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► Labour market trends in Latin America and the Caribbean

► July 2026



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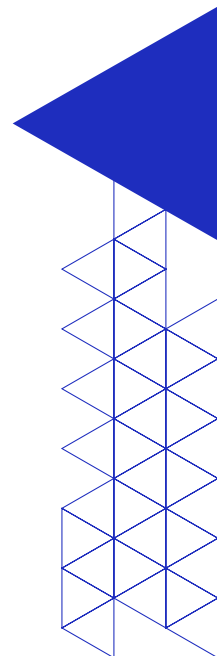
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► Foreword

The Latin American and Caribbean region continues to face the challenge of consolidating labour markets capable of generating more and better opportunities for decent work, against an international backdrop characterised by economic uncertainty, technological change, demographic shifts and the increasingly visible effects of climate change. In light of this, access to timely information and rigorous analysis is essential for the design of effective public policies.

This first edition of the report Labour Market Trends in Latin America and the Caribbean provides an update on recent developments in the region's key labour market indicators. The findings show that, in 2025, labour markets continued to perform well: employment continued to grow, unemployment reached historic lows and informality continued to decline. At the same time, the report highlights significant structural challenges relating to the quality of employment, productivity and the labour market inclusion of women and young people, as well as the profound differences that still exist between countries in the region.

The changes currently taking place in the world of work call for comprehensive responses. Digitalisation and artificial intelligence, the transition towards more sustainable economies, population ageing and changes in the organisation of work are redefining the skills required by labour markets and posing new challenges for employment, vocational training and social protection policies.

In this context, the Punta Cana Declaration, adopted at the 20th ILO American Regional Meeting in 2025, reaffirmed the commitment of governments, employers' organisations and workers' organisations to promoting integrated policies aimed at boosting productive employment, strengthening social protection, accelerating the transition from the informal to the formal economy, and promoting inclusive and sustainable economic development. This tripartite consensus serves as a roadmap for addressing transformations in the world of work, placing people at the heart of public policy.

The results presented in this report confirm the importance of continuing along this path. Consolidating the progress made will require stronger labour market institutions, expanded opportunities for women and young people, investment in lifelong skills development, and productive development policies that simultaneously enhance productivity, formalization and the creation of quality jobs.

We hope that this publication will contribute to social dialogue and the formulation of evidence-based policies, and that it will support the countries of Latin America and the Caribbean in their shared aim of moving towards more inclusive growth and a future with decent work for all.

Ana Virginia Moreira Gomes

Regional Director
ILO Regional Office for Latin America and the Caribbean

► Significant structural challenges remain in relation to the quality of employment, productivity and the inclusion of women and young people in the labour market, as well as the wide disparities that still exist between countries in the region.

► **Acknowledgements**

The ILO Regional Director for Latin America and the Caribbean, Ana Virginia Moreira Gomes, expresses her appreciation to the team responsible for compiling the report *Labour Market Trends in Latin America and the Caribbean 2026*.

The report was led and coordinated by Gerson Martínez, ILO Senior Regional Specialist on Labour Economics for Latin America and the Caribbean, who was responsible for drafting the chapters 'Regional Economic Outlook' and 'Recent Developments in the Regional Labour Market' and provided technical oversight of the analyses presented in the report.

The special topic, 'Informality and Productivity', was authored by Tulio Cravo, ILO Regional Specialist on Public Policy and Productivity for Latin America and the Caribbean, with support from external contributor Werner Peña.

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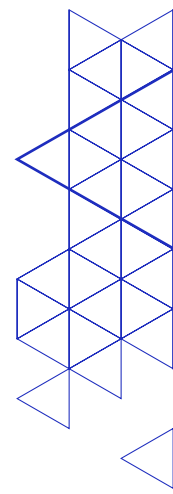
Special recognition is also extended to the Government of Panama, which, through the Ministry of Labour and Labour Development, has maintained a firm commitment to the ILO for almost three decades, making a decisive contribution to strengthening labour statistics systems in Latin America and the Caribbean. Its ongoing support for the SIALC project has been fundamental to advancing the production of high-quality labour data and promoting evidence-based public policy decisions across the region.

The national statistical institutes and offices in the region deserve special recognition for their valuable collaboration in providing microdata from labour force surveys, as well as for their ongoing efforts to incorporate the recommendations adopted by the International Conference of Labour Statisticians (ICLS) into their statistical instruments.

Jorge Cornejo was responsible for editing the Spanish version of the report, and John Steinhardt for editing the English version. Mariella Mujica was responsible for the layout, imagery and graphic design, under the coordination of Marco Minocri, Regional Head of Communications, and Miguel Aguirre, Senior Communications Officer at the ILO Regional Office for Latin America and the Caribbean. Marco Minocri and Miguel Aguirre were also responsible for promoting the report through the press and other digital media channels, with the support of ILO communications officers in countries across the region.

► Executive summary

- **Labour markets in Latin America and the Caribbean continued to perform well throughout 2025, against a backdrop of moderate economic growth and high international uncertainty.** The region sustained employment growth, further reduced unemployment and made gradual progress on some indicators of job quality. At the same time, the evidence suggests that the labour market has moved from the post-pandemic recovery phase to a stage of consolidation, in which structural factors are playing an increasingly important role in explaining trends in the main labour market indicators.
- **The regional unemployment rate reached one of its lowest levels in recent decades.** Unlike in the years immediately following the pandemic, when the improvement in the labour market was driven mainly by rapid growth in employment and the labour force, in 2025 the fall in unemployment was also due to slower growth in labour supply, linked, among other factors, to demographic transition and changes in the composition of the working-age population.
- **The report shows, however, that labour market trends continue to vary across countries and subregions. Furthermore, significant challenges persist for specific population groups.** Although gender gaps in labour force participation, employment and unemployment continued to narrow, women still face barriers to entering and remaining in employment, which are closely linked to the unequal distribution of care responsibilities. Similarly, young people continue to experience higher rates of unemployment and informal employment than the adult population, and face difficulties in making the transition from education to quality jobs in a context marked by rapid technological change.
- **The quality of employment also showed signs of improvement. The regional informality rate continued to fall throughout 2025 and reached its lowest level since the start of the pandemic.** The analysis presented shows that this reduction was driven mainly by the creation of formal employment, rather than by a contraction in informal employment, which is a positive sign for labour formalization processes. However, nearly half of the region's employed population continues to work in informal conditions, with marked differences between countries, economic sectors, age groups and gender.
- **The information available for the first quarter of 2026 suggests that labour markets continue to perform well, albeit against a backdrop of slower economic growth and high international uncertainty,** linked, among other factors, to geopolitical tensions and increased risks to energy prices. Against this backdrop, it will be essential to strengthen integrated employment policy frameworks, coordinated with strategies for productive development, skills training, social protection and a just transition, in order to capitalise on the opportunities arising from technological, demographic and climate-related transformations, and to move towards more productive, inclusive and resilient labour markets.
- **The special topic of this report examines the relationship between productivity and informality and highlights that the two phenomena are linked in both directions.** The evidence shows that formalization helps to increase productivity through greater access to finance, technology and markets, while increases in productivity create more favourable conditions for formalization. From this perspective, the report argues that formalization policies and those aimed at productive development should be conceived as complementary strategies to promote more inclusive economic growth and the creation of decent work.





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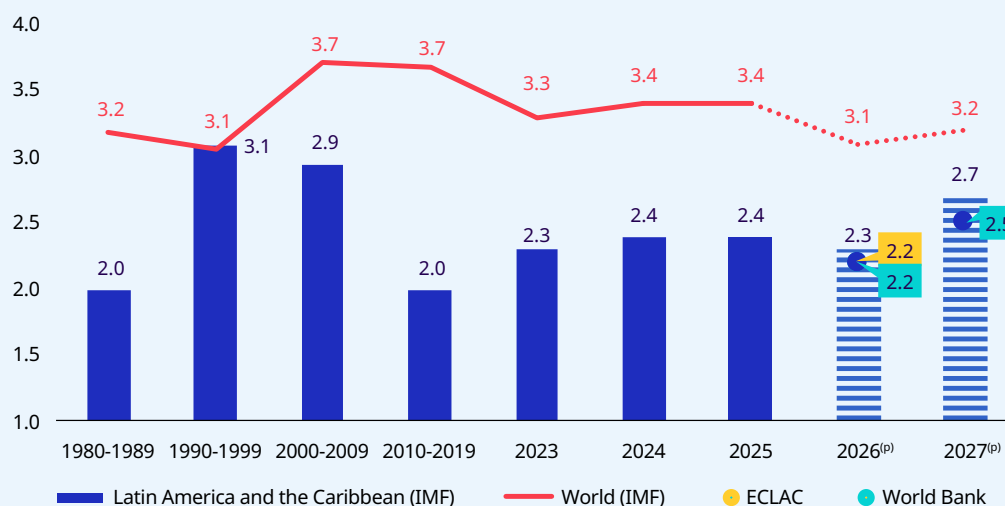
► 1. Regional economic outlook

The economy of Latin America and the Caribbean (LAC) maintained moderate growth throughout 2025, with regional GDP expanding by 2.4 per cent, a figure slightly higher than the forecast presented in the previous edition of the Labour Outlook (2.3 per cent). This performance confirms that regional economic activity continued to develop favourably despite an international environment characterised by high uncertainty and moderate global growth.

Among the main sources of international uncertainty, the crisis in the Middle East stands out, the effects of which are felt through rising energy prices and disruptions to trade, supply chains and investment (ILO 2026a). It is important to note that most economies in Latin America and the Caribbean are net energy importers. Only a small number of countries — Brazil, Colombia, Ecuador, Guyana, Mexico and Trinidad and Tobago — are net exporters. Consequently, some of the cumulative effects on prices and inflation are expected to remain noticeable for the rest of the year, particularly in the region's economies that are most dependent on energy imports (IMF 2026b). Should this scenario persist, it could affect enterprises' investment and expansion decisions, which would help to moderate economic growth and the pace of job creation, particularly in net energy-importing economies.

The outlook for 2026 continues to be shaped by a complex international landscape. Persistent geopolitical tensions, uncertainty surrounding the outlook for international trade and volatility in financial markets continue to create a less favourable environment for the region. Against this backdrop, the main international institutions project that Latin America and the Caribbean will maintain positive growth, albeit at a moderate pace and below the global average (Figure 1.1).

► **Figure 1.1. Real GDP growth, LAC and the world, projections for 2025–2026 (%)**



Note: ^(p) = projection.

Sources: IMF (2026b), ECLAC (2026) and World Bank (2026b).

The most recent updates to the economic outlook show moderate adjustments, although they maintain a relatively consistent view of the region's expected performance in 2026. While ECLAC and the World Bank revised their projections slightly downwards compared with those published previously, the International Monetary Fund (IMF) made a marginal upward revision. Despite these differences, the estimates from the three institutions converge on regional growth of between 2.2 and 2.3 per cent, reflecting a broad consensus around a scenario of moderate expansion.

Even in a scenario where global energy commodity flows gradually normalize, the cumulative effects on prices from the start of the conflict are expected to be felt until late (WB 2026a). In this context,

the outlook points to a slowdown in regional economic growth in 2026, followed by a moderate recovery in 2027. In this regard, the IMF and the

World Bank forecast an acceleration in economic activity, with real GDP growth of 2.7 per cent and 2.5 per cent, respectively.

1.1. Moderate regional economic growth against a backdrop of continuing uncertainty

1.1.1. Latin America: a slowdown in growth in 2026

At country level, the main feature of the macroeconomic outlook for 2026 is a general slowdown in economic growth (Figure 1.2). According to ECLAC's estimates, most of the countries analysed will record growth rates lower than those observed in the previous year. This pattern is also consistent with the projections of the IMF and the World Bank, suggesting a broad consensus on the moderation of the regional economic cycle.

The South American economies are seeing some of the most significant adjustments. Paraguay is

projected to experience the sharpest slowdown among the countries under consideration, with growth falling by between 1.8 and 2.2 percentage points compared with 2025, according to various sources. Nevertheless, it would remain one of the fastest-growing countries in the region. Significant slowdowns are also observed in Ecuador, Argentina, Peru, Brazil and Colombia. In these cases, economic growth would remain positive, but at a slower pace than that recorded in the previous year.

► **Figure 1.2. Latin America (selected countries): annual real GDP growth rates in 2025 (estimated) and in 2026 (projected) (%)**

Country	ECLAC 2025	ECLAC 2026	IMF 2025	IMF 2026	WB 2025	WB 2026
Argentina	4.4	3.3	4.4	3.5	4.4	3.6
Bolivia	0.5	0.5	-1.2	-3.3	-1.6	-3.2
Brazil	2.3	2.0	2.3	1.9	2.3	1.9
Chile	2.5	2.0	2.3	2.4	2.5	2.1
Colombia	2.6	2.5	2.6	2.3	2.6	2.3
Costa Rica	4.6	3.9	4.6	3.6	4.6	3.5
Dominican Republic	2.1	4.0	2.1	3.7	2.1	3.6
Ecuador	3.7	2.4	3.7	2.5	3.7	2.5
El Salvador	3.9	3.3	3.7	3.3	3.9	3.2
Guatemala	4.3	4.0	4.1	3.9	4.2	3.7
Haiti	-2.7	-1.4	-2.7	-1.7	-2.7	0.6
Honduras	3.8	3.8	3.7	3.3	3.8	3.4
Mexico	0.8	1.5	0.6	1.6	0.6	1.3
Nicaragua	4.9	4.5	4.9	3.8	4.9	3.4
Panama	4.4	4.0	4.4	3.8	4.4	3.9
Paraguay	6.6	4.5	6.0	4.2	6.6	4.4
Peru	3.4	3.2	3.4	2.8	3.4	2.7
Uruguay	1.8	1.6	1.8	1.8	1.8	1.6
Venezuela	8.9	6.5	1.5	4.0		

Sources: ECLAC (April 2026 projections), IMF (April 2026 projections) and World Bank (June 2026 projections).

► Broadly speaking, the outlook for Latin America in 2026 combines positive economic growth with signs of a slowdown in a significant number of countries.

The earthquakes that struck Venezuela on 24 June this year caused human suffering and loss of life. At the same time, they caused material damage, affecting infrastructure and people's livelihoods. Their economic repercussions, including their impact on growth, employment and incomes, will need to be reflected in future projections.

In Central America and the Dominican Republic, the outlook is relatively more favourable. Guatemala, Panama, Honduras and the Dominican Republic are expected to remain among the region's fastest-growing economies, with rates close to or above 4 per cent, according to some estimates. However, even within this group, forecasts of a slowdown by 2025 predominate. The most notable exception is the Dominican Republic, where all three institutions project an acceleration in economic growth. In this regard, ECLAC estimates growth of 4.0 per cent in 2026, representing an increase of 1.9 percentage points compared with the previous year. For their part, the IMF and the World Bank forecast increases of

1.6 and 1.5 percentage points, respectively. This is one of the few countries where the economic outlook points to an improvement in the pace of growth in the short term.

In the case of Mexico, although the projected growth rates remain relatively low compared with the regional average, all three institutions forecast an acceleration from 2025 onwards. However, its economy is expected to grow by between 1.3 and 1.6 per cent, and would continue to rank among the region's slowest-growing economies.

Broadly speaking, the outlook for Latin America in 2026 combines positive economic growth with signs of a slowdown in a significant number of countries, creating a context in which progress in the labour market will depend not only on economic growth, but also on the economies' ability to improve productivity, promote formalization and increase labour force participation among groups with lower labour market attachment.

1.1.2. The Caribbean: relatively stronger growth, but uneven across countries

The economic outlook for the Caribbean in 2026 remains relatively favourable compared with Latin America, although with marked variation between countries (Figure 1.3). Average growth in the Caribbean continues to be heavily influenced by Guyana. According to ECLAC, average growth in the subregion would reach 5.6 per cent, slightly higher than the 5.5 per cent estimated for 2025. However, this result is largely due to Guyana's performance, whose economy is set to continue expanding at exceptional rates, close to 16 per cent, driven by the development of oil production. The impact of the energy crisis stemming from the conflict in the Middle East is likely to be

uneven across Caribbean economies, reflecting differences in their exposure to volatility in international hydrocarbon prices.

Excluding Guyana, most Caribbean economies are expected to grow by between 2 and 4 per cent, reflecting a gradual slowdown compared with the years of post-pandemic recovery. In the economies most dependent on tourism, such as Antigua and Barbuda, Grenada, Dominica, Saint Lucia and Saint Vincent and the Grenadines, projections point to a moderate slowdown in growth, reflecting the normalization of tourism activity following the strong recovery seen in recent years.

► **Figure 1.3. Caribbean (selected countries). Annual real GDP growth rates in 2025 (estimated) and in 2026 (projected) (%)**

Country	ECLAC 2025	ECLAC 2026	IMF 2025	IMF 2026	WB 2025	WB 2026
Antigua and Barbuda	5.0	4.0	3.0	2.6	n. d.	n. d.
Bahamas	2.1	2.2	2.8	2.1	2.8	2.2
Barbados	2.9	2.5	2.7	2.5	2.7	2.7
Belize	1.6	2.5	2.7	2.2	1.5	2.4
Caribbean	5.5	5.6	6.2	5.7	n. d.	n. d.
Dominica	3.1	3.0	4.5	3.1	3.1	2.8
Granada	4.4	4.0	4.4	3.1	4.5	3.1
Guyana	15.2	16.3	19.3	16.2	15.4	16.3
Jamaica	1.5	-1.0	-0.1	-1.2	-0.4	-0.1
Saint Kitts and Nevis	2.7	2.5	1.5	2.0	n. d.	n. d.
Saint Vincent and the Grenadines	3.4	3.0	3.4	3.0	3.6	3.0
Saint Lucia	2.7	2.0	1.7	2.0	1.3	1.9
Suriname	3.2	3.9	1.5	3.9	1.8	4.0
Trinidad and Tobago	1.3	0.8	0.8	0.8	0.8	0.7

Sources: ECLAC (April 2026 projections), the IMF (April 2026 projections) and the World Bank (June 2026 projections).

By contrast, Belize and Suriname stand out as two of the few countries where all three institutions forecast an acceleration in economic growth in 2026. In both cases, the improvement is expected to be linked to specific factors relating to investment and productive activity. In Suriname, economic growth will be driven mainly by the sustained expansion of investment in the extractive sector, particularly in gold-related activities and the development of offshore oil exploration projects. Added to this is the continuation of the macroeconomic stabilisation programme, which has helped to strengthen investor confidence and boost private-sector activity. Meanwhile, in Belize, growth will be underpinned by continued investment in the tourism sector, the expansion of agricultural exports and related activities, as well as infrastructure development – factors that are expected to continue to support economic performance.

The least favourable outlooks are for Trinidad and Tobago and Jamaica. In Trinidad and Tobago, growth is forecast to be below 1 per cent, reflecting persistent structural challenges and

limited economic dynamism. Jamaica is the only economy for which all three institutions project a contraction in 2026, as it continues to suffer the consequences of Hurricane Melissa (Ayres and Juvenal 2026). According to a preliminary assessment by the ILO, the hurricane caused physical damage estimated at around 41 per cent of 2024 GDP and losses equivalent to 2.9 per cent of annual output, with an estimated impact on approximately 30,400 jobs. The effects were particularly severe in sectors such as tourism, agriculture and construction, whose gradual recovery will continue to shape the country's economic performance throughout 2026 (ILO 2026c).

Overall, the Caribbean region is facing a transition from the phase of rapid post-pandemic recovery towards a scenario of more moderate growth, with variations between countries.

► The moderation in inflation is one of the key developments in the recent macroeconomic environment and creates a more favourable context for the recovery of the purchasing power of labour income and the consolidation of the improvements observed in the region's labour markets.

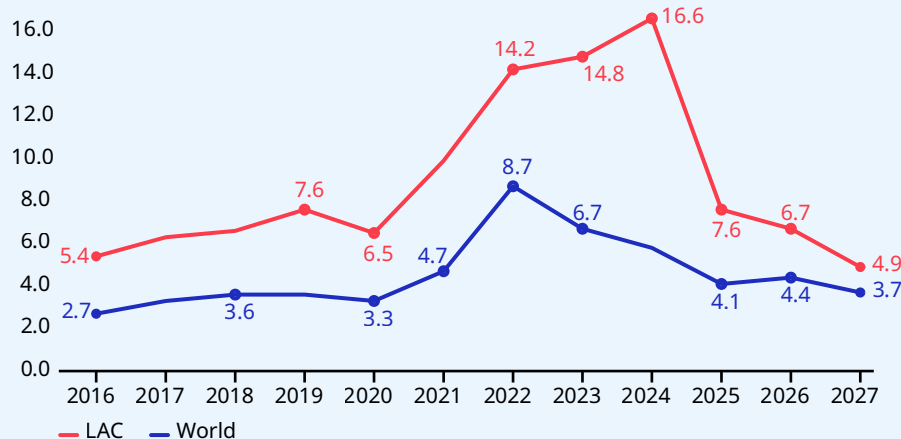
1.2. Inflation continues to ease, although varying pressures persist across countries

The moderation in inflation is one of the key developments in the recent macroeconomic environment and creates a more favourable context for the recovery of the purchasing power of labour income and the consolidation of the improvements observed in the region's labour markets.

