



## SECOND THEMATIC PLENARY SITTING

# Preparing the future of work we want: Policies to promote the transition from the informal to the formal economy and to respond to accelerated technological change and diverse forms of employment

### — Purpose

To discuss what kind of policies can be adopted in order to promote the transition from the informal to the formal economy in a context of technological change that adds new challenges to the structural problems of the region, highlighting the importance of social dialogue in building a future of formal work.

### — Context

One of the most well-known characteristics of labour markets in Latin America and the Caribbean is the significant number of workers and productive units in the informal economy. Despite large gaps, the region was making progress, but this came to a halt in 2015 and there is evidence that it has reversed in a number of countries. Reducing informality is a key element in building a better future of work in the region.

The informal economy is comprised of “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements” but it does not cover illicit activities (Recommendation No. 204 concerning the transition from the informal to the formal economy).<sup>1</sup>

Informality creates and perpetuates poverty, inequality, exclusion and decent work deficits for at least 133 million workers in the region. Its existence reduces the collection of fiscal resources that could be used to finance productive investments and social programmes,

thereby improving the welfare state, promoting social justice and leading to greater social cohesion. In addition, informality is linked to a lower capacity for organization and representation on the part of social partners, so that workers and employers cannot freely exercise their fundamental rights.

In Latin America and the Caribbean, informality presents a series of trends and characteristics:

- a. **Informality is a structural and persistent problem, albeit of a changing nature, which, in order to be successfully confronted, requires integrated public policies that are formulated and implemented through social dialogue in a context of economic growth**

The region experienced increases in informal employment from the 1950s to the early 2000s. It was a period in which a majority of the economies in the region made the transition from mostly agrarian or agricultural economies to more industrialized economies, which caused strong migration flows from rural areas to the cities. However, most of the jobs that were created in urban areas were informal. Between 2009 and 2015, the rate of non-agricultural informal employment decreased from 50.1% to 46.8%, in large part due to the high rates of economic growth in the period 2003-2011 which was accompanied by specific policies on expansion of social security, regulations and taxation. However, according to the most recent data from the ILO, informality appears to have increased in 2016 and now affects some 49% of workers, the primary cause of which is the economic slowdown which began in 2013

<sup>1</sup> [https://www.ilo.org/ilc/ILCSessions/104/texts-adopted/WCMS\\_377774/lang-en/index.htm](https://www.ilo.org/ilc/ILCSessions/104/texts-adopted/WCMS_377774/lang-en/index.htm)

and the subsequent period of contraction in 2015 and 2016.<sup>2</sup>

From 2003 to 2011 the region experienced high GDP growth, with average annual rates of more than 6%. During this period of “economic boom”, which also opened the fiscal space to financing of ambitious social programmes such as transfers and expansion of social security, many labour indicators demonstrated significant improvements: unemployment fell to historical lows, the percentage of salaried employment increased and the percentage of self-employed workers decreased. However, informality remained persistently high.

Why, after a decade of sustained economic growth, did almost half of all workers continue in the informal sector? And why were the gains made so easily reversed by slowdown and contraction?

The answer to the first question concerns the structural characteristics of the economies, such as the predominance of own-account employment and a productive network composed mainly of micro-enterprises, which together represent 56% of total employment in the region, and are segments in which informality prevails; the relatively low proportion of employment in medium and large enterprises; and the low rates of private investment; weaknesses in the business environment, which create barriers to the growth of formal employment and business development, in addition to other factors.

The answer to the second question is that experience has shown that the reduction of informality is positively associated with periods of high and sustained growth. Research has shown time and again how the volatility of growth, which is a characteristic of most countries in the region, wreaks havoc on the progress that can be achieved in terms of formalization, poverty reduction and employment. This is because the volatility of growth translates into volatility in social and labour indicators. Hence the importance of integrated public policies with medium and long-term horizons, which help to maintain relatively

high and sustained growth over time and which promote greater productive diversification and increased productivity. (The theme of another session of the 19th American Regional Meeting).<sup>3</sup>

In addition to the engine of economic growth as a high impact factor in the reduction of informality, it can be reduced through a set of mutually reinforcing policies:<sup>4</sup>

1. Measures and programmes that raise productivity as a whole, that promote structural transformation of the economy and increase investment in human resources (education and vocational training) so that, with higher productivity, the productive units can manage the costs of transition to the formal economy.
2. Changes to standards and regulations that contribute to improving the business environment from a generic standpoint, promoting development of an entrepreneurial culture and making the transition to formality more attractive by reducing costs and simplifying registration of productive units and workers with the institutions responsible for taxation, municipal affairs, social security and other areas, as well as information campaigns about these procedures.
3. Measures that reduce or completely eliminate the perverse incentives that cause enterprises to remain small, providing tools for an environment that is conducive to growth and formalization.<sup>5</sup> This includes measures

2 ILO (2018). Women and men in the informal economy: A statistical picture. Geneva: ILO. [https://www.ilo.org/global/publications/books/WCMS\\_626831/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm)

3 Salazar-Xirinachs and Cornick (2018). *Lima Brainstorming Sessions. Productive development policies, inclusive growth and job creation* Technical Reports 2018/9. Lima: ILO. [https://www.ilo.org/americas/sala-de-prensa/WCMS\\_601667/lang--en/index.htm](https://www.ilo.org/americas/sala-de-prensa/WCMS_601667/lang--en/index.htm).

