

YOUTH and INFORMALITY



International
Labour
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The mandate
and vision of the
YOUTH INFORMALITY International
FORMALIZING Labour Organisation
THE INFORMAL (ILO) is to promote
YOUTH Innovative experiences decent work
Jamaica

for all workers, regardless
of where they work.

For the millions of
workers and employers,
especially for young
people in the informal
economy worldwide,
Decent Work
remains an
elusive goal

...



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ACKNOWLEDGMENTS

We would like to thank Ms. Marcia Brandon who was the consultant for this study and who has provided some very good examples on the topic. We also thank Mr. Guillermo Dema, Regional Specialist in Youth Employment, and other colleagues in the ILO-Lima, Peru office and the Director of the ILO Decent Work Team and Office for the Caribbean, Dr. Giovanni di Cola for their support during the process. Finally, we thank Mr. Kelvin Sergeant also from the Decent Work team and Office for the Caribbean who supervised the consultant and ensured that the work was of the required standard and was completed in the required timeframe.

PREFACE

The mandate and vision of the International Labour Organisation (ILO) is to promote decent work for all workers, regardless of where they work. For the millions of workers and employers, especially for young people in the informal economy worldwide, Decent Work remains an elusive goal. Workers may be unprotected and are not be recognized by the labour law, they lack access to social protection and are unable to defend their basic rights in the labour market. Very often, they are unorganized and unrepresented. Their working conditions are often poor (unprotected, unsafe, with long working hours, low productivity and low incomes). In many cases there is a strong link between informality, poverty and social exclusion.

Over the last few years, informality in employment has declined or improved in a number of countries. These improvements were made possible thanks to a combination of a period of economic growth in region's economies as well as the implementation of specific policies. Formalization strategies require a favorable economic environment and at the same time, a deliberate policy of formalization and articulated measures capable of addressing a phenomenon that is multidimensional and highly heterogeneous.

Notwithstanding the improvements in informal employment observed in a number of countries, young people continue to remain in informal employment. This is linked to the high levels of youth unemployment in the world. Furthermore, among employees of private businesses, the highest proportion of informal employment in both youth and adults occurs in the micro-enterprises (up to 10 employees) representing 42.3% and 23.6% of total informal employment of youth and adults respectively. This suggests that the informal wage employment is a point of entry to the labour market for many young people and that condition is reduced as they gain experience or are better able to find employment in the formal sector or to satisfy a desire to work on their own.

The informal economy therefore continues to grow worldwide, driven by a range of factors, and sometimes it is immune to strong economic growth. Informality affects all types of labour markets, albeit to varying degrees, and is specific to particular contexts of each country. It also generates high economic and social costs for economies, businesses and individuals.

The ILO has pioneered studies on informality since the early 1970s. During 2002, a significant achievement in the International Labour Conference provided the opportunity to systematically address the phenomenon. Diversity and heterogeneity of the informal economy were recognized and understanding of the phenomenon was extended to include all economic activities or economic units -by law or practice- not covered or insufficiently covered by formal arrangements.

The Resolution concerning youth employment adopted by the International Labour Conference in 2005 presented a comprehensive set of policies and programmes to address the problem of employment of this group. Policies and programmes range from macro-economic policies and regulatory frameworks to increase the rate of employment growth to labour market policies and interventions aimed at disadvantaged youth groups.

In June 2012, the Conference held a general discussion on the report "The Youth Employment Crisis: Time for Action!" and adopted a set of conclusions that complement, and in many cases operationalises, the resolution adopted in 2005.

In recent years, large parts of Asia and countries of Latin America and the Caribbean have been developing policies to promote decent work for youth in order to address the particular challenges of youth employment, including those related to youth informality. From this vast experience, it can be concluded that while there are no simple and generic solutions to this problem, but countries have begun to give various interventions aimed at different problems, including those related to the execution of youth informality, in order to reverse such complex and structural situations.

In November 2012, the Governing Body endorsed the implementation plan of the Office, which covers a period of seven years and aims to assist ILO constituents to implement the resolution “The Youth Employment Crisis: Time for Action”, under three main pillars: development and dissemination of knowledge, technical assistance and capacity building, and collaborative partnerships and advocacy.

The answer to the fundamental question of “what are the most effective measures to promote youth employment”, requires continuous development of knowledge, taking into account the changes in the structural trends of the labour market for young people, the challenges and disadvantages of each specific context and the effects of the global economic slowdown, which unevenly affect employment opportunities for young women and men and can have long-term consequences.

Although the needs and requirements of constituents in regard to youth employment vary according to countries and regions, the most frequent requests received by the Office are related to learning policy and lessons learned from initiatives that have proven effective in increasing the quantity and quality of youth employment.

Against the above background, this study on youth informality seeks to document the various measures and/or policy options, which directly and indirectly are innovative and show some level of impact on reducing the informal youth in the specific case of Jamaica. Recent studies indicate that informality in Jamaica represents approximately 53%. There are a number of attributing factors which has contributed to this increase in the informal sector in Jamaica, which includes slow growth rate of the economy, increased in illegal activities, lack of knowledge of business registration, and the tax burden borne by those who are compliant, as they are now made to pay taxes to cover those in the informal economy. The study finds evidence that there are clear strategies and programmes to reduce informality and discusses a number of strategies in Jamaica.

Jamaica and its youth working population are faced with the challenge of transitioning a very dynamic informal sector, but it is by no means an impossible task. The recommendations which have been made have been tailored to the specific environment that exists in Jamaica. They include, inter-alia- entrepreneurship, business incubators, public procurement set-aside programmes and microfinance. It is hoped that these recommendations will serve as a foundation for further development of strategies to address the Jamaican situation as it relates to informality.

Elizabeth Tinoco

ADG

ILO Regional Director for Latin America and the Caribbean

INTRODUCTION

According to the International Labour Organisation (ILO), the informal sector:

“is a labour relationship that is not subject to national labour legislation, income taxation, social protection or entitlement to employment”.

According to the Organisation for Economic Co-operation and Development (OECD), the world has a working population of over 3 billion persons of which two thirds is employed in the informal sector. The category of labour that is considered as informal employment is therefore a sector that needs the attention at all levels of planning and can best be addressed by adopting integrated approaches instead of strategies and initiatives developed and implemented in silos.

The globally high rate of informal employment can be attributed to a number of factors. Informal employment is closely linked to the education level in a country and the less access individuals have to secondary and tertiary level education, the harder it is for them to transition to the formal employment sector. Conversely, there are those individuals having access to education, however due to cultural shifts or influence, chose to leave school before completing their education. This is one of the main reasons why persons enter the informal sector or even possibly, turn to crime and other illegal activities, causing further social problems.

The evasion of taxation by both the informal employer and employee is another contributor. In both cases, the evasion of personal tax is an important factor. Employers evading taxation and opting to remain informal have no choice but to hire informal employees. Employees also seeking to avoid the payment of taxes prefer to continue in this sector which similarly to the formal sector is characterised by low wages.

Some micro and small enterprise owners are ignorant of the business registration process and compliance requirements, as it is believed that the process is an arduous one. Because of this ignorance, business owners choose not to register their business due to their perception of the system being a cumbersome one.

Urbanisation is also another factor influencing the growth of the informal sector. As individuals relocate to the urban areas seeking formal employment, they realise that this option is not as easy to achieve. Therefore to survive, persons resort to creating employment for themselves or accepting employment in the informal sector.

The aforementioned and other factors contribute to the continuation of the informal sector and in order to address this situation the adequate policies, legislation and initiatives need to be implemented in an integrated manner to slow down and reduce the level of the informal sector in relation to the 3 billion working population.

