SECAP).
- ▶ **Priority Attention Groups:** received free of charge courses. Includes construction and domestic workers.
- ▶ **Training in the productive sector:** Updating and improvement of human talent in the private sector under the guidelines of the National Development Plan, and tripartite discussions.
- ▶ Construction workers, had the opportunity to receive a labour certification to participate in the job opportunities of the public investment projects
- ▶ Vocational training is a win-win situation. While the worker gains knowledge, professional capacity, employability and better remuneration;

ÁREAS DE CAPACITACIÓN
INFORMÁTICA
AUTOMECÁNICA
ADMINISTRACIÓN
ELECTRICIDAD Y ELECTRÓNICA
FINANZAS
METALMECÁNICA
SALUD
CONFECCIONES TEXTILES INDUSTRIALES
GASTRONOMÍA
BELLEZA Y PELUQUERÍA
ARTES GRÁFICAS
IDIOMAS
CONSTRUCCIONES CIVILES
SERVICIOS VIGILANCIA
HOTELERÍA
MADERA Y MUEBLES
AGROINDUSTRIA
AGRÍCOLA
PECUARIA
COMERCIALIZACIÓN
TURISMO
ARTESANÍAS Y MANUALIDADES
CUERO Y CALZADO
PISCICULTURA
SOCIAL

Ministry of Labour and SECAP on construction and domestic work




- ▶ SECAP since January 15, 2011 initiated Workshops "Organization of the Home" and Construction "Labour Certification" and Construction Courses.
- ▶ Targeting construction and domestic workers registered in the Ministry of Labour and through a training campaign.
- ▶ For domestic workers a special curricula was developed of 3 modules: Home Organization, Children and Elderly Care, and Cooking.



Public employment service

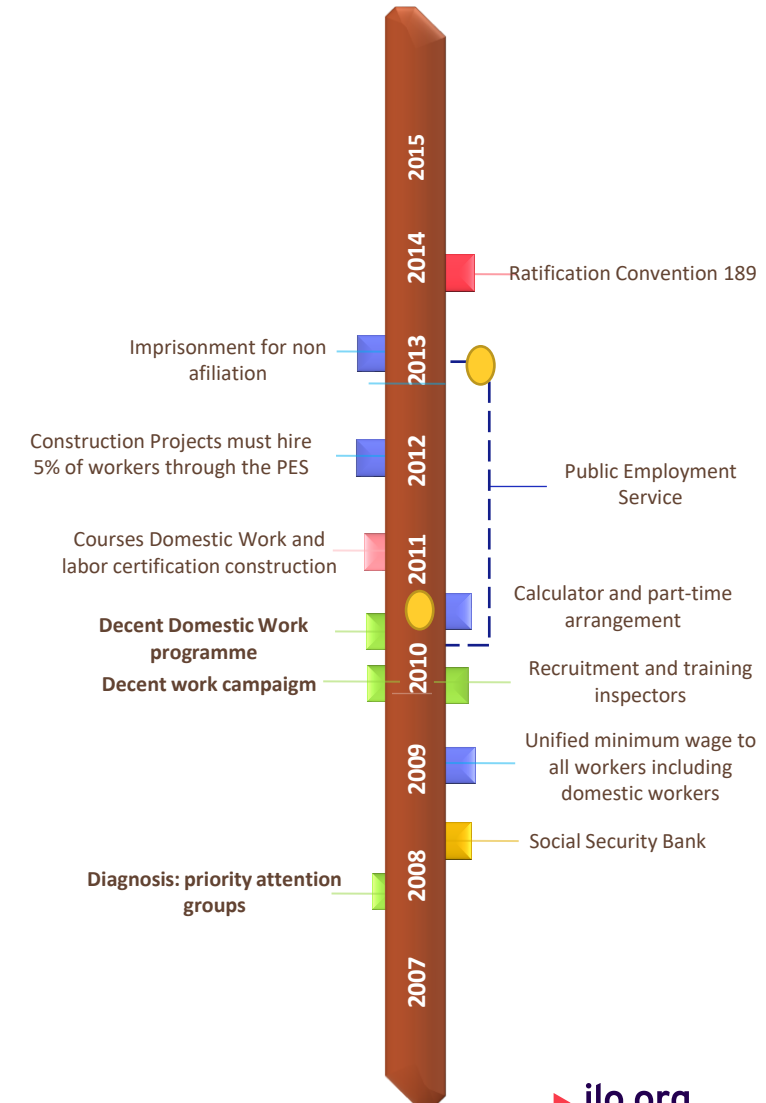
a catalyser of an integrated and inclusive approach of formalization



What does it
say?

