

INFORMALITY AND POLICIES FOR LABOR FORMALIZATION IN URUGUAY (2005-2017)

FORUM *“Formalizing the Informal Enterprises: South-South Expert Knowledge Sharing
Forum towards designing an integrated policy framework of the Philippines”*

July, 2018

Ministerio de Trabajo y Seguridad Social

República Oriental del Uruguay

Outline

I. Objectives of the presentation

II. Introduction: Uruguay and the evolution of its labor market (2002-2006-2017).

III. Reduction of informality in private employees: no contribution to social security and measurements recommended by ILO.

IV. Reduction of informality: own-account workers and the new approach to the informal sector of the economy.

V. Characterization of people who would never have contributed to social security.

VI. Strategy and policies for labor formalization and the extension of social protection to families in the informal economy in Uruguay 2005-2017.

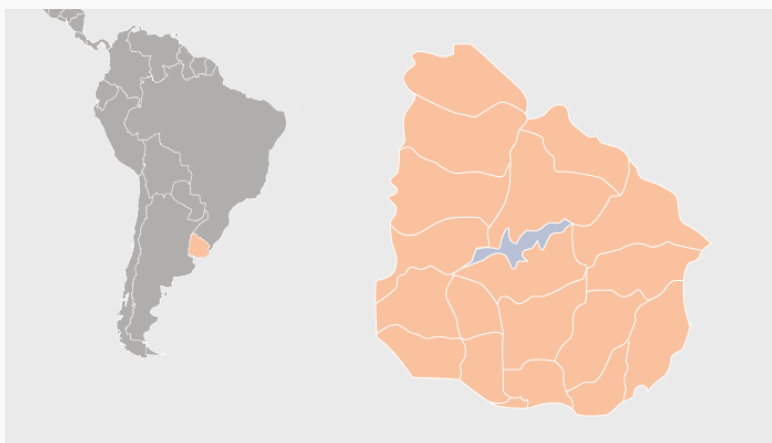
VII. Evaluation of the impact of policies towards the formalization of rural and domestic employees between 2006 and 2015.

VIII. Challenges.

I. Objectives of the presentation

1. To analyze the labor informality in Uruguay in its different dimensions, from its traditional perspective associated with the non contribution to social security and its correlate in social deprivation, up to the consideration of specific indicators of vulnerability in employment and the particular attention to the informal sector of economy and its employees.
2. To present the labor formalization process that occurred in Uruguay since 2005, from the major reforms to sectoral and targeted policies.

II. Introduction: Uruguay and the evolution of its labor market



TODAY:

Total Population: 3.500.000

Economically active population: 1.780.000

Employed people (dependent and non dependent): 1.645.000

Employees (dependent workers): 1.181.000

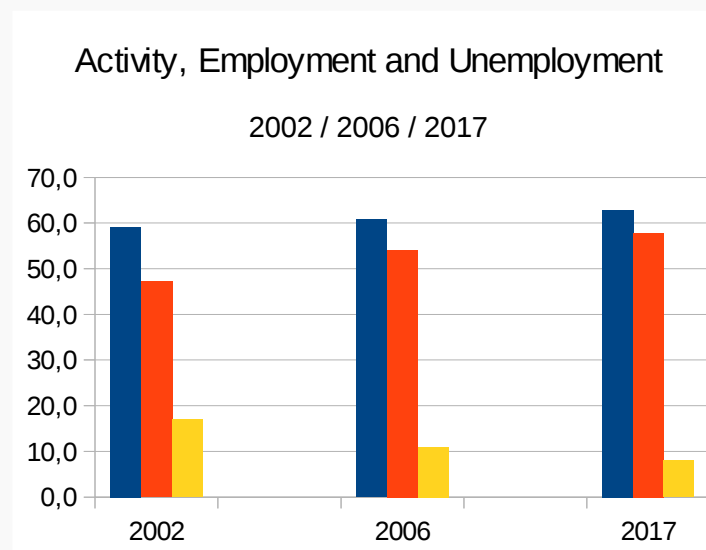
Own- account workers: 377.000

Unemployed: 140.000

II. Introduction: Uruguay and the evolution of its labor market

Increase in the activity and employment rates and decrease in unemployment and underemployment rates (2002-2017)

- Activity rate went from 59,1 (60.7 in 2006) to 63.4%. In women from 50.8 in 2006 to 55.3% in 2017.
- Employment rate went from 47,3% (54.1 in 2006) to 58.4%. In women it goes from 43.7 to 50.1%
- Unemployment rate decreased from 17% (11% in 2006) to a current rate of 8%
- Underemployment went from 12.8 in 2006 to 8.3% in 2017.