Following the sharp rise observed during the period 2021–2024, inflation in Latin America and the Caribbean continued to ease in 2025, and

this trend is expected to continue in 2026 and 2027 (Figure 1.4). According to projections by the International Monetary Fund, regional average inflation is set to fall from 16.6 per cent in 2024 to 7.6 per cent in 2025, and would continue to fall to 6.7 per cent in 2026 and 4.9 per cent in 2027. Although these levels remain higher than the global average, they represent a significant improvement on the inflationary pressures observed during the post-pandemic recovery.

► **Figure 1.4. Latin America and the Caribbean. Inflation rates (average CPI change). 2016–2025 and projections for 2026–2027**



Source: IMF (WEO, April 2026).

The regional trend also reflects a gradual convergence towards an environment of greater macroeconomic stability. While global inflation peaked at 8.7 per cent in 2022 and subsequently fell to 4.1 per cent in 2025, Latin America and the Caribbean faced a more persistent trend, with a regional peak of 16.6 per cent in 2024, influenced by the high levels of inflation recorded in Argentina that year (219.9 per cent).

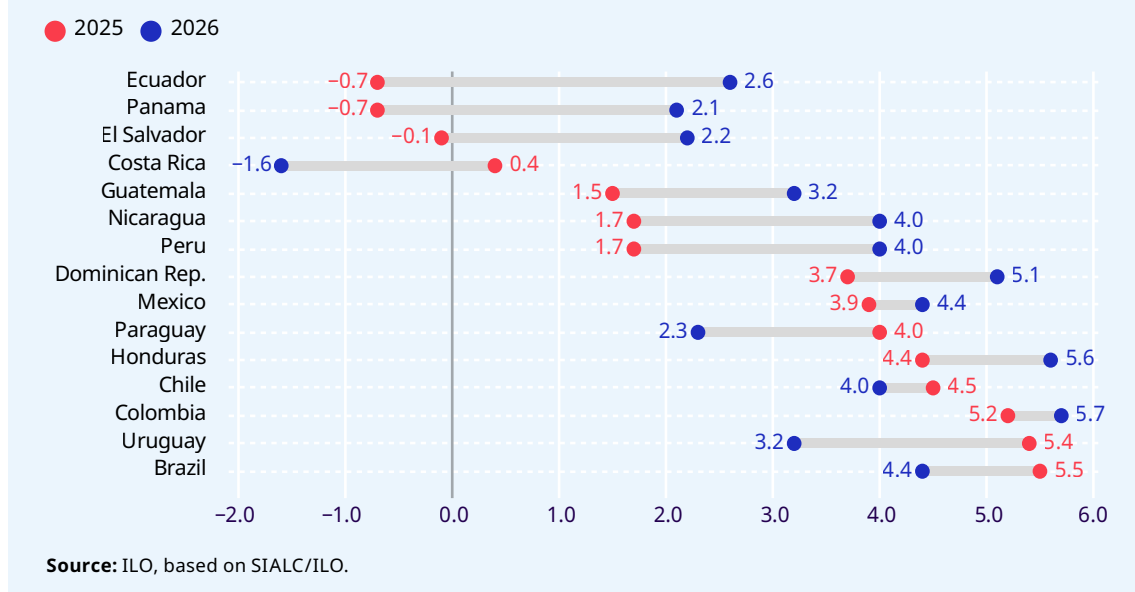
However, the moderation observed at regional level has not been uniform. Recent trends in inflation continue to show significant differences between countries, reflecting both differing domestic macroeconomic conditions and varying exposure to external shocks, such as the recent rise in international prices of oil and its derivatives.

1.2.1. Recent trends in inflation in Latin America

In Latin America, the majority of countries saw a moderate rise in year-on-year inflation between April 2025 and April 2026, although in most cases it remained within historically low ranges or close to the target ranges set by central banks (Figure 1.5). Of particular note are the increases observed in Ecuador, Panama and El Salvador, economies

that went from recording slightly negative or near-zero rates in 2025 to levels close to or above 2 per cent a year later. Guatemala, Nicaragua and Peru also recorded relatively significant increases, although they remained at levels consistent with price stability scenarios.

► **Figure 1.5. Latin America (selected countries). Year-on-year inflation in April of each year (%)**



In contrast, several countries continued to bring inflation down. Brazil reduced it from 5.5 to 4.4 per cent; Uruguay, from 5.4 to 3.2 per cent; Chile, from 4.5 to 4.0 per cent; and Paraguay, from 4.0 to 2.3 per cent. In Argentina, year-on-year inflation in April 2026 stood at 32.4 per cent, lower than the figure recorded the previous year (47.3 per cent). Costa Rica once again recorded negative inflation rates, reflecting a price trend that was clearly different from the rest of the region. Colombia is one of the few cases where inflation remained relatively high, rising from 5.2 to 5.7 per

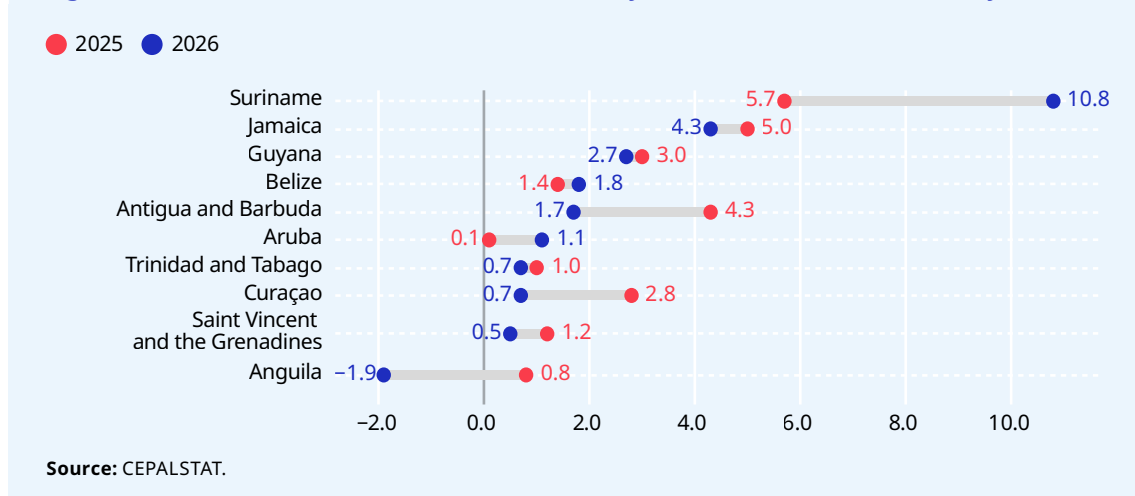
cent, while the Dominican Republic and Mexico recorded moderate increases, although inflation remained within single-digit levels.

Overall, the evidence suggests that inflation is no longer the main source of macroeconomic imbalance for most Latin American economies. However, the pace of convergence towards levels consistent with price stability targets remains uneven across countries, reflecting differences in monetary policy stances, the evolution of domestic demand and the transmission of international shocks to domestic prices.

1.2.2. Recent inflation trends in the Caribbean

The Caribbean also presents a mixed picture (Figure 1.6). Most economies have relatively low inflation rates, below 3 per cent, although there are still some exceptions. Suriname continues to record the highest inflation in the subregion, which rose from 5.7 per cent in March 2025 to 10.8 per cent in March 2026, while Guyana, Jamaica, Antigua and Barbuda, and Curaçao

saw their inflation rates fall compared with the previous year. Belize, Aruba and Trinidad and Tobago recorded moderate increases, while Anguilla showed a fall in prices (-1.9 per cent) and was the only instance of deflation among the countries analysed.

► **Figure 1.6. Caribbean (selected countries). Year-on-year inflation in March of each year (%)**

Broadly speaking, recent developments confirm that both Latin America and the Caribbean are moving towards a scenario of greater price stability, albeit at different rates of adjustment. The easing of inflationary pressures is a positive factor for labour markets in 2025, insofar as it helps to preserve the purchasing power of labour income, reduces uncertainty for households and businesses, and fosters a more favourable environment for investment and job creation. However, signs of persistent inflationary pressures in some economies during the first few

months of 2026 highlight that the pass-through of rising international prices for oil and other energy products to domestic prices could continue for most of the year, particularly in economies that are most dependent on hydrocarbon imports. Against this backdrop, macroeconomic stability remains a necessary condition for sustaining growth in formal employment, boosting productivity and consolidating the labour market improvements achieved across the region.

1.3. Economic outlook for 2026

The macroeconomic outlook for 2026 paints a picture for Latin America and the Caribbean characterized by a slowdown in economic activity compared with 2025 and by the persistence of an uncertain international environment. However, recent experience shows that, even under these conditions, several countries continued to record increases in employment and reductions in unemployment, which suggests greater resilience on the part of regional labour markets in a less dynamic macroeconomic context.

This development highlights the fact that the performance of the labour market depends not only on the pace of economic growth, but also on

structural factors that begin which are becoming increasingly important, such as demographic transition, the slowdown in labour force growth, changes in the composition of the labour supply, and the gradual entry of more women into paid employment. In this context, sustaining the creation of productive, high-quality jobs will require a combination of macroeconomic policies that stimulate growth with strategies aimed at raising productivity, accelerating formalization, strengthening labour skills through lifelong learning systems that are better aligned with productive needs, and expanding opportunities for the integration of groups that still face greater barriers to accessing the labour market.



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► Labour markets in the region continue to evolve against a backdrop of far-reaching structural changes. The accelerating pace of technological change, in particular the growing uptake of artificial intelligence and other digital technologies, is gradually altering the demand for skills and the organisation of work.

► 2. Recent trends in the regional labour market

In the context of moderate economic growth and persistent international uncertainty, labour markets in Latin America and the Caribbean continued to perform well throughout 2025. The region maintained employment growth, saw a further reduction in unemployment and made progress on some indicators of job quality, despite the macroeconomic environment being less dynamic than that observed during the post-pandemic recovery phase.

However, recent labour market trends differ from those observed in 2023 and 2024 (ILO 2025a, 2025b). While in those years the improvement in the labour market was driven by a rapid recovery in employment and a strong expansion of the labour force, by 2025 the reduction in unemployment took place against a backdrop of slower growth in labour supply, stabilization of labour force participation rates and a gradual improvement in the composition of employment. These results suggest that the region is moving from a phase of recovery to one of labour market consolidation, in which structural factors – such as demographic transition, changes in the composition of the workforce and the rise in female labour force participation – are becoming increasingly important in explaining trends in the main labour market indicators.

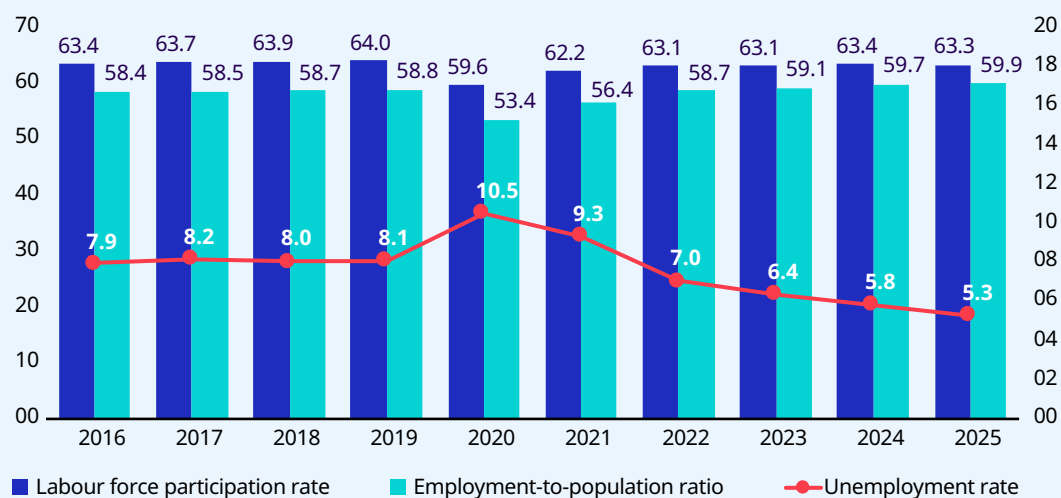
At the same time, the region's labour markets are evolving amid far-reaching structural changes. The acceleration of technological change, in particular the growing uptake of artificial intelligence and other digital technologies, is gradually altering the demand for skills and the organisation of work. At the same time, the increased frequency and intensity of extreme weather events, including those associated with the *El Niño* phenomenon, continue to affect economic activity and employment in particularly vulnerable sectors, such as agriculture, construction and tourism.

In this context, the implementation of integrated employment policy frameworks capable of linking the economic, labour, social and environmental dimensions of development takes on greater significance, so that technological, demographic and climate-related changes can lead to more opportunities for decent work.

2.1. Unemployment has reached historic lows against a backdrop of slower growth in the labour supply

The regional employment-to-population ratio (which measures the proportion of the population aged 15 and over who are in work) rose by 0.2 percentage points, from 59.7 to 59.9 per cent between 2024 and 2025. Thus, the average employment-to-population ratio for the last four years (59.4 per cent between 2022 and 2025) is higher than the average for the four years preceding the COVID-19 pandemic in 2020 (58.7 per cent between 2016 and 2019).

► **Figure 2.1. Latin America and the Caribbean: Recent trends in key labour market indicators. 23 countries^{a/}. Annual rates 2016–2025. (%)**



Note: ^{a/} The countries included are: Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Saint Lucia, Trinidad and Tobago, and Uruguay.

Source: ILO, based on SIALC/ILO.

In 2025, the proportion of the working-age population (aged 15 and over) who were in employment stood at 63.2 per cent, representing a decrease of 0.2 percentage points compared with the previous year. Thus, the average participation rate between 2022 and 2025 (63.2 per cent) remains below the 63.8 per cent recorded between 2016 and 2019. The stagnation in the labour force participation rate of the working-age population in recent years suggests the persistence of structural factors that limit their entry into the labour market, with implications for the functioning of the labour market, economic growth and productivity growth (ILO 2023, 2024; ECLAC and ILO 2026).

In 2025, the rise in the employment-to-population ratio and the stagnation in labour force participation explain the fall in the regional unemployment rate to historically low levels. After peaking in 2020 (10.5 per cent) as a result of the impact of the COVID-19 pandemic, the average regional unemployment rate has fallen by almost half over the last five years.

►► Against a backdrop of moderate economic growth, the region has managed to maintain employment growth that outpaces population growth within the labour force.

In the context of moderate economic growth, the region has managed to maintain employment growth that outpaces population growth within the labour force. However, one factor influencing this outcome in recent years is the 'quantity effect' of demographic transition, which is slowing the growth of working-age cohorts and reducing the relative availability of labour (see Box 1).

2.1.1. Labour market performance varied considerably across countries and subregions

Trends in the labour market in 2025 show that the reduction in unemployment observed across the regional average was a phenomenon that was widespread across the various subregions, although it was driven by differing dynamics in labour supply and demand (Table 2.1).

Generally speaking, three patterns can be identified. First, the Andean countries and the Southern Cone recorded falls in unemployment rates of 0.9 and 0.7 percentage points, respectively, driven mainly by increases in the employment-to-population ratio against a context of virtually stable labour force participation. This reflects sufficient employment growth to absorb

part of the available labour force. Second, Mexico, Central America and the Dominican Republic (CARD) maintained an unemployment rate that was virtually unchanged from 2024. This result reflected simultaneous contractions in labour force participation and employment, with the reduction in labour supply slightly greater than that in employment (0.52 and 0.50 percentage points, respectively). Third, the Caribbean saw its unemployment rate fall by half a percentage point compared with 2024, as both the labour force participation rate and employment-to-population ratio increased, with the latter rising more strongly.

► **Table 2.1. Key labour market indicators. Annual rates (%). 2023–2025**

Sub-region	Labour force participation rate			Employment-to-population ratio			Unemployment rate		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Mexico-CARD	60.7	60.9	60.4	58.6	58.9	58.4	3.5	3.3	3.2
Southern Cone	62.7	63.2	63.2	57.9	58.8	59.3	7.7	6.9	6.2
Andean Countries	67.8	67.7	67.7	63.0	63.0	63.6	7.0	7.0	6.1
Caribbean	62.2	63.6	63.9	59.1	60.5	61.2	5.0	4.8	4.3
LAC	63.1	63.4	63.3	59.1	59.7	59.9	6.4	5.8	5.3

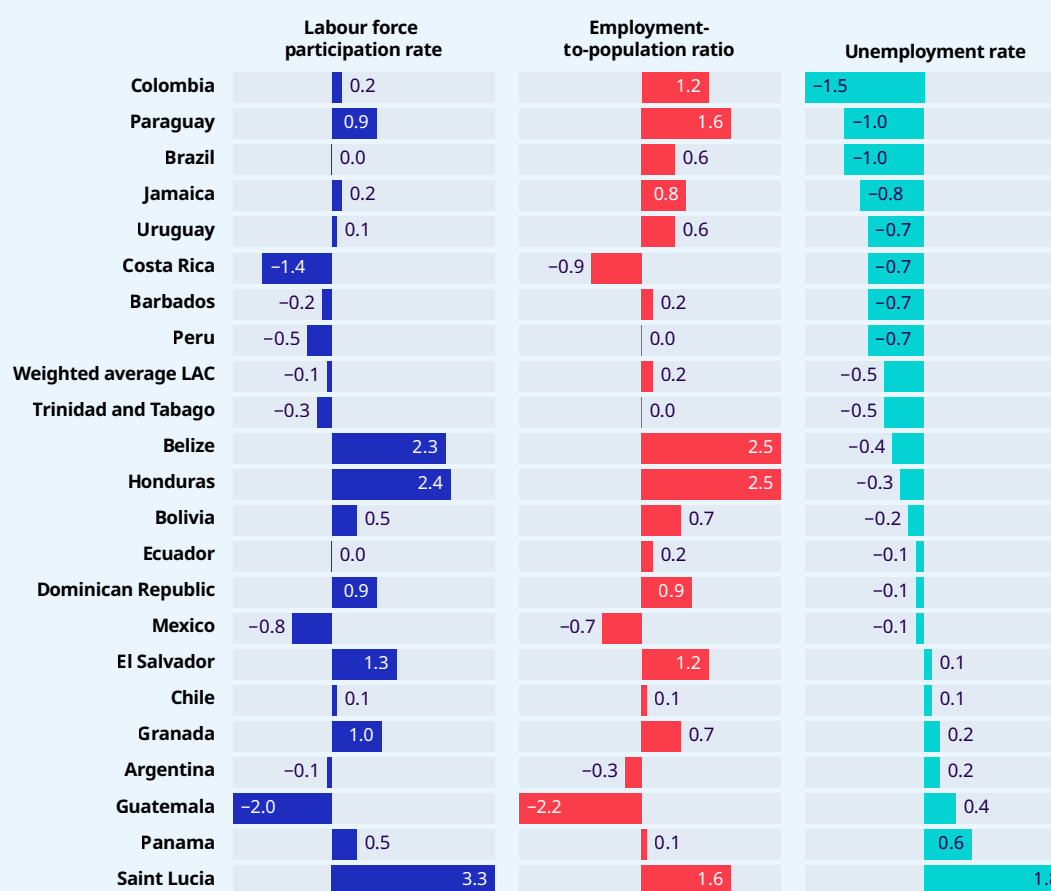
Notes: Weighted averages. Mexico-CARD includes: Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama and the Dominican Republic. Southern Cone includes: Argentina, Brazil, Chile, Paraguay and Uruguay. Andean Countries include: Bolivia, Colombia, Ecuador and Peru. The Caribbean includes: Barbados, Belize, Grenada, Jamaica, Saint Lucia and Trinidad and Tobago.

Source: ILO, based on SIALC/ILO.

These various factors explaining changes in the unemployment rate are also evident across countries (Figure 2.2). In countries such as Colombia, Brazil, Paraguay, Jamaica and Uruguay, the improvement was mainly linked to an increase in employment. In Honduras and Belize, strong employment growth went hand in hand with a

massive influx of new entrants into the labour market. In Mexico and Trinidad and Tobago, the fall in unemployment was mainly due to reduced pressure on the labour supply. Finally, in countries such as Saint Lucia and Panama, unemployment rose despite job creation, as the labour force grew even faster.

► **Figure 2.2. Latin America and the Caribbean (selected countries).**
Year-on-year change in key labour market indicators (p. p.). 2024–2025



Source: ILO, based on SIALC/ILO.

This diversity of trends confirms that variations in the unemployment rate can only be properly interpreted when analysed alongside changes in labour force participation and employment.

The same result in terms of unemployment may be driven by very different labour market dynamics and have different implications for the robustness and sustainability of the improvement observed.

