Informal Economy, Independent Workers and Social Security Coverage in Argentina, Chile and Uruguay

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Summary

This article reviews the labour situation of independent workers regarding social security coverage in Argentina, Chile and Uruguay. These workers account for approximately 24 per cent of the employed labour force and most of them work in the informal economy. The scope of social protection for independent workers has become a relevant issue in the reform agendas for the social security systems. Low coverage among this heterogeneous group of workers, together with the difficulties of implementing effective policies and strategies that will allow for increased coverage, have created the need to evaluate the different dimensions that are involved in the design of social security programs. Even though Argentine and Uruguayan workers have mandatory legal coverage through a general scheme and also a simplified scheme directed at small contributors, the overall results have been poor. Furthermore, the Chilean Congress is discussing a proposal to include mandatory contributions for non-salaried workers. This document identifies and comments on several relevant issues associated with the design of social security programs that may have various implications in terms of financing, coverage and informality.

1. Introduction

The countries in the Southern Cone of Latin America (Argentina, Chile and Uruguay or ACU) are very similar in a number of aspects but there are also some differences among them regarding the characteristics of their labour markets and the respective regulations that govern them. There are also differences regarding the approach to social protection policies, especially for independent work. There is a common element, however, which consists of the interest, from a public policy view, of the need to develop and strengthen strategies and programs that will narrow the gap regarding social protection, especially for own account workers.

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1 This article is based on national studies that address social security coverage for independent workers in Argentina (MTEySS-ILO, 2007), Chile (Bertranou and Vásquez, 2007) and Uruguay (Lanzilotta, 2007). I want to thank the support and motivation received from Emmanuel Reynaud (ILO Geneva) in linking the issue of social security coverage to the general problem of informality.

2 In this article "independent" and "self-employed" will be used indistinctively and they will include both of the categories: "employers" and "own account workers". For the International Conference of Labour Statisticians a "self-employment job" is where the remuneration is directly dependent upon the profits derived from the goods and services produced.
This interest in public policies for extending social protection coverage is closely associated with the characteristics and dimensions of the informal economy. It is well known that in Latin America a significant part of informality results from the magnitude of the segment of workers that work independently. Although the incidence of this group on total employment in the southern cone is lower than the regional average, it is still significant.

Also, ACU have a long institutional history of social protection policies and programs. The focus and models that have been adopted over time have attempted to address primarily salaried employment protection. Recently, however, there has been an increasing concern regarding independent workers.

This interest is due to various reasons:

a. Independent workers represent an important share of the employed labour force. In the southern cone countries they account for more than 24 per cent of total employment. This is a heterogeneous group that ranges from employers in large and small enterprises to own account workers with various income levels. This heterogeneity involves a very unequal distribution of risks and vulnerability, that is, the capacity to face the consequences of income shocks. The design of social protection policies for this very heterogeneous group creates additional challenges.

b. The extent of self-employment seems to bear a relationship with the economic cycles. An important hypothesis that seems to be confirmed during some time periods in some countries indicates that it has a countercyclical behaviour as it serves as a refuge when the economic situation and salaried employment deteriorates. Therefore, employment in a traditionally unprotected labour segment seems to increase during crisis periods and economic cycle downfalls, just when that level of protection should increase.

c. Traditionally, there has been a gap in the social protection systems in terms of rights and obligations for independent and salaried work. Social protection provision in general and, social security based on social insurance schemes in particular, has been biased toward salaried workers. The predomination of Bismarkian schemes has resulted in salaried workers having greater and better protection than independent workers. Thus, the coverage gaps between salaried and non-salaried workers are important and there is an interest in narrowing those gaps.

d. The lack of self-employed social security coverage is one of the numerous dimensions of labour informality. Therefore, public policy experiments have been carried out by establishing policies that have implemented simplified schemes for these workers, in terms of both registration and compliance with tax obligations and social security contributions with the purpose of extending sociolabour inclusion. These experiences have shown mixed results.

e. Regarding the previous issue, there is controversy about the possible trade off between efficiency and equity in the simplified regimes. These may serve to increase inclusion of important groups but at the cost of reducing coverage in the general scheme (“displacement effect”), thus increasing the possibility of inclusion errors by encouraging evasion and avoidance. This would also weaken the solidarity mechanisms.

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3 Lanzilotta (2007) found that in Uruguay during the period 1986-2006 the correlation coefficient between own account employment and the GDP growth is negative reaching -0.39.

4 Type II Error: including people who should not be incorporated into the simplified system.
f. The legal references associated with independent workers for the coverage of various social risks are either absent or scattered throughout sociolabour legislation. The same is true with the institutionality of social protection.\(^5\)

g. There is increasing concern due to the rise in precarious salaried work revealed by the labour categories that adopt the form of self-employment. These disguised salaried workers have increased becoming an undefined area that is difficult for the labour authorities to address.\(^6\)

As shown, there are numerous and diverse reasons to address the issue of social security coverage for independent workers. In the next sections we will review only a few specific aspects in the case of ACU: the size of self-employment, legal and statistical coverage, and, finally, a few considerations aimed at public policies for decent work.