Public employment service

- ▶ Ecuador was one of the few countries in Latin America that did not have a real public employment service.
- ▶ It established offices where construction workers would gather to seek for job opportunities. In 2011, it had 8 agencies of the Socio-Employment Network in the three regions of the country.
- ▶ It became a critical integrator of labour policies to facilitate the formalization of jobs.
- ▶ Although , it was created in 2010 as an intermediation agency for job seekers and employers. Only until 2013, its electronic platform was improved to achieve an integrated approach with all existing policies
- ▶ It technically integrated various government institutions to strengthen the potential to generate formal jobs and monitor the labour market
- ▶ In 2012, procurement of Public projects mandate that 5% of payroll be from workers hired through the Public Employment Service.



► How is the system integrated with other institutions?

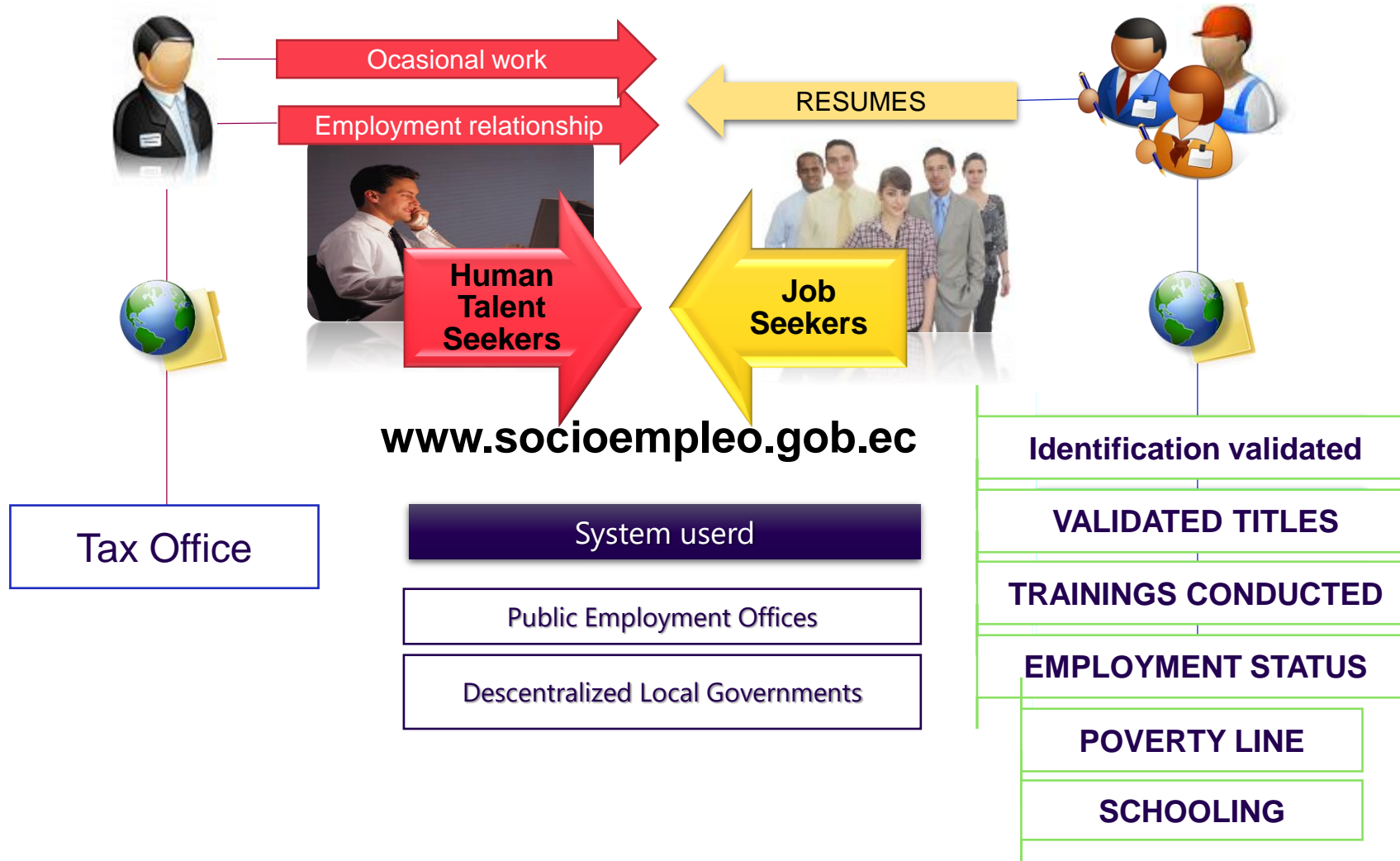
The Socio Empleo platform combines various sources of information about job seekers to establish a complete profile. Using the identity card of the person, the platform rescues information from

- Civil Registry for data on date of birth, address, etc.;
- the SECAP or the Secretariat of Higher Education, Science and Technology (SENESCYT) to obtain information on degrees, certificates or academic degrees;
- IESS, to know the employment status of the person; and
- Social Registry, which contains information on all persons below the poverty line, as well as on beneficiaries of social assistance programs.