► **Box 1. Demographic transition and its effects on the labour market**

Demographic transition is one of the main structural changes that labour markets in Latin America and the Caribbean will face over the coming decades. The sustained increase in life expectancy and the decline in fertility rates are altering the age structure of the population and gradually reducing the rate of growth of the labour force. At the same time, the ageing population will increase the demand for long-term care and reinforce the need to expand care systems, which will have significant implications for labour force participation, gender equality and job creation.

The effects of population ageing on the labour market can be understood through three main mechanisms. Firstly, a quantitative effect, resulting from the slowdown in the growth of the working-age population and the labour force. As the cohorts entering the labour market are smaller in number than those leaving it.

The relative availability of workers is gradually declining, thereby reducing one of the factors that have historically driven the region's economic growth.

Secondly, a composition effect, linked to the increase in the relative share of older people within the labour force. This change implies labour markets with longer working lives and a growing need to adapt working conditions, strengthen continuous training and promote working environments that encourage older workers to remain voluntarily in productive, high-quality jobs. Currently, the workforce aged 55 and over accounts for around 15 per cent of the workforce, but it is projected that by 2050 this age group will account for almost 26 per cent of the workforce.

Finally, demographic transition also gives rise to an 'intensity' effect, linked to changes in the number of hours actually worked over the course of a person's life. International evidence shows that, as the proportion of older workers increases, preferences for more flexible working arrangements and for gradual reductions in working hours become more significant, which in turn alters the organisation of work and the need to balance employment, care responsibilities and retirement.

Furthermore, the growth in the older population will increase the demand for long-term care services. In the absence of appropriate policies, this demand will increase the burden of unpaid care work, which falls disproportionately on women, thereby limiting their participation in the labour market and widening gender gaps.

The expansion of the care economy is one of the key policy responses to demographic change. Strengthening care services not only helps to reduce the burden of unpaid care work, which falls disproportionately on women and limits their economic participation, but also addresses the expected increase in demand for care resulting from an ageing population. In addition to promoting gender equality and the realization of the right to care, investment in this sector represents a significant potential source of formal job creation. Recent simulations carried out by the ILO and ECLAC estimate that the expansion of care systems could generate around 31.3 million jobs in Latin America and the Caribbean (ECLAC and ILO 2026), the majority of which would be held by women, thereby contributing simultaneously to labour market inclusion, productivity and economic growth.

Demographic change also calls for a rethinking of employment policies from a life-cycle perspective. In ageing societies, the solution lies not merely in extending working lives, but in developing comprehensive frameworks that simultaneously strengthen the employability of both young and older people. This requires promoting lifelong learning, creating more productive and high-quality jobs, strengthening social protection and combating age discrimination. International evidence also shows that countries with higher labour force participation rates among older people tend to have higher participation rates among young people as well, highlighting that the two groups do not compete for employment opportunities but can both benefit from inclusive labour policies based on intergenerational solidarity.

In this context, labour policies, in addition to their key role in job creation, are taking on a strategic role in addressing the effects of demographic change. Although not all countries are at the same stage of demographic transition, it is crucial for all of them to have comprehensive policy frameworks that prepare labour markets for a workforce with longer career trajectories. Promoting greater labour force participation among women, facilitating the integration of young people into the labour market, strengthening lifelong learning systems and accelerating the formalization of employment will be key to fully harnessing available productive potential and sustaining long-term growth.

Sources: Compiled by the author based on S. Gontero, 'An ageing region: impacts on the labour market and policies for an inclusive demographic transition in Latin America and the Caribbean' (unpublished); D. Schmidt-Klau, 'How to adapt labour markets to changing demographics', 'Employment in focus' series. 14 February 2025.

2.2. Progress in reducing gender gaps, alongside persistent structural challenges

2.2.1. Female labour force participation continues to rise, although significant gaps between men and women remain

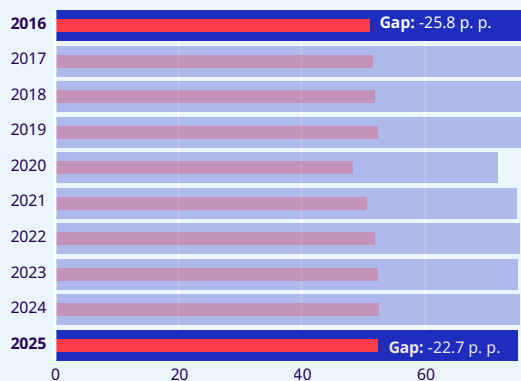
At the end of 2025, the gap in the labour force participation rate between men and women stood at 22.7 percentage points, a figure similar to that recorded in 2023 and 2024 and the lowest in the last decade (Figure 2.3, panel A). This result reflects two opposing trends: the sustained increase in female labour force participation and the decline in male labour force participation, a pattern observed since the beginning of the 1990s

(Gontero and Vezza 2023; Bertranou and Gontero 2024). Between 2016 and 2025, the labour force participation rate for men fell from 76.8 to 75.1 per cent, a decline of 1.7 percentage points. For women, it rose from 51.0 to 52.4 per cent, an increase of 1.4 percentage points, reducing the gender gap in labour force participation by 3.1 percentage points.

► **Figure 2.3. Latin America and the Caribbean: trends in gender gaps in the labour force participation rate, employment-to-population ratio and unemployment rate. 23 countries. 2016–2025**

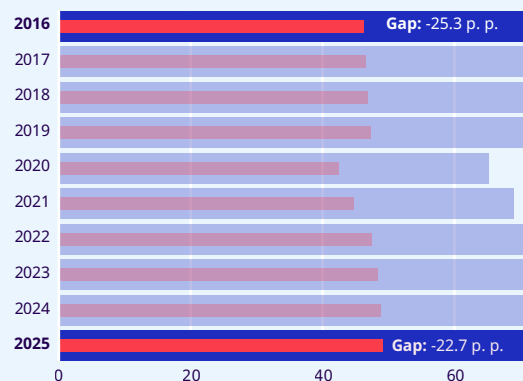
► **Panel A. Labour force participation rate (LFPR)**

■ Male LFPR ■ Female LFPR



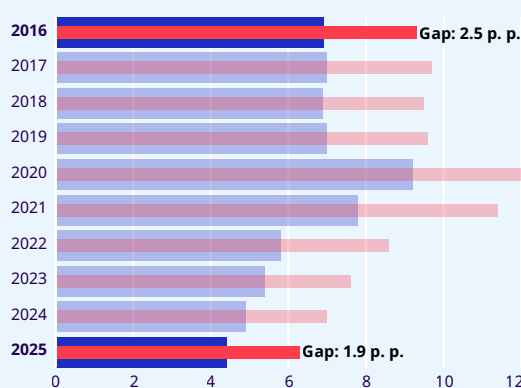
► **Panel B. Employment-ER-population ratio (ER)**

■ Male ER ■ Female ER



► **Panel C. Unemployment rate (UR)**

■ Male UR ■ Female UR



► **Panel D. Rates (%) and gender gaps (p. p.) in LFPR, ER and UR**

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
LFPR female	51.0	51.5	51.9	52.4	48.3	50.5	51.9	52.3	52.5	52.4
LFPR male	76.8	76.8	76.7	76.5	71.8	74.8	75.4	75.0	75.3	75.1
Gap LFPR	-25.8	-25.3	-24.8	-24.2	-23.5	-24.3	-23.5	-22.7	-22.8	-22.7
ER female	46.3	46.5	46.9	47.3	42.4	44.7	47.4	48.3	48.8	49.1
ER male	71.5	71.4	71.4	71.3	65.2	69.0	71.0	70.9	71.6	71.8
Gap ER	-25.3	-25.0	-24.5	-24.0	-22.8	-24.2	-23.6	-22.6	-22.8	-22.7
UR female	9.3	9.7	9.5	9.6	12.2	11.4	8.6	7.6	7.0	6.3
UR male	6.9	7.0	6.9	7.0	9.2	7.8	5.8	5.4	4.9	4.4
Gap UR	2.5	2.7	2.6	2.7	3.0	3.6	2.8	2.2	2.1	1.9

Note: The gap was calculated as the difference between the rate for women and the rate for men, expressed in percentage points (p. p.).

Source: ILO, based on SIALC/ILO.

In 8 of the 23 countries, the gender gap in labour force participation in 2025 was higher than the regional average (22.7 percentage points). Four of these countries are in Central America: Guatemala (36.0 percentage points), Honduras (33.3 percentage points), El Salvador (29.3 percentage points) and Costa Rica (23.4 percentage points); but also Mexico (29.2 percentage points), Ecuador (25.5 percentage points), Colombia (24.2 percentage points) and, in the Caribbean, Belize (25.5 percentage points). At the other end of the spectrum, three Caribbean countries stand out as having the smallest gaps: Saint Lucia (7.1

percentage points), Barbados (7.8 percentage points), Grenada (9.4 percentage points) and, in Latin America, Bolivia (11 percentage points).

Overall, the evidence shows that the narrowing of the participation gap observed over the last decade has lost momentum in recent years. Although female participation continues to rise, the gap compared with that of men remains wide, confirming that increasing women's participation in the labour market remains one of the region's main challenges.

2.2.2. The growth in female employment continues to narrow the employment gaps

The regional gender gap in the employment-to-population ratio stood at 22.7 percentage points at the end of 2025 and, like the labour force participation gap, has remained stable since 2023, close to its lowest level in 2016–2025 (Figure 2.3, panel B). During that period, female employment grew at nearly twice the rate of female labour force participation, which had a significant impact on unemployment. The female employment-to-population ratio rose from 46.3 to 49.1 per cent between 2016 and 2025, an increase of 2.8 percentage points. By contrast, the employment-to-population ratio for men aged 15 and over remained virtually unchanged, rising by only 0.3 percentage points. As a result, the gender employment gap narrowed by 2.5 percentage points.

In 8 of the 23 countries analysed, the gender gap in employment is higher than the regional average. These countries are: Guatemala (36.2

percentage points), Honduras (33.5 percentage points), El Salvador (28.5 percentage points), Mexico (28.5 percentage points), Belize (26.0 percentage points), Ecuador (25.4 percentage points), Colombia (24.7 percentage points) and the Dominican Republic (24.6 percentage points). Conversely, the smallest gender gaps in employment are found in four Caribbean countries: Barbados (7.3 percentage points), Grenada (11.8 percentage points), Jamaica (11.9 percentage points) and Saint Lucia (12 percentage points), as well as in Bolivia (11.6 percentage points).

In short, the sustained growth in female employment accounts for much of the narrowing of the labour market gaps observed over the last decade. However, the differences that still persist highlight the fact that employment opportunities continue to be distributed unevenly between men and women across much of the region.

2.2.3. The gender gap in unemployment has reached its lowest level, although structural inequalities persist

The trend in the gender gap in the unemployment rate provides an additional perspective on the progress and constraints affecting women's participation in the labour market in Latin America and the Caribbean. Between 2016 and 2025, the absolute gap narrowed from 2.5 to 1.9 percentage points, reaching its lowest level in the last decade (Figure 2.3, panel C). In relative terms, however, it remained unchanged: in both 2016 and 2025, the female unemployment rate was 1.4 times that of men. The absolute narrowing reflects a relative improvement in women's labour market position, driven mainly by sustained growth in their employment-to-population ratio, which

rose faster than their labour force participation rate. In other words, a growing proportion of women who entered or remained in the labour force found employment, gradually reducing the historical difference in unemployment rates between women and men.

For this reason, the narrowing of the unemployment gap should be interpreted with caution. Firstly, the female unemployment rate is 43 per cent higher than that of men. While recent trends reflect a convergence between the two groups, this is not solely because women have achieved conditions similar to those of men, but also because labour force participation.

Male labour force participation has shown a downward trend during this period. Furthermore, the narrowing of the unemployment gap is taking place against a backdrop of very significant persistent differences in access to the labour market, as evidenced by the participation and employment gaps – which stand at over 22 percentage points – as well as the gender pay gaps.

As differences in unemployment narrow, participation and employment gaps take on even greater significance as an indication of the structural barriers faced by women. The persistent burden of unpaid care responsibilities, limited access to care services, occupational segregation and differences in career paths continue to restrict women's opportunities for economic participation across much of the region.

In a context where significant structural barriers to women's entry into the labour market persist, closing these gaps is above all a matter of equality, non-discrimination and the effective realization of rights at work, in line with the principles enshrined

in ILO Conventions Nos 100, 111 and 156. At the same time, against a background of demographic transition and moderating labour force growth, greater equality of opportunity would also strengthen the potential for economic growth and allow the region to make more efficient use of its available human capital.

The convergence observed in unemployment rates therefore represents significant progress, but it also highlights that the main challenge still to be addressed remains that of expanding women's effective access to productive, formal and quality jobs. To this end, employment policies must be complemented by strategies that strengthen the care economy, reducing the burden of unpaid care work that limits women's labour force participation and expanding the provision of care services, alongside policies that promote women's access to lifelong learning, reskilling and skills development opportunities, particularly in sectors with higher productivity and growth potential, including those associated with the green economy.

2.3. Young people: progress in reducing unemployment and persistent structural gaps

Trends in labour market indicators by age group show that, while labour markets in Latin America and the Caribbean have experienced a significant recovery since the pandemic, substantial differences persist between young people and adults in terms of labour force participation, employment and unemployment. Although these gaps have tended to narrow for some indicators in recent years, they continue to highlight the greater difficulties faced by young people in entering and remaining in employment.

In 2025, the labour force participation rate for young people aged 15–24 stood at 47.2 per cent,

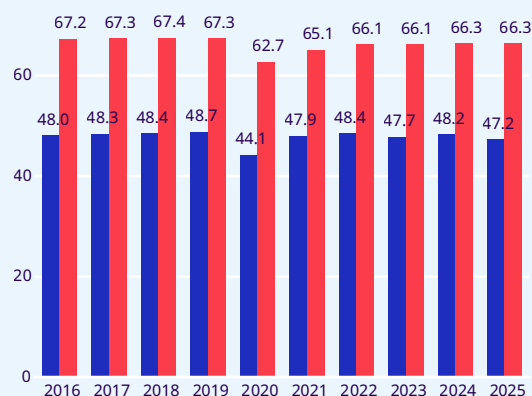
compared with 66.3 per cent for people aged 25 and over. This represents a gap of 19.1 percentage points, wider than in 2024 and virtually the same as a decade ago.

The trend in the data shows that the differences in labour force participation between the two age groups remained relatively stable throughout the period analysed. Before the pandemic, the gap hovered around 19 percentage points. Subsequently, between 2021 and 2024, it narrowed temporarily, reaching a low of 17.2 percentage points in 2021, before widening again in 2025.

► **Figure 2.4. Latin America and the Caribbean: trends in gaps by age group in the labour force participation rate, the employment-to-population ratio and the unemployment rate. 23 countries. 2016–2025**

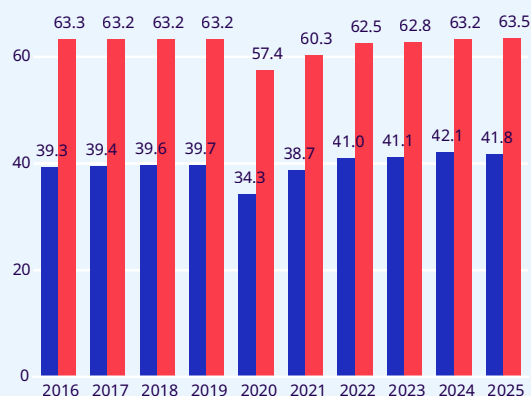
► **Panel A. Labour force participation rate (LFPR)**

■ LFPR 15-24 ■ LFPR 25+



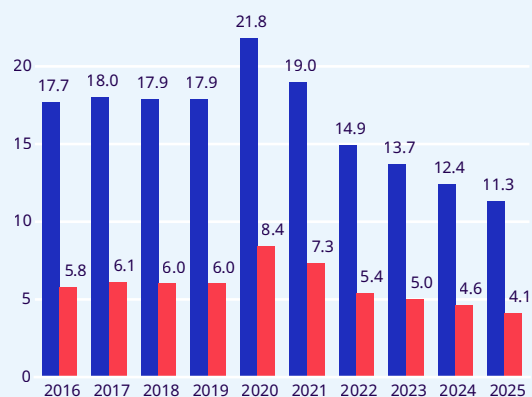
► **Employment-to-population ratio (ER)**

■ ER 15-24 ■ ER 25+



► **Panel C. Unemployment rate (UR)**

■ UR 15-24 ■ UR 25+



► **Panel D. Rates (%) and gaps between age groups (p. p.) in LFPR-ER-UR**

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
LFPR 15-24	48.0	48.3	48.4	48.7	44.1	47.9	48.4	47.7	48.2	47.2
LFPR 25+	67.2	67.3	67.4	67.3	62.7	65.1	66.1	66.1	66.3	66.3
LFPR gap	-19.3	-19.0	-19.0	-18.7	-18.6	-17.2	-17.8	-18.4	-18.1	-19.1
ER 15-24	39.3	39.4	39.6	39.7	34.3	38.7	41.0	41.1	42.1	41.8
ER 25+	63.3	63.2	63.2	63.2	57.4	60.3	62.5	62.8	63.2	63.5
ER gap	-24.0	-23.8	-23.7	-23.5	-23.1	-21.6	-21.5	-21.7	-21.1	-21.7
UR 15-24	17.7	18.0	17.9	17.9	21.8	19.0	14.9	13.7	12.4	11.3
UR 25+	5.8	6.1	6.0	6.0	8.4	7.3	5.4	5.0	4.6	4.1
UR gap	11.8	11.9	11.9	11.9	13.4	11.7	9.5	8.7	7.9	7.2

Note: The gap was calculated as the difference between the rate for young people (aged 15 to 24) and the rate for adults (aged 25 and over), expressed in percentage points (p. p.).

Source: ILO, based on SIALC/ILO.

These developments reflect different trends among young people and adults. While the labour force participation rate for those aged 25 and over has recovered and even partially exceeded pre-pandemic levels, youth participation has followed a more erratic trajectory, with no sustained recovery. In 2025, the youth participation rate fell by one percentage point compared with 2024, while the adult participation rate remained stable.

From a structural perspective, this trend may be linked both to young people remaining in the education system for longer and to the difficulties this group faces in entering the labour market in contexts of reduced economic dynamism. These two explanations are not necessarily mutually

exclusive and reflect the complexity of transitions from education to employment in the region.

The differences between young people and adults become more apparent when employment rates are analysed. In 2025, the employment-to-population ratio for young people aged 15–24 stood at 41.8 per cent, compared with 63.5 per cent among adults, a gap of 21.7 percentage points. Although still very wide, the gap was smaller than before the pandemic. It stood at 24 percentage points in 2016 and 23.5 percentage points in 2019. The decline in recent years mainly reflects a relatively faster recovery in youth employment after the health crisis.

Between 2020 and 2025, the youth employment-to-population ratio rose by 7.5 percentage

points, from 34.3 to 41.8 per cent, while the adult employment-to-population ratio rose by 6.1 percentage points. This recovery partially narrowed the gap between the two groups, although it did not eliminate the historical disadvantages affecting young people's entry into the labour market.

However, the figures for 2025 suggest a slowdown in this trend. The youth employment-to-population ratio fell slightly compared with 2024, while adult employment continued to rise. As a result, the employment gap widened slightly once again, rising from 21.1 to 21.7 percentage points.

This trend could be an early sign that the improvements seen in youth labour market participation during the post-pandemic recovery are beginning to lose momentum, particularly against a scenario of moderate economic growth and slower growth in labour demand.

The unemployment rate remains the indicator that most clearly reflects the difficulties faced by young people in the labour market. In 2025, the unemployment rate for those aged 15 to 24 stood at 11.3 per cent, compared with 4.1 per cent for those aged 25 and over. The difference between the two groups was 7.2 percentage points.

Although the gap remains wide, its narrowing over the last decade represents one of the most significant improvements in regional labour market aggregates. Between 2016 and 2025, the difference between youth and adult unemployment rates fell from 11.8 to 7.2 percentage points, a reduction of 4.6 percentage points. The gap also narrowed in relative terms: in 2016, the youth unemployment rate was 3.1 times the adult rate; by 2025, it had fallen to 2.8 times the adult rate. This improvement reflects a sharper fall in youth unemployment: the youth rate declined from 17.7 to 11.3 per cent, while the adult rate fell from 5.8 to 4.1 per cent.

However, young people's employment situation remains considerably more precarious. In 2025, the youth unemployment rate was still approximately 2.8 times higher than that of adults, reflecting the persistent barriers to employment faced by this group.

The stability of gaps in participation rates, the recent widening of the employment gap and the

relatively high levels of youth unemployment suggest that transitions from education to employment remain one of the region's main labour market challenges.