2. Informal sector, informal economy and independent workers

Why are there so many informal workers in Latin America?; Why are there so many independent workers in this region?; Why is social security coverage so low for these workers? This article does not pretend to be an in depth research into the causal explanations for these phenomena. It is possible, however, to acknowledge that these issues result from various factors. On one hand are the structural limitations for generating quality salaried employment and, on the other, are the problems in the design of social security programs such as the institutional restrictions for effective public policy. Thus, low coverage for a large number of workers results from the type of labour insertion and its low contributing capacity. Also, coverage is lacking due to the inconsistencies of program design, the lack of appropriate incentives for enrolment and the inability of the state to enforce mandatory contributions. The following is a description of several conceptual aspects associated with self-employment and informality in order to later examine the size and the characteristics independent employment in ACU.

Since 2002 the ILO has incorporated a new definition for informality. Its traditional definition of the informal sector, associated with subsistence activities in marginal categories of the economy, expanded the concept to include a category of workers who are not subject to labour legislation. Previously, this was an issue that reflected one of the dimensions of the informal sector. In other words, if the workers in the formal sector do not have the coverage established in the labour legislation (usually a contract and/or social security contributions) they are considered part of the informal economy, regardless of whether it fits the traditional definition of formal or informal sector.

Thus, the informal economy represents a set of economic activities carried out by workers and economic units that, under the law and in practice, are insufficiently contemplated in formal systems or not at all (ILO, 2002). Hence, regarding independent work under the concept of informal economy, own account workers carrying out subsistence activities may

\(^5\) For example, this is shown in the case of Argentina in one of the reference studies for this article: MTEySS-OIT (2007).

\(^6\) Some countries have validated a new reality in terms of rights and obligations for those workers. One of them is Spain, which recently approved a new Autonomous Work Statute where, in addition to the ordinary system it establishes one for “economically dependent autonomous” workers. (Law 20/2007, BOE num. 166)
coexist with other qualified workers who work on a non-salaried basis generating income revealing a certain contribution capacity.⁷

Self-employment in Latin America has a variety of dimensions due to the diverse socio-demographic and productive realities of each country in the region, where medium and low income countries coexist. This article considers ACU, which have three medium income economies, therefore, policy considerations and implications cannot be generalized for the region.

According to ILO (2006) estimates, in Latin America self-employment accounted for 29.2 per cent of total employment (not weighed average), of which 83.2 per cent were own account workers and 16.8 per cent employers (graph 1). ACU have lower incidence of self-employment compared with the average for the region: Uruguay 27.8 per cent (for 2005), Argentina 25.3 per cent (for 2005) and Chile 23.1 per cent (for 2003). The higher participation in these three countries also corresponds to non-qualified own account workers reaching 77.3 per cent of total independent workers in Uruguay, 65.2 per cent in Argentina and 59.7 per cent in Chile. The case of Chile contrasts with other cases in the region because there is a larger number of own account workers, who are identified as qualified workers or professionals. However, other studies dealing with the structure of employment that use different statistical data sources indicate that there is less participation of qualified own account workers.⁸

Based on the national studies carried out for this assessment on the situation of social security coverage among independent workers, the most recent data for the three countries show that the incidence for Argentina was 23.5 per cent, while 25.6 per cent for Chile and 27.7 per cent for Uruguay⁹ (Table 1). It is interesting that the different household surveys used for this descriptive analysis provide the possibility of disaggregating own account workers according to different criteria. This allows for consideration of relevant dimensions in the design and to evaluate the feasibility and scope that the simplified scheme could have for workers with low contributory capacity and also in the design of inspection policies.

In its evaluations the Argentine Ministry of Labour, Employment and Social Security has used three categories to examine own account workers (MTEySS, 2006): professionals (11 per cent of total own account), trades (76 per cent) and subsistence workers (13 per cent). In Chile, considering the minimum salary as a reference for the establishment of minimum contributions in case of voluntary enrolment into the pension system, own account workers can be categorized as those with and without contributory capacity. The former reach 70 per cent while the latter reach only 30 per cent. Finally, in the case of Uruguay a disaggregation usually made refers to own account workers with or without a permanent physical location, with the majority of the latter being the ones who perform commercial activities in the streets or who work in sectors such as agriculture or construction. Own account workers without a physical

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⁷ It is important to underscore that the 17th International Conference of Labour Statisticians validated the conceptual framework mentioned here that relates the concept of informal sector employment, based on the unit of production, with the concept of informal employment, which is greater in scope and is based on the actual job (Hussmans, 2004).

⁸ See Bertranou and Vásquez (2007). The differences may be due to the way in which the variable corresponding to the schooling level is treated.

⁹ Such as it was mentioned before, the differences between Labour Panorama and the data presented in this article take root in the different surveys that were used. For Argentina we used the special module for informality and, in the case of Chile, the Social Protection Survey (EPS in Spanish) instead of the CASEN Survey. In the case of Uruguay, a more recent survey was used (2006).
location account for 28 per cent while those who have a physical location or investment reach 72 per cent.

In general, similar socio-demographic characteristics are found for the three countries regarding age, participation of women, participation in specific economic sectors, working hours and income. A few stylized facts are highlighted in the following section.

a. Age and working life cycle

The average age of self-employed workers is higher than that of salaried workers. For example, in Chile the average age of salaried workers is 38 years old while that for independent workers is 43. This is because the share of independent workers in total employment is greater at a more advanced age. One of the reasons that may explain this behaviour is the higher proportion of self-employment starting at age 50, which is likely to occur because of a salaried formal labour market exclusion phenomenon. On the demand side, it could be due to the higher costs involving workers with experience and, on the supply side, the depreciation of job skills. Therefore, independent work becomes an opportunity to generate income. Finally, the desire to have more flexible work conditions could also be argued. Non-salaried work, both formal and informal, may provide flexible working time and the opportunity of adapting the work day.