1 I The Formalization of Labour and Employment in Latin America: A Priority

The United Nations estimates the population of Latin America and the Caribbean to be approximately 595 million persons. According to the 2014 preliminary overview of the Economies of Latin America and the Caribbean by the United Nations and ECLAC, the GDP of the region in 2014 grew by 1.1%, which is the slowest rate since 2009. With respect to employment, the report also states that:

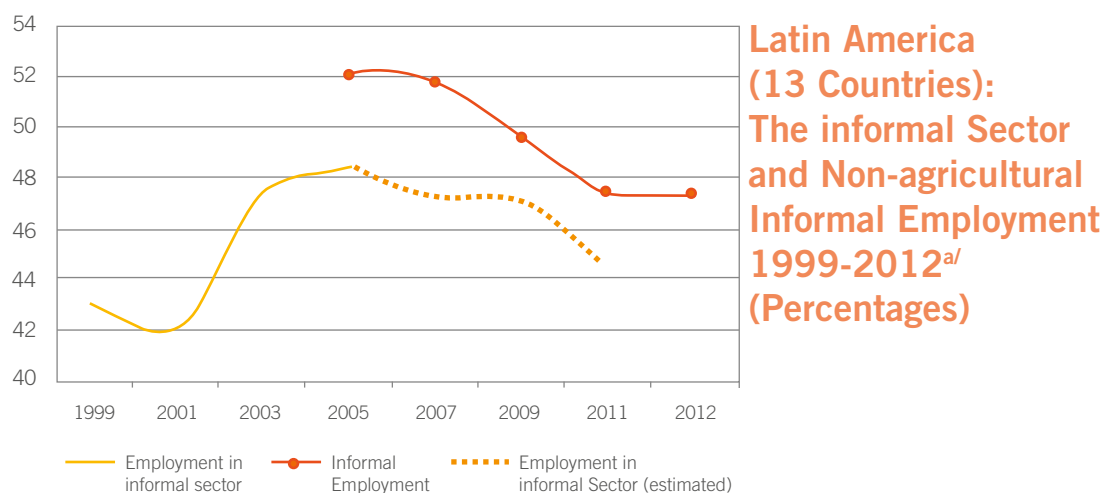
“for 2014 the overall urban employment rate is estimated to have edged down to 56.2% from 56.6% in 2013, and urban participation to 59.8% in 2014 from 60.4% in 2013. As a result, the region’s open unemployment rate came down again, albeit slightly from 6.2% to 6.0%.”

Compared to previous years, urban employment has been declining as the annual average was 8.1% in 2009, 7.3% in 2010 and 6.8% for the first ten months of 2011. The rate for 2014 is therefore the lowest since 2009. This data is to be viewed from the perspective of the estimated 2013 urban labour force in the region stood at 230 million persons of which approximately 14.8 million workers were unemployed.

1.1 I The Issue of Informal Employment

With all of the positive developments in the region’s economy and unemployment levels, the issue of informal employment or the transition of labour to the formalized sectors of the market, is also receiving some attention of the policy makers and some stakeholders in many countries. Data on the informal sector was captured by the International Labour Organisation (ILO) from 2005 to 2012. In 2012, the total informal employment in the region stood at 47.7%, 31% in the informal sector, 11.7% in the formal sector and 5.1% in the domestic services sector¹.

FIGURE 1- The Informal Sector and Non-agricultural Informal Employment 1999-2012.



Source: ILO based on official information of the household surveys of the countries.

a/ Selected countries are: Argentina, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Panama, Paraguay, Perú and Uruguay

¹ ILO 18th Regional Meeting: The Path to Equity: From The Informal to the Formal Economy.

The diagram (Figure 1) above reflects the continuous decline of employment in the informal sector which can be attributed to the various policies and strategies at an individual country level. It is also important to note that employment in the informal sector spread across a large spectrum of the labour force including, the least educated, persons living below the poverty line, agricultural labour, women, youths, persons requiring social protection, among other groups.

With specific reference to youths, according to the ILO Labour Review:

“labour force participation rates among young men and women declined in the region between 2005 and 2011 Participation rate fell from 55.2% in 2005 to 52.1%”².

This percentage is based on having approximately 108 million youths in the region. The participation of youth in the informal sector is also worrying for the region as it was estimated in 2011 “that 55.6% of employed youths aged 15-24 had informal jobs”. This percentage however tends to decline as approximately 40% of the youths between the ages of 25-29 continue in informal employment. The information captured in the table³ below is based on a household survey in 13 countries and shows a higher percentage of youths employed in the informal sector at a declining rate until the age of 30 years.

TABLE 1 - Latin America (13 Countries) - Non Agricultural Informal Employment by Age, Education Level, Sex 2011 (Percentages).

Age and educational level	Total	Men	Women
Age			
↳ 15 to 10	71.7	70.9	72.8
↳ 20 to 24	48.1	46.9	49.7
↳ 25 to 29	40.6	39.4	42.3
↳ 30 and over	46.6	43.5	50.5
Educational Level			
↳ Without level and primary education	58.2	56.4	51.0
↳ Secondary education	54.2	52.3	56.9
↳ High education	43.2	43.2	43.1

Source: ILO, based on official information of household surveys of the countries.

The general downward trend in informal employment throughout the region resulted from a combination of actions, policies and strategies by individual countries. It was also found in data collected by the ILO that generally integrated approaches were not adopted to assist in addressing the informal sector.

1.21 Strategies Addressing Informality

It was found that four main strategies were employed these included:

1. **Productivity or Economic Management** – These initiatives can be viewed firstly from a macroeconomic perspective that involves the implementation of fiscal and monetary policies that facilitate growth in targeted sectors to attract labour. On a meso-economic level, initiatives focus on actual incentives that will attract labour to the formal sector. At the microeconomic level, these are initiatives that directly affect or are implemented by the units and may include training or upskilling of the labour force.

² 2013 Labour Review, Latin America and the Caribbean, page 64.

³ 2013 Labour Review, Latin America and the Caribbean, page 72.

2. **Legislation** – Initiatives here involve information sharing and public education programmes about formalization and the related legislation; review, amendments and simplification of existing related laws; and also the facilitating of an ongoing two way communication relationship / dialogue with stakeholders.
3. **Incentives** – These initiatives refer to the deliberate actions that focus on providing tangible benefits for transitioning to the formal sector and may include tax benefits, government set aside programmes for MSEs, simplified mechanisms for accessing social benefits among other areas.
4. **Oversight** – These are multifaceted approaches that may involve public awareness campaigns and developing better monitoring and support structures (institutional strengthening).

While the region has experienced successes with respect to formalization, a structured or integrated approach can surely result in further improvements and facilitation of the transition process from the informal to the formal sector. Aspects of these integrated approaches should definitely focus on strategies focusing on youths.

The informal sector generally works in opposition to the globally accepted and ultimate goal of labour to provide Decent Work. With respect to the 55.6% of the 108 million youths that are employed in the informal sector, it is even harder to provide decent employment for them. While it may be the reality that youths are sometimes driven to seeking out work in the informal sector it is also critical to realise that they can become trapped in cycle of informal employment. This may mean continuously low or unfair wages, the possibility of never achieving full potential, and the inability to access social security systems.

Facilitating the transition of youths to the formal sector is therefore critical to provide a better and stable future for our youths. The adoption of relevant policies, strategies, initiatives, legislation, etc., would assist attracting youths to the formal sector. Such undertaking should foster entrepreneurial spirit, innovation, focus on providing training and education promote business models such as co-operatives that can reduce the risk of entering the formal sector.

2| Analysis of Youth Labour Market in Jamaica with a Focus on Youth in Informal Employment

2.1| Jamaican Economic Context

The Jamaican economy is considered to be an open one. This was the consequence of the liberalization policies of the 1980s and 1990s, which accompanied IMF and World Bank agreements. Previously dependent on agriculture, the service sector now accounts for almost 70% of GDP. The decline of the agricultural sector and the low wages in the sector has fuelled a high level of rural-urban migration, with the formation of unplanned squatter communities around urban centres.

The Jamaican economy is characterised by persistent stagnation with an annual growth rate of 0.53% over the period 1999-2014. The economic crisis of 2008 saw the collapse of the bauxite and alumina, declines in remittances and stagnation in the tourism industry. FORLAC reports that over the period 2006-2011 exports averaged 30% of GDP and imports 47%. Tourism and remittances from Jamaican migrants are the chief earners of foreign currency. Unemployment has been increasing since 2008 and particular impact on youth unemployment which is twice the annual rate. Liberalization and austerity measures have consistently failed to produce economic growth, and instead have led to balance of trade deficits and an erosion of the government's ability to provide social protection services and to stimulate economic growth.

Jamaica is home to a population of approximately 2.6 million persons and in 2013 had a GDP of US\$14.36 Billion. According to the National Labour Market Information System of Jamaica in 2012,

the working population stood at just over 2 million persons with youth working population of over 500,000 persons or approximately 25%.

In 2001, Jamaica's informal sector represented 43% of GDP⁴ and is said to more than double when compared to the previous decade. Jamaica's economy is predominantly services based, with a large volume of its foreign exchange earned resulting from tourism⁵, which is 30% of GDP. Another important earner is bauxite/alumina which accounts for 5%, and Jamaica is the third largest global producer. Although there is no true record of the percentage of Jamaica's informal economy subsequent to 2001, if the trend is similar to that of the previous decades, then this "hidden" economy would have increased significantly from 2001 to 2014.

2.2| Unemployment Trends in Jamaican Youth

Research conducted has shown that there is anti-social, criminal and aggressive behaviour among the Jamaican Youth. The Jamaica Youth Survey conducted between 2007 to 2008 (Williams et al) commissioned by the World Bank, reveals that there are high rates of violence among youth. It can be deduced that this type of behaviour is one of the main underlying reasons for youth unemployment.