Gender gaps in the labour market are particularly pronounced among young people. Although the proportion of young people who are neither in education nor in paid employment has gradually declined in the region in recent years, this group continues to be significantly over-represented by women. In the first half of 2025, the proportion of young women in this situation (24 per cent) was almost double that of young men (13 per cent). This situation is largely due to the unequal distribution of unpaid care work, which simultaneously limits the opportunities for many young women to enter the labour market and continue their education, particularly during the transition to adulthood. In this context, expanding youth employment opportunities requires complementing training and labour market integration policies with comprehensive care policies that reduce the barriers faced by young women in fully exercising their right to work and to education (ILO 2025a, 2025b).

In light of this situation, helping young people enter the labour market is strategically important. The accelerating pace of technological change – in particular the expansion of artificial intelligence – together with the transition towards more sustainable economies, is transforming the skills sought by employers and reinforcing the need for lifelong learning. In the field of artificial intelligence, labour markets increasingly value profiles that combine technical skills with cognitive, digital and socio-emotional abilities, as well as the capacity to adapt to new technologies and engage in lifelong learning. However, access to training and skills development opportunities remains unequal across the region, particularly among workers in the informal economy and people with lower levels of education. This may widen gaps in access to quality jobs unless inclusive lifelong learning systems are strengthened (ILO 2026b; Delaporte and Liepmann 2026). In this context, opportunities for young people to enter the labour market continue to vary significantly across countries in the region, as discussed below.

► The stability of gaps in participation rates, the recent widening of the employment gap and the relatively high levels of youth unemployment suggest that transitions from education to employment remain one of the region's main labour market challenges.

2.3.1. Differences in youth unemployment between countries

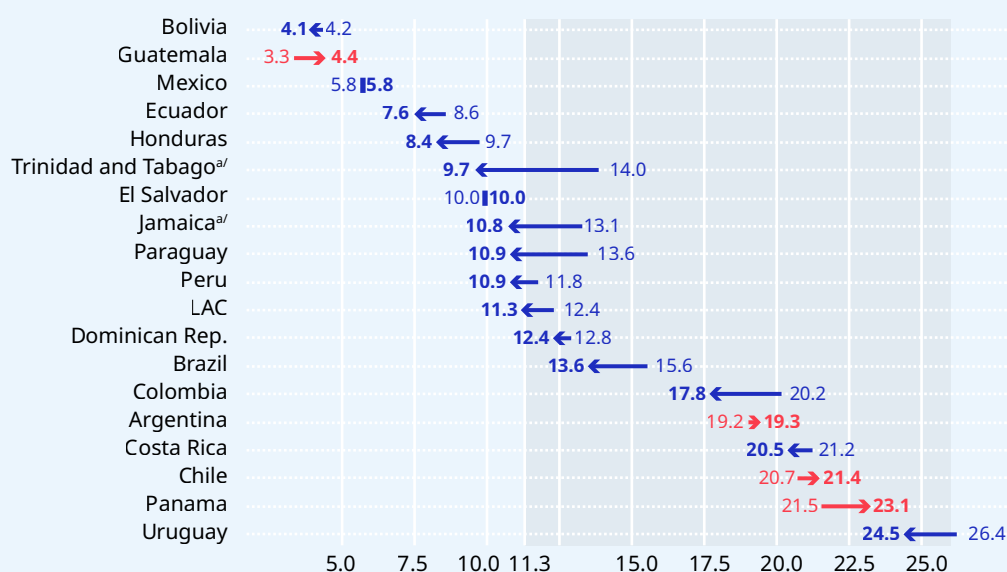
Differences between countries show that the conditions for young people entering the labour market remain highly varied across the region. In 2025, the average youth unemployment rate in Latin America and the Caribbean stood at 11.3 per cent, more than twice the regional overall unemployment rate (5.3 per cent) and almost three times that of adults (4.1 per cent), confirming that young people remain one of the groups most vulnerable to difficulties in accessing employment.

The lowest youth unemployment rates in 2025 were recorded in Bolivia (4.1 per cent), Guatemala (4.4 per cent), Mexico (5.8 per cent) and Ecuador (7.6 per cent), where young people appear to face relatively fewer constraints in

finding employment. However, in some of these cases, low unemployment should be interpreted alongside other labour market indicators, particularly informality and job quality, which remain major challenges for young people.

At the other end of the scale are Uruguay (24.5 per cent), Panama (23.1 per cent), Chile (21.4 per cent), Costa Rica (20.5 per cent), Argentina (19.3 per cent) and Colombia (17.8 per cent), where approximately one in five economically active young people were unemployed in 2025. These figures reflect greater difficulties in the transition from education to work and a lower capacity for labour market absorption for those seeking to enter the labour market for the first time.

► **Figure 2.5. Latin America and the Caribbean: youth unemployment rate (aged 15–24). 2024 and 2025 (%)**



Note: ^{a/} Countries for which no microdata are available. Information collected from existing publications on the websites of national statistical offices. The value at the start of each arrow corresponds to 2024. The value at the end of each arrow corresponds to 2025. Arrows and values in red indicate an increase in the unemployment rate. The shaded (grey) area indicates values above the regional average (LAC).

Source: ILO, based on SIALC/ILO.

Generally speaking, countries with higher rates of youth unemployment also tend to have the widest gaps between young people and adults, suggesting that difficulties in entering the labour market disproportionately affect those in the early stages of their working lives. These differences highlight that youth unemployment is not only driven by general labour market conditions, but also by specific factors relating to work experience, skills acquisition, job-search strategies and the transition from education to work.

2.3.2. Recent developments: improvements predominate, although pockets of deterioration remain

A comparison of 2024 and 2025 shows a general improvement in the employment situation of young people in most of the countries analysed (Figure 2.5). The largest reductions in youth unemployment were recorded in Trinidad and Tobago (4.3 percentage points), Paraguay (2.7 percentage points), Colombia (2.4 percentage points), Jamaica (2.3 percentage points) and Brazil (2.0 percentage points). These results indicate relatively favourable employment prospects for young people, in line with the regional trend of a sustained decline in unemployment since the post-pandemic recovery.

In contrast, some countries recorded increases in youth unemployment. Panama saw a rise of 1.6 percentage points, from 21.5 to 23.1 per cent, followed by Guatemala (1.1 percentage points) and Chile (0.7 percentage points). Although relatively modest, these increases show that the regional improvement was not uniform and that young people continue to face growing difficulties in accessing employment in some national contexts.

In the case of Panama and Chile, moreover, these increases are occurring against a backdrop of already high levels of youth unemployment, which reinforces the need to monitor trends among this population group in labour markets where gaps in access to employment remain particularly pronounced.

Overall, the evidence confirms that, while the employment situation for young people has improved significantly in recent years and the gaps in unemployment rates compared with the adult population continue to narrow, youth employment remains one of the main challenges facing labour markets in Latin America and the Caribbean.

Furthermore, the data suggest a negative and relatively consistent relationship between youth unemployment rates and the rate of informal employment. In other words, in most countries with youth unemployment levels above the regional average, rates of informal employment are below the regional average, and vice versa. Although these results do not necessarily indicate causality, they highlight the importance of analysing in greater depth the interaction between the level (quantity) and the conditions of young people's entry into the labour market (quality).

The fact that youth unemployment rates remain significantly higher than those observed among adults shows that transitions into employment continue to be a complex and uneven process, particularly in contexts of moderate economic growth and high levels of informal employment. Consequently, strengthening youth employment policies and improving coordination between

Recent evidence shows that programmes combining technical, cognitive and socio-emotional skills with workplace learning experiences lead to better labour market integration outcomes, particularly for women and young people.

Linking education and work, and promoting more stable career paths, will continue to be a central component of strategies aimed at improving labour market inclusion and fully harnessing the productive potential of the younger generations. In this context, the link between education, vocational training and the labour market is of

Recent evidence shows that programmes combining technical, cognitive and socio-emotional skills with workplace learning experiences lead to better labour market integration outcomes, particularly for women and young people.

strategic importance. Recent evidence shows that programmes combining technical, cognitive and socio-emotional skills, alongside workplace

learning experiences, lead to better outcomes in terms of labour market inclusion, particularly for women and young people.

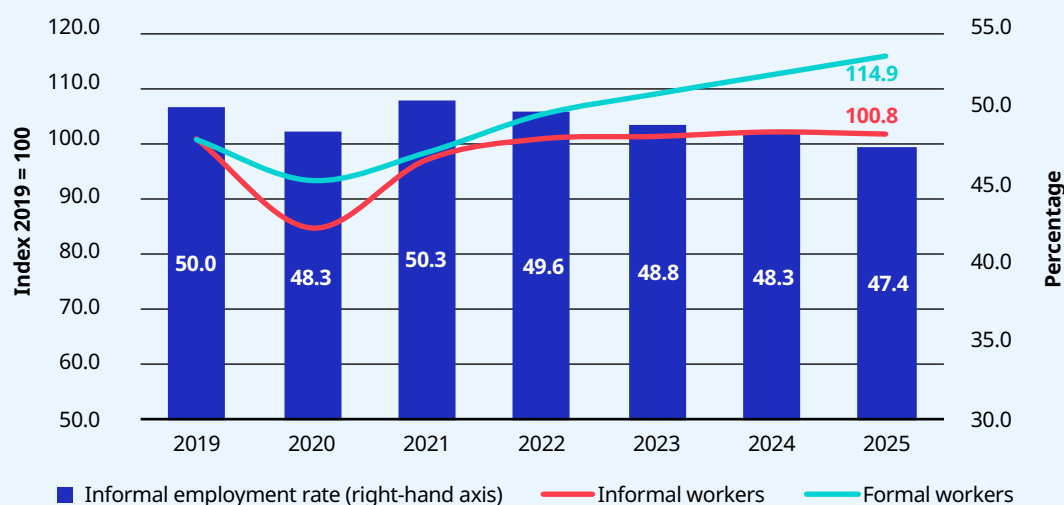
2.4. Informal employment: recent progress and persistent structural gaps

Recent trends in informal employment show that Latin America continues to make slow progress towards greater formalization of employment. However, the progress observed remains insufficient given the scale of the challenge. In 2025, the informality rate for the 15 Latin American countries as a whole stood at 47.4 per cent, representing a reduction of 0.9 percentage points compared with 2024 and the lowest level since 2019 (Figure 2.6). Despite this improvement, almost one in two people in employment in the region continue to work in the informal economy.

However, regional averages mask a territorial and sectoral dimension particularly noteworthy:

informality is concentrated to a greater extent in rural areas and in low-productivity agricultural and livestock activities. Although agricultural employment has lost relative importance in the occupational structure, it remains a key source of income in rural areas, where nearly half of the employed population works in the agricultural and livestock sector and where poverty remains considerably higher than in urban areas. Consequently, overall progress towards formalization must be interpreted in conjunction with the capacity of productive and labour policies to transform labour market integration in rural areas (ILO and FAO 2025).

► **Figure 2.6. Latin America. 15 countries^{a/}. Trends in formal employment, informal employment and the labour informality rate. (Index 2019 = 100). (%)**



Note: ^{a/} Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay, Peru, Dominican Republic and Uruguay.

Source: ILO, based on SIALC/ILO.

During 2025, the simultaneous decline in unemployment and informality suggests that a significant proportion of the new jobs created during the period were concentrated in the formal sector. In other words, the improvement observed in the labour market was not based solely on an expansion in employment, but also on a favourable shift in its composition. As shown

in Figure 2.6, since 2022, formal employment has grown at a consistently faster rate than informal employment. Whilst formal employment reached a level in 2025 that was 14.9 per cent higher than that observed before the pandemic, informal employment has virtually returned to its pre-pandemic level, standing at just 0.8 per cent above the figure recorded in 2019. Consequently,

the decline in the informality rate is mainly due to the greater dynamism of employment in the formal sector, which increased its share of total employment. This result is a positive sign, as it suggests a gradual process of formalization and an improvement in the composition of regional employment (see Box 2).

However, the sustainability of this trend will depend on whether the rise in formal employment is accompanied by improvements in productivity,

particularly in smaller-scale economic units and in sectors with a high incidence of informality. In agricultural and livestock activities, total factor productivity has slowed markedly over the last decade and, in several countries, production growth has relied more on the use of inputs than on efficiency gains. This reinforces the importance of policies on productive development, access to technology, credit, extension services and integration with value chains (ILO and FAO 2025).

► **Box 2. The reduction in informality reflects a gradual improvement in the composition of employment**

Breaking down the contributions of changes in formal and informal employment allows us to look beyond the trend in the informality rate and answer a key question: **why is the informality rate falling?** In particular, it enables us to distinguish whether the variations are primarily due to changes in informal employment or to growth in formal employment. Based on the results obtained for the average of 15 Latin American countries, clearly distinct trends can be identified.

During the health crisis and the initial recovery phase (2020–2021), **the change in the regional rate of informal employment was determined mainly by the change in informal employment**. In 2020, the informality rate fell by 1.67 percentage points, not as a result of a process of formalization, but due to the sharp decline in informal jobs (–3.55 percentage points) caused by health restrictions and the disruption to economic activities with high levels of informal employment resulting from the COVID-19 pandemic. Subsequently, in 2021, the rapid recovery in informal employment once again became the main factor behind the rise in informality, contributing 3.31 percentage points, while growth in formal employment partially offset this effect. This trend reflects a pattern widely observed in Latin America: following economic crises, informal employment tends to recover more quickly and constitutes an important route back into the labour market.

► **Latin America (15 countries): contribution of changes in formal and informal employment to the annual change in the informal employment rate, 2020–2025 (p. p.)**

Year	Change in informal employment	Change in formal employment	Annual change in informal employment rate
2020	–3.55	1.88	–1.67
2021	3.31	–1.30	2.02
2022	0.95	–1.67	–0.72
2023	0.11	–0.87	–0.76
2024	0.19	–0.77	–0.58
2025	–0.09	–0.74	–0.83

Note: The annual change in the informality rate is broken down using the Shapley decomposition method into two components: the contribution of changes in informal employment and the contribution of changes in formal employment. The sum of these two contributions reproduces the total change in the informality rate. Negative values indicate a reduction in the informality rate, whilst positive values reflect an increase.

Source: ILO, based on SIALC/ILO.

From 2022 onwards, the nature of the process changes. That year marks a transition in which the contribution of formal employment growth (–1.67 percentage points) exceeds, for the first time, the contribution of informal employment growth (+0.95 percentage points), ushering in a sustained reduction in the informality rate. Between 2023 and 2025, this trend becomes established. During this period, the contribution of informal employment to the change in the informality rate was virtually zero (and even negative in 2025), while growth in formal employment accounted for the bulk of the annual reduction in the informality rate, with contributions of around –0.8 percentage points across the three years.

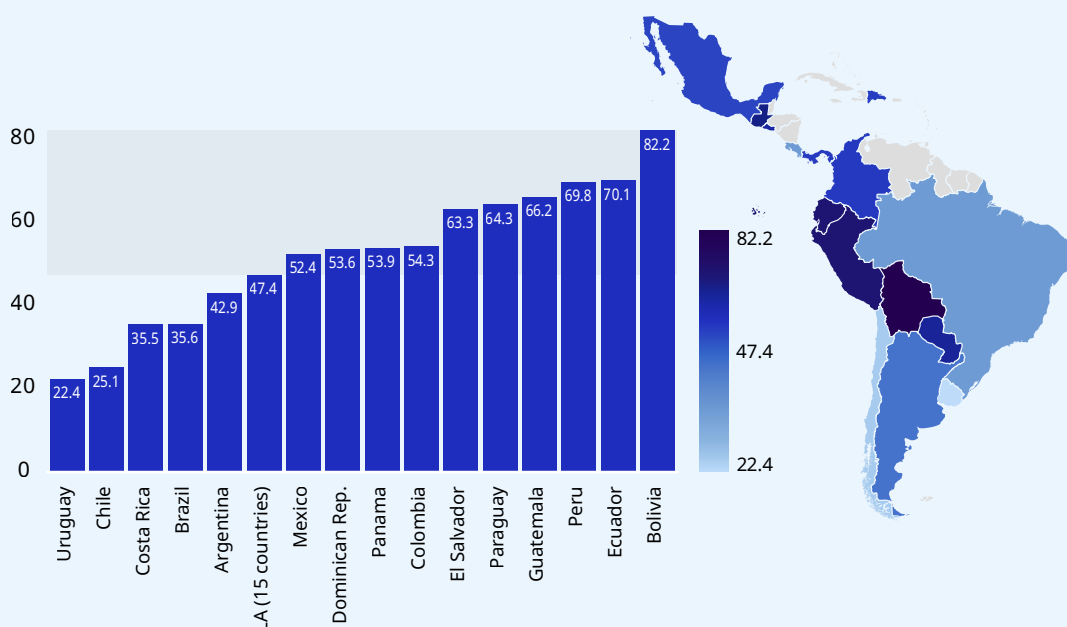
This change is a positive sign for the quality of employment. The recent reduction in informality is no longer due to the disappearance of informal jobs, as was the case during the pandemic, but to the economies' greater capacity to generate formal employment. Although the decline in the informality rate has been gradual, the composition of this change is significantly more favourable, as it reflects an expansion of formal employment. In a context characterized by moderate economic growth and slower labour force expansion, this pattern takes on strategic importance.

2.4.1. The reduction in informality was relatively widespread, although marked differences between countries persist

As previously highlighted, the trend in the informality rate between 2024 and 2025 confirms that the improvement observed in the key labour market indicators. This regional

trend was accompanied by a gradual reduction in informality. However, behind this regional average, significant differences between countries persist (Figure 2.7).

► **Figure 2.7. Latin America. Total informality rate. 2025 (%)**



Source: ILO, based on SIALC/ILO.

The first group comprises the countries with the lowest levels of informality. Uruguay continues to have the lowest rate in the region, at 22.4 per cent, followed by Chile (25.1 per cent), Costa Rica

(35.5 per cent) and Brazil (35.6 per cent). Although Uruguay recorded a slight increase compared with 2024, its rate remains well below the regional average. In Chile, Costa Rica and Brazil,

by contrast, informality continued to decline during 2025.

A second group comprises countries with levels of informality close to the regional average. Argentina (42.9 per cent), Mexico (52.4 per cent), the Dominican Republic (53.6 per cent), Panama (53.9 per cent) and Colombia (54.3 per cent) have intermediate rates, although their trends have differed over the past year. The Dominican Republic recorded the second-largest reduction in informality among the countries analysed, with a fall of 1.5 percentage points (second only to Guatemala, (with a fall of 1.8 percentage points). These changes are consistent with the trends observed in their labour markets, which are characterized by increases in employment and reductions in unemployment. Colombia, by contrast, saw its informality rate remain virtually unchanged, despite having recorded one of the largest reductions in unemployment in the region. This result suggests that the improvement in the labour market was driven mainly by an expansion of employment within the existing occupational structure, with no significant changes in the relative share of formal and informal employment.

Finally, a third group comprises countries where the informal economy continues to affect more than six out of every ten people in employment. This group includes El Salvador (63.3 per cent), Paraguay (64.3 per cent), Guatemala (66.2 per cent), Peru (69.8 per cent), Ecuador (70.1 per cent) and Bolivia (82.2 per cent). These figures show that, in several economies in the region, informal employment remains the main form of labour market participation and constitutes a structural feature of the way the labour market operates.

These differences between countries highlight the fact that formalization processes require tailored policy responses depending on the level of development of labour markets, the type of labour market integration, the characteristics of economic units and the specific features of different regions. In economies where informality exceeds the Where informality exceeds 60 per cent, the challenge goes beyond simply strengthening regulatory compliance and requires a comprehensive approach that combines policies for productive development, the strengthening of business capacities and the expansion of social protection. This involves promoting productivity gains in smaller-scale economic units, facilitating formalization and access to social security, and expanding the

coverage of business development, technical assistance and employment services aimed at self-employed workers, micro and small-scale producers, and rural producers (ILO 2024b).

Recent trends (2024–2025) for this group also show significant differences. Guatemala reduced its informality rate by almost 2 percentage points and Peru recorded a decrease of one percentage point, suggesting gradual progress in formalization processes. In contrast, Ecuador and Bolivia experienced an increase in informality in 2025. In Bolivia in particular, the rate reached 82.2 per cent, the highest level among the countries analysed. These results indicate that the recovery in employment does not always translate into improvements in the quality of labour market integration and that, in some contexts, employment growth continues to be concentrated in informal activities.

Overall, the evidence shows that the reduction in informality observed at regional level was relatively widespread, although the extent of the improvement varied. Most countries recorded improvements, but these coexisted with increases in informality in some economies and with significant differences in the levels achieved.

From a regional perspective, these results complement the analysis of the key labour market indicators for 2025. The simultaneous reduction in unemployment and informality is a positive sign, as it indicates that the recovery in employment was not based exclusively on precarious or low-productivity jobs. However, the fact that nearly half of the region's employed population continues to work in the informal economy highlights that the main challenge is no longer simply to create more jobs, but to accelerate the process of formalization. Against a scenario of moderate economic growth and slower labour force growth, the expansion of formal employment takes on strategic importance, not only because of its impact on working conditions and social protection, but also because of its contribution to increasing productivity and strengthening the growth potential of the region's economies.