This information allowed to offer different personalized services for job seekers, according to their profile.

An specialized job fair for the tourism sector was organized, where the system organized the recruitment process, through a technical selection and invited participants to have scheduled interviews with the different

Integrated Employment System (Interconnection with Government Institutions)



Formalization Integrated approach

Inspection Programmes

Workers with disability law



Decentralized Local Governments (DLGs)

Assessment

Career Guidance

Vocational Training

Linking to Selection Process

Public

Private

Employment Programs by segment
(Strategic construction projects 5%)

SENPLAD
ES

Self-Employment and
Entrepreneurship (Taxi drivers)

MIPRO

IEPS

Evaluation and
Feedback

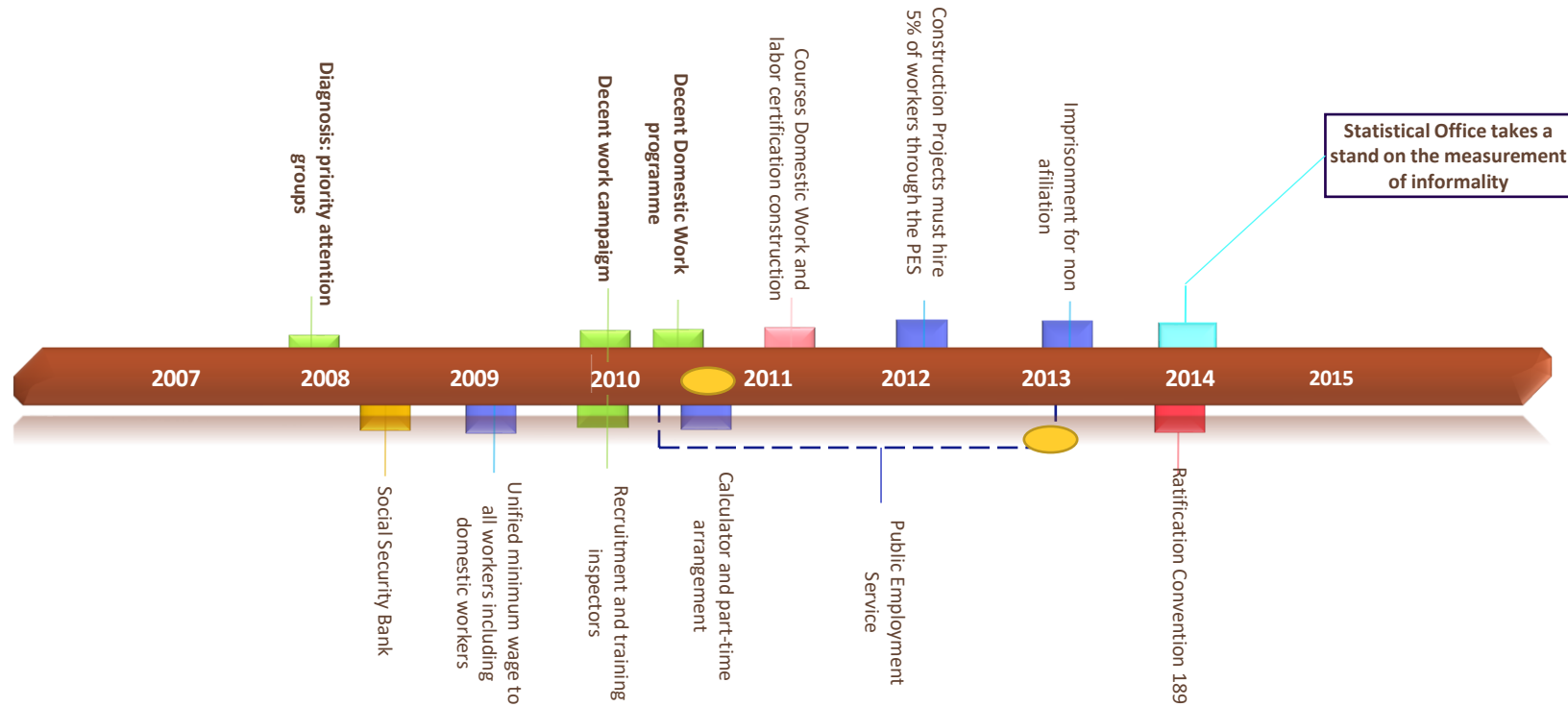
Formal Employment



Productive Matrix



Timeline of policies and its integration through the PES





Thank you!