Studies conducted by the UNDP 2007 - 2008⁶, classifies youth as those persons between the ages 15 to 24, which represents 19% of the population being 2.6million. The report also identifies employability as a major issue with youth, showing an unemployment rate of 25.9% in 2008. Other research has also shown that mainly the male Jamaican youth, originally encouraged to pursue education and develop skills to earn an income, now leave school without completing their education. As a result of this, persons usually encounter difficulty in accessing low income jobs. This has a ripple effect as there is now an increased likelihood for youths to join gangs and engage in criminal and illegal activities. Further, because of the low education and lack of skills, these persons are unable to obtain employment and therefore seek employment in the informal sector.

2.3| Informal Employment in Jamaica

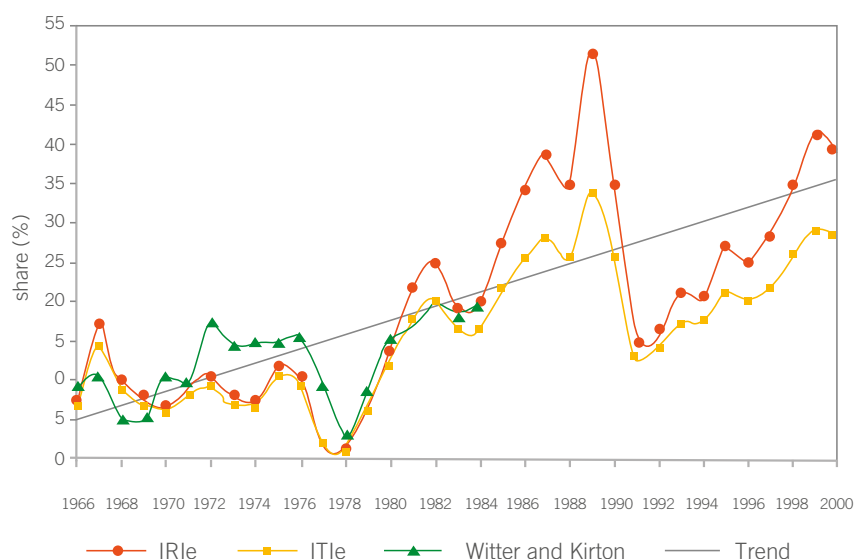
The 2001 Labour Force Survey showed that the informal economy represented 43% of the GDP of Jamaica. Research done by the IADB, measures the trend in the informal sector in relation to GDP between the period 1966 to 2000 (Figure 2 below). The results showed that there have been fluctuations in both the Index of Registered Informality (IRI) and Index of Total Informality (ITI). Interestingly, research done by Witter and Kirton over the period 1966 - 1984 showed similar trend for that period.

⁴ Inter-American Development Bank, 2006 "The Informal Sector in Jamaica", page 1.

⁵ <https://www.cia.gov/library/publications/the-world-factbook/geos/jm.html>

⁶ Rural Youth Poverty Reduction Project 2007-2011.

FIGURE 2- Informal Sector in Relation to GDP between 1966 to 2000.



Source: IADB.

There are a number of attributing factors to this increase in the informal sector, which includes increased in illegal activities, lack of knowledge of business registration, real challenges experienced in starting or doing business the tax burden borne by those who are compliant, as they are now made to pay taxes to cover those in the informal economy.

The informal economy is viewed as “disruptive to the national economy and a hindrance to development”⁷. Whilst this is the view by many policy makers, the flip side is that the informal sector is a large employer in Jamaica’s economy. The reasons for the attraction of the informal economy were covered in the previous chapter, but to summarise, they include, limited education, limited formal employment opportunities, lack of proximity to urban areas, and tax evasion⁸. Inherently, the informal economy stifles economic growth and productivity and although the exact figure of the hidden economy is not known, several attempts have been made over decades to address this problem.

2.4| Addressing Informality in Jamaica

Informal Commercial Importers

In the early eighties, attempts were made to a deal with informality by ensuring the registration of small importers. These mainly were individuals travelling abroad and returning Jamaica to sell clothes, shoes and other items which were purchased in other countries. They also included persons who were simply buying and selling locally. Informally, these individuals were identified as “higglers” or suitcase traders –walking around selling items. Formally however, they are known as Informal Commercial Importers (ICI)⁹.The underlying reason behind the attempts for registration of the ICIs was to ensure regulation for tax purposes, managing demand for foreign exchange and ensuring some semblance of order to sidewalk trading activities.

⁷ Williams, Colin C. (2005). “The Undeclared Sector, Self-Employment and Public Policy”. International Journal of Entrepreneurial Behaviour & Research 11 (4): pages 244–257.

⁸ Wedderburn C. et al, Journal of International Business and Culture Studies “The informal economy is Jamaica: Is it feasible to tax this sector?”

⁹ ILO, Informal Employment in Jamaica, page 8.

The fact that these persons engage as suitcase traders are mainly because they will escape the perceived burdens associated with business registration, being operational costs, compliance and taxation. Unless there is a form of incentive offered to the ICIs to persuade them to formalize, then they will continue with these types of operations.

Initiatives

On a larger scale, various initiatives have been adopted to curtail the informal economy. These ranged from proposals for special PR campaigns¹⁰ aimed to highlight the negative effect of tax evasions and also to bring to the fore, the importance of taxes in providing social services to citizens. Additionally, the legislative arm plays a crucial role, since they provided the necessary legal framework to protect workers. It was recognised that workers with union protection will be afforded better working conditions¹¹. Conversely, other projects to upgrade social protection by revising legislation will ultimately lead to higher labour cost. This causes a cyclical effect by effectively, reducing formal employment which leads to more persons moving towards the informal sector.

Inherently, persons “on the ground” require immediate needs and do not necessarily see the “big picture” government, policy workers and legislators may be trying to attain. In order to address this challenge, it should be made mandatory for persons to join national insurance schemes once they are employed. This public relation could perhaps be adopted from the standpoint of “worker protection” in times of unemployment, sickness and maternity.

Business Development

The Ministerial Report for Jamaica Business Development Corporation 2008 /2009 identified that for the Business Training and Development Component, it is important to not only identify initiatives for skill acquisition, but to implement such initiatives. Largely, business support is provided with the aim of building capacity in new and existing businesses. Additionally, in order to create an environment for formalization of businesses (MSMEs), collaborative efforts were made with regulatory agencies. This augers well for creating a conducive and stable climate for potential investors.

Public Policy & Labour Legislation

Public policy dealing with informality since the 1980s appears to have been focused on the collection of tax revenues. This is obviously an important strategy to increase government revenue and to enable the provision of government services. However in the continued prevalence of low economic growth, a social protection deficit and the incentives provided to capital intensive activities it is difficult to see how effective tax collection programmes will be in promoting formalization.

Despite the existence of extensive labour legislation, protection for workers is fairly limited, being strongest for members of trade unions and workers with verified employment contracts. The situation is entirely less certain in the areas of informal employment in both the formal and informal sectors. Liberalization and austerity policies and support for investors since the 1980s has eroded the membership of organized labour and weakened the ability of the state to enforce compliance with labour and social protection legislation. Weak enforcement on the part of the state creates substantial difficulty for contract workers to receive protection and ensure employers meet their responsibilities. Ironically, the absence of sufficient social protection mechanisms increases the pressure towards informality, which in turn places pressure on the existing social safety net.

¹⁰ Budget Memorandum 2012/2013.

¹¹ O. Taylor, 2001 “The Employment Relationship-Jamaica National Study, 2001”.

Government statements between 2008-2009 and 2013 have indicated the intention to initiate policies focused on:

1. Improving social protection.
2. Promoting labour market development.
3. Engaging in enterprise development.

Such policy ideals may, if executed, result in the promotion of formalization. However these directives will take place within the context of Jamaica's 2012 Extended Fund Agreement with the IMF, with a renewed emphasis on liberalization and revenue collection. To date, Jamaica has evidenced weak and fragmented policies towards employment development, a reduced capacity for labour and social protection and a continuation of economic and fiscal policies which have yet to support either job creation, small and medium sized enterprise development or economic growth.

If one views the Uruguayan experience as the optimum trajectory for promoting formalization, we again see the impact of that which is lacking - economic growth, which is needed to create that crucial space and capacity for the state to be active and innovative in promoting employment creation and providing incentive for investment and enterprise development.

As FORLAC suggests, for the promotion of formalization in Jamaica there is a need for the development of a different development strategy that meets the simultaneous and mutually reinforcing objectives of:

1. Economic growth.
2. Productive employment generation.
3. Providing incentive and support for small enterprises development.
5. Strengthening of social protection mechanisms and institutions.
6. Providing incentive for human and capital investment.