II. Introduction: Uruguay and the evolution of its labor market

Real wage growth that becomes a reduction in inequality

Real salary grows 55.5% between 2005 – 2017.

Important reduction of inequality. The Gini index went from 0.455 in 2006 to 0.383 in 2016 (a reduction of 16% between those years).

Reduction of work accidents

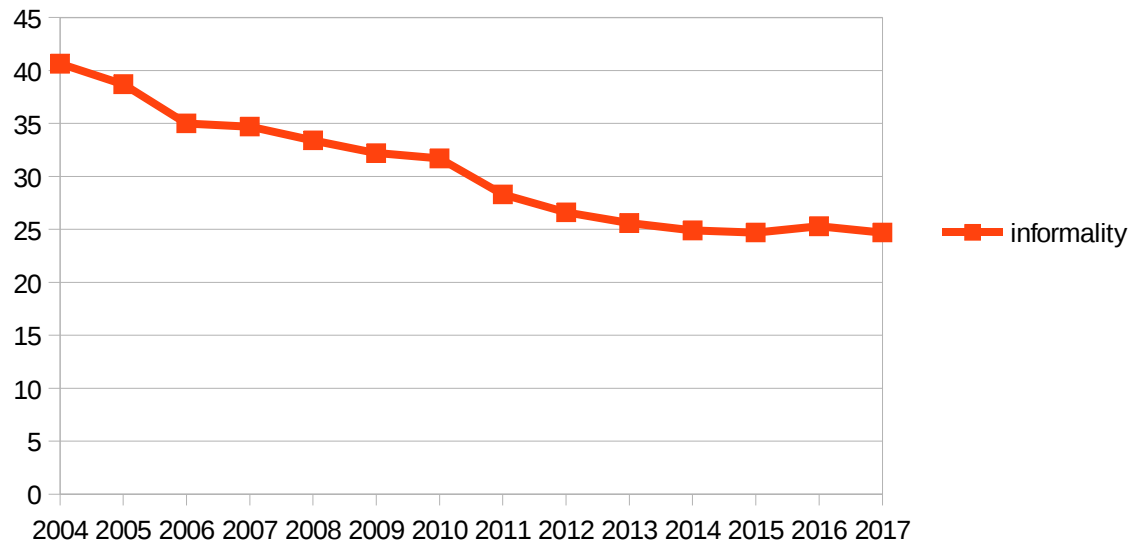
Between 2006 and 2011, workplace accidents increased, with the growth of economic activity and the largest number of workers; from there they decrease from about 50.000 in 2012 to about 33.500 in 2016.

Increase in the amount and value of retirements (pensions)

The total of liabilities (includes different pensions and temporary subsidies) increased from 710,000 in December 2005 to almost 782,000 in December 2016.

II. Introduction: Uruguay and the evolution of its labor market

No contribution to social security. Total of employed people. 2004-2017



Reduction of informality

- Informality in employment, measured as non-registration to social security, went from 40% in 2002 (35% in 2006) to 25.3% in 2016.
- Same level of informality for men and women
- The registered (formal) jobs went from 1.000.000 in 2006 to 1.452.000 in 2016.

III. Reduction of informality: no contribution to social security

Total employed
(dependent and non-dependent)

Año	Total
2004	40,6
2005	38,7
2006	35,0
2007	34,7
2008	33,4
2009	32,2
2010	31,7
2011	28,3
2012	26,6
2013	25,6
2014	24,9
2015	24,7
2016	25,3

Private employees (dependent workers):
informality decreases for all population profiles