Another aspect to be considered has to do with the working life cycle. Several hypotheses regarding informal employment have focused on finding out if informal employment is the entry way into youth employment to, later on in adulthood, move into formality and finally go back to informality when retirement gets close or after the legal retirement age established in pension systems. Regarding the working life cycle, it is noteworthy that recent labour market dynamics in a number of countries show that employment careers are more unstable and discontinuous. In other words, there is a group of workers who alternate between salaried employment and other activities as independent workers. The Chilean Social Protection Survey (EPS in Spanish) carried out in 2002 and 2004 shows that the population between 18 and 60 years old that reported having a salaried employment had a labour history that included 4.6 per cent independent employment. Those who reported having an own account employment said that they had been in this situation during 67 per cent of their work history. This has important implications in the design of social security programs because independent workers not always remain in this employment category during their entire working lives.

b. Participation of women in independent employment

The percentage of women in own account employment is lower than the one for salaried employment. Regarding employers, the percentage is even lower and the majority are men. For example, in Argentina women account for: 44 per cent of salaried employment, only 33 per cent of self-employment and 26 per cent of employers. Likewise, in Chile the share of female in total employment, which under regional standards is very low, is about 36 per cent, while for self-employment is only 27 per cent.

Therefore, as women dominate employment in the domestic service, men have a greater participation in self-employment. This is partly due to occupational segregation.

c. Occupational segregation by economic sectors

Participation in independent work mainly concentrates in three sectors: commerce, construction and agriculture. These are precisely some of the sectors where the decent work deficit is more significant. If the income generated by own account workers is also considered, commerce and agriculture represent sectors where there is a larger participation of workers with this characteristic. For example, in Chile the income of one of every two own account workers
in the agriculture sector is less than the minimum salary while in the commerce sector the proportion reaches one of every three workers (Bertranou and Vásquez 2007).

d. Working hours and income

One of the most significant dimensions of the heterogeneity in this category of employment refers to income which, obviously, is also related to working hours. Although the average working hours for ACU are similar for salaried and independent workers they conceal significant differences in distribution. The distribution of working hours among independent workers is more dispersed due to the greater importance of part-time work and also to the larger amount of average working hours of the employers. The latter, in addition to differences in schooling (higher in average for salaried workers than for independent workers) also translates into more heterogeneous income resulting in an important amount of own account workers without contributory capacity.

3. Legal coverage for independent workers in ACU

3.1. Legal coverage in Argentina

This country has a long history regarding legal coverage for independent workers, especially regarding old age, survivorship and disability (OASDI). Currently, there are three different schemes, two at a national level and one for the provinces.

a. General national scheme for independent workers ("Autónomos")

In 1994 the structural reform of the retirement and pension system was undertaken to establish a national mixed scheme called the Integrated Retirement and Pension System (Sistema Integrado de Jubilaciones y Pensiones - SIJP). This system is comprised of workers 18 years old or more who work in a dependency relationship in the private and the public sectors or who carry out independent for profit activities. A few categories are excluded from legal coverage by the SIJP, such as university professionals who work independently and are members of provincial retirement and pension funds. Other excluded categories are the members of the armed forces and police, who have their own schemes and civil servants who are members of provincial funds.

Current legislation defines independent workers as all those “persons who by themselves or together or alternatively with others, whether associated or not, work on a regular basis in activities without a dependency relationship”. This includes, for example, directing and managing societies, professional activities carried out by: college graduates; provision or marketing of insurance products and similar activities; and other for profit activities. Therefore, in order to define independent workers the following requirements are critical: (a) regularity in carrying out the activity; (b) territoriality; and (c) business risk.

10 Table A.1 in the Appendix includes a summary of this section.

11 In 1954 a new national retirement system was established with three funds for employers, professional and independent workers. This system covered old age, disability and subsistence contingencies. Later, in 1968, a single system was established for independent workers. In 1994 the structural reform of the retirement and pension system was carried out to implement the one that is currently in force.
**b. Simplified Scheme for Small Contributors (Monotributo)**

Furthermore, when independent workers fit the category of small contributors they can choose to register in the Simplified Scheme for Small Contributors known as Monotributo (single tax). It is a national system that establishes an integrated and simplified taxing scheme related to income and value added taxes and to the pension system. The definition of a small contributor considers, among other things: (a) the gross income of the contributor; (b) the area in which the activity is carried out; and (c) the electricity consumption. All independent workers who fit the definition of a small contributor and choose to enrol in the Monotributo (M) are subject to the Special Social Security Resources Regime for Small Contributors.