If the liberalization/austerity policy matrix continues to limit the possibility of economic growth and the space for innovation, then it is difficult to see how the entrenched position of informal enterprise and employment will be reversed.

The MSME Policy tabled 16th May 2013, included informality as a policy issue and defined the policy objective to address this issue, which is: "to encourage business formalization in the MSME sector¹²". The proposed policy strategies seek to simplify and make more efficient business licensing and registration. Further, the strategies also seek to promote marketing and business development assistance to registered firms. The two strategies work in tandem as they encourage business registration and provide the requisite business development service to these new registrants.

¹² Jamaica MSME Policy, 2013 page 35

3 | Innovative Country-Level Experiences Promoting Transition to Formality

The transition to formalization is not standardised and therefore countries, depending on their individual situations would adopt initiatives that are informed by their circumstances. In this regard, the summary cases below highlight some key initiatives implemented by the respective countries.

3.1 | Formalization in Uruguay

Uruguay has demonstrated some level of success in decreasing the size of its informal sector. The approach used to determine the size of the informal sector is the increase or decrease in the number of persons covered in the national social protection scheme. This national mandatory contributory scheme is run by the government and involves a two-prong approach. One aspect is a:

“transition scheme in which workers are only affiliated to the Social Security Institute (BPS) and a mixed scheme which combines a system of inter-generational solidarity and individual funding, in the mixed system workers are members of the BPS (pay as you go system) and based on their incomes of a Social Security Saving Funds Administration (Funding System)”¹³.

Between the periods 2001-2002, Uruguay's experience provides some positives with respect to decrease in the informal sector based on the levels of participation in the BPS. Generally, Uruguay has seen about 6% increase participation in its BPS over 2003-2012. One of the key lessons or areas of significant importance is the growth of female participation in the formal work environment to just over 5% in the BPS.

3.1.1 | Economic Growth

FORLAC describes Uruguay's GDP growth as averaging 4.1% between 1990 and 1999 and then 5.5% between 2000 and 2012. This growth has been accompanied by significant improvements in labour market indicators over the same period. An important indicator identified is the increase in contributions to the social security institute, Banco de Prevision Social (BPS). Other labour market indicators include:

1. An increase in aggregate participation and employment rates.
2. A decrease in open unemployment.
3. An increase in real average wages.
4. A reduction in informal employment as a percentage of total employment.

It is also significant that Uruguay's economic growth took place despite the economic crisis of 2008. Economic growth was accompanied by the aggressive implementation of diverse economic and social protection policies focused on the creation of new and quality jobs. The increase in the availability of work over the period was indicated by the increases in the aggregate participation rate (going from 58.1% in 2003 to 64% in 2012) and in the female activity rate (56.2% in 2012). This has been supported by the demand for labour, indicated by an 11.3% increase in aggregate employment between 2005 and 2012, with an accompanying 26.5% increase in female employment and a simultaneous 10% increase in male employment, as well as a decrease in the rate of open unemployment to a record low of 6.7%.

¹³ http://www.ilo.org/dyn/ilossi/ssimain.viewScheme?p_lang=en&p_scheme_id=1655&p_geoaid=858

The most significant aspect of the Uruguay developments of the period for formalization is the 15.1% decrease in informal employment in relation to total employment, with a downward trend in all informal employment in all occupational categories.

3.1.2| Collective Bargaining

The Reactivation of Collective Bargaining in 2009 was achieved via the introduction of a tripartite and bipartite institutional structure to, among other things, assist in the fixing and enforcement of the national minimum wage and wage levels in different labour categories. This approach resulted in wages that made the formal employment sector more attractive.

3.1.3| Tax Reform Programme

From 2007 a comprehensive tax reform programme was initiated to improve economic and administrative efficiency and to give incentive to the investment and employment creation. The result of the tax reforms and incentives was to:

1. Increase the number of workers protected by social security.
2. Increase the number of formal jobs created.
3. Increase levels of investment training, fixed assets and research and development.
4. Increase in the number of businesses registered under the tax regime.

The adjustment to the level of pension contribution by employers has the intention of creating an environment that would see workers in related sector even more protected and possibly making employment in these sectors more attractive. The sustained period of economic growth allowed the government to implement fiscal policy that countered the impact of the 2008 global financial crisis. By increasing public sector investment and government consumption Uruguay was able to sustain a 4% growth in real GDP in 2009.

3.1.4| Social Security Programmes

An important part of the formalization process involved the alignment of and improved access to social security programmes at risk populations, including health insurance, unemployment, pension and retirement benefits. FORLAC suggests that this provided a microeconomic incentive for formalizing employment in all sectors and provided institutional protection to formal employment in adverse economic conditions.

The access to social protection for self-employed and their spouse was also implemented as a tool to facilitate these informal businesses become formal. This involved the payment of a single tax for both husband and wife which gave access to state social security.

As such, Uruguay demonstrates an almost perfect confluence of mutually reinforcing factors comprising economic growth, fiscal policy, tax reform and social security initiatives. Government action has clearly been facilitated by economic growth, but government policies directed at job creation, the extension of social protection and fostering social participation, has also sustained economic growth by contributing to economic and labour force efficiency and productivity. The Uruguay experience shows the importance of effective Government intervention in the context of economic growth and the fostering of mutually beneficial social partnership.

3.2| Formalization in Mexico

Over the last twenty years, the Mexican economy has grown at an annual rate of 2.6%. While the rate of growth has increased between 2010-2012 it is expected to show growth of 3.5% in 2015. FORLAC suggests that the consequence of the low rate of economic growth was mainly because the economy could not absorb the expansion of the labour supply over the period. This led to the economy being characterised by persistently high levels of informal employment, estimated at 60% of total employment in 2011 and 58.79% in 2014. (National Statistics and Geography Institute (INEGI) 2014 Press release N° 87/14) Interestingly, the high rate of informal employment occurs in the context of low level of open unemployment.

Statistics also show that informal employment varies considerable from state to state, dependent on the degree of development of the labour market. The overall rate is described as the result of slow productive job creation and the lack of protective mechanisms for workers who become unemployed.

3.2.1| Strategies

FORLAC analysis suggests that the process of formalization of jobs requires a simultaneous effort to create productive jobs and the provision of incentives to transition to formality (as demonstrated in the Uruguay experience). FORLAC argues that economic growth requires strategies for both export activity as well as activity for domestic consumption, as this is the primary location of small enterprises. However the Mexican national growth strategy has traditionally focused on export development to the detriment of domestic demand. This has resulted in a lack of support for small and medium enterprises as an important site for the production of formal employment. The Mexican focus on export has also made the economy highly dependent on the US economy which consumes 80% of Mexican exports. This dependency also exposes the Mexican economy to instability initiated by changes in the US economy, as in 2008-09. This situation of vulnerability small and medium enterprises is further exacerbated by:

1. The absence of enterprise development policies.
2. The financial systems risk reduction approach to crisis situations as the 2008 financial crisis.
3. The absence of social protection mechanisms offer unemployment protection and to give incentive to remain or transition to formal employment.

3.2.2| Mexican 2013 Formalization Programme

State, Federal district and the national government agreed to conduct a programme in 2013 to formalize 200,000 informal workers by 2014. The objectives of the programme included:

1. To ensure workplace compliance with Federal law on employment and social security.
2. To affiliate workers in all sectors to the available social security systems on both a mandatory and voluntary basis.
3. To make the Mexican Social Security Institute (IMSS) managed social security system more simple and accessible.

Additionally, the government has begun to institutionalize two new social protection initiatives, such as, the right to universal pension for aged persons and unemployment insurance. Policies such as these are considered essential in preventing workers who lose formal employment for transitioning into informal employment.

1. State practices which have been recognised as effective in the formalization programme include:
2. Youth training and job placement programmes.

3. Target labour inspections supporting enforcement, compliance and labour laws and the thrust for enterprises to formalize workers.
4. Government formalization of workers in employment relationships with the state at various levels.
5. Government programmes linking procurement practices with formalization by suppliers.

The Mexican experience has shown variable degrees of success at the state level, with initiatives that show some promise in affecting formalization. It is yet to show significant universal or aggregate change in the rate of informal labour however. The policy initiatives in the areas of social protection, training and enterprise development are important, but in comparison to Uruguay, are still relatively limited. If the Uruguay experience is taken as best practice then formalization in Mexico potentially lacks the crucial variable of sustained economic growth which creates the room for more ambitious policy initiatives to provide strong job creation, provide incentive for human and capital investment and for the transitioning to and protection of formal employment. Economic growth may not be sufficient to ensure formalization occurs, but it is unclear whether formalization can be driven in the absence of economic growth.