	Total Asalariados Privados	Hombres	Mujeres	Montevideo	Interior más de 5000	Interior menos de 5000 y rural	15 a 18	19 a 24	25 a 29	30 a 44	45 a 64	Afro	No Afro
2006	28,8	26,3	31,8	21,4	35,1	33,3	78,7	37,1	24,7	22,3	24,7	40,0	27,6
2007	27,8	25,7	30,3	20,4	33,6	33,5	77,8	35,5	23,0	21,1	23,8	38,0	26,6
2008	26,0	23,7	28,8	18,8	32,1	31,3	73,8	30,9	22,2	19,9	22,2	35,6	24,8
2009	24,5	22,5	27,0	17,4	30,6	30,3	75,3	29,8	19,5	17,9	21,5	35,1	23,4
2010	23,8	21,5	26,8	15,7	29,2	30,3	74,9	28,2	18,2	17,0	21,1	32,7	22,8
2011	20,2	18,7	22,2	12,7	25,9	28,0	71,8	24,0	15,6	14,5	17,9	28,2	19,4
2012	17,8	16,4	19,6	11,3	23,0	23,8	67,7	21,9	13,7	12,7	15,1	26,1	16,9
2013	16,4	15,1	17,8	10,1	20,3	24,7	65,9	19,5	12,7	11,5	14,0	23,9	15,5
2014	15,7	14,5	17,1	9,9	19,6	22,1	63,7	20,3	12,3	11,2	12,6	24,3	14,6
2015	15,0	13,9	16,2	9,4	19,1	21,0	63,4	19,8	12,1	10,5	12,5	22,4	14,1
2016	15,4	14,6	16,2	9,6	18,9	24,0	62,7	22,6	13,4	10,7	12,1	22,0	14,6

III. Evolution of informality on private employees: measurements recommended by ILO

Uruguay since 2014 relies on information that allows following the recommendations from the ILO, incorporating the new concept of "informal employment":

- no contribution to social security
- no contribution for the entire salary
- no right to receive the 13th salary (bonus)
- no right to paid annual vacations
- no right to illness license
- no recognition of overtime

Año	2014	2015	2016
Tasa Global	32,4	28,8	27,4
Hombres	31,5	27,9	27,0
Mujeres	33,5	30,0	27,9
Montevideo	26,0	22,0	17,6
Interior más de 5000 hab.	35,9	32,4	33,2
Interior menos de 5000 y rural	42,1	39,9	42,9
15 a 18 años	72,3	70,0	67,6
19 a 24 años	35,7	32,7	33,3
25 a 29 años	29,7	25,4	25,0
30 a 44 años	28,8	25,0	23,7
45 a 64 años	29,9	27,3	24,7
Afro	38,7	36,1	33,6
No Afro	31,6	28,0	26,7

III. Evolution of informality on private employees: measurements recommended by ILO

	No aporta a la seguridad social			No aporta por la totalidad del salario			No cobra aguinaldo			No reconocimiento de horas extras			No vacaciones anuales pagas			No tiene licencia por enfermedad		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Tasa Global	15,7	15,0	15,4	5,9	5,3	4,5	12,7	12,1	12,3	14,9	10,4	10,0	15,7	15,0	14,7	20,2	18,5	17,9
Hombres	14,5	13,9	14,6	6,1	5,5	4,5	12,6	12,1	12,6	14,5	10,3	10,2	15,1	14,6	14,4	19,5	17,6	17,6
Mujeres	17,1	16,2	16,2	5,6	5,1	4,4	12,9	12,0	11,9	15,5	10,6	9,7	16,5	15,6	15,1	21,0	19,5	18,3
Montevideo	10,0	9,4	9,6	4,1	3,5	2,5	7,8	7,1	7,3	12,2	9,4	7,1	10,3	9,8	8,9	14,6	12,8	9,5
Interior más de 5000 hab.	19,6	19,1	18,9	6,9	6,7	5,9	15,8	15,4	15,0	16,0	10,2	11,4	19,0	18,5	18,1	23,3	21,9	22,7
Interior menos de 5000 y rural	22,1	21,0	24,0	8,9	8,2	7,4	19,1	18,5	20,9	20,0	14,3	15,4	23,1	21,6	24,3	28,2	26,5	31,1
15 a 18 años	63,7	63,4	62,7	5,4	7,4	4,8	56,9	55,7	56,6	32,9	20,2	16,1	62,5	60,7	61,5	65,1	63,4	63,0
19 a 24 años	20,3	19,8	22,6	5,4	5,0	4,1	16,7	17,0	19,1	15,5	10,9	10,9	20,4	20,8	22,2	25,1	24,5	25,3
25 a 29 años	12,3	12,1	13,4	6,0	4,2	4,1	10,1	10,1	10,6	13,6	9,6	9,1	12,4	12,6	12,9	16,8	16,1	16,0
30 a 44 años	11,2	10,5	10,7	6,2	5,7	4,7	9,0	8,2	8,4	13,4	9,5	9,5	11,6	10,5	10,5	15,8	13,9	13,7
45 a 64 años	12,6	12,5	12,1	5,5	5,4	4,2	9,8	9,7	9,2	14,3	10,2	9,6	12,8	12,6	11,5	17,6	15,9	14,6
Afro	24,3	22,4	22,0	6,6	6,4	5,5	19,7	18,7	17,2	15,8	12,3	10,8	23,7	22,6	20,6	27,0	25,5	22,8
No Afro	14,6	14,1	14,6	5,8	5,2	4,3	11,9	11,3	11,8	14,8	10,2	9,9	14,7	14,1	14,0	19,3	17,7	17,3