The simplified and integrated Monotributo scheme is also applicable to sporadic small contributors. The requirements to enrol in the Sporadic Monotributo (Monotributo Eventual or ME) are associated with: (a) the characteristics of the activity, that is, if it is sporadic or occasional; and (b) the gross income of the contributor. Likewise, when a small contributor is enrolled in the Simplified Scheme and is also in the National Development and Social Economy Performers Registry of the Ministry of Social Development, he/she will be exempt from unified payment provided that he/she meets certain requirements. This would be the Social Monotributo (Monotributo Social or MS). The National Development and Social Economy Performers Registry is aimed at registering people who are socially vulnerable, duly accredited as such, or who are unemployed or are real or potential beneficiaries of social programs.

c. University graduates: Provincial Social Security Funds

Finally, it is important to mention that in addition to the aforementioned systems there are a number of provincial social security funds for professionals who are exempt from making contributions to the national system. Provincial Laws in accordance with the authority granted by the National Constitution allow the creation of provincial social security funds that provide coverage to university graduates. Their distinction lies in that affiliation is associated with the professional registry. The interested parties manage them and the organization and financial administration varies in each case according to issues such as seniority and the characteristics of each profession.

In Argentina there are about 76 provincial social security funds for professionals with approximately 500,000 university graduates affiliated. These independent workers have to register in the provincial system but their participation in the SIJP is voluntary. In general, it could be assumed that this group is less vulnerable because they have higher incomes and, in many cases, they are affiliated to the national system, provided that they also have a salaried activity. For example, there are many college graduates who work in their professions and also teach.

3.1.1. Other relevant considerations: asymmetries between salaried and independent workers

Finally, it is important to highlight that in the case of Argentina, fragmentation in the different systems is due to the gradual incorporation of independent workers and the need to reduce labor market rigidity. A fourth category that could fit into this simplified system is that for domestic service workers. These can fit in both, salaried and own account occupational categories. In the first case domestic service is regulated by the Special Scheme for Domestic Service Workers, provided that they work at least six hours a week, thus, in general terms, they fit into a system designed for salaried work. It is important to underscore, however, that the main regulatory characteristics of this system are very similar to the ones for the Monotributo. In the second case, the workers can become affiliated to the Monotributo if they do not fit in the specific scheme for domestic service workers.
design schemes that could adjust to their sociolabour conditions. The current structure, however, has strong differences and inequalities among schemes, including the one for salaried workers. For example, access to certain benefits such as family allowances are not contemplated for independent workers. Health coverage is not considered in the general scheme for independent workers although it is contemplated in the simplified scheme. These issues, with their own national characteristics, are also present in the cases of Chile and Uruguay and will be reviewed in the following sections.

3.2. Legal Coverage in Chile

Affiliation of independent workers to the pension system in Chile is not mandated and, once affiliated, contributions are voluntary. These contributions are based on the taxable income declared by the affiliate, with a minimum equivalent to the minimum salary. This characteristic has prevailed since the 1981 structural reform that introduced a defined contribution scheme based on individual accounts managed by private firms that specialize in administering pension funds.

Currently the Congress is debating a bill to reform the pension system that includes mandatory participation of independent workers, such as it is now for dependent workers. The reform is aimed at providing the same rights and duties to both types of workers and, at the same time, increasing social security coverage levels to achieve better protection for old age.

The reform bill that was sent to the Congress in 2006 establishes that mandatory affiliation into the pension system should be gradual. During the first three years after the law is enforced there will be an active education and campaign process on pension issues. After this process mandatory contributions will be enforced unless the person expresses his/her desire not to do so. During this period mandatory contributions will be enforced unless the person expresses his/her desire not to do so. During this period mandatory contributions will be 40 per cent, 70 per cent and 100 per cent of the taxable income, during the fourth, fifth and sixth year respectively. As of the seventh year and until the ninth year the workers will have to make contributions into the pension system based on his/her full taxable income. During the tenth year after the law comes into force, health contributions will be incorporated and the workers will have the option of paying them beforehand if they want to do so.

The bill proposes that independent workers make their contributions to the pension system annually through their income tax statement or return. Annual taxable income for these workers is established at 80 per cent of the total taxable gross income of the independent affiliate during the calendar year prior to the presentation of the income tax statement. Independent workers who have not had income are exempt from mandatory contributions but they can do so on a voluntarily basis.

3.3. Legal coverage in Uruguay

Like Argentina, this country has a long history in terms of legal considerations for coverage of independent workers. Likewise, there are three systems for this category of workers: a general scheme for what they call one-person economic units, the Monotributo Scheme and the pension funds for professionals.

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13 Income from practicing in liberal professions or any other for profit profession or occupation that does not represent a salary, bonuses, wages, awards, allowances, gratuities and participations. This includes agricultural workers, and taxi drivers who are not owners of the vehicle.
a. General scheme for one-person economic units

In 1996, the retirement and pension system, managed by the Social Security Institute (Banco de Previsión Social – BPS), was reformed instituting a mixed system. The first tier is defined benefit (PAYG) and is called as the intergenerational solidarity pillar. It is managed by the BPS. The second tier is a mandatory defined contribution scheme organized as individual savings accounts (capitalization system) that are managed by private firms. The legislation also contemplates a third tier, similar to the second one, but for voluntary savings for workers with incomes over a certain level.

Under this framework and within this general scheme, managed by the BPS, are all workers of one-person businesses (with or without personnel). In this way, single individual firms without personnel have to contribute a minimum of 11 presumptive income units (Bases Fictas de Contribución - BFCs); and single individual units with personnel, are regulated by the highest salary they pay with a minimum of 15 BFCs. Depending on how old the worker was at the time of the reform, in 1996, there are different regulations to determine the level of contribution and the flexibility for changes in category.14

b. Monotributo Scheme

The special taxing system called “Monotributo” establishes special treatment for very small businesses in terms of number of workers, size of the installations and total sales. This is not an individual protection system but a special global tax scheme for small businesses. In general, the Monotributo system allows these businesses to pay one sole tax in replacement of all the national taxes (except for foreign trade taxes) as well as the contributions to the social security system. It also gives access to the workers involved to all social security benefits (except for unemployment insurance).