The formalization of employment requires great co-ordination of public and private resources and efforts. The promotion of economic growth with job creation is an essential prerequisite of formalization, wherein the development value chains are essential, as are economic activities for domestic consumption, where the majority of smaller enterprises operate. Based on Tokman (1978), informality trends exist in Latin America because of recent economic development and industrialization when compared to more developed countries, and due to their marginality in the global economy. He assumes that this context creates difficulty in generating jobs having low investment and a large number of migrants moving from rural to urban centres, creating informal jobs in the process. His analysis, however, provides no room to government intervention in public policy making.

Institutions such as the Mexican Social Security Institute (IMSS) and the Labour and Social Protection Secretariat operating within the guidelines of the Federal Law on Employment and the social security law all greatly impact the efforts to formalize employment in Mexico. One of the major thrusts of formalization is the advocacy of voluntary alignment of groups such as domestic workers, non-wage workers, cooperative members, communal landowners and small-scale landowners to mandatory social security systems. Supporting state governments in meeting targets through linkage activities developed by the National Employment Service is also included in the formalization efforts.

Measures designed to simplify the registration of enterprises and compliance with tax obligations help curtail informality through enterprise development, particularly micro enterprises. In the context of economic uncertainty, the financial system tends to react to mitigate risk, which consequently exposes the vulnerability of micro and small enterprises. Therefore, it is necessary to ensure that banks and development institutions disburse capital to these enterprises and engage them to maintain their liquidity when the lending environment is constrained. All these activities help maintain employment levels, deter the transition of these institutions into the informal economy and encourage entrepreneurial venture which, in this established and regulated sector, create more formal jobs.

The ILO has identified experiences in reducing informal employment in states with a relatively low rate of informality in 2013; in those that recorded declines in informal employment between 2010 and 2013; and in states that applied successful programmes to reduce informal employment. This remains one of the most recent studies of the application of state programmes to reduce levels of informality. It was also discovered that informal employment varies significantly among the Mexican states, both in terms of levels of informality and trends.

Among the practices focusing on linkage with the labour market and job training, Nuevo León's "Specific Employment Workshops (JALE)" programme is noteworthy. The JALE seeks to increase the

job placement rates of workers registered with the State Employment Service as well as to provide training free-of-charge to job seekers to enable them to acquire skills in areas of market demand. In 2013, 133 JALE were organized, and 16,300 workers were placed in jobs in the formal sector.

One innovative experience that could be evaluated for replication in future programmes is contained in Mexico's Federal District where efforts are focused on strengthening the linkage between unemployment insurance, the Mexico City Employment Portal and the Federal District Training Institute.

Among the so-called cooperative practices, the initiative for Cooperative Promotion of the Federal District is prominent, as well as efforts associated with the restructuring of public transport. In Hidalgo, the Tuzobús service is planning the formalization of 400 direct workers in 2014. The Q Network, which seeks to improve public transport efficiency in Querétaro, has formalized 2,000 drivers, who were registered with the IMSS. For its part, Chihuahua launched the new Vivebús transport system in 2013, with the formalization of 1,056 urban drivers.

In terms of enterprise promotion, the programme "Made in Nuevo León," seeks to promote the commercial potential of micro and small enterprises in the state through business advisory services for exporting to 1,100 member firms. In addition, Baja California has implemented the programme "Formalization of community-based enterprises", which has led to the formalization of 10,198 enterprises since 2009. It also operates the School for New Entrepreneurs, which has provided business training and advisory services since 2008. To date, 4,988 enterprises have been established.

As a result, Mexico is well focused and has strategically positioned itself to address the issues of informality which has only experienced a marginal reduction as at January 2014, moving to 58.79% of total employment downward from its previous assessment where it held at 60%. Mexico is attempting to adopt a holistic approach to addressing informality by tackling the two dimensions of informality most present in its economy. The evaluation of the various methodologies adopted remains outstanding however and only time will articulate the success of the various initiatives and opportunity for the replication of efforts.

3.3| Formalization in Brazil

The rate of formality in Brazil rose from 42.7% in 2008 to 56.6% in 2012. Formality increased among different employment sectors including civil servants and the self-employed as well as among black workers, with a smaller increase amongst agricultural workers and domestic workers. Wage employment grew over the same period by 31%. It is interesting to note that the increases in formality rates occurred in spite of the 2008 financial crisis.

There remains a significant gender gap in formality rates however, with 81.3% among men and 62.3% among women. It is suggested that the difference is accounted for by the concentration of women in domestic and personal services which are more precarious and difficult to audit.

3.3.1| The Economic Context

Up to 2004, the Brazilian economy experienced two decades of recession and stagnation. After a change in governments the Brazilian economy experienced increases in investment and in GDP growth. The economy also benefitted from the recovery of commodity prices as a result of Chinese demand for raw materials. Sustained Chinese demand over the next five years would create a surplus of trade and liquidate the national debt, as well as allowing the state to accumulate sufficient reserves to survive the 2008 economic crisis without a recessionary dip. A combination of domestic consumption, credit expansion and redistributive measures resulted in a reduction of inequality. GDP would fall by 0.3 % in 2009 and rebound by 7.5% in the next year.

The state would later reverse some economic policies as a result of the inflationary effects of the robust recovery. The state reduced levels of public investment allowing a slowdown in the rate of increase of GDP to 2012 which was accompanied by a significant decrease in private investment. The global economic crisis and the slackening of global demand also produced a trade deficit, as Brazilian consumption drove the importation of manufactured goods.

3.3.2I Policy & Legislative Strategies

Despite the slowdown in economic growth, the policies of the state continue to support the increase in employment formality. These include:

1. Improvement and computerization of the tax system making easier inspection and auditing.
2. Tax reform on the sale of consumer goods.
3. The expansion of credit.
4. The simplification of government bureaucracy.
5. Changes in microeconomic policy to support business development.
6. Reform of government procurement policy.
7. The provision of incentives to formalize specific employment sectors.

Since 1988, significant strides have been made in strengthening legislation and institutional mechanisms to enforce labour laws and to monitor compliance with social protection and labour rights. Effort has also been spent in strengthening trade unions, collective bargaining mechanisms and social dialogue mechanisms.

The Brazilian experience again demonstrates the importance of a sustained a period of sustained economic growth in creating the opportunity to implement a variety of policies that simultaneously support economic growth, business development, productive job development and social protection policies. The creation of the policy opportunity enabled Brazil to sustain formalization even in the context of subsequent periods of reduced economic growth. Brazil demonstrates that formalization actually becomes an important part of an economy's ability to resist the effects of periods of economic crisis, and support sustainable rates of recovery and growth. Both the Brazilian and Uruguayan experiences show the importance of a wide diversity of policy initiatives coordinated to support formalization. This becomes very instructive for the Jamaican efforts at formalization.

3.4I Formality in Ecuador

Several studies have confirmed that informal employment in Ecuador has declined in recent years, particularly in the formal sector. The implementation of institutional and political changes designed to promote increased compliance with labour law has favoured public and private wage workers as well as domestic workers. The main challenge for the future is to reduce informal employment in the informal sector.

In the labour market, employment among public and private wage workers rose from 54.3% in 2000 to 56.3% in 2012. The percentage of own-account workers also increased, from 30% to 31% as a share of total employment. Especially noteworthy was the decreased participation of contributing family workers and domestic workers, categories where the incidence of informal employment tends to be higher. Similarly, there was a reduction in the category of employers.

3.4.1| The Economic Cycle and Informal Employment

With respect to the effect of the economic cycle on the reduction of informal employment, there is no significant association between annual average growth of the main non-oil economic sectors and rates of annual average change in the incidence of informal employment in those sectors, at least during the period of reference. In other words, there is no evidence that the fastest-growing sectors had greater relative reductions in informal employment during the period.

In this regard, a recent study indicated that the net effect of the economic cycle on informality depends on the prevailing flows of labour transition. Thus, the decline in informality between the first quarter of 2007 and the fourth quarter of 2010 appeared to be associated with a balanced effect between fewer relative entries into informality (53%) and increased relative exits from informality (47%). Likewise, an increase in relative entries into informality and a decline in relative exits from informality drove the formalization process among wage workers.

Since 2007, the Government of Ecuador has promoted a set of labour policies designed to improve employment conditions.

In 2008, the National Constituent Assembly eliminated several forms of precarious employment. Specifically, it eradicated labour subcontracting and hiring by the hour, with a view to eliminating sources of non-compliance with labour rights. These changes are designed to guarantee part-time employment with stability, integral protection, proportional remuneration and the right to all benefits stipulated by law, including social security coverage. These measures should be evaluated in the future, with an emphasis on identifying the adjustment measures used by enterprises in response to these changes.