IV. Reduction of informality: approach to the informal sector of the economy. Own-account workers

Own-account workers without complete accounting, without legal status and not registered in the tax or social security offices.

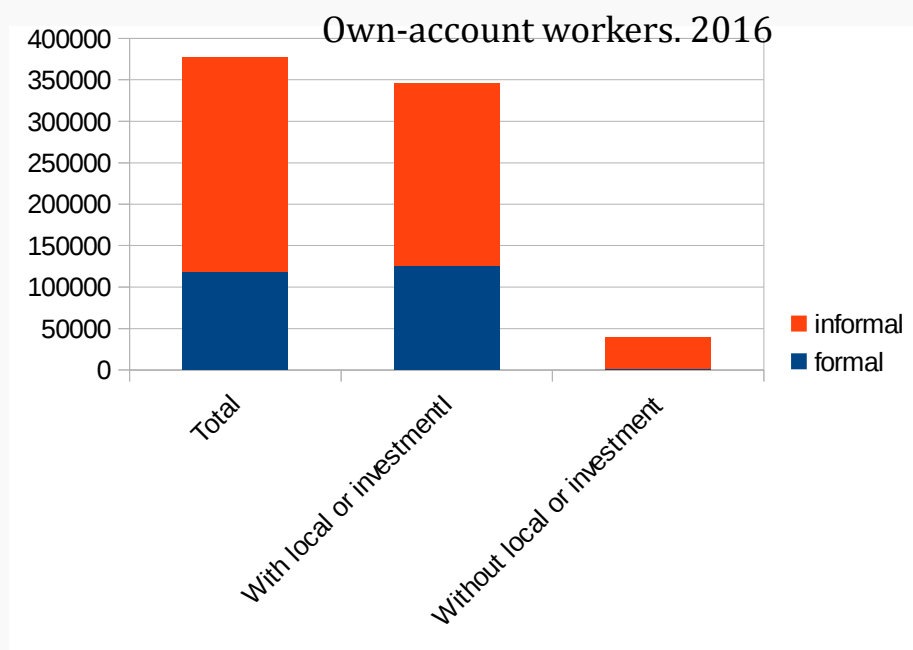


IV. Reduction of informality: approach to the informal sector of the economy. Own-account workers

Total: 22,9% (377.000)
- informal: 68,6% (258.800)

With local or investment: 21% (345.600)
- informal: 63,7% (220.100)
- in the year 2000 they were 14%, growing gradually and permanently

Without local or investment: 2,4% (39.500)
- informal: 97,9% (38.700)
- at the beginning of the 2000 due to the crisis (they reach 10%), then they descend strongly from 2.005