The system was established in 2001 and its initial format included a few special economic activities: for single individual businesses with small economic dimensions that perform commercial activities on the streets and in other public areas in a mobile or motionless manner. This system was not very successful in including a large share of the informal workers. Therefore, the 2006 Tax Reform Law (in force since July 2007) introduced a few modifications to provide flexibility to the requirements in order to include a larger share of workers. The following modifications needs to be underscored: it eliminates the restrictions on the place where the activities are carried out, the type of activities (it also includes a few production activities), the type of partnership (it extends coverage to legal partnerships and not only to single individual family businesses), selling conditions (credit sales), the maximum billing limit, and it gives the possibility of selling (in some activities) not only to final consumers but also to businesses and to the government.

c. University graduates pension funds

Two institutions protect university professionals: the University Professionals Retirement and Pension Fund (Caja de Jubilaciones y Pensiones de Profesionales Universitarios – CJPPU) and the Notary Social Security Fund (Caja Notarial de Seguridad Social). The Central Bank of Uruguay regulates its activity. The first Fund includes university graduates that work independently in their professions, except for notaries, who have their own social security institute.

The CJPPU is organized as a defined benefit scheme based on presumptive income contributions distributed into 10 categories and it primarily provides coverage for old age,

14 For more details see Lanzilotta (2007).
survivorship and disability. As of August 2008, a second voluntary tier will be established through which the CJPPU will have the authority to act as a collecting agent for voluntary pension savings.

The Notaries Social Security Fund includes public notaries and their employees. The benefits provided by this Fund are retirement, illness subsidies, funeral expenses, and pensions. This institute also has a Notaries Health Program through which it provides health coverage to its affiliates.

4. Statistical coverage for independent workers

Measurement of social protection coverage is a complex issue but it is critical in the design of appropriate policies to extend its scope and the number of persons covered. Traditionally, statistical coverage studies have contemplated the use of administrative records and household surveys. Each of these sources has both advantages and restrictions that will not be discussed in this report.15

As administrative records, the greatest restriction has to do with the fragmentation of the systems (Argentina or Uruguay) or the lack of a unified administrative records database (Chile). Household surveys also present restrictions because, in general, data gathering for salaried workers is good but the information for independent workers is more limited. For example, in the case of Argentina, independent workers were included in an ad-hoc manner in the Informality Module for the Greater Buenos Aires urban area in 2005 (MTEySS, 2007). Therefore, there is no information at a national level or for rural areas. Similarly, the Continuous Household Survey in Uruguay is also for a survey only for urban areas.

Another important restriction of household surveys is that, generally, it pictures social security contributions coverage. This does not necessarily imply that contributors are actually covered because long-term benefits such as old age pensions require that contributions be made for a specific amount of time in order to have access to that benefit. Therefore, a more comprehensive coverage measurement is being used referred to as “contribution density”. This variable is usually difficult to construct based on the administrative records thus making extrapolation difficult; however, it provides a better idea of the percentage of the labour life of a worker that has been covered with the contributions.

Various estimates for ACU indicate that, taking into account the contribution density, coverage is less encouraging than what is frequently shown by the more traditional indicator, i.e. the percentage of contributors relative to employed population at a certain moment in time.

Regarding health coverage, measurements generally include health insurance coverage indicators. However, since provision of social protection is also performed through a network of public providers for non-insured workers, access to benefits is more comprehensive than through contributory insurance schemes. Coverage may be measured best through surveys of health service usage, the financing (at the family level) of these benefits and the level of out of pocket spending. Also, the larger differences in coverage for the various categories of workers are not associated to the scope of insurance coverage or with benefit access but rather to the quality of the latter. This is due to the fact that those who have social insurance managed by social security institutions or by the private insurers have access to better coverage in terms of higher quality of services and shorter waiting time.

15 Rofman and Luchetti (2006) review the problems of coverage measurement for the pension systems in Latin America and ECLAC (2006) does the same for the health systems.
In Table 3 there is comparable data on statistical coverage for independent workers in ACU. In Argentina and Uruguay, which have mandatory affiliation and contribution schemes, coverage is slightly over 35 per cent; while in Chile, where contributions are voluntary, it only reaches 27 per cent. Coverage of employers is high and it even exceeds the coverage of salaried workers in Argentina and Uruguay. As a result of what has been stated in the previous sections, own account workers have the least coverage.

A few characteristics arising from the coverage statistics are the following:

a. Argentina

Of the total share of independent workers who make social security contributions on a regular basis, 67 per cent do so in the Monotributo simplified scheme while the remaining 23 per cent make their contribution into the general scheme for independent workers or in a provincial pension fund for university graduates. When only the own account workers are considered, the share of contributors to the Monotributo increases to 76 per cent (MTEySS, 2007). Due to its various implications this issue will be discussed in the next section.