3.4.2| Expansion of Social Security Coverage

Policies of the 2009-2013 National Good Living Plan included the promotion of social security and its expanded coverage, development of dignified working conditions and respect for labour rights. It established a 2013 target rate for social security coverage at 40% of the population. The Ministry of Labour also aligned its institutional policies with the plan, whose 2013-2017 version has an objective –the ninth, “guarantee dignified employment in all of its forms”– which establishes the target of increasing contributory social security coverage among the labour force aged 15 and over from 41.4% in 2012 to 60% in 2017, and from 32.7% to 50% at the rural level.

Additionally, the 2001 Social Security Law mandates that public institutions must obtain certifications of contributions paid to the Ecuadorian Social Security Institute (IESS) by construction firms. This regulation may have contributed to the formalization of construction workers in a context of a major increase in public investment in infrastructure, which rose from 4.1% of GDP in 2007 to 12.1% of GDP in 2012.

Despite the delay in defining non-affiliation to social security as a criminal offence, the expectations for the penalization of this offense could have served in practice to pressure enterprises to formalize employment relationships since the drafting of the new 2008 Constitution. This was strengthened by the public consultation of 2011.

On 10 February 2014, the National Assembly issued the Comprehensive Criminal Code, which defines in three articles the criminal offense for not providing IESS coverage. Article 242 refers to the illegal retention of social security payments, punishable by a prison sentence of one to three years; in the case a corporation is found to have criminal responsibility, the penalty is the closure of the establishment until workers' payments are made in full.

Article 243 establishes that an enterprise can be intervened and fined in the amount of three to five basic unified salaries of the worker, in general, for each worker without coverage. Finally, Article 244

establishes sentences for employers who fail to provide social security coverage to their workers. Jail sentences range from three to seven days. The sentences and fines of articles 243 and 244 are applied if the employer does not pay the amount due within a period of 48 hours after receiving notification.

3.4.3| Strengthening of Labour Inspection Offices

The Ministry of Labour launched the restructuring and strengthening of labour inspection offices in 2009. This process consisted of encouraging the resignation of long-serving inspectors, the hiring of new ones and a salary increase. The number of inspectors rose from 65 in 2006 to 245 in 2011. In addition, the management of inspection offices was changed from a passive model that simply received complaints to an active one, with a plan for inspections nationwide through seven regional directorates.

In 2010 the “Dignified Domestic Work” campaign was launched to promote and ensure compliance with labour law in the hiring of domestic workers. In 2011, in coordination with the IESS, this campaign was expanded to include all workers and was renamed “Dignified Work”. The inspection programme seeks to raise awareness of workers and employers regarding their rights and responsibilities and eliminate precarious forms of employment. To achieve this, the campaign uses information, prevention, verification and control in homes and enterprises of compliance with labour provisions of the Constitution and Labour Code. Initially, communication campaigns were implemented in the leading television, radio and print media, accompanied by information brigades on main streets of cities. Non-compliance with labour obligations by employers, results in the application of fines established in the Labour Code and the rectification of the situation of workers. Additionally, the IESS takes legal recourse to collect the amounts due.

As a result of the above, the Ministry of Labour significantly increased the number of labour inspections compared with previous years and the IESS reported that the number of registered employers rose from 140,759 in 2008 to 320,823 in 2011.¹⁸ In addition, the number of people covered by mandatory general insurance, which is the main social security system, increased 81.4% between 2007 and July 2013.

The World Bank study (2012) found that 8.5% of enterprises reported having been inspected during the past year by the Ministry of Labour, and 11.1% by the IESS. It also found that “once inspected by one institution, the probability that a firm receives a visit from other inspectors increases substantially,” and identified a correlation of 0.50 in inspections of the Ministry of Labour Affairs and the IESS.

3.4.4| Standardization of Working Conditions for Domestic Work

For the group of domestic workers, a minimum wage increase was promoted to equal that of workers overall, as was their mandatory social security affiliation, right to holidays and overtime pay, reserve fund, and receipt of 14 salaries a year.

In the context of the Ministry of Labour’s “Dignified Domestic Work” campaign, inspectors went door-to-door in middle- and upper-class neighborhoods and directly interviewed domestic workers on their employers’ level of compliance with labour law (social security coverage, working hours, overtime pay, holidays, payment of 14 salaries per year and the reserve fund).²⁰ After the visit, the inspectors placed a “Dignified Work” sticker at the entrance to the homes. Additionally, the Ministry of Labour offers training to domestic workers and promotes their association.

3.5I Formality in Colombia

Colombia is one territory which has benefitted from the introduction of policies and programmes to address informality in its economy. Recent studies have indicated that non-agricultural informal employment stood at 55% in 2013. This represents a decline from 58% in 2009 and illustrates that informality is a phenomenon which continues to exist despite the best efforts administrations to counteract its existence. Colombia's economic growth rates have consistently illustrated positivity and stood at an annual average of 4.3% for the past decade and projected to grow at a rate of 4.5% at an even greater rate than that project for the Latin America and Caribbean region. This growth has enabled the country to endure the global crisis of 2009 as well as other economic downturns in the euro zone and the recent economic slowdown in the United States and China. One study indicates that recent economic growth in Colombia was driven by high-productivity, capital-intensive sectors but with low levels of formal job creation and weak sector linkages, such as mining.

Colombia has adopted a systematic approach to addressing the informality in their economy, specifically toward the reduction of informal employment. Recent ILO studies indicate that the reduction in informal employment observed in recent years in Colombia resulted from a combination of economic growth, legislative initiatives and institutional reforms. Colombia has become known as one of the territories in Latin America which has adopted vigorous approaches to address the subject of informality. Organizations such as the National MSE Council which is responsible for programmes such as, the National Guarantee Fund which provides loan guarantees and robust legislation and consistent legislative reforms have been systematic approaches by Colombia toward the reduction of informality. Opponents claim that despite their intended benefits, people become dependent on such programs and under-report or hide their income to ensure their eligibility.

3.5.1I Economic Growth

One study suggests that the strong economic growth in recent years contributed to a decline in informal employment. Between 2001 and 2013, output per worker grew 26%, representing a growth rate of nearly 2% annually. Informal employment indicators also experienced a downward trend although at a slower rate than the reduction in poverty. It is postulated that this is because economic growth, though still necessary, is insufficient on its own for the formalization of employment.

3.5.2I Legislative Initiatives

Since 2000, several legislative initiatives have been adopted to create new institutions and apportion increasing resources to promote entrepreneurship and the formalization of economic units. Between 2000 and 2011, a number of laws and law reforms were passed with the ultimate goal of providing support to micro and small enterprises. Consequently, an agency known as the National Micro and Small Enterprise (MSE) System was created to administer financial and non-financial support to these economic units. Specific financial tools include credit and micro-insurance lines, loan guarantees, a seed capital, and funding to provide modernization and innovation to MSE.

Additionally, the system has different programmes to support MSEs, such as “Emprende Colombia” (on innovation processes), “Colombia se formaliza” (“Colombia becomes formal”, income tax benefits, social security and payment or renewal of the business registration), the “Delco Project” (strengthening of value mini-chains), “Colombia compra eficiente” (access of MSEs to public bidding processes) “Compre colombiano” (promotion of microenterprises and their exports) and “Exporta fácil”.

The adoption of Law 1429 on the Formalization and Creation of Employment in 2010 was another deliberate strategy of Colombia in addressing informality. This law aims to increase the benefits of formality through business development programmes, while reducing its costs through the reduction

of procedures and the progressive payment of some taxes and social contributions in the infant stages of business.

3.5.3I Formalization Agreements

Colombia has recently advanced in the promotion of the formalization of labour relations through formalization agreements to discourage informal practices. Consequently, the adoption of new laws has established mutually beneficial relations with employers, who can earn deductions for taxes they pay on employees' salaries and social security contributions for the workers they move into formal employment.

New initiatives associated with the formalization of enterprises include brigades for formalization, service rounds for formalization, projects for sectors and regions which, in addition to assistance with formalization, enterprise formalization workshops by specific zones and sectors. All these initiatives seek, among other objectives, to promote the formation of value chains and development of suppliers, raise awareness of informal production units, provide guidance and coaching in the formalization process and offer a public and private services packet for formalization. Additionally, sectorial strategies were developed for training, professionalization and formalization in the sectors of agriculture, construction, mining and transportation.

Other Despite the many efforts, evidence from feedback instruments indicate that economic growth and institutional strengthening have limited effectiveness in achieving formalization, particularly given the diversity of the productive and labour market structures in the Colombian economy. Cost benefit analysis may also be required to match the effort with the return accomplished. The Ministry of Finance estimates the fiscal cost of granted tax benefits in relation to income tax. In 2008 the estimated fiscal cost from the deduction of 40% of the investment in fixed real assets rose to 3.8 billion pesos. Assuming that the cost is proportional to income subjected to taxes, the projected cost will impact significantly on the monetary reserves of Colombia¹⁴.