Reducing informality takes on additional significance in the context of the transition towards more sustainable economies. A significant proportion of informal employment in the region is concentrated in activities that are strategic for a just transition, such as agriculture, construction, waste management, mobility and certain activities linked to renewable energy. Therefore, formalization

policies can generate simultaneous benefits for the labour market and sustainable development by improving working conditions, extending social

protection coverage and strengthening these sectors' capacity to contribute to environmental and climate objectives (ILO 2024a).

2.4.2. Relatively small gender differences persist in the informal economy

Unlike other labour market indicators, the differences between men and women in terms of informality are relatively small at the regional level (Figure 2.8, panel A). In 2025, the rate of informality among men stood at 47.7 per cent, while the rate for women stood at 47.1 per cent, a difference of less than one percentage point. Both rates show a sustained decline since 2021, when informality increased as a result of the post-pandemic economic recovery.

This trend is consistent with the findings regarding employment and labour force participation. In the labour market, women continued to play a central role in the expansion of regional employment. The simultaneous reduction in female informality and the increase in female employment suggest that a significant proportion of the new jobs created for this group were in the formal sector.

However, the apparent convergence between men's and women's informality rates should not be interpreted as evidence of equality in the quality of employment or in labour market integration. A single aggregate rate may mask substantial differences in the composition of informality. Women continue to be disproportionately concentrated in segments characterized by low productivity and high vulnerability, such as paid domestic work, subsistence self-employment and other occupations with lower incomes and less social protection coverage. By contrast, male informality is relatively more concentrated in informal wage employment, particularly in sectors such as agriculture and construction. Consequently, similar informality rates may correspond to very different realities in terms of labour income, social protection and, in general, the exercise of labour rights.

Furthermore, the differences between men and women vary considerably from country to country. In 2025, the rate of informal employment was higher among women in Bolivia, Chile, Ecuador, El Salvador, Guatemala, Mexico, Paraguay and Peru. In Uruguay and Argentina, the prevalence of informal employment is similar for men and women. Conversely, men recorded higher levels of informality in Brazil, Colombia, Costa Rica, Panama and the Dominican Republic. These differences reflect the fact that the incidence of informality depends not only on the overall level of formalization in each economy, but also on the sectoral structure of employment, the distribution of men and women across different occupational categories, and the characteristics of their labour market participation. Therefore, gender-sensitive formalization strategies must take into account the specific characteristics of each labour market and the different barriers faced by women and men in accessing formal, quality jobs.

The reduction in informality observed in recent years represents significant progress, but its sustainability and contribution to equality will depend on whether formalization policies transform not only the volume of informal employment, but also its composition and the structural inequalities that characterize the labour market participation of women and men. In countries where informal employment affects women more strongly, formalization policies should be coordinated with measures to reduce structural barriers to their labour market participation, including the provision of care services, access to training and reskilling, and the promotion of employment opportunities in higher-productivity sectors.

2.4.3. Young people continue to face the highest levels of informality

Youth informality remains one of the main challenges facing the region's labour markets. In 2025, 59.1 per cent of employed people aged between 15 and 24 were in informal employment, which is 12 percentage points higher than the regional average (Figure 2.8, panel B). Although the rate of youth informality has fallen since the peak reached in 2021 (64.7 per cent), it remains considerably higher than that of adults. This

situation reflects the difficulties young people face in accessing formal employment during the early stages of their working lives and confirms that the transition from education to work, in many cases, continues to take the form of precarious, temporary or low-productivity jobs.

The persistence of high levels of youth informality is particularly significant, as it limits the accumulation of work experience, the

acquisition of skills and access to social protection mechanisms. These factors can affect future career paths and contribute to the reproduction of inequalities throughout the life cycle.

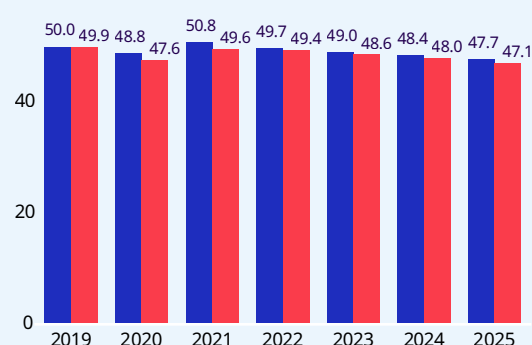
In rural areas, the disadvantages faced by young people in the labour market are often compounded by more precarious forms of employment. In the agricultural sector, young people account for a higher proportion of the workforce family workers, a category characterized by high levels of informality and low levels of social protection. At the same time, the evidence shows that education contributes

significantly to reducing informality among wage earners and employers, while its effects are more limited among the self-employed. This suggests that, while training and learning policies are essential, they must be complemented through productive development strategies that enhance the productivity of rural economic units by providing access to finance, technical assistance, business development services, networking, integration into value chains and formalization processes. Only in this way can the accumulation of skills translate into greater opportunities for access to productive, formal and quality jobs (ILO and FAO 2025)..

► **Figure 2.8. Latin America (15 countries). Labour informality rates by sex and age. 2019–2025. (%)**

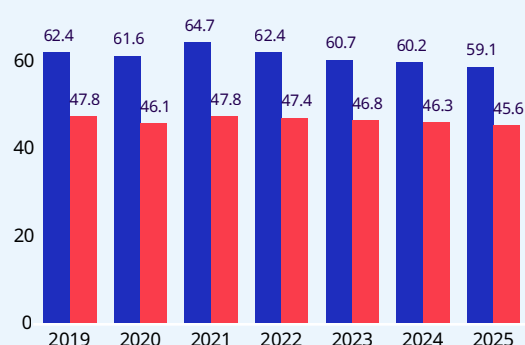
► **Panel A. Informal employment rate by sex**

■ Men ■ Women



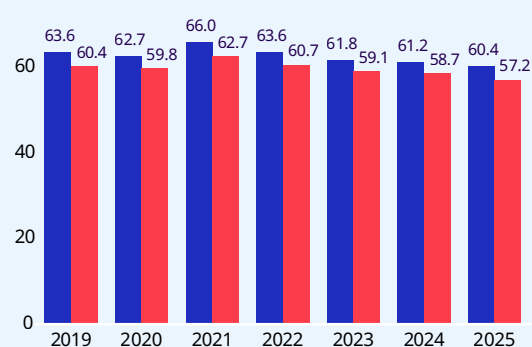
► **Panel B. Informal employment rate by age**

■ Young people (15-24) ■ Adults (aged 25 and over)



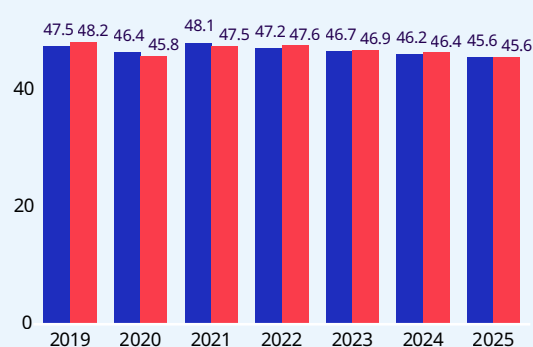
► **Panel C. Informal employment rate among young people (aged 15–24) by sex**

■ Young men ■ Young women



► **Panel D. Informal employment rate among adults (aged 25 and over) by sex**

■ Adult men ■ Adult women



Note: Weighted average for 15 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay, Peru, Dominican Republic and Uruguay.

Source: ILO, based on SIALC/ILO.

Trends since 2021 show a sustained improvement across all the groups analysed. Informal employment fell among men, women, young

people and adults, consolidating a gradual process of formalization following the increase observed during the economic recovery after

the pandemic. However, the pace of convergence has been limited. Whilst gender differences are now relatively small, age differences remain virtually unchanged. This suggests that regional labour market segmentation is becoming less and less gender-based in terms of informality and continues to be explained by, to a greater extent, due to the difficulties young people face in accessing formal employment at the start of their working lives.

The persistence of informality rates of around 60 per cent among young people highlights that one of the main challenges is no longer simply to create more jobs, but to facilitate the transition to formal and productive employment in the early stages of working life. From this perspective, youth employment policies, coordination between education systems and the labour market, apprenticeship and dual training programmes, and incentives for the formal recruitment of young people take on strategic importance not only for improving the quality of employment, but also for strengthening the region's productivity and long-term growth prospects.

A breakdown by sex shows that gender differences in informality vary depending on the age group. Among adults (aged 25 and over), the rates of informality for men and women are virtually the same throughout the period analysed. In 2025, informality reached 45.6 per cent for both adult men and women, following a gradual decline from the levels observed in the wake of the pandemic (Figure 2.8, panel D). This convergence suggests that, once the initial stages of their career path have been overcome, men and women face relatively similar levels of participation in informal employment. However, this apparent equality should not be interpreted as an absence of inequalities in the labour market, as significant gender gaps persist in terms of participation, employment, earnings, occupational segregation and access to higher-productivity jobs.

The picture is different among young people (aged 15 to 24), where gender inequalities take on a more complex form (Figure 2.8, panel C). Although young women have consistently lower rates of informal employment than young men (57.2 per cent compared with 60.4 per cent in 2025), this finding does not necessarily reflect better employment opportunities. On the contrary, it must be interpreted in conjunction with the lower female labour force participation rate and the high proportion of young women who are neither in education nor in paid employment – a situation closely linked to the unequal distribution of unpaid domestic and care work.

In this regard, many young women face a double disadvantage: the difficulties inherent in the transition from education to employment are compounded by structural gender barriers, which limit their ability to enter the labour market and pursue formal career paths. From this perspective, reducing youth informality requires not only strengthening employment and training policies, but also expanding the coverage of care systems and promoting a more equitable distribution of care responsibilities.

Taken together, the evidence confirms that formalization is a central component of productive development strategies and not merely an objective of labour policy. The progress observed in 2025 shows that the reduction of informality is more sustainable when the expansion of formal employment is accompanied by increases in productivity, skills development, the extension of social protection and the strengthening of compliance with labour rights. Recent experience in the agriculture and livestock sector (ILO and FAO 2025) illustrates the potential of integrated approaches that bring these dimensions together and provides a framework for designing policies tailored to the sectors and regions where informality remains most persistent (ILO 2024b).

2.5. Early evidence of labour market trends in 2026

A comparison of trends in economic activity and employment confirms that, at the start of 2026, growth in economic activity continued to be accompanied by a favourable trend in employment in most of the countries analysed, albeit to varying degrees (Figure 2.9). In Brazil and the Dominican Republic, the expansion in economic activity continued to be accompanied

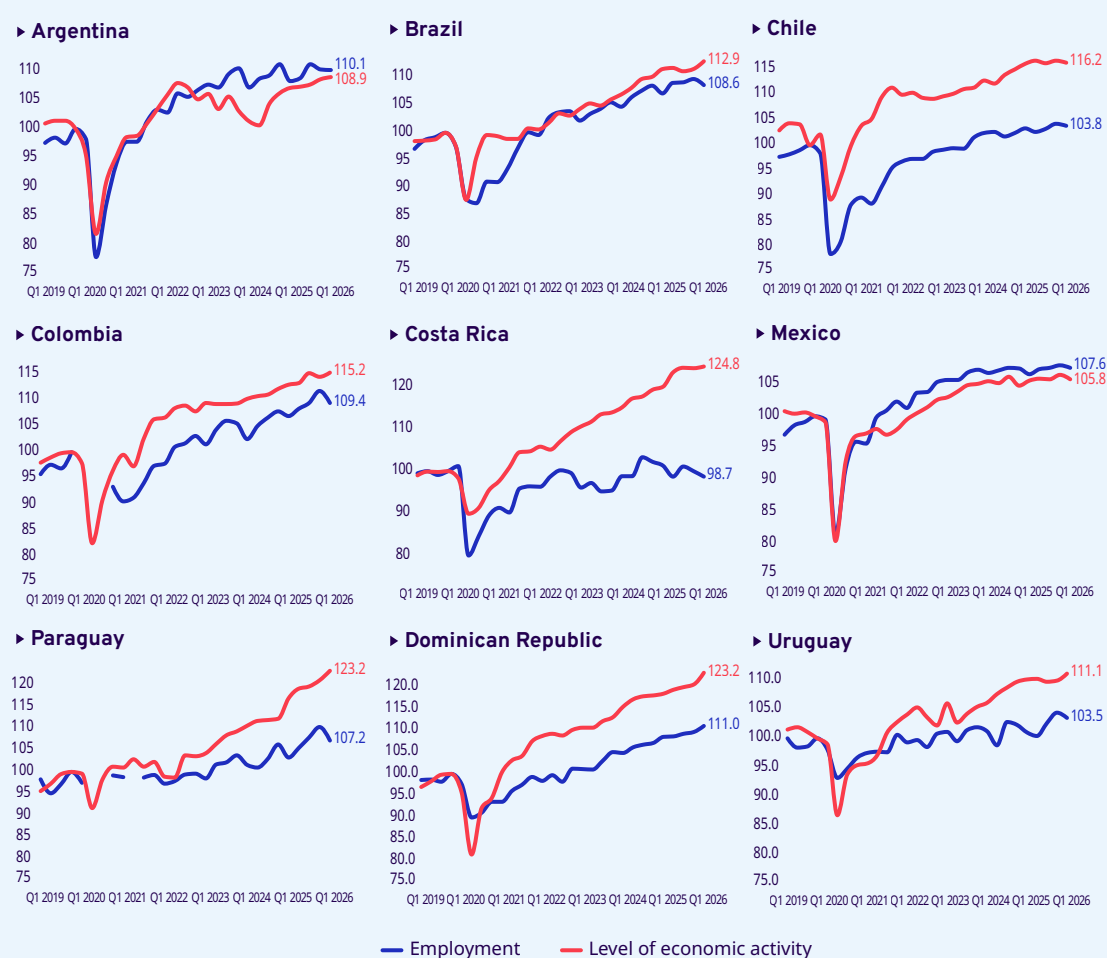
by a favourable trend in employment, while Argentina saw a gradual recovery in both indicators. In Mexico, meanwhile, economic activity and employment continued to showing a relatively stable and parallel trend. By contrast, in countries such as Colombia, Paraguay, Chile, Costa Rica and Uruguay, economic activity continued to expand during the first quarter

of 2026, while employment showed a more moderate trend. This pattern may be partly due to seasonal factors typical of the first quarter, but it also suggests that growth in economic activity is beginning to translate into more gradual increases in employment than was the case during the post-pandemic recovery years.

These differences highlight the fact that the relationship between economic activity and employment continues to vary from country to country. Indeed, while in some economies growth in economic activity continues, economic

activity continues to be accompanied by sustained growth in employment, while in others, signs are beginning to emerge of a more moderate response in employment levels relative to the strength of output. Whilst data from the coming quarters will be needed to determine whether this behaviour is due to seasonal factors or marks the start of a new trend, the available evidence is consistent with a phase in which labour markets are beginning to normalise following the post-pandemic recovery, in which structural factors, such as the slowdown in labour force growth and productivity.

► **Figure 2.9. Trends in the level of economic activity and employment in selected countries in Latin America and the Caribbean. Q4 2019 = 100. (Q1 2019 – Q1 2026)**



Sources: ILO, based on SIALC/ILO and official data on economic activity.

The first available indicators for 2026 (Table 2.2) suggest that labour markets in Latin America and the Caribbean are performing well, despite moderating regional economic growth and a

global environment characterized by high levels of uncertainty.

Data for the first quarter from 13 countries in the region show that the fall in unemployment

observed during 2025 is continuing across several economies, albeit with differing trends in terms of labour force participation and employment.

Taken together, these results suggest that, at the start of 2026, the anticipated slowdown in economic activity has not yet led to a widespread deterioration in regional labour markets. However, recent trends continue to vary across countries. A first group, comprising Colombia, Brazil and Paraguay, is showing a particularly favourable trend. In these economies, employment continued to rise and the unemployment rate continued to fall, despite the fact that macroeconomic projections point to

a slowdown in economic growth compared with 2025. Colombia has seen the most significant improvement, with the unemployment rate falling from 10.5 per cent to 9.1 per cent, accompanied by a rise in employment to 58.2 per cent. Brazil is also consolidating the positive trend observed in recent years, reducing unemployment to 6.0 per cent and raising the employment-to-population ratio to 59.2 per cent. Paraguay, for its part, combines a simultaneous increase in labour force participation and employment with a further reduction in unemployment, reflecting a labour market capable of absorbing an expanding workforce.

► **Table 2.2. Key labour market indicators in selected countries in Latin America and the Caribbean^{a/}. First quarter of each year (2024–2026)**

Country	Labour force participation rate			Employment-to-population ratio			Unemployment rate		
	IQ 2024	IQ 2025	IQ 2026 ^{b/}	IQ 2024	IQ 2025	IQ 2026 ^{b/}	IQ 2024	IQ 2025	IQ 2026 ^{b/}
Argentina	62.0	62.2	60.8	57.2	57.3	56	7.7	7.9	7.8
Bolivia ^{b/}	79.7	80.5	78.8	77.3	78.1	76.8	3.0	3.0	2.5
Brazil	62.9	63.2	63	57.9	58.8	59.2	7.9	7.0	6.0
Chile	62.4	62.4	62.3	57.0	57.0	56.7	8.7	8.7	8.9
Colombia	63.7	64.5	64.1	56.1	57.7	58.2	11.9	10.5	9.1
Costa Rica	55.9	56.4	54.1	51.5	52.2	50.3	7.8	7.5	7.1
Ecuador	64.7	65.4	64.2	62.3	63.2	62.6	3.8	3.3	2.9
Mexico	60	59.2	58.7	58.5	57.7	57.2	2.5	2.5	2.6
Paraguay	71.4	70.8	72.4	66.6	66.9	68.6	6.7	5.5	5.3
Peru	71.1	70.5	69.1	66.6	66.7	65.6	6.4	5.5	5.1
Uruguay ^{b/}	65.3	65.5	64.5	59.6	60.3	59.7	8.6	8.0	7.5
Dominican Republic	64.9	66.0	66.3	61.6	62.8	63.0	5.1	4.9	5.0
Jamaica	68.9	68.4	66.8	65.2	65.8	64.4	5.4	3.7	3.6

Notes: Values highlighted in yellow indicate information collected from existing publications on the websites of national statistical offices. ^{a/} Working-age population (WAP): aged 15 and over. ^{b/} The 2026 data for Bolivia and Uruguay correspond to the WAP aged 14 and over, taken from official publications. ^{b/} Preliminary figures.

Source: ILO, based on SIALC/ILO.

A second group comprises Ecuador, Peru, Costa Rica and Jamaica, where unemployment continued to fall, albeit against a backdrop of declining labour force participation and, in several cases, a fall in employment. These trends

suggest that part of the observed improvement is due to reduced labour supply pressure on the labour markets. Although this behaviour may be linked to country-specific cyclical factors, it is also consistent with a gradual moderation in

labour force growth and highlights the growing importance of demographic and labour force participation factors in the evolution of labour market indicators.

Chile and Mexico are showing different trends. In Chile, labour force participation remains virtually stagnant and the employment-to-population ratio has fallen slightly, resulting in a 0.2 percentage point increase in the unemployment rate compared with the same period in 2025. Mexico, by contrast, maintains one of the lowest unemployment rates in the region (2.6 per cent), although both labour force participation and employment continue to fall slightly, suggesting a stable labour market, albeit one that is less dynamic than in previous years.

The Dominican Republic is a special case, as, unlike most economies in the region, macroeconomic projections point to an acceleration in economic growth during 2026. However, the unemployment rate remains virtually unchanged, suggesting that the strength of the economy continues to

attract new entrants to the labour market and that employment growth has been absorbed, to a large extent, by the expansion of the labour force.

Overall, the data available for the first quarter of 2026 suggests that the region continues to undergo a phase of consolidation of the labour market recovery that began in the wake of the pandemic. However, it also confirms that the determinants of this trend are gradually changing. As the momentum of the cyclical recovery loses strength, factors such as productivity, formalization, women's labour force participation and moderation in labour force growth are becoming increasingly important in explaining employment trends. In this context, sustaining the improvements observed during 2025 will require not only maintaining favourable macroeconomic conditions, but also strengthening policies aimed at improving the quality of employment, boosting productivity and expanding labour market opportunities for groups that continue to face greater barriers to accessing the labour market.

2.6. Outlook for 2026

The outlook for the labour markets in Latin America and the Caribbean for 2026 will be shaped by the interplay between a macroeconomic environment of moderate growth and structural changes that are beginning to alter the dynamics of labour supply and demand. Projections from ECLAC, the International Monetary Fund and the World Bank all anticipate a slowdown in economic growth compared with 2025 in most of the region's economies, although positive growth rates are expected to be maintained. At the same time, the data available for the first quarter of 2026 show that employment continues to grow and that unemployment continues to fall in several countries, suggesting that labour markets remain highly resilient in the face of a less dynamic economic environment than that observed during the post-pandemic recovery.