Likewise, data-gathering for labour informality for 2005 also reviewed the motivations or reasons for being an independent worker. Those statistics showed that 56.5 per cent answered that they chose to be independent because they could not find salaried work. This percentage increased to 58 per cent among formal independent workers indicating that the salaried employment exclusion hypothesis prevailed and it fell to 26 per cent for formal independent workers (those who made contributions). For the latter the reasons for being in the independent workers category were: (a) having the opportunity to establish their own business; and (b) a personal decision to have more possibilities of progressing.

An important issue in the case of Argentina relates to the perceptions regarding social security institutions and the coverage they provide. A qualitative study detected that there is a lack of trust in the system and the perception that benefits provided by the system are low and contributions are high. An analysis of the relationship between the financial load that contributions represent and the benefits to be received, however, showed that both the general and the simplified schemes are significantly subsidized. This means that being affiliated and contributing to the system is “profitable” for self-employed workers. This exercise, however, should be complemented with a more complex analysis considering the recurrent regulation changes and the implementation of moratoria to increase social security inclusion of workers who have low or no contribution densities (MTEySS-OIT, 2007).

b. Chile

Coverage indicators for this country are significantly higher when using household surveys. On the other hand, administrative records only show 4 per cent coverage for workers registered as independent. This seems to be a problem of the records because the database reports the labour category of the worker when he/she was first affiliated and does not consider the changes in his/her labour history. Another aspect of the coverage indicators coming from household surveys may result in a possible overestimation due to a possible confusion between being affiliated to the system and actually contributing to it. Simple affiliation does not guarantee coverage. This reflects something that has been detected not only in Chile but also in several countries in Latin America. The workers know very little about how the system operates and about their rights, entitlements and obligations. The problem of lacking “pension literacy” is worse in those countries that undertook structural reforms such as ACU and introduced a capitalization component with multiple administrators and, in a few cases such as Chile, with multiple investment funds.
The Social Protection Survey (2004) studied the reasons for independent workers not having made contributions to the pension system. The main response (47 per cent) was that it is not mandatory and 30.9 per cent said that they had no resources to make the contributions. Furthermore, the survey detected that there is an inclination to contribute provided that the system grants other more short-term benefits such as health.

c. Uruguay

An outcome generally observed in Latin America for contributory-based social protection programs in a labour context of significant income inequality and, therefore, of contributory capacity, is the resulting coverage bias. Uruguay is no different in spite of being one of the countries in the region with better inequality indexes.

Table 4 shows, by income quintile, the distribution of both total number of workers and those who have social security coverage (those making contributions at the time of the survey). The data reveals that employers concentrate in the higher income quintiles and that coverage also concentrates in such quintiles, thus following certain proportionality. This is not true for the distribution and coverage pattern for own account workers, especially if they are disaggregated into those “with installations” and “without installations”. In the first case the workers have approximately the same presence in all the income quintiles but coverage concentrates in the higher quintiles. In contrast, for the latter, those independent workers without physical capital, concentration lies in the first income quintiles while coverage, the same as for the rest of the workers, concentrates on those with higher income.

5. Considerations for public policies for Decent Work

This section is intended to identify and discuss a few issues associated with independent workers and the social protection policies in the general context of Decent Work policies for the informal economy.

a. Independent workers: social protection beyond the choice or exclusion hypothesis

From a conceptual point of view, a controversy exists regarding the causes that generate greater or persistent informality in Latin America, including the growth of independent work. On one hand, some view these phenomena as the result of the inability of the economies to generate employment with considerable productivity; therefore, self-employment is a refuge for carrying out activities that can generate subsistence income. In other words, it is the result of an exclusion phenomenon. Likewise, exclusion can also be explained by insufficient development of labour market policies to improve employability in a labour world that is increasingly dynamic and with demand shifts towards qualified workers. Other arguments focus on institutional issues regarding the restrictions imposed by labour regulations, including the social security program design (benefits and financing). Therefore, independent workers would choose the aforementioned category thus excluding themselves from formal employment as a way of avoiding or evading such restrictions. Allegedly, firms also tend to subcontract services with independent workers to reduce costs, thereby transferring risks to these workers.

Notwithstanding the conceptual discussion and the empirical evidence that may support either one of these hypotheses, the reality of the labour market shows a significant heterogeneity in the distribution of human and social capital. For many workers this limits their possibilities of labour insertion as productive salaried workers or for generating independent productive entrepreneurial projects that are economically feasible. Also, technology changes in various areas, such as communications, and the preference for labour modalities that do not fit the traditional schemes regarding fixed work places with pre-established working hours, may cause self-employment to increase rather than decrease as a result of economic development.
Therefore, social protection policies and the social security models should attend to this changing environment by adapting themselves in order to increase inclusion and the level of protection. Social protection systems in Latin America should progressively incorporate independent workers legally and should redesign their financing schemes in order to minimize the effects of possible distortions in the decisions associated with participation and employment.

b. Social protection policies and the effects on informality

Informality is a multidimensional phenomenon; therefore, considering those who lack social protection as informal workers is a naïve view. Also, it is obvious that the solution of the problem of informality will not be found only in providing more and better social protection. However, what is to be done in this area is critical. The design of social protection (benefits, access conditions and financing) is not a trivial issue. The design may have a significant effect on the decisions of firms and workers in terms of employment and also in the type and form of labour insertion.