Tripartite social dialogue toward consensus-building within the Permanent Commission for Consensus on Labour and Wage Policies on actions should be developed within the near future to ensure continued progress and to address pending areas, with a view to accelerating the process to formalize employment.

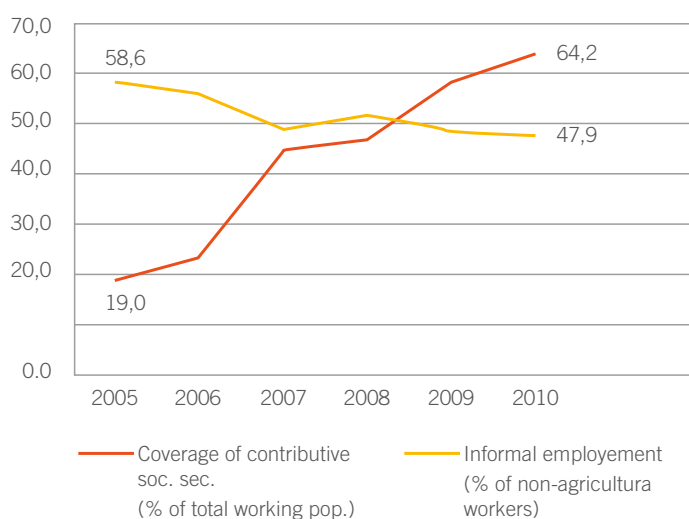
3.6I Formality in Dominican Republic

The Dominican Republic has experienced growth rates in GDP greater than 5% since 1992 to 2012, except for the negative growth in 2003. The country was able to manage its inflation rates and also provide incentives for certain sector such as tourism, tax exemptions low labour cost. Notwithstanding the positive developments in the economy, this did not result in an equally positive employment rate and the poverty level was also in excess of 40% at the end of 2011.

Generally unemployment levels have not benefited from the positive economic activity in the country and in fact the wage levels between 1990 – 2000 declined by some 27% which is not helping with the poverty levels in the country. With respect to informal employment, between 2005 to 2010 this figure declined from 58.6 % to 47.9% respectively. According to the data collected by the ILO, the drop in informal employment “coincides with the coming into force of the health insurance contributive scheme of the new social security system”.

14 “Marco Fiscal of Mediano Plazo”, 2009

FIGURE 3 - Health Insurance Scheme and Informal Employment in Dominican Republic 2005 to 2010.



Source: ILO.

The above diagram reflects reverse correlation between the health insurance contributive scheme and the levels of employment in the informal sector.

The introduction of the Dominican Social Security System was implemented as a result of deliberate legislative action. Between the period 2003 to 2007 various aspects of the system were introduced which resulted in continuous expansion 576, 869 or 18.6% of the working population to over 2.7 million individuals or 68.7% in the year 2012.

3.7| Formalization Initiatives at a Glance

Further to the cases from Latin America and the Caribbean described above, numerous other countries have employed various strategies to facilitate the transitioning from the informal to the formal sector. These strategies are varied in nature but can be captured under any of the seven key avenues toward formalization as identified the ILO in 2013. The table below highlights the strategies employed by some countries with respect to formalization.

TABLE 2 –Formalization Initiatives at a Glance

Country	Growth strategies and quality employment generation.	Regulatory environment, including enforcement of international labour standards and core rights.	Organization, representation and social dialogue.	Equality: Gender, HIV status, ethnicity, race, caste, age, disability.	Entrepreneurship, skills, finance, management, access to markets.	Extension of social protection: Building social protection floors and social security systems.	Local (rural and urban) development strategies.
Morocco	Communication Campaign: sensitization, success stories, ICT solutions.				Business Development Services for Entrepreneurs; Business ideas financing.		
Syria					Agency for Combating Unemployment (ACU) –business development services, business incubators.		Rural programmes –micro credit and training programmes; business incubators.
Jordan		Amendments to legislation to include social security coverage for domestic and agricultural workers.			Development and Employment Fund (DEF) –providing technical and financial support; micro-credit schemes aim at enhancing the inclusion of marginalised groups, women in particular.	Expansion of Social Security –including business that had less than five employees.	
Uruguay	Taxation Structure Reform –Adjusted pension contribution and greater protection; social protection for self –employed and spouse, single tax payment with coverage for spouse.	Legislation –Introduced to give tax exemptions to businesses providing “decent” jobs.	Improved Collective Bargaining process (tripartite and barpitite (BIPARTITE? approaches): Increases in minimum wages.			National mandatory contribution scheme: transition and mixed schemes.	

Country	Growth strategies and quality employment generation.	Regulatory environment, including enforcement of international labour standards and core rights.	Organization, representation and social dialogue.	Equality: Gender, HIV status, ethnicity, race, caste, age, disability.	Entrepreneurship, skills, finance, management, access to markets.	Extension of social protection: Building social protection floors and social security systems.	Local (rural and urban) development strategies.
Mexico	Formalization of employment relationship between workers and the state. Government programme linking procurement and formalisation.	Institutional strengthening of labour inspection and enforcement agencies.		Youth training and job placement programmes.		Government Social Plan –Right to universal pension for the aged and unemployment insurance.	
Brazil	Reform of government procurement policy and government bureaucracy. Incentives to facilitate formalization of specific employment sectors.	Institutional and legislative strengthening – focus on inspection and auditing, computerized taxation system. Tax reform related to consumer good.			Develop existing microeconomic policy for business development.		
Ecuador	National Communication Campaign to promote compliance with laws. Standardization of working conditions for Domestic work –wages, mandatory social security, paid holiday, etc.	Implementation of legislation eliminating precarious employment: labour subcontracting and hiring by the hour. Construction sector: Social Security law requiring firms to obtain certification of paid contributions for employee (criminal prosecution for non-compliance). Institutional Strengthening of Labour Inspection Institution.					

Country	Growth strategies and quality employment generation.	Regulatory environment, including enforcement of international labour standards and core rights.	Organization, representation and social dialogue.	Equality: Gender, HIV status, ethnicity, race, caste, age, disability.	Entrepreneurship, skills, finance, management, access to markets.	Extension of social protection: Building social protection floors and social security systems.	Local (rural and urban) development strategies.
Colombia	Sectorial strategy for training, professionalization and formalization in specific sectors.	Adoption of Law 1429 on the formalization and creation of employment in 2010 –tax deduction for firms that pay social security contributions for workers they move into formal employment.			Creation of institutions (National Micro and Small Enterprise System) focused on financial and non-financial support. MSE sector support with various programmes: fostering innovation, etc.		
Trinidad and Tobago		Institutional strengthening and legislation reform for government agencies such as Labour Inspectorate. Domestic worker registry and legislation for protection.			Establishment of a National Enterprise and Investment Fund. Fair Share Programme for MSEs to access Government contracts. Financing for MSEs via a National Entrepreneurship Development Company.		

3.8| Summary of Country-Level Experiences

The experiences described above sets a foundation for development of an integrated approach to transitioning youths into the formal sector and also the creation of employment opportunity for youths. The 2013 ILO Labour Review for Latin America and the Caribbean developed a model that can be utilised for the development of a comprehensive approach. This model is captured below: W

FIGURE 4- Employment and Economic Policies to Promote Youth Employment.

Employment and economic policies to promote youth employment				
	Rights of youth			
		Unemployment youth	Meet youth	Youth in the informal sector
- Macro and microeconomic policies to boost the employability of young people and ensure productive employment - Pro-employment macroeconomic policies that support stronger aggregate demand and improve access to finance - Measures to promote the sustainable growth of the private sector and of enterprises - Countercyclical policies and public employment programmes, mechanism to guarantee employment, wage and training subsidies - Enabling policy environment to facilitate the transition to formal employment	- Develop young employment policies, consistent with national obligations and taking into account international labour standards - Promote and protect young workers rights to organise and to bargain collectively - Ensure compliance with established minimum wages applicable to young workers - Promote increased participation of youth in their organizations and encourage social dialogue	- Labor market policies - Employability Education, training and skills, school-to-work transition - Labour entry programmes Internships, apprenticeships, first job - Business Initiatives and own-account employment of youth	- Household tasks - Work family conciliation - Care policies - Campaigns to prevent adolescent pregnancy - Inactive Second choice programmes - Training and education - Conditional cash transfer programmes - Targeted programmes - Programmes for youth participation	- Incentive programmes for formalization - Employability: education, training and skills, school-to-work transition - Basic social protection floor - Labour market policies - Business initiatives and own-account employment of youth
		7.8 M	11.9 M	27 M
			4.6 M	

Source: ILO, Decent Work and Youth Report 2013. Regional Office for Latin America and the Caribbean, Lima (upcoming publication).

