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Strengthening labour inspection in Santa Fe. Detection of informal employment and its registration (2012 - 2015)

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Informal employment refers to an employment relationship that is not regulated under labor legislation. When a worker is in this situation, he/she has no access to social security benefits such as healthcare coverage, occupational risk insurance, family allowances, retirement, severance pay in the case of dismissal, or unemployment insurance. In recent years, the percentage of informal wage employment in Argentina fell to approximately 35% of all salaried workers in urban agglomerations on the basis of the Encuesta Permanente de Hogares [Permanent Household Survey, EPH] conducted by the Instituto Nacional de Estadística y Censos [National Institute of Statistics and Census, INDEC]. This percentage, however, remains high, indicating that state attempts to promote formal employment through a reduction of employer contributions have not sufficed to reduce informal employment further.

Against this backdrop, it is important for the state to efficiently carry out workplace inspections to guarantee compliance with labor law and assure both the rights and obligations of workers and employees. One important tool to improve inspection strategies, designed by the state offices responsible for conducting inspections, are statistical techniques. This study uses these techniques to estimate the probability that companies employ informal workers. With this information, the state is able to use its resources more efficiently, targeting specific companies for workplace inspections when their corporate profiles (in terms of number of workers, business activity, location and years of operation, for example) indicate a greater probability of informal employment arrangements.

Based on a sample of companies with a fiscal address in the province of Santa Fe, which were inspected between 2012 and 2015, this study builds binary logistic regression models that identify the attributes of companies which make informal employment more or less likely as well as the probability of the formalization of these workers in periods following the inspection. The models assign a probability – a “score” (scoring) - of having informal workers to each company in the sample. The scores obtained in these models from the selection of companies are later applied to the full sample of companies in the province in order to predict informal employment and the subsequent formalization of the work relations. Two models were applied: a *restricted* model that considers all companies between 2012 and 2015 and an *unrestricted* model for each of the years analyzed. The methodology is innovative as it required merging administrative data on registered employment (SIPA-AFIP) with inspection records (SIMTySS).

According to the results of the restricted model, the most important characteristics associated with detecting unregistered work in inspected companies are a founding date within the past year and operating in the services sector, in particular in teaching, healthcare or social services, or the food and lodging sectors. Though less significant, other attributes can also help identify unregistered employment: the presence of young or male workers; being established as individual as opposed to a legal entity; a small size (based on the number of personnel); receiving more than one inspection in a single year and more than one inspection in different years; and having a fiscal address in Constitución and General López (i.e. not Rosario). The passage of time (along with improved

inspection policies or other contextual variables)--that is, the “inspection year”--is only significant as an independent variable in 2013 and it reveals a reduced probability of unregistered work being detected during inspections conducted between 2012 and 2013.

In the unrestricted models (by year), the following characteristics are associated with detecting unregistered work and are similar to those in the restricted model: “new company,” “more than one inspection per year,” “feminization” and “average worker age”. Although “company size” (based on sales volumes) remains a significant variable taken as a set and for the microenterprise category (in comparison with the large company category), the small and medium-size company categories are not as important in the years 2012 and 2015. The increased likelihood of detecting unregistered employment at companies with fiscal addresses in Constitución and General López (compared to companies in Rosario) is observed in the restricted model but not in the unrestricted models; therefore, in 2012 and 2013, there was no difference in the likelihood of unregistered employment between companies in these areas compared with Rosario. In 2014, however, there was a greater likelihood of unregistered employment for companies with fiscal addresses in Caseros, and in 2015 in San Lorenzo. In all of the years examined, unregistered employment was more likely to be detected at companies in the following sectors: food and lodging, healthcare and social services, and the industrial production of food, beverage and tobacco.

In terms of formalizing unregistered employment following a labour inspection, the only companies included in the models were inspected firms where at least one unregistered worker was detected. The main findings show that the same company characteristics that make unregistered employment more likely are also significant in the subsequent formalization of the employment relationships.

Based on these trends, the public policy recommendations which emerge suggest reinforcing inspections in the Greater Rosario agglomerate and those areas in the south of the province, and focusing on recently established microenterprises in areas like food, beverage and tobacco production, construction, and food and lodging services (all industries that tend to employ younger workers). Ideally, more efficient workplace inspections will not result in the destruction of informal jobs. To mitigate this possibility, it is important to accompany inspection efforts with other kinds of state interventions that seek to increase the competitiveness of companies that have informal employment through a) the dissemination of national legislation on the reductions in employer contributions and tax credits for training, among other benefits; b) guidance on productive linkages and c) subsidized business loans, to cite a few examples.

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