The unification and standardization of both the programs and the coverage seem to be necessary to discourage perverse incentives that could increase self-employment in response to the search for greater competitiveness by reducing costs and consequently the level of protection. Only a few countries in the region, however, can handle an expansion of universal comprehensive social security programs in the short term. Universal programs for minimum income have also been criticized for the possible disincentives they could cause to workers’ labour efforts. Furthermore, focalized programs may also generate distortions in the behaviour of the beneficiaries. A feasible option for a number of countries in Latin America seems to be a combination of contributory and non-contributory based programs. A system that is only contributory based in nature can only attend to the situation of salaried workers and high-income self-employed workers. Given that, in general, contributory and non-contributory based components already exist in social protection systems of medium income countries, it may be necessary to move forward in generating strategies and policies to close the coverage gap and allow appropriate integration or articulation to avoid fragmentation and segmentation.

One option that a few countries such as Argentina, Brazil and Uruguay have developed is to design simplified schemes for small-scale contributors, including independent workers. A few aspects of these systems in Argentina and Uruguay, denominated “Monotributo” were summarized in the section on legal coverage; however, Brazil started implementing a similar experience in 1997. Also, in 2007 this country implemented the “Simplified Plan for Social Security Inclusion”, which consists of a scheme for independent workers with a reduced contribution rate. The previous minimum contribution represented 20 per cent of the minimum salary and through this system it was reduced to 11 per cent, equivalent to the personal contribution made by salaried workers. Payment can be made monthly or quarterly in order to attend to the situation of workers with income fluctuations or seasonable revenues.

Although the simplified schemes that combine taxes and social security contributions for small contributors have served to incorporate into formality numerous economic units because there is a strong financial incentive to do so, its global effect is doubtful. By integrating the value added tax (VAT) in one payment together with other fiscal obligations, the Monotributo affiliates and their clients cannot claim tax credits for VAT. Ultimately, this may chain informal activities in a way that has not been evaluated. There are also doubts regarding the displacement effect that this program has caused. This refers to workers registered in the Monotributo that would otherwise have registered in the general scheme or would have remained as salaried workers.
c. Additional public policy dimensions

c.1. Mandatory or voluntary contributions?

A distinctive characteristic of social security for risk pooling is that coverage and financing is mandatory. In a context of unequal contributory capacity it is reasonable to think of financing according to such possibilities. This would be the second distinctive characteristic of the social security systems. In medium income countries, such as the ones analyzed in this article, it seems that there are no significant reasons to have a voluntary social protection schemes for independent workers. The mandate also generates the possibility of making not only the obligations equal but also doing the same for the entitlements of these workers.

c.2. A special or a general scheme?

In the majority of the countries independent workers have a differentiated treatment due to the characteristics of the economic activities they carry out. This has enabled the programs to adjust to the labour characteristics of such workers. When the special scheme is not articulated with the general system for salaried workers, however, there may be inefficiencies and participation disincentives and coverage problems. Regarding the latter, an important issue is portability, particularly in the case of long-term benefits such as pensions.

c.3 Scope of coverage and asymmetries with salaried workers

A relevant aspect in defining social protection policies for the extension of coverage for independent workers consists of identifying priorities regarding the social risks to be covered. It is also relevant the design of a benefit package sufficiently attractive for their inclusion. The surveys carried on for independent workers on their perceptions and opinions regarding social security in Argentina and Chile detected that pension contributions (i.e., old age, survivorship and disability coverage) do not seem to be a strong incentives, and even more so in a context of weak enforcement of regulations. Therefore, it may be important to articulate a package of short and long-term benefits in order to change perceptions and affiliation behaviour into the programs. The Monotributo example in Argentina, which includes health coverage based on a highly subsidized premium, seems to have been relevant in increasing affiliation. In the case of Chile, the social security reform being proposed establishes not only the incorporation of pension and health coverage but also access to family allowances and other benefits that may be provided by Family Social Benefits Funds (Cajas de Compensación) administered by employers organizations.

Finally, it should be pointed out that, although independent workers show distinctive features requiring the adjustment or weighting of the social protection tools to their social and working realities, the policies and strategies for their extension, must take into account the overall framework and logics of the social protection system. Consequently, possible fragmentations and eventual inequities which would perpetuate over time could be avoided. The implementation of simplified schemes for independent workers, who do not correspond to the traditional stereotype of the salaried worker, represents an interesting alternative to be explored and developed. However, its implementation must be realized in an articulated and coherent way with the other components of the social protection system.
References


Graph 1

Latin America: share of self-employment in total employment (circa 2005)

Table 1
Magnitude of independent employment as a share of total employment (2004-2006)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total self-employment</td>
<td>23.5</td>
<td>25.6</td>
<td>27.7</td>
</tr>
<tr>
<td>Employers</td>
<td>4.3</td>
<td>3.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Own account</td>
<td>19.2 (100%)</td>
<td>21.8</td>
<td>23.0</td>
</tr>
<tr>
<td>- Own account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>university graduates</td>
<td>2.2 (11%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Own account trade workers</td>
<td>14.5 (76%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Own account subsistence workers</td>
<td>2.5 (13%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- No contributory capacity</td>
<td>6.5 (30%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- With contributory capacity</td>
<td>15.3 (70%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Without installations</td>
<td></td>
<td>6.5 (28%)</td>
<td></td>
</tr>
<tr>
<td>- With installations</td>
<td></td>
<td></td>
<td>16.5 (72%)</td>
</tr>
</tbody>
</table>