IV. Reduction of informality: approach to the informal sector of the economy

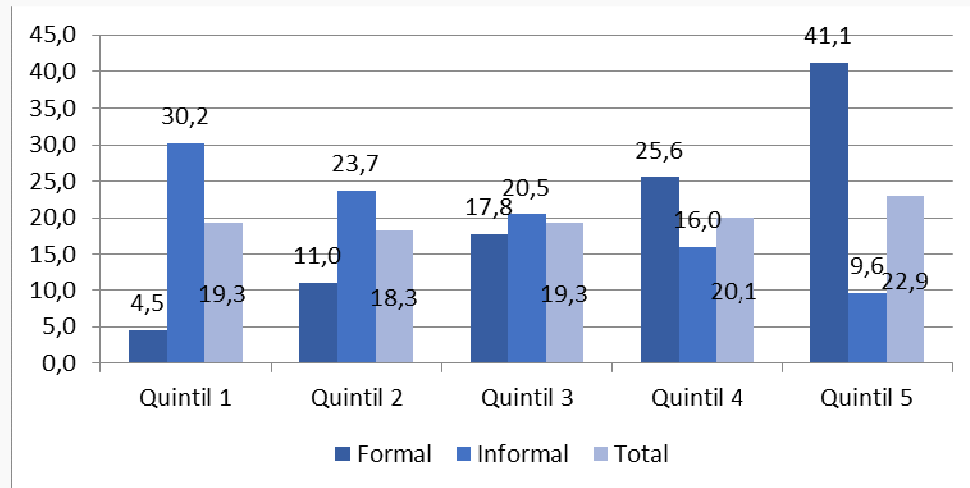
Percentage distribution of managers of formal and informal enterprises according to sector of economic activity.
2016

Sector de actividad (CIIU)	Sector formal	Sector informal	Total
Agropecuaria, pesca, caza y explotación de minas o canteras	20,4	7,4	12,9
Industria manufacturera, Suministro de electricidad, gas y agua	9,4	12,2	11,0
Construcción	2,4	20,0	12,6
Comercio por menor y por mayor	26,1	22,7	24,1
Transporte y almacenamiento	5,8	2,9	4,1
Servicios	12,8	16,5	14,9
Informática y Comunicación	2,4	0,7	1,4
Actividades financieras y de seguros	0,7	0,1	0,4
Actividades inmobiliarias	1,1	0,1	0,5
Actividades profesionales, científicas y técnicas	13,7	2,1	7,0
Actividades administrativas y servicio de apoyo	2,7	11,4	7,8
Administración Pública y defensa	0,0	0,0	0,0
Enseñanza	1,4	1,9	1,7
Arte, entretenimiento y recreación	1,3	2,1	1,7
Total	100,0	100,0	100,0

III. Reduction of informality: approach to the informal sector of the economy

Percentage distribution of managers of formal and informal enterprises according to income quintiles.

2016



IV. Characterization of people who would never have contributed to social security

- From the Longitudinal Survey of Social Protection it is possible to approach the group of people who would not have contributed to social security throughout their work trajectory: considering the first occupation and occupations between 2010 and 2013.
- It is estimated that 250,000 people would never have contributed, including people with and without occupation, as well as with none, one or several previous occupations.
- The data collected from the ELPS would seem to mark the existence of a dual labor market, where there are clearly at least two "types" of employed persons: those who do not contribute to social security and those who do. The differences between these "types" of employees are notorious, both in personal characteristics (age and educational level mainly) and in characteristics associated with the job (occupation category, size of company and number of hours worked).
- **Practically half of the employed people who would not have contributed in their work are “single-person workers”, who work on their own. In contrast, among those who do contribute by the main occupation almost half perform their work in companies of 50 or more people.**

V. Strategy and policies for labor formalization and the extension of social protection to families in the informal economy in Uruguay 2005-2016

I.1 STRATEGY: INTEGRALITY, COORDINATION AND SOCIAL DIALOGUE

SOCIAL
PROTECCION
AND HUMAN
RIGHTS

*COMPLETE AND
INTEGRATED
LEGAL
FRAMEWORK*

SOCIAL
DIALOGUE:
REAL AND
PERMANENT
PARTICIPATION
OF SOCIAL
ACTORS

*STRENGTHENING
THE STATE:
INTEGRATED
AND
ARTICULATED
PUBLIC POLICIES*

V. Strategy and policies for labor formalization and the extension of social protection to families in the informal economy in Uruguay 2005-2016

I.2 THE GREAT REFORMS OF THE LAST DECADE: CONTRIBUTIONS TO FORMALIZATION

Regulation of labor relations: tripartite negotiation
(2005, 2009)