However, recent developments also suggest that the mechanisms underlying the improvement in labour market indicators are gradually changing. During the post-pandemic recovery phase, the expansion in employment was driven mainly by the revival of economic activity and the return of workers to the labour force. Currently, the reduction in unemployment is taking place against a backdrop of more moderate employment growth and a slower expansion of

labour supply, reflecting the interplay of cyclical and structural factors. Among the latter, the demographic transition (characterized by slower growth in the working-age population and the labour force), the stabilisation of participation rates, and the gradual increase in women's participation and employment are particularly noteworthy. Against this scenario, the future performance of labour markets will depend less and less on the growth of the working-age population and increasingly on the ability of economies to generate productive employment, boost productivity and expand opportunities for labour market participation. To this end, it will be necessary to strengthen comprehensive policies on employment, productive development and skills training, as well as to consolidate comprehensive care systems that reduce the structural barriers limiting women's economic participation and simultaneously contribute to the creation of formal employment and the realisation of the region's productive potential.

The outlook also shows that significant structural challenges remain. Although the region recorded a further reduction in informality in 2025 and continued to see a narrowing of gender gaps in labour force participation, employment and unemployment, deep-seated inequalities persist

►► The outlook for 2026 suggests that labour markets in Latin America and the Caribbean will continue to perform well, albeit in a less expansive and more heterogeneous environment across countries.

that limit equal opportunities in the labour market. Nearly half of those in employment continue to work in the informal economy, and the differences in participation and employment rates between men and women remain at over 20 percentage points. Furthermore, a considerable proportion of women remain excluded from the labour market due to the disproportionate burden of unpaid care work, which continues to be one of the main structural barriers to their economic autonomy and access to paid employment. Similarly, young people continue to face significantly higher rates of unemployment and informal employment than the adult population. The sustainability of recent progress will therefore require strengthening policies aimed at promoting formalization, facilitating young people's transition into quality jobs, and consolidating comprehensive care systems that foster a more equitable distribution of care responsibilities and reduce barriers to women's economic participation, as well as improve the alignment between training systems and the needs of the labour markets.

Skills development and lifelong learning policies are becoming increasingly important for sustaining productivity and helping workers and businesses adapt to technological, demographic and environmental changes. Recent evidence from the region shows that labour markets are demanding increasingly comprehensive skills

profiles, in which cognitive and socio-emotional skills complement technical and digital skills, reinforcing the need for more flexible training systems that are closely linked to the needs of the labour market.

In this context, employment takes on strategic importance for the region's development. As labour force growth loses momentum, the ability to expand labour force participation, increase productivity and create formal, quality jobs is becoming an increasingly important component of economic growth and the strengthening of social protection.

The outlook for 2026 suggests that labour markets in Latin America and the Caribbean will continue to perform well, albeit in a less expansive and more heterogeneous environment across countries, in which risks persist due to international uncertainty and the potential knock-on effects of the recent rise in oil and petroleum product prices (Lee, 2026) on the performance of the region's economies. Consolidating the improvements observed in recent years will require combining macroeconomic policies that promote growth with labour and productivity policies capable of fully harnessing the region's human capital potential and addressing the challenges posed by demographic transition, technological change and climate change.

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3

► 3. Special Topic: Informality and productivity

3.1. Introduction

The promotion of higher living standards and decent work in Latin America and the Caribbean (LAC) requires a better understanding of the relationship between informality and productivity.¹ Despite some progress in recent decades, both informality rate and productivity in the region have remained largely stagnant over the past decade. One in two workers in LAC is informal, and approximately 80.7 per cent of firms operate informally, while the region's labor productivity stands at only 26.6 per cent of the level observed in the United States (ECLAC & ILO, 2022; ILO, 2025a; ILO, 2025b).² These figures highlight a persistent structural challenge that continues to hinder access to decent work.

The persistent coexistence of high informality and poor productivity performance underscores the urgency of understanding this link, as informality continues to hinder the achievement of generalized decent work conditions. Countries in the region have implemented a range of strategies to promote formalization, which can be grouped into four broad approaches: regulatory frameworks (norms), incentives, enforcement, and productivity. In recent decades, despite the wide variety of formalization policies implemented in LAC, most strategies have focused on the first three approaches, yielding limited results. In contrast, there is increasing recognition that the productivity-enhancing pillar deserves greater emphasis and further development, given its systemic impacts. Yet, this approach remains the least explored in policy efforts to promote transitions of workers and firms into formality (Salazar-Xirinachs and Chacaltana, 2018).³

In this context, the objective of this special topic is to discuss the informality–productivity nexus. Specifically, it reviews recent evidence on the relationship between productivity and informality in LAC and explores how productivity levels among firms shape their prospects for formalization. The discussion highlights the limitations of policies focused primarily on reducing registration costs and stresses the importance of considering complementary policy approaches.⁴ Building on these insights, the document discusses strategies for formalization programs that account for the productivity levels of businesses.

The literature consistently shows that informal firms are, on average, smaller (in both employment and revenues), less productive and less profitable, and pay lower wages. They are also typically run by individuals with lower levels of education and tend to hire less educated workers (e.g. Perry et al., 2007; La Porta and Shleifer, 2008, 2014; Ulyssea, 2020). For instance, in Mexico, informal establishments are more concentrated among micro-sized enterprises, with around 93 per cent of informal businesses being smaller than ten employees (Eslava et al., 2025). At the same time, the current data and literature show that there is no strong evidence supporting the duality hypothesis, where formal and informal firms are assumed to rely on different technologies and produce different set of goods and services. Instead,

1 According to Recommendation No. 204 (ILO 2015), the informal economy “refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements.” Regarding productivity, there are two common ways of measuring productivity in the literature. The first one is labour productivity, which basically entails to compute the ratio between output produced (it can be gross production or net value added) and workers needed to reach that level of production. The second is multifactor productivity, better known as total factor productivity (TFP), which measures output growth that cannot be explained by increases in inputs.

2 For details on the ILO’s Resolution concerning statistics on the informal economy, see ILO (2023).

3 The work of Salazar-Xirinachs and Chacaltana (2018) was done under the Programme for Promoting Formalization in LAC (FORLAC 1.0). In its new phase, FORLAC 2.0 considers the diagnostic from the previous phase of the programme and stresses that without lasting gains in productivity, high levels of informality will persist (ILO, 2024c).

4 The Resolution concerning the general discussion on addressing informality and promoting the transition to formality for decent work (ILO, 2025c) states that the ILO’s Recommendation, 2015 (No. 204) “remains the global reference for addressing informality and promoting the transition to formality. It provides comprehensive policy guidelines for addressing the root causes of informality, recognizes the diversity of the informal economy across and within countries and calls for integrated approaches tailored to national circumstances and based on social dialogue”. The resolution also calls on the ILO to support its constituents in accelerating the transition to formality by “strengthen[ing] support for enabling business environments and productivity ecosystems that foster sustainable enterprises and competitiveness”.

studies indicate that formal and informal firms frequently coexist within the same industries, offer similar products, and display considerable overlap in their productivity distributions (Perry et al., 2007; Meghir et al., 2015; Ulysea, 2018, 2020; Fernandez, 2022; Allen et al., 2018; Gutierrez and

Rodriguez-Lesmes, 2023; Fentanes and Levy, 2024). This empirical non-duality adds complexity to the design of effective policies to reduce informality, as it suggests that informality cannot be understood through a simple dichotomy between two distinct sectors.

3.2. Informality beyond dualism

3.2.1. The non-duality of informality in LAC

The non-duality of the informal sector means that the relationship between productivity and informality cannot be understood in simple duality terms. Empirically, this point is illustrated by computing and plotting firm-level productivity

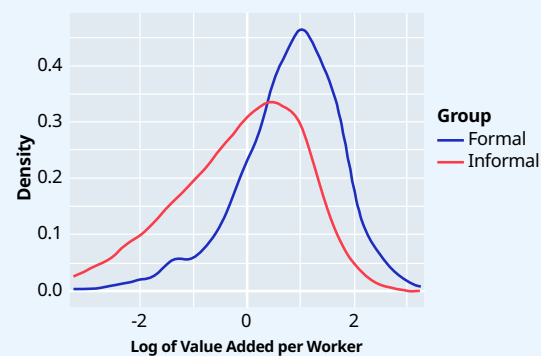
distributions by formality status. Figure 3.1 shows value added per worker as the measure of productivity, by formality status for firms in Colombia and Peru.

► **Figure 3.1. Productivity (value-added per worker) per formality status for micro-enterprises in Colombia (2024) and Peru (2024)**

► **Kernel Density Plot – Colombia: Log of Value Added per Worker**



► **Kernel Density Plot – Peru: Log of Value Added per Worker**



Note: For Colombia, formality is defined as meeting all three conditions: registration with a chamber of commerce, maintenance of administrative or accounting records, and possession of a unique tax registration (RUT). For Peru, a firm is considered formal if it is registered with the National Superintendency of Customs and Tax Administration (SUNAT) and the firm does keep accounting records. The log of value added per worker has been regressed on industry dummies to purge for inter-industry variation. Residuals of this regression (x-axis) are obtained measuring firm performance relative to the industry-specific predicted level, removing systematic cross-industry differences.

Source: Encuesta de Micronegocios (EMICRON) 2024 and Encuesta Nacional de Hogares (ENAH) 2024. Both surveys capture micro-enterprises up to nine employees. Authors' calculations.

Figure 3.1 shows that the productivity distribution in the formal sector is shifted to the right, consistent with the fact that formal firms are, on average, more productive. Nevertheless, there is a substantial overlapping region between the productivity distributions of formal and informal firms, where both types of firms coexist in a context of imperfect enforcement of regulations

associated with formality.⁵ This non complete duality in Latin America has been emphasized in recent work by several authors (Ulysea, 2018, 2020 for Brazil; Fernandez, 2025 for Colombia; Ghezzi and García, 2022 for Peru; Fentanes and Levy, 2024 for Mexico). This highlights the complex relationship between productivity and informality: although informality is often

5 The same pattern is observed when using TFP as the productivity proxy. Productivity overlap means that many formal and informal firms have similar levels of productivity. In other words, although formal firms are usually more productive on average, not all informal firms are low-productivity, nor are all formal firms highly productive.

Informality is not a homogeneous phenomenon and seems to be rather closely intertwined with firms' heterogeneous productivity levels.

associated with lower productivity, evidence shows that many informal firms operate at efficiency and cost levels similar to those of formal firms. These insights carry important implications for the design of formalization policies and business support programs.

In addition to labor market non-duality, another layer of complexity emerges in the LAC region (and other developing economies). A significant number of formal firms hire part of their workforce informally, giving rise to two distinct margins of informality (Ulyssea 2018). The extensive margin pertains to whether firms register and pay the fees required to obtain formal status, while the intensive margin refers to situations in which formally registered firms employ workers without formal contracts or access to social security. Evidence indicates the significant size of the intensive margin in the region. In Mexico, 26 per cent of all informal employees work within formal firms (Samaniego

de la Parra and Fernández Bujanda, 2024); in Brazil, the proportion is approximately 40 per cent (Ulyssea, 2018). In Colombia, the average informality rate among formal firms reaches 33 per cent (Fernandez, 2025), and in Peru, about 20 per cent of informal employment takes place within formally registered firms (Cisneros-Acevedo, 2022).⁶

Complex factors such as the non-duality of firms, the limitations of one-dimensional approaches, and the coexistence of extensive and intensive margins of informality might help explaining the limited impact of formalization policies over the past decades.⁷ The limited progress achieved to date by policies aimed at promoting formalization and productivity gains underscores the need for a careful reconsideration of how support programs are designed. These elements reveal that informality is not a homogeneous phenomenon and seems to be rather closely intertwined with firms' heterogeneous productivity levels. As a result, effective strategies to reduce informality and enhance productivity must consider the heterogeneity regarding informality and move beyond one-size-fits-all approaches and instead incorporate differentiated tools that recognize firms' diverse constraints regarding formalization and incentives to formalize.⁸

It should be noted that this discussion recognizes the importance of gender gaps in shaping productivity and informality levels (ILO, 2024a), in line with the guidance of Recommendation No. 204 and the 2025 ILC Resolution, which call for

- 6 This literature also shows that the intensive margin of informality (as is the extensive margin) declines as firms grow larger. Larger firms are more visible and therefore more likely to be inspected. The SIALC-ILO data for 15 countries indicate that approximately 19 per cent of informal employment is concentrated in the formal sector. However, this measure constitutes an approximation of the intensive margin of informality, without capturing it directly. In the case of Brazil, for example, informal employment in the formal sector is identified from household surveys such as the PNAD Contínua (Pesquisa Nacional por Amostra de Domicílios Contínua, or Continuous National Household Sample Survey). The direct calculation of the intensive margin, on the other hand, requires identifying unregistered employment within formal firms — that is, these firms' decision to hire workers outside official registries — a dimension that has been studied through business surveys such as the ECINF (Pesquisa de Economia Informal Urbana, or Survey of Urban Informal Economy).
- 7 The growing relevance of nonstandard work arrangements raises further questions about the labor market duality and the intensive margin of informality. Ulyssea (2020) notes that the growing relevance of nonstandard work arrangements (gig economy or web-based platform work) raises important questions about the intensive margin of informality, an area that remains largely underexplored. Drawing on data from the ILO Survey on Web-Based Platform Workers for Latin America and the Caribbean, a preliminary analysis of hourly earnings (used here as a proxy for productivity) by workers' self-reported formal and informal status reveals a distribution analogous to Figure A.1 in Appendix A.1. The findings point to a substantial overlap in the earnings distributions of formal and informal workers among survey respondents, with little evidence of labour market duality. While these results cannot be generalized to the broader population of platform workers, they highlight the importance of better understanding the new forms of informality emerging in digital labour markets.
- 8 Informality is a heterogeneous phenomenon that requires integrated public policies. The heterogeneity regarding informality is recognized in the resolution concerning the general discussion on addressing informality and promoting the transition to formality for decent work (ILO, 2025c). Also, Bertranou (2025) provides a technical note about the evolution of the informality concept and measuring and suggests that the ILO has consolidated a multidimensional conceptualization of informality and promotes integrated approach to advance the formalization agenda.

consideration of the structural barriers faced by women in the transition to formality. Likewise, the limited duality observed in Figure 3.1 may also be

present in an analysis that distinguishes economic units according to the sex of their owner.⁹

3.2.2. The unified framework of informality and productivity

Until recently, the literature on informality approached the phenomenon through three one-dimensional perspectives (Ulyssea, 2018, 2020), each with distinct implications for public policy design. The first, the exclusion view (De Soto, 1989) argues that informal economic units possess the productive capacity to operate formally but are prevented from doing so by high regulatory costs, bureaucratic barriers, and limited access to information or resources. The second, the parasite or free rider view (Farrell, 2004; Levy, 2008, 2018) conceptualizes informality as a strategic and voluntary choice by firms that are sufficiently productive to formalize but prefer to remain informal to avoid taxes, regulation, and compliance obligations, thereby increasing profitability. Lastly, the third view, the survival view (La Porta and Shleifer, 2008, 2014) characterizes informality as a refuge for low-productivity firms and low-skilled workers that lack the resources and capabilities required to compete in the formal economy.

Nevertheless, Ulyssea (2018) argues that the three previously competing one-dimensional views are not mutually exclusive; rather, they capture different segments of a heterogeneous firm distribution, each optimally deciding whether to comply with laws and regulations. In this sense, these perspectives should be interpreted as complementary rather than competing frameworks for understanding informality.

Using data for Brazil, Ulyssea (2018) shows that the three approaches to informality reflect distinct compliance choices made by economic units, shaped by the institutional framework and their productivity levels. His findings indicate that 9.3 per cent of informal firms correspond to the exclusion view, 41.9 per cent align with the free-rider view, and 48.8 per cent fall under the survival

view (Figure 3.2). Fernández (2022), adapting Ulyssea's framework to Colombia, reaches similar conclusions: 13 per cent of firms are consistent with the exclusion view, 65 per cent align with the free-rider view, and 22 per cent correspond to the subsistence or survival view.

Figure 3.2 provides an intuitive representation of the model by mapping the firms' expected value function of entry cost (vertical axis) against productivity (horizontal axis).¹⁰ The framework is based on two curves representing the expected value of entry of firms in the formal sector (blue line) and in the informal sector (red line). The intersection of these curves at productivity level v_3 indicates the threshold from which the expected value of operating formally exceeds that of informality. Firms with productivity levels at or above v_3 therefore optimally choose to formalize. To the left of this point, firms may fall under either the free-rider view or the subsistence view, depending on their productivity.

The three views of informality become more clearly observed when the cost of formalization is reduced, such that the expected value curve for entering the formal sector shifts upward from the blue line to the dotted line. Under this scenario, all firms with productivity levels above v_2 would choose to operate formally. This reduction in the formalization cost enables a clearer identification of the three underlying segments of informal firms. First, the exclusion (De Soto) view corresponds to the small subset of firms that formalize when entry costs are reduced, representing 9.3 per cent of informal firms in Brazil and 13 per cent in Colombia. Second, the free-rider view captures firms with productivity levels between v_1 and v_2 ; although sufficiently productive to bear the cost of formalization, they opt to remain informal to benefit from regulatory

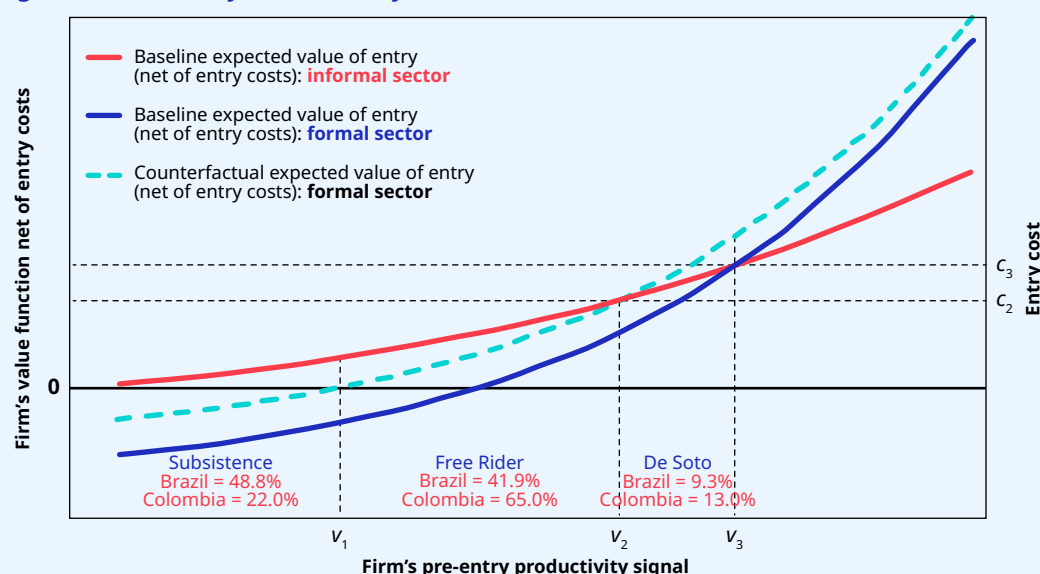
9 As noted above, Appendix A.1 shows substantial overlap in the income distributions of formal and informal digital platform workers, with little evidence of labor market duality. This overlap is also observed when disaggregating by gender. This suggests, preliminarily, that women with similar productivity levels who face comparable barriers in the labor market can be found in both formality and informality. This hypothesis requires further validation, since digital platform data are not generalizable to the labor force as a whole.

10 The expected value of the cost of entry into formality refers to the cost that a firm anticipates facing when operating formally. This includes not only the direct expenses associated with registration and regulatory compliance, but also the administrative, tax, and labor costs perceived by the firm. The decision to formalize will depend on how these expected costs compare with the benefits that formality can generate, such as better access to financing, markets, public support programs, and greater growth opportunities.

and fiscal advantages. These firms account for 41.9 per cent of informal firms in Brazil and 65 per cent in Colombia. Third, the survival view encompasses firms with productivity levels below v_1 , whose productivity is too low to cover the costs of formalization, even when entry barriers are

reduced; these constitute 48.8 per cent of informal firms in Brazil, and 22 per cent in Colombia.¹¹ In sum, the figure illustrates that informality is not a homogeneous phenomenon but rather reflects heterogeneous optimization decisions by firms operating under distinct productivity constraints.

► **Figure 3.2. Taxonomy of informality (Brazil and Colombia)**



Note: The figure shows the firms' expected value function net of entry costs in the formal and informal sectors for each productivity level.

Source: Adapted from Ulyssea (2018) and Fernandez (2022).