Table 2
Legal Coverage for independent workers in Argentina

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Independent workers included</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. SIJP – Special Social Security Resources Scheme for Small Contributors</td>
<td>a) M: Small Contributor (Law Nº 24.977);</td>
</tr>
<tr>
<td></td>
<td>b) ME: Small Sporadic Contributor (Law Nº 24.977);</td>
</tr>
<tr>
<td></td>
<td>c) MS: Small contributor registered in the National Local Development and Social Economy Performers Registry of the Ministry of Social Development (Law Nº 24.977).</td>
</tr>
<tr>
<td>3. Provincial fund for university graduates (professionals)</td>
<td>University graduates whose inclusion in any provincial social security system is mandatory (provincial laws).</td>
</tr>
</tbody>
</table>

Source: MTEySS-ILO (2007)

Table 3
Coverage of social security contributions: independent workers
Argentina, Chile and Uruguay
Percentages

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaried</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries with a contract</td>
<td>57.2</td>
<td>85.2</td>
<td>77.3</td>
</tr>
<tr>
<td>Salaries without a contract</td>
<td>24.3</td>
<td>96.8</td>
<td></td>
</tr>
<tr>
<td>Independent workers</td>
<td>37.4</td>
<td>27.0</td>
<td>35.7</td>
</tr>
<tr>
<td>- Employers</td>
<td>71.4</td>
<td>64.3</td>
<td>85.3</td>
</tr>
<tr>
<td>- Own account</td>
<td>31.6</td>
<td>20.6</td>
<td>25.6</td>
</tr>
<tr>
<td>Own account without installations</td>
<td></td>
<td></td>
<td>6.4</td>
</tr>
<tr>
<td>Own account with installations</td>
<td></td>
<td></td>
<td>33.2</td>
</tr>
<tr>
<td>Total</td>
<td>54.2</td>
<td>70.3</td>
<td>65.5</td>
</tr>
</tbody>
</table>
Table 4  
Distribution of social security coverage by income quintile  
Independent workers  
Uruguay, Year 2006

<table>
<thead>
<tr>
<th>Occupational Category</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Workers (total)</td>
<td>1.7</td>
<td>5.7</td>
<td>12.0</td>
<td>24.8</td>
<td>55.9</td>
<td>100.0</td>
</tr>
<tr>
<td>- Workers covered by social</td>
<td>0.6</td>
<td>3.8</td>
<td>10.4</td>
<td>25.8</td>
<td>59.4</td>
<td>100.0</td>
</tr>
<tr>
<td>security contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own Account</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Workers (total)</td>
<td>2.5</td>
<td>8.1</td>
<td>15.9</td>
<td>26.5</td>
<td>47.0</td>
<td>100.0</td>
</tr>
<tr>
<td>- Workers covered by social</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>security contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own Account with Installations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Workers (total)</td>
<td>15.2</td>
<td>19.5</td>
<td>21.1</td>
<td>21.1</td>
<td>23.1</td>
<td>100.0</td>
</tr>
<tr>
<td>- Workers covered by social</td>
<td>2.0</td>
<td>7.4</td>
<td>15.8</td>
<td>26.8</td>
<td>48.0</td>
<td>100.0</td>
</tr>
<tr>
<td>security contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own Account without Installations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Workers (total)</td>
<td>35.9</td>
<td>25.6</td>
<td>18.6</td>
<td>12.9</td>
<td>7.1</td>
<td>100.0</td>
</tr>
<tr>
<td>- Workers covered by social</td>
<td>8.8</td>
<td>16.8</td>
<td>17.5</td>
<td>22.3</td>
<td>34.5</td>
<td>100.0</td>
</tr>
<tr>
<td>security contributions</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

Source: Produced with data from Lanzilotta (2007).
## APPENDIX

### Table A.1
Legal social security coverage for independent workers

<table>
<thead>
<tr>
<th>Category of Independent Worker</th>
<th>Argentina</th>
<th>Chile</th>
<th>Uruguay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers</td>
<td>Mandatory affiliation</td>
<td>Voluntary affiliation (*)</td>
<td>Mandatory affiliation</td>
</tr>
<tr>
<td></td>
<td>- General Scheme for Autonomous Workers - <em>Monotributo</em> Scheme</td>
<td>Privately managed contributory scheme</td>
<td>- General scheme for one-person business - <em>Monotributo</em> Scheme</td>
</tr>
<tr>
<td>University Professionals</td>
<td>- Pension Funds for University graduates (Provinces) - General Scheme for Autonomous Workers - <em>Monotributo</em> Scheme</td>
<td>Privately managed contributory scheme</td>
<td>Social Security Fund for University graduates</td>
</tr>
<tr>
<td>Trade own account workers</td>
<td>- <em>Monotributo</em> Scheme</td>
<td>Privately managed contributory scheme</td>
<td>General scheme for one-person business - <em>Monotributo</em> Scheme</td>
</tr>
<tr>
<td>Subsistence workers</td>
<td>- Social <em>Monotributo</em> Scheme</td>
<td>Privately managed contributory scheme</td>
<td>- <em>Monotributo</em> Scheme</td>
</tr>
</tbody>
</table>

(*) The Social Security Reform Bill that is being debated at Congress includes gradual mandatory affiliation starting with those with a greater contributory capacity.