Modifications to the social security system.
(2005)

Health Reform
(2007)

Tax Reform (2007) and investment promotion (2007, 2012, 2018)

Reform of the social protection matrix
(2005, 2007)

V. Strategy and policies for labor formalization and the extension of social protection to families in the informal economy in Uruguay 2005-2016

I.2 THE GREAT REFORMS OF THE LAST DECADE: CONTRIBUTIONS TO FORMALIZATION

Regulation of labor relations

- reinstatement and expansion of Salary Councils (collective bargaining): agreements for 2 or 3 years, that include minimum wages by labor category, salary adjustments every 6 months, working conditions (gender equity, professional training, etc.). Expansion include domestic, rural and public workers;
- in 6 rounds of Salary Councils (2005-2016): between 70 and 85% of tripartite agreements;
- it included a large normative update: freedom of association, health and safety, etc.

THE AGREEMENTS OF SALARY COUNCILS ARE RIGHTS AND OBLIGATIONS FOR ALL WORKERS AND ALL ENTERPRISES. THEY HAVE BEEN A TREMENDOUS IMPULSE FOR THE FORMALIZATION OF WORK.

DETERMINED THE PASSAGE OF THE GOVERNMENT FROM A MARGINAL TO A CENTRAL ROLE IN THE LABOR RELATIONS, ALLOWED A REVITALIZATION OF THE TRADE UNION MOVEMENT AND A GREATER COORDINATION OF THE EMPLOYERS COLLECTIVE ACTION.

V. Strategy and policies for labor formalization and the extension of social protection to families in the informal economy in Uruguay 2005-2016

I.2 THE GREAT REFORMS OF THE LAST DECADE: CONTRIBUTIONS TO FORMALIZATION

Modifications to the social security system

- decrease of 30 to 35 years of work to achieve retirement causes, with the same retirement age (60);
- reform of the unemployment benefit (Law No. 18,399);
- computation of one additional year of work for women for each child (with a maximum of five);
- extension of special licenses (maternity, paternity and study among the most relevant);
- flexibilization in the criteria for those persons who have partial or total disability;
- changes in the contribution of single-person enterprises.

THE LINK BETWEEN THESE POLICIES AND THE FORMALIZATION OF EMPLOYMENT IS STRONG, SINCE FOR THE MAJORITY, ALTHOUGH NOT FOR ALL, THE BENEFITS OF SOCIAL SECURITY IN URUGUAY ARE ASSOCIATED WITH THE FORMAL STATUS IN THE LABOR MARKET

V. Strategy and policies for labor formalization and the extension of social protection to families in the informal economy in Uruguay 2005-2016

I.2 THE GREAT REFORMS OF THE LAST DECADE: CONTRIBUTIONS TO FORMALIZATION

Health reform

- In 2007, Law No. 18,211 created the National Integrated Health System (SNIS);
- very important expansion of coverage and benefits;
- the formal worker and the single-person companies, with up to five employees, have the right to choose a health provider;
- for an additional contribution the benefit extends to the spouse of the beneficiary and to the children under 18 years of age or dependents persons;
- retired persons (retirees and pensioners) are beneficiaries of health insurance and can also extend the benefit to their spouse and their children under 18 or dependent persons.

HEALTH REFORM DIRECTLY FAVORS FORMALIZATION BECAUSE ACCESS TO THE SNS IS LINKED TO THE REGISTRATION OF THE PERSON AS EMPLOYEE, SINGLE-PERSON ENTERPRISES, RETIRED PERSON (FORMALITY AT WORK), AND AS COMPANY OWNER.

V. Strategy and policies for labor formalization and the extension of social protection to families in the informal economy in Uruguay 2005-2016

I.2 THE GREAT REFORMS OF THE LAST DECADE: CONTRIBUTIONS TO FORMALIZATION

Tax reform and investment promotion

- tax benefits for enterprises that generate formal employment (among other objectives);
- support for micro and small enterprises;
- modifications of the monotributo regime.

SET OF BENEFITS FOR FORMAL ENTERPRISES THAT COMPLY WITH ALL THE REGULATIONS AND ESTABLISHED REQUIREMENTS.