Note: Figures refer to the millions of young men and women who belong to each of these groups. These individuals are the main challenges for public policy design targeting youth.

4| Recommendations

The youth population unemployment in Jamaica at 2008 stood at 25.9% in the context of a youth working population of 500,000 individuals in 2012. Successfully transitioning the youths from the informal sector to the formal sector calls for some innovative approaches that should almost immediately impact the targeted group. The co-operative business model was identified as one of the most resilient forms of business after the economic downturn in 2008 and 2009. Further, in order to engage youths the business model should seek to ensure that these individuals feel just as empowered as if they owned and operated their own business in the informal sector. The transition to formalization utilising the co-operative business model will provide the youths with a medium to control their own destiny, thereby being further empowered utilising a business model that is proven to be successful with as minimal risk as possible.

Key to attracting youths to this sector is to devise strategies that will inform them of the collective approach to doing business and reduced risk of this method. The concept of collective ownership and autonomous and independence of the model should also be highlighted as it will further serve to reinforce the limited interference from the state in the affairs of the co-operative. Notwithstanding the limited interference from the state, once proper state support is available the co-operative can also be used as an avenue for training, education and skill upgrade of individuals and also influencing the social and cultural practices among the youth population.

Another approach to assist in transitioning youths to the formal sector is a comprehensive communication, public relations and media campaign similar in some respect to those adopted in the cases above. The campaign should in-fact be multi-pronged and in the case of Jamaica utilise some key influential young people to share information over a sustained period on the various concepts and benefits of transitioning to the formal employment sector. Jamaicans are well known for their deep dedication to their country, culture and the respect for their heroes.

With this in mind, the use of sporting and entertainment personalities to deliver sustained and structured messages promoting the formal business sector should have a significant impact on the decline of the informal sector. Related to this approach is the use of technological approaches to also reach youths. The development of online portals and mobile applications that simplify the process for areas such as business registration or simply accessing information should be undertaken in conjunction with the media campaign. The full potential of social media can be explored to further develop this strategy with respect to youth transitioning.

The informal sector in Jamaica is widespread in-terms of the business activities. Branding of some of the business activities utilising tools under the Intellectual Property framework can further assist in making transitioning to the formal sector more attractive. In areas such as agriculture, food processing, entertainment etc. the use of tools like Geographical Indicators and Trademarks can create a unique product and brand that will see benefits accessed due to association.

A comprehensive review of existing legislation may also assist in transitioning of the informal employment sector to formal employment is an undertaking that should be aggressively pursued. Such an undertaking should seek to ensure alignment with best practices identified from similar economies and countries, alignment with the Decent Work Agenda of the ILO, inclusion of specific legislation that addresses the key areas of the informal sector in Jamaica, Taxation as for MSEs, legislation making the transition process for MSEs as simple as possible and any other related area.

4.1| Entrepreneurship as a Strategy to Formality

There are a number of strategies outside of legislation which can be incorporated within the micro and small enterprise policies, with the aim to promote transition from the informal to the formal economy. Such policy initiatives are important because they promote the decent work agenda, encourage productivity and reduce poverty.

4.1.1| Entrepreneurial Development Programmes

It is important that an environment is fostered for the creation of new and sustainable businesses, which will alleviate poverty, increase employment, increase productivity and moreover, pave the way for economic development. One of the means to create this environment is by implementing the necessary institutional mechanisms, such as business incubators (BIs), public procurement programmes (set aside programmes).

Business Incubation Programmes Business incubators (BIs) bridge the gap between ideas and the actual business by providing the requisite support to achieve a sustainable business. This support

includes space from which to operate, financing, mentorship, business development training, professional and administrative services and access to a wider support network. BIs can be public (run by government and its agencies), private (for profit) or university-run. In Trinidad and Tobago there are examples of a number of business incubator programmes, run at the public and university levels.

National Integrated Business Incubator System (IBIS)

IBIS has been in existence since 2011 and falls under the purview of Enterprise Development Division of the Ministry of Labour and Small and Micro Enterprise Development (Trinidad and Tobago). The programme is implemented by the National Entrepreneurship Development Company Limited (NEDCO). IBIS is a wholistic programme, with two phases: pre-incubation and incubation. Candidates selected at the pre-incubation phase are provided with entrepreneurship and business skills training. At the end of this phase, individuals are to present their business proposal to a panel and some are shortlisted to the incubation phase. The incubation phase is for a period of three (3) years and is one where clients are offered space from which to operate their business, seed capital and equipment financing, mentoring and coaching, professional services, training and benefits from the strategic partnerships/alliances formed by the Ministry.

This programme is a model which can be used by other countries as it provides exposure to all persons in the programme, even if they are not shortlisted for the incubation phase. The entrepreneurship and business skills training promote capacity building and provide the foundation for a sustainable enterprise, which is crucial to reducing informality. Moreover, the programme is all encompassing, although primarily focusing on communities (Community Based Incubators), they enable private institutions to partner with the Ministry to implement commercial incubators.

4.1.2| Public Procurement Set-Aside Programmes

The contribution of the micro and small enterprises to economic development is immeasurable, as they are the foundation to innovation, competitiveness, job creation and productivity. An important fact is that micro and small enterprises serve as an entrance to the workforce for many persons, where in some cases the skill requirements for entry may be low.

In spite of their contribution to the economy, micro and small enterprises do not possess the luxury of resources (financial and otherwise), as their large counterparts and are at a disadvantage in terms of fulfilling the basic requirements to tender for large contracts –particularly, public (government) contracts. Given this, there has been the introduction of public procurement set-aside programmes, which basically “sets aside” public contracts with a threshold to micro and small enterprises.

One of the eligibility criteria in order to apply for such contracts is that the business must be incorporated as a company. This encourages business owners in the informal sector to formalise their business so that they meet the eligibility criteria in order to tender for the contract.

The Fair Share Programme

Fair Share is a set aside programme which is under the purview of the Ministry of Labour and Small and Micro Enterprise Development (Trinidad and Tobago), and it provides the opportunity for the MSEs registered with the programme to tender for public (government) contracts up to TT\$1.5 million. One of the criteria to be part of the programme is that the MSE must be registered under the laws of Trinidad and Tobago. The businesses that are part of Fair Share are certified for an initial period of two years and must fulfil certain requirements in order to remain compliant.

The Ministry has embarked on capacity building training for the business owners, in areas such as procurement and finance. The aim here is to adequately prepare the entrepreneur not only to tender for public contracts, but it; provides the foundation to improve their business operations.

4.2| Microfinance

Micro finance is a means of financing for the informal economy and there is great interest in the link between micro finance and the transition to the formal economy. The conclusion here is that, as businesses grow they will be motivated to formalise as they pursue larger sources of finance.

Even at the initial stage, consideration could be given to bundling micro financing with business development services such as training, mentoring and coaching. This has the characteristics to act as a catalyst to formalisation.

4.3| Business Intermediaries

The employees and businesses operating in the informal sector are in no way for the most part reaching full potential. These businesses and individuals have potential for significant growth and development. The question therefore is how to achieve this growth and create more wealth for individuals. Businesses in the informal sector can be encouraged to move along the value chain, particularly those operating at the primary level of production, which can be achieved utilising one of two business models:

1. The model could involve government creating an intermediary company to conduct business with the primary producers, thereby providing a guaranteed market for these individuals. However, to become involved in this business model, the primary producers will be required to transition to the formal sector.
2. Alternatively, these individuals can be encouraged to establish cooperatives among themselves, which they will own, manage and control. Again, the co-operative will be responsible for providing a guaranteed market to its members that are involved in primary production. Therefore, these informal sector businesses are now actually part of the formal business sector via the cooperative business. This model ensures that the business owners in the informal sector maintain control throughout the value chain and share in the creation of further wealth.

CONCLUSION

It is evident that the matter of transitioning informal employment to the formal employment sector is a critical global issue that is not only linked to achieving decent work, but is also related to the Millennium Development Goals such as Poverty Eradication. The transition of individuals to the formal sector will positively affect this objective as access social security, fair wages and working conditions will assist in moving individuals well beyond the poverty level.

The country cases and their respective strategies to reduce informal employment are having some level of successful impact. The effects are seen in the reduction experienced by some Latin American countries as highlighted above in the summary cases. However, an even greater impact can be made by adoption of the integrated approach in the policies or strategies to be implemented.

Jamaica and its youth working population are faced with the challenge of transitioning a very dynamic informal sector, but it is by no means an impossible task. The recommendations above are not taken wholesale from the various country cases reviewed but have been tailored to the specific environment that exist in Jamaica. These recommendations it is hoped will serve as a foundation for further development of strategies to address the Jamaican situation.

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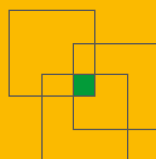
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