This framework also invites further reflections beyond the results provided by the model itself. This unified framework provides the rationale for many results found in the literature. Reducing the cost of informality alone has limited impact as only a small portion of informal firms are constrained by high registration costs in line with the "De Soto view" (9.3 per cent in Brazil and 13 per cent in Colombia). Indeed, impact evaluations of programs in the region that focus solely on reducing registration costs show little or no effect on reducing informality (Piza, 2018; Rocha et al, 2018; Kaplan et al, 2011; and Bruhn, 2011; Andrade et al. 2016). Furthermore, the evidence for the region suggests that reducing the cost of formalization is more effective when the cost of remaining in the formal sector is also reduced (Rocha et al, 2018).

On the enforcement side, the increase in the cost of informality, through inspections, for instance,

can have a substantial impact on formalization as free riders (parasites) encompass a larger share of firms (41.9 per cent in Brazil and 65 per cent in Colombia). Nevertheless, this can have unintended consequences as inspections do not use tools to differentiate between the types of informality or observe firms' productivity levels, and may therefore target survival firms that are not sufficiently productive to formalize. Another unintended consequence may arise at the intensive margin of informality. For example, an initiative involving random inspections by the Ministry of Labour in Mexico finds an increase in the probability that informal workers are formalized by their employer in inspected establishments, relative to similar workers in non-inspected establishments. Nevertheless, worker's transitions from inspected establishments to unemployment increase, and there is a negative and significant effect on total formal employment,

11 The work of Ulyssea (2018) and Fernández (2022) also incorporates the important distinction between two dimensions along which informality can occur, the extensive and intensive margins discussed earlier.

suggesting that firms adjust their workforce size after inspections (Samaniego de la Parra and Fernández Bujanda, 2024).

The unified framework on informality also invites reflection on productivity upgrading. As firms move up the productivity ladder (toward the right in Figure 3.2), they may transition across different categories of informality and revise their formalization decisions.¹² Ultimately, as productivity increases and institutional and economic incentives evolve, firms that become more productive are expected to self-select into the formal sector.

Despite the wide array of formalization policies implemented across Latin America and the Caribbean (LAC), informality remains a defining feature of the region's firm structure and labour markets. This persistence highlights the need for strategies that acknowledge the non-dualistic nature of firms, move beyond one-dimensional

approaches, and address informality along both its intensive and extensive margins, while promoting productivity as a central pathway to formalization. The relationship between productivity and formality is argued to be a two-way avenue. Accordingly, this report examines both sides of this relationship. First, it explores how formalization and its associated benefits can unlock productivity gains and support firm growth (the formalization-to-productivity channel). Second, it analyses how productivity improvements can help reduce informality, either through firm-level policies that strengthen productive capacity or through worker-level interventions that enhance human capital (the productivity-to-formalization channel). This two-way relationship between productivity and informality, as well as the associated policy options, are further examined in Section 3.4.

3.3. Dynamics: From static overlap to growth transitions

3.3.1. Dynamic duality: Hidden growth heterogeneity

Despite the observed overlap between formal and informal firms (Figure 3.1), an often-overlooked aspect in such comparisons is the dynamics of firms and growth potential in the overlap.¹³ While from a static perspective, formal and informal firms within this area appear to be similar and operate under similar productivity levels, adopting a dynamic perspective reveals markedly different growth trajectories, as reflected in their respective rates of growth between the base year t and year $t + 1$. For instance, in Colombia, formal firms located in the overlapping segment exhibited (rescaled) average growth in labor productivity and TFP between 2015 and 2016 that was 1.26, and 1.23 times, respectively, the

(rescaled) average growth of informal firms operating in the same range as shown in Table 3.1.¹⁴ In Peru, formal firms in the overlapping segment showed (rescaled) average growth in labor productivity and TFP between 2015 and 2019 that was 1.19, and 1.01, respectively, the (rescaled) average growth of informal firms operating in the same range.

Within the overlapping segment of the productivity distribution, firms are grouped into labour productivity quartiles to examine whether higher relative productivity levels are associated with increasing growth differentials between formal and informal firms. Table 3.1 shows that the growth gaps in labour productivity (YL), and

12 Ulyssea (2018) and Fernandez (2022) models provide answers for policy impact on informality depending on productivity level. Insights regarding productivity upgrading are not directly provided endogenously by the model but firms with a productivity increase would shift their position within the productivity spectrum.

13 The data used for the dynamic analysis were drawn from the Colombian Encuesta de Microestablecimientos (EM) for 2012–2016 and the Peruvian Encuesta Nacional de Hogares (ENAHOG) panel for 2015–2019. For the EM, the biannual panel covering 2015–2016 was employed. For ENAHOG, a pooled sample was constructed by stacking the biannual panels for 2015–2016, 2016–2017, 2017–2018, and 2018–2019. The period of analysis was determined by the availability of longitudinal information that allows firms to be tracked over time. In Colombia, more recent survey waves do not permit the identification and follow-up of individual businesses, limiting the analysis to the 2015–2016 panel. To estimate the number of firms located in the overlapping region, the residual distributions of formal and informal firms are compared. Applying Bayes' rule, the residual values for which the probabilities of belonging to either group overlap are identified, and the overlapping region is defined using a selected probability band.

14 Growth rates are rescaled by adding the absolute value of the minimum growth rate in the sample and a constant so that all values are strictly positive. This avoids undefined or misleading ratios when formal and informal firms exhibit growth rates of opposite signs.

total factor productivity (TFP) systematically widen as the distribution moves towards the upper productivity quartiles. In the case of Colombia, for example, the TFP growth ratio (rescaled average) between formal and informal firms is 1.11 in the first quartile with the lowest productivity level (indicating that growth for formal firms is 1.11 times the average growth for informal firms) while this ratio rises to 1.98 in the fourth quartile. The pattern is more pronounced for labour productivity: in Colombia, the growth ratio is 1.08 in the first quartile but reaches 2.23 in the fourth quartile.

The widening growth gaps across productivity quartiles suggest that formal firms, being less constrained by the costs and limitations associated with informality, are better able to translate a given level of productivity into

sustained growth. In contrast, informal firms appear to face a ceiling on productivity gains imposed by structural barriers.¹⁵ In other words, duality is most evident than in a static setting, where formal and informal firms appear similar within the overlap region. However, once firm dynamics are taken into account, the results reveal substantial differences in the trajectories of firms that initially looked very similar. Furthermore, formal firms seem to display better growth dynamics and prospects, particularly the further to the right they are located within the overlap region of Figure 3.1. This constitutes an argument in favour of formalization (and the formality-to-productivity channel), as the stronger dynamics of formal firms illustrate both the benefits of formality and the costs of informality in terms of future growth prospects.¹⁶

► **Table 3.1. Growth ratios of variables of interest for formal and informal firms in the overlapping section of the productivity density curves**

Colombia		
Labour productivity quartiles of formal and informal firms inside the overlapping are of labour productivity	Ratio: growth YL formal/growth YL informal	Ratio: growth TFP formal/growth TFP informal
1 (N=3806)	1.08	1.11
2 (N=3758)	1.26	1.22
3 (N=3782)	1.43	1.35
4 (N=3782)	2.23	1.98
Average	1.26	1.23
Peru		
Labour productivity quartiles of formal and informal firms inside the overlapping are of labour productivity	Ratio: growth YL formal/growth YL informal	Ratio: growth TFP formal/growth TFP informal
1 (N=3966)	1.66	1.45
2 (N=3979)	1.42	1.36

15 In the same line, Fernandez (2019) argues that profits for informal firms tend to increase with productivity, but at a diminishing rate—likely due to constraints related to their limited scale. In contrast, formal firms face higher entry costs but enjoy steadily rising profits as their productivity improves, suggesting they benefit more from scaling up. Ulyssea (2020) also argues that dynamically informality can have a negative effect on firm's productivity.

16 A significant determinant of this differential growth path might be given by a differential access to productivity-augmenting resources, where formal firms are able to access credit, integrate into formal supply chains, benefit from government support programmes, and attract skilled labour (Perry et al., 2007; La Porta and Shleifer, 2008, 2014; Ulyssea, 2020). This could be termed as the formality to productivity channel. This also points out to the fact that access to these resources can unlock their growth potential increasing the “cost” of being informal as firms grow.

Peru		
Labour productivity quartiles of formal and informal firms inside the overlapping area of labour productivity	Ratio: growth YL formal/growth YL informal	Ratio: growth TFP formal/growth TFP informal
3 (N=3958)	1.16	1.05
4 (N=3961)	1.69	1.26
Average	1.19	1.07

Note: This table presents the growth ratios of labour productivity (YL), and total factor productivity (TFP). The quartiles are calculated based on the labour productivity distribution of formal and informal firms located in the overlapping area of the labour productivity distribution. Outliers detection measures have been applied. In addition, to ensure comparability across quartiles, growth rates are rescaled by adding a constant equal to the absolute value of the most negative observed growth rate in the sample and an extra constant equal to 10 (defined arbitrarily). This linear shift renders all values strictly positive while preserving the relative ordering and distance between observations. This enables a smooth ratio-based comparisons without distorting the underlying distribution.

Source: Encuesta de Microestablecimientos 2015-2016 and bi-annual stacked panel ENAHO 2015-2019. Own elaboration.

3.3.2. Productivity and transitions toward formality

To examine how transitions to formality relate to productivity levels, the analysis draws again on panel data from the biannual panel of the Encuesta de Microestablecimientos (2015–2016) in Colombia and the stacked panel of the ENAHO (2015–2019) in Perú. As in the previous section, formal and informal firms are identified in the initial year within the overlapping area of the productivity distributions of both groups, and firms are also classified according to labour productivity quartiles. The focus is then placed on informal firms to calculate their transitions to formality in year $t + 1$. This approach makes it possible to estimate the percentage of informal firms that transition to formality, distinguishing those located inside or outside the productivity overlap area, as well as their position within the productivity quartile distribution.

The results (Table 3.2) confirm that higher productivity is positively associated with a greater likelihood of transitioning to formality. The data for Colombia shows that 56.97 per cent of firms that formalized were initially located in the overlap area. This pattern is particularly evident in Peru, where 79.1 per cent of firms that formalized were initially located in the overlap area. Interestingly, in both Colombia and Peru, the likelihood that an informal firm transitions to formality increases with higher productivity

levels. In Colombia, firms in the top productivity quartile account for 28.52 per cent of informal-to-formal transitions, compared to 18.44 per cent in the lowest quartile, while the share of firms remaining informal declines steadily across quartiles. A similar pattern is observed in Peru, where transitions to formality rise sharply from 10.2 per cent in the first quartile to over 30 per cent in the top quartiles.

Thus, productivity improvement seems to be not only a correlate but also a potential driver of formalization. This provides support for a productivity-based pathway to formalization: within the overlap area, the probability of transitioning to formality increases with productivity levels, highlighting the potential of productivity as a key driver of formalization.¹⁷

►► The probability of transitioning to formality increases with productivity levels, highlighting the potential of productivity as a key driver of formalization.

17 The analysis is extended and logit regressions are run for both countries using a set of proposed determinants of the transitions between informality and formality (see Appendix A.2). The results show that, amongst other determinants, higher productivity levels in year t increase the probability of making a transition to formality between years t and $t+1$.

► **Table 3.2. Productivity state in t and informality-formality transitions between t and $t + 1$ in Colombia and Peru**

Productivity quartiles in t	Informality- formality transitions between t and $t + 1$			
	Colombia		Peru	
	Informal-formal	Informal-informal	Informal-formal	Informal-informal
1	18.44%	35.85%	10.2%	28.6%
2	26.40%	26.04%	24.3%	25.9%
3	26.64%	20.68%	34.5%	23.6%
4	28.52%	17.42%	31.1%	21.9%
Total	100.00%	100.00%	100.0%	100.0%
Productivity overlapping between formal and informal firms	Transitions between t and $t + 1$			
	Colombia		Peru	
	Informal-formal	Informal-informal	Informal-formal	Informal-informal
No	43.03%	59.59%	20.9%	46.5%
Yes	56.97%	40.41%	79.1%	53.5%
Total	100.00%	100.00%	100.0%	100.0%

Notes: Productivity is measured as value added per worker. In this case, quartiles of productivity are calculated using the labour productivity distribution in the initial year t , where for Colombia is 2015 and for Peru is the first year of each of the bi-annual stacked panels. The overlapping area of the productivity distribution between formal and informal firms has also been calculated using the productivity distribution in the initial year t . Then, the informality-formality transitions are calculated using the initial year t and the year $t + 1$, the latter being 2016 for Colombia and the second year in the bi-annual stacked panels for Peru.

Source: Encuesta de Microestablecimientos 2015-2016 and bi-annual stacked panel ENAHO 2015-2019.

3.4. Policy options under the unified view of informality

The unified view of informality presented in section 3.3.2, which considers firm's productivity and the resulting optimal decisions regarding formality, offers insights into the rationale for considering policy options.¹⁸ In a less segmented market, without a strict duality between formal and informal sectors, workers and firms can transition more organically toward formality

as their productivity increases. The two-way relationship between productivity and informality expands the range of possible policy approaches. Progress on formalization may stem not only from interventions directly targeting informality, but also from firm-level and worker-level policies that enhance productivity.

3.4.1. Formalization strategies (*Formality* → *Productivity*)

The models by Ulyssea (2018) and Fernández (2022) provide valuable insights into the effects of policies targeting both the intensive and extensive margins of informality in the region. Beginning with the removal of entry costs discussed in

Section 3.2, this framework suggests that policies aimed at reducing formalization costs may have limited impact on informality reduction, as they only influence firms that have already reached the productivity threshold (between v_2 and v_3

18 The policy options discussed do not derive directly from Ulyssea's (2018) model itself, rather, the model provides elements to discuss policy options in light of the unified view of informality and policy evaluations regarding formalization and productivity.

in Figure 3.2). The models also shed light on the effects of reducing payroll taxes, income taxes, VAT, and enforcement efforts, indicating that overall, these measures tend to produce modest impacts, with results varying by productivity level and conditioned by the intensive margin of informality. The empirical implications of this model help explain the decades of limited progress in reducing informality.

Indeed, as discussed in Section 3.2.2, policies focused exclusively on reducing registration costs have generally produced limited effects on formalization. Their impact appears to be greater when accompanied by measures that reduce the costs of operating formally.¹⁹ Likewise, inspections can promote formalization by reducing the intensive margin of informality, although evidence suggests they may also generate unintended adverse effects on total employment and firm performance in the long run (e.g., Samaniego de la Parra and Fernández Bujanda, 2024; Prado et al., 2025).

The limited impact of formalization interventions observed in the region is consistent with the findings of a recent meta-analysis on policies targeting informal firms (Floridi et al., 2020). Overall, the meta-analysis concludes that such interventions have had little to no effect on inducing firm formalization.²⁰ This provides a clear warning for policymakers: the frontier literature consistently shows limited evidence that implemented interventions lead to increased formalization.²¹ This result is likely to hold for the region, as the meta-analysis draws primarily on studies of formalization interventions in Latin

America (63 per cent) and, to some extent, in Asian countries (25 per cent).

Importantly, Floridi et al. (2020) highlight that large-scale formalization policies targeting only micro-enterprises are less likely to succeed. Interventions that include small and medium-sized enterprises tend to have higher chances of achieving higher levels of formalization. This evidence is consistent with the unified view of informality: smaller and less productive firms may be harder to formalize due to their limited productivity. Targeting subsistence firms without improving their productivity is unlikely to work, whereas focusing on firms under the free rider view in higher productivity quartiles (Figure 3.1 and Table 3.2) may increase the likelihood of success, as these firms are more likely to transition to formality.

Taken together, the evidence suggests that formalization efforts can be effective, but their impact is often limited when they rely on narrow or one-off interventions. Policies that reduce entry or registration costs alone are unlikely to generate lasting reductions in informality unless they are complemented by measures that lower the ongoing costs of remaining formal. The effectiveness of formalization strategies also depends on firm heterogeneity, as only firms with sufficient productivity can absorb the costs associated with formality. Accordingly, targeting firms located in the overlap area between formal and informal firms is likely to be more effective than broad-based approaches that also encompass subsistence enterprises.

3.4.2. Productivity enhancement strategies (*Productivity* → *Formality*)

The productivity-to-formality channel represents the second avenue in the two-way relationship between productivity and informality. Where the boundary between formal and informal sectors is

more permeable, workers and firms can transition toward formality more organically as their productivity rises. This perspective reinforces the view that productivity growth can function

19 Reducing taxes for formal firms has a significant impact on promoting formalization. This measure is particularly important also for preventing a “revolving door” effect, as suggested by calculations based on the Colombian and Peruvian data (panel of microestablecimientos 2012-2016 and ENAHO panel 2015-2019) used in this report. Specifically, about 81 per cent of micro-firms in Colombia and 73 per cent in Peru that formalize subsequently revert to informality within five years.

20 This study systematically reviewed the literature on formalization policies, compiling 842 estimates from 27 studies conducted by 49 researchers and published up to June 2019. The analysis evaluates three main types of interventions: reducing formality costs, increasing benefits, and enforcing compliance.

21 When accounting for the different types of formalization policies, the results suggest a bit more of a nuanced picture: interventions increasing the benefits of formalization tend to have positive effects compared to the other two types of interventions. The available evidence suggests that, under a policy approach aimed at promoting the registration of informal firms, measures that increase benefits after formalization appear most promising; however, the evidence base remains limited, indicating that further piloting and experimentation are needed (Floridi et al., 2020).

as a formalization policy in itself (Fernández, 2025), while also providing a rationale for policies designed to enhance the productivity of business units as a strategy to promote formalization. Advancing along the productivity ladder can influence the decision to formalize.

The unified approach to informality also offers insights for productivity policies, particularly regarding the rationale and targeting of different business-support strategies. The literature on entrepreneurship and MSME support highlights strong heterogeneity in outcomes and generally limited effects on key performance indicators—such as employment, sales, that are positively related to productivity.²² Evidence from meta-analyses on entrepreneurship and SME programs (Grimm and Paffhausen, 2015; Cravo and Piza, 2019) confirms this pattern, showing that such interventions tend to generate only modest improvements in firm performance, employment creation, and labor productivity.²³ As a result, MSME support remains a policy challenge precisely because its expected impacts are neither consistently robust nor clearly established. Moreover, there is still limited evidence on which types of interventions are most effective and under what conditions they are likely to work.²⁴

As policies addressing informality should consider firms' productivity levels, the type of business support envisaged may also be informed by insights from the unified view of informality. For low-productivity (survival businesses), usually self-entrepreneurs and microenterprises, operating below the productivity threshold v_1 in Figure 3.2, business support policies should be grounded

in the notion that these units must first reach a minimum productivity level that allows them to bear the costs of formalization. If productivity can be increased within this lower segment of the distribution, firms may reach a level of economic viability at which formalization becomes a feasible option. Public policy should therefore prioritize interventions with demonstrated potential to raise productivity and help firms progress toward that threshold. For survival units, this implies focusing on strengthening rights and capabilities while supporting basic productivity improvements. However, designing effective interventions for this group (survival businesses) remains challenging, as their productivity levels are often extremely low and the evidence on successful approaches to improving the performance of self-entrepreneurs and microenterprises remains limited (e.g. Grimm and Paffhausen, 2015; McKenzie, 2021).²⁵

For free-rider businesses positioned between productivity levels v_1 and v_2 in Figure 3.2, firms that have already reached a level of productivity compatible with formality but nonetheless choose to remain informal or employ part of their workforce informally, targeted business-support programs may unintentionally create an “informality premium.” Because these firms could cover the costs of formalization, providing them with subsidized direct support risks reinforcing unfair competition with fully formal firms.²⁶ Public policies for this group should therefore account for these incentive problems. In this segment, policy efforts might focus less on subsidizing business operations and more on promoting the benefits of formalization and MSME support in which businesses contribute to

22 The literature documents a positive association between firm size and productivity in the region (see, for example, Hsieh and Klenow, 2014, for Mexico; Eslava, Haltiwanger, and Urdaneta, 2024, for Colombia; Ulyssea, 2018 for Brazil).

23 Both studies note that the RCTs included in the reviews are less likely to identify positive effects on firm performance and employment creation. In other words, the most rigorous methods for establishing causal impact provide limited evidence that entrepreneurship and small business support interventions improve business performance or employment outcomes.

24 One important point is that both studies underscore the need for future evaluations to account for the volume and intensity of SME support, as these are critical for understanding intervention effectiveness. Detailed cost-effectiveness analyses are still lacking. Implementers should provide transparent data on resource allocation, and researchers should move beyond simple impact estimates to generate more policy-relevant evidence. Benhassine et al., 2018 and Rocha et al., 2018, Iacovone et al., 2022 raise this important issue regarding the cost-benefit of interventions. For firms that fail to move far enough up the productivity ladder to take on the costs of formality, it is important to consider that this segment may be more closely associated with women-led firms, given the gender gaps in productivity documented in the literature, which are particularly pronounced at the lower end of the productivity distribution (Gang et al., 2022). For this reason, policies aimed at this group require specific consideration of a gender-focused approach.

25 For businesses that cannot formalize even when formalization costs are reduced, or that are unable to move up the productivity ladder, public policy should consider social protection and pathways into formal employment, supporting workers and entrepreneurs to transition into the formal sector as employees in firms that can bear the costs of compliance and formalization.