V. Strategy and policies for labor formalization and the extension of social protection to families in the informal economy in Uruguay 2005-2016

I.2 THE GREAT REFORMS OF THE LAST DECADE: CONTRIBUTIONS TO FORMALIZATION

Reform of the social protection matrix (welfare component)

- 2005: Social Emergency Care Plan (9.6% of households);
- Equity Plan;
- Family Allowances (for children);
- various programs.

THE AVAILABLE EVALUATIONS ON THIS PLANS SHOWS THAT THEY HAD NO POSITIVE IMPACTS NEITHER ON LABOR FORMALIZATION, NOR IN THE HOURS WORKED OF THE BENEFICIARY POPULATION, NOR IN INCREASES OF CONTRIBUTIONS TO THE SOCIAL SECURITY.

V. Strategy and policies for labor formalization and the extension of social protection to families in the informal economy in Uruguay 2005-2016

I.3 SECTORAL AND FOCUSED POLICIES AIMED AT DECREASING INFORMALITY AND ENSURING SOCIAL PROTECTION

- regulation of domestic work (Law No. 18.065);
- Statute of the Rural Worker;
- creation of the “monotax” (Law N ° 18.803);
- creation of the “social monotax” (MIDES);
- benefits for micro and small enterprises (Law No. 18.568);

V. Strategy and policies for labor formalization and the extension of social protection to families in the informal economy in Uruguay 2005-2016

I.3 SECTORAL AND FOCUSED POLICIES AIMED AT DECREASING INFORMALITY AND ENSURING SOCIAL PROTECTION

- regularization of the indebted enterprises to BPS (Law No. 17.963);
- regulation of outsourcing and corporate social responsibility (Laws No. 18.099 and No. 18.215);
- special regulation for small construction sites;
- Financial Inclusion Law (Law 19.210);
- adolescent work protection system;
- dissemination, tax education and social security campaigns.

V. Strategy and policies for labor formalization and the extension of social protection to families in the informal economy in Uruguay 2005-2016

I.4 STRENGTHENING OF PUBLIC INSTITUTIONALITY

Ministry of Labor and Social Security (MTSS)

- improvement in the management of human resources (exclusive dedication of inspectors and lawyers)
- increased presence and coverage of inspections
- modernization of information systems
- normative update

Social Security Institute (BPS)

- management improvement and modernization processes
- increased coverage of inspections
- tax intelligence system

General Tax Office (DGI)

- increase of intensive and extensive controls (monitoring compliance and combating fraud)
- update of the Unique Taxpayer Registry (RUC)
- expansion of procedures by web and increase in taxpayer services
- impulse to the generalization of the use of the financial system

VI. Evaluation of the impact of policies towards the formalization of rural and domestic employees between 2006 and 2015

- The estimated impact of the specific policies directed to the domestic work sector on the percentage of domestic workers without social security coverage was a reduction of 6.4 p.p. While among domestic wage-earners there was a reduction of 19.4 points in the percentage of salaried workers without social security coverage between 2006 and 2015, among the wage-earners in the control group, the decrease was 13.1 points. Likewise, the estimated impact on the percentage of domestic workers without bonuses and who does not contribute for the entire salary was a reduction of 3.1 and 3.7 p.p., respectively.
- In relation to wage earners employed in the agricultural sector, there was an improvement in the different indicators of informality in all the treaty and control specifications for both sexes. However, the results of the estimation of the impact of the specific policies on formalization for rural male employees were not significant in most of the specifications (no significantly different behavior was found with respect to the control group).

VII. Challenges: formalization and future of work in Uruguay

- More progress and some modifications to the great reforms: impact evaluations and redesigns.
- More exchange of information for labor inspection.
- Territories of the north of the country.
- Economic activities: transport, construction, commerce, rural, domestic workers.
- Self-employed workers.
- Atypical forms of employment.
- Increase productivity.
- Increase educational level of the population.

INFORMALIDAD Y POLÍTICAS PARA LA FORMALIZACIÓN DEL TRABAJO EN URUGUAY (2005-2016)

FORO *“Formalizing the Informal Enterprises: South-South Expert Knowledge Sharing Forum
towards designing an integrated policy framework of the Philippines”*

16, 17 y 18 de Julio de 2018

Ministerio de Trabajo y Seguridad Social

República Oriental del Uruguay