26 Another form of more aggregated intensive margin of informality is the informality in the supply chain, where leading firms are integrated with informal firms in the supply chain.

the cost of the programs. Evidence from Tables 3.1 and 3.2 supports this approach: within the overlap region of Figure 3.2, formal firms exhibit stronger dynamics and better growth prospects, particularly at higher productivity levels. These patterns suggest that, for this group of MSMEs, support programs that emphasize the benefits of formalization may constitute an effective pathway to formalization by highlighting the long-term performance disadvantages of remaining informal. Accordingly, policy interventions for this group should focus on increasing the perceived benefits of formality rather than relying on financial subsidies to encourage formalization.

Possible measures include communication campaigns that highlight the concrete benefits of formalization (such as access to credit, the ability to hire skilled workers, and legal protection in commercial and labour disputes) and mentoring programs where formal entrepreneurs share experiences and good practices to encourage peers to formalize. For instance, evidence from Brazil and Colombia shows that access to credit and financing from second-tier banks has a positive impact on business productivity (Cavalcanti and Vaz, 2017; Eslava et al., 2011).²⁷

MSME support models in which firms that can already bear the costs of formalization co-finance program delivery can help mitigate these incentive concerns while improving sustainability and value for money. For example, in Colombia, an auto-parts sector initiative providing extension services through the National Productivity Center to strengthen management practices reported increases in sales, profits, and productivity among participating firms (Iacovone et al., 2022). Scaling such “shared-cost” approaches, while embedding rigorous monitoring and evaluation, can help identify which services generate measurable

productivity gains, sharpen targeting, and make business-support policies more cost-effective.²⁸

In addition to promoting awareness of the rights and benefits associated with formalization, enforcement efforts should combine progressive inspections with advisory support, prioritizing regularization over punishment. The objective is to encourage compliance not primarily through fines, but by helping employers understand and comply with legal requirements.²⁹

Finally, firms to the right of v_3 are always formal, which raises questions about whether additional public interventions are necessary. The rationale for supporting these firms rests on at least two considerations. First, targeted market-based assistance can help prevent firms, especially those near the margin of the overlap, which exhibit higher rates of returning to informality, from slipping back into informal practices (see Table 3.2). Second, because these firms tend to be relatively larger and more productive, continued upgrading and productivity growth can generate broader economic benefits. Such firms may benefit more from improvement in the institutional environment that address bottlenecks to further productivity gains, such as improved business environment, access to innovation services, modernization of production processes, digitalization, or better integration into higher-value supply chains.³⁰

The difficulty, however, is that public policy cannot directly observe firms’ productivity levels and, therefore, cannot precisely identify where each business lies within the unified framework presented in Figure 3.2. Likewise, policymakers cannot observe the intensive margin of informality within firms. Given the two-way relationship between productivity and informality, and the difficulty of observing

27 Financing provided through second-tier banks is usually available only to formal firms. Employers’ organizations are uniquely positioned to spearhead these initiatives that promote the benefits of formalization.

28 The extensionist approach can be adapted to ILO business support initiatives such as Sustaining Competitive and Responsible Enterprises (SCORE) and Start and Improve Your Business (SIYB). For further details on these programmes and their methodologies, see ILO (2014, 2024) and McKenzie (2021).

29 In Mexico, for example, STPS inspectors file a report after each visit and provide a copy to the employer. The report documents all detected violations of labor regulations, including whether any workers are employed informally. If violations fall under the authority of the Secretaría del Trabajo y Previsión Social (STPS), the inspector schedules a follow-up visit and imposes a fine only if the previously identified violations persist at the time of re-inspection (Samaniego de la Parra & Fernández Bujanda, 2024). In Chile, labour inspection combines enforcement with measures to facilitate compliance and regularization. The Dirección del Trabajo provides guidance to employers on how to remedy detected violations and, in some cases, allows for corrective actions to replace or mitigate sanctions when non-compliance is addressed. This approach reflects a system of progressive enforcement that prioritizes compliance and formalization alongside oversight (Ugarte Cataldo, 2008).

30 See ILO (2009, 2021) on applying a systems approach to value chain development to identify and address bottlenecks faced by firms, strengthen market linkages and institutions, and thereby support the creation of more and better jobs.

Formalization policies are likely to be more effective when embedded within broader policy packages that simultaneously address barriers to formalization and constraints to productivity growth.

either firms' true productivity levels or the extent of informal employment, public interventions should integrate formalization policies that

include productivity-enhancing components, as well as policies that also reduce barriers to formalization.³¹

3.4.3. Policy combinations and complementarities

Having discussed the unified productivity–formalization framework and the two-way relationship between productivity and informality, it is important to acknowledge that the literature increasingly points to the importance of placing productivity at the heart of efforts to reduce informality. From this perspective, formalization policies are likely to be more effective when embedded within broader policy packages that simultaneously address barriers to formalization and constraints to productivity growth.

As discussed earlier, Floridi et al. (2020) and Ulyssea (2020) provide some indication that interventions that promote the benefits associated with formal status may be more effective than policies focused exclusively on reducing registration costs or strengthening enforcement. These findings highlight the potential importance of policy complementarities, as some benefit-enhancing interventions, such as improved access to digital technologies and digital payment systems, may simultaneously support productivity growth and strengthen incentives for firms to formalize.³²

Some evidence from Latin America is broadly consistent with this view. In Peru, the combination of initial formalization support and training increased formalization rates by 20–25 percentage points (Barron, 2020). In Chile, pairing finance with training improved business practices, employment, and income among microentrepreneurs (Martínez et al., 2018). These findings suggest that interventions addressing both productivity constraints and barriers to formalization may be more effective than isolated measures.

Lastly, while not the primary focus of this work, worker-oriented and human capital policies also constitute important complements to formalization strategies. By enhancing workers' skills, employability, and productivity, such policies can increase the returns to formal employment and strengthen incentives for both workers and firms to operate formally.³³

31 In this context, it is necessary to develop tools that make it possible to identify the productivity levels of economic units in order to better target formalization interventions.

32 Appendix A.2 shows that digital and financial variables (such as the use of non-cash payments, access to savings and credit, and maintaining an online presence) are also positively associated with formalization. This finding is consistent with the view that interventions enhancing the benefits of formality, including access to digital and financial services, can strengthen incentives for firms to formalize. This broader notion of policy complementarities is also consistent with evidence from the SME support literature, which increasingly emphasizes combining individual policy instruments with complementary business development services rather than relying on isolated interventions (Lynch et al., 2026).

33 Training aligned with labor market needs is expected to increase the likelihood that participants secure productive employment upon completion, benefiting both individuals and the economy (World Bank, 2020). Evidence from the region also suggests that training is more effective when it is demand-driven and designed in response to employers' needs. For example, a World Bank study on Brazil finds larger employment impacts when vocational training is coordinated with firms to identify market demand (O'Connell et al., 2017). Similarly, an IDB study reports that coordinating the same type of training with businesses also reduces employee turnover (Quintana and Cravo, 2019). Better alignment of skills with demand, together with lower turnover, can contribute to productivity gains.

3.5. Conclusions

The persistent coexistence of high informality and low productivity in LAC reflects deep structural challenges that cannot be addressed through one-dimensional policy approaches. While reform efforts have focused on simplifying registration procedures, reducing compliance costs, or strengthening enforcement, their impact has been limited because they fail to account for the heterogeneity of the informal sector, where firms with different productivity levels face distinct constraints and incentives regarding formalization. Under the unified framework of informality, evidence from the region points to limited duality in the productivity distributions of formal and informal businesses and suggests that only a small share of informal units remains outside formality due to formalization costs, whereas many remain informal because they perceive informality to be more profitable or because their productivity is too low to sustain formal operation. Duality, however, appears more pronounced in a dynamic setting, as formal firms exhibit stronger growth trajectories than comparable informal firms.

Understanding informality through a productivity lens therefore becomes essential. Productivity and formality are intertwined in a mutually reinforcing relationship. On the one hand, informality suppresses the productivity of firms and workers by limiting access to technology, finance, markets, and institutional support. Furthermore, firms that can bear the cost of formality but choose to remain informal may face cumulative growth penalties over time. On the other hand, higher productivity expands firms' capacity and incentives to operate formally. Together, these mechanisms underscore the importance of placing productivity at the heart of efforts to reduce informality.

The evidence reviewed in this report highlights the potential contribution of productivity-enhancing policies—including improved managerial practices, better access to finance and technology, stronger integration into supply

►► Productivity and formality are intertwined in a mutually reinforcing relationship.

chains, and skills development—to formalization efforts. It also points to the importance of promoting the benefits associated with formal operation, helping to create a virtuous cycle in which firms upgrade and become better able to operate formally. For lower-productivity survival firms, productivity improvements may help them reach the threshold required to operate formally. In this survival segment, it is particularly important to incorporate a gender perspective, given that women tend to be overrepresented in low-productivity activities. For free-rider firms, productivity gains may increase the attractiveness of formalization as a business strategy. Yet, productivity-led pathways to formalization remain underexplored in the region and warrant greater policy attention through evidence-based interventions that combine productivity-enhancing support with broader formalization strategies.

There is no single solution or linear path to formalization. Progress is more likely to emerge from coordinated policy efforts embedded within a tripartite framework involving governments, employers, and workers. The limited results achieved by many traditional formalization initiatives suggest the need to move beyond one-dimensional approaches and better account for the heterogeneity of the informal sector. Recognizing the two-way relationship between productivity and informality expands the range of available policy options and highlights new opportunities to promote more sustainable productivity-enhancing pathways to formalization.

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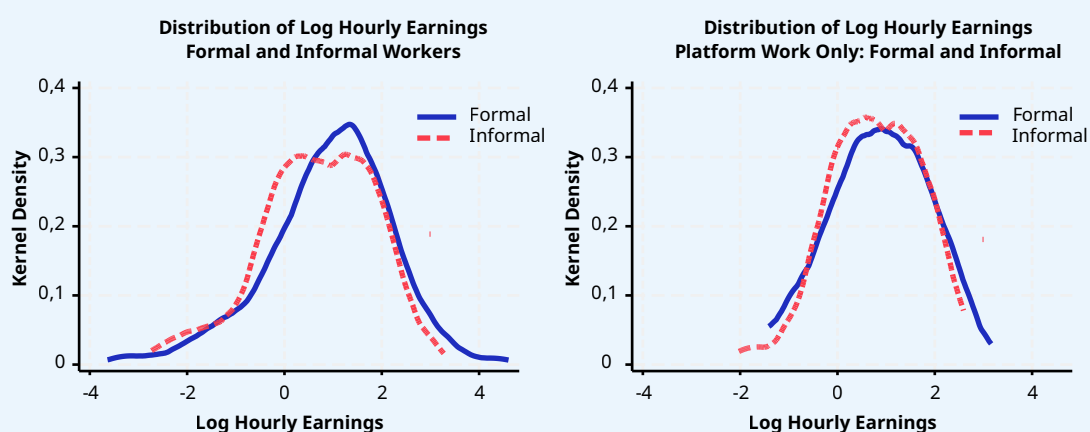
Appendix

Appendix A.1 – Digital transition

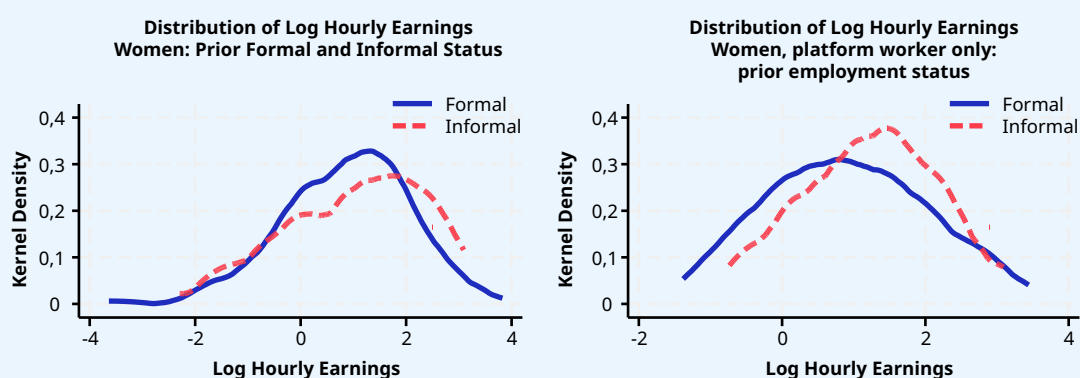
Digital transformation is reshaping the nature of work and may also influence workers' formality status. Ulyseia (2020) argues that the growing importance of non-standard work arrangements in the platform economy raises important questions regarding the nature and measurement of informality. Using data from the ILO Survey on Web-Based Digital Platform Workers in Latin America and the Caribbean (Cravo, 2025), a preliminary analysis of hourly earnings (used here as a proxy for productivity) by workers' self-reported formal and informal status reveals an even greater degree of overlap than that observed in Figure 1. The results indicate that formal and informal web-based platform workers exhibit highly similar earnings distributions, providing little evidence of labour market duality. While these findings cannot be generalized to the broader population of platform workers, they highlight the importance of better understanding the new forms of informality emerging in digital labour markets and their implications for the debate on formalization.

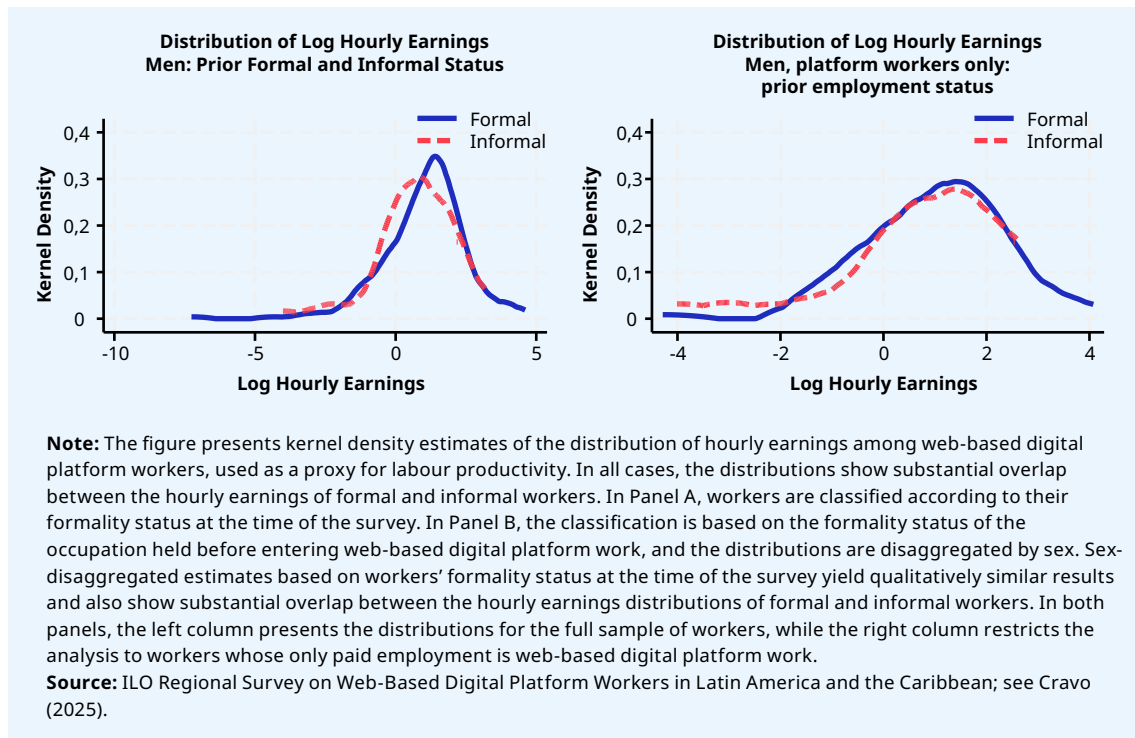
► **Figure A.1. Distribution of hourly earnings by the formality status of web-based digital platform workers in Latin America and the Caribbean**

► **Panel A. Distribution of hourly earnings by formality status**



► **Panel B. Distribution of hourly earnings by pre-platform formality status, by sex**





Appendix A.2 – Determinants to informality regressions

This section presents the results of logit regressions estimated for Colombia and Peru to examine transitions from informality to formality. The analysis relates transitions occurring in year $t + 1$ to firm characteristics observed in year t . While the estimates identify statistical associations rather than causal effects, the temporal dynamics provides insights into factors that may be linked to the formalization process.

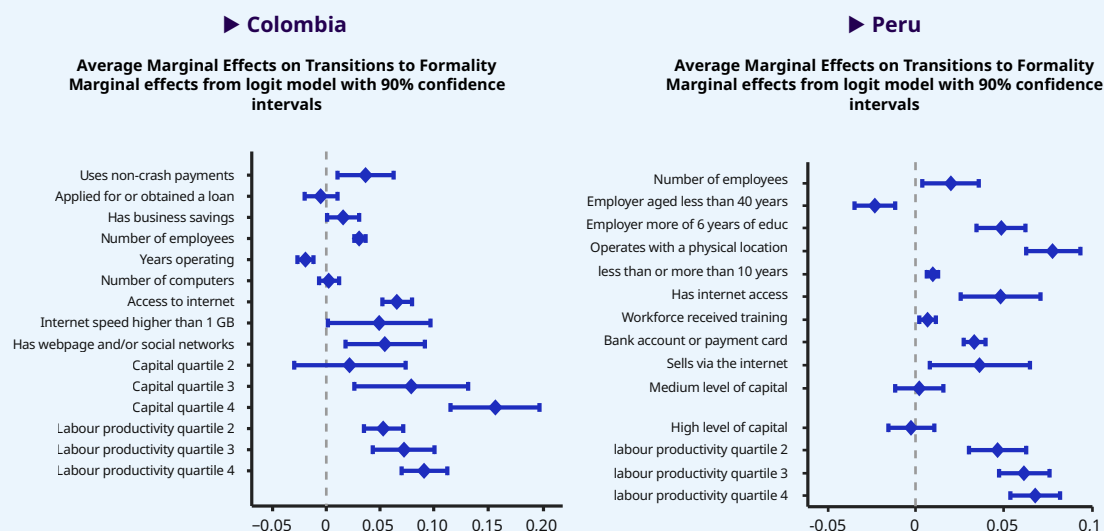
The variables included in the logit regressions capture multiple dimensions of firm performance, including access to finance, technology adoption, human capital, and size. These factors are commonly associated with both productivity growth and transitions into formality. Given the relationship between productivity and formalization, they provide a plausible set of determinants through which improvements in firm performance in period t may increase the incentives to formalize in period $t + 1$.

These factors are also frequently identified in the literature as drivers of firm productivity growth (see, for example, Cavalcanti, 2017; Lafortune et al., 2018; Martínez et al., 2018; Finkelstein and Nuguer, 2022). This relationship suggests a plausible mechanism whereby improvements in firm capabilities in year t increase productivity and profitability, which in turn may strengthen incentives to formalize in year $t + 1$, as formalization can help sustain productivity gains over time.

The estimated marginal effects reveal a systematic association between firm capabilities and the likelihood of transitioning into formality (Figure A.2). Variables related to access to finance—including holding a bank account, using non-cash payment instruments, and obtaining credit—display positive and statistically significant effects. Indicators of technology adoption, such as internet access, web presence, and higher connection speeds, are also positively associated with formalization. Similarly, measures of scale and productive capacity, including firm size, capital intensity, and placement in higher labour-productivity quartiles, exhibit positive marginal effects. Taken together, these findings are consistent with the view that improvements in firm performance in year t are associated with a greater propensity to formalize in year $t + 1$.

Although these results should be interpreted as correlations rather than causal relationships, they reinforce the argument that productivity growth can provide a pathway toward formalization. Higher productivity not only facilitates transitions into formality but may also help sustain formal status over time.

► **Figure A.2. Logit (marginal effects) of determinants of informality-formality transitions between t and $t + 1$**



Notes: This figure presents the marginal effects of the logit regressions of the proposed determinants for the informality-formality transitions between t (all firms are informal) and $t + 1$ (some firms remain in informality, but others become formal). The proposed determinants are based on data availability in both surveys. To reduce endogeneity, the proposed determinants are measured in year t , as current firm characteristics ($t + 1$) could be affected by the same process that brought about the informality-formality transitions.

Source: Encuesta de Microestablecimientos 2015-2016 and bi-annual stacked panel ENAHO 2015-2019.

Labour Market Trends in Latin America and the Caribbean presents an up-to-date analysis of trends in employment, labour force participation, unemployment and informality in 23 countries across the region during 2025, supplemented by short-term indicators for 2026. The report shows that labour markets continue to consolidate their recovery, although significant challenges remain in relation to productivity, the quality of employment and the inclusion of women and young people. This edition also includes a special topic on the relationship between productivity and informality, which highlights the need for integrated policies that link productive development, formalization, skills development and social protection to build more inclusive, resilient and sustainable labour markets.

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