Cornick (2016). *Políticas de desarrollo productivo en América Latina. Discusiones recientes, creación de empleo y la OIT*. Informes Técnicos 2016/5. Lima: OIT. [https://www.ilo.org/americas/publicaciones/WCMS\\_536568/lang--es/index.htm](https://www.ilo.org/americas/publicaciones/WCMS_536568/lang--es/index.htm)

4 OIT (2014). *Thematic Labour Overview 1. Transition to Formality in Latin America and the Caribbean*. Lima: ILO. [https://www.ilo.org/americas/publicaciones/WCMS\\_314469/lang--en/index.htm](https://www.ilo.org/americas/publicaciones/WCMS_314469/lang--en/index.htm)

5 OIT (2014). *Notas sobre políticas para la formalización de las micro y pequeñas empresas*. Lima: OIT. [https://www.ilo.org/americas/publicaciones/WCMS\\_318177/lang--es/index.htm](https://www.ilo.org/americas/publicaciones/WCMS_318177/lang--es/index.htm).

Deelen (2015). *Políticas para la formalización de las micro y pequeñas empresas en América Latina. Experiencias, avances y desafíos*. Santiago: OIT. [https://www.ilo.org/santiago/publicaciones/WCMS\\_368329/lang--es/index.htm](https://www.ilo.org/santiago/publicaciones/WCMS_368329/lang--es/index.htm)

such as establishing tax contribution schemes including for independent contractors that simplify registration and payment but at the same time include access to social security systems for employers, own-account workers and members of their households.<sup>6</sup>

4. Extend social security to groups that are difficult to cover with specially adapted schemes.
5. Strengthening the administration and inspection of work<sup>7</sup> and of tax control and collection agencies, in order to reduce the spaces in which the informal economy may develop. In addition, strengthening compliance with legislation, defining clear sanctions and disseminating information on them, promoting the advantages of formality for labour and enterprise and stimulating cultural change so that society is able to identify the harm caused by informality to economic development and to the existence of decent work.

Evidence shows that the combination of such policies, which are formulated and put into practice through social dialogue, have been effective in reducing informality, especially when they are applied in a context of high and sustained growth.

**b. Informality is diverse and has a greater impact on certain groups**

The design of policies to combat informality must also start with recognizing the diverse nature of informality and with the formulation specific responses to these different situations.

When disaggregated by occupational categories, the highest rates of informality correspond to own-account workers (82.3%), followed by domestic workers (77.5%) and salaried employees in microenterprises with up to 10 workers (58.6%). About 79% of informal workers belong to one of these three categories. In addition, for 14 countries in Latin America and the Caribbean, the average

rate of informal employment in enterprises with less than 10 workers is four times higher (58.6%) than that observed in enterprises with more than 10 workers (14.4%).

Certain groups of workers are overrepresented in the informal economy. Among them, younger workers have informal employment rates that are well above adults (56% versus 45%), with negative consequences for the jobs to which they subsequently have access.

Women workers have higher rates of informal employment (46.5%) than men (43.3%). Within this group, those in domestic work stand out, with a level of informality that reaches 77% in women workers.<sup>8</sup>

Rural workers are also more exposed to the phenomenon of informality, due to the characteristics of the agricultural sector, such as low productivity, seasonality and the gaps in these areas with respect to lack of infrastructure, less access to services and remote location, among others.<sup>9</sup>

In terms of sectors, those with the highest rates of informal employment are commerce, restaurants and hotels (60%) and community, social and personal services (39%). Both sectors tend to employ large numbers of young people, migrants and women who find themselves in the informal sector not through choice. But through lack of opportunities.<sup>10</sup>

In summary, taking on the challenge of promoting the transition to the formal economy means designing policies and programmes that take into account the different situations of informality, the differences between labour and business infor-

6 OIT (2014). *Monotributo en América Latina. Los casos de Argentina, Brasil y Uruguay*. Lima: OIT. [https://www.ilo.org/americas/publicaciones/WCMS\\_357452/lang-es/index.htm](https://www.ilo.org/americas/publicaciones/WCMS_357452/lang-es/index.htm)

7 OIT (2015). *Notas sobre las tendencias de la inspección del trabajo frente a la formalización: experiencias de América Latina y el Caribe*. Lima: OIT. [https://www.ilo.org/americas/publicaciones/WCMS\\_371239/lang-es/index.htm](https://www.ilo.org/americas/publicaciones/WCMS_371239/lang-es/index.htm)

8 ILO (2016). *Policies to formalize paid domestic work in Latin America and the Caribbean*. Lima: ILO. [https://www.ilo.org/americas/temas/econom%C3%ADa-informal/WCMS\\_534457/lang-en/index.htm](https://www.ilo.org/americas/temas/econom%C3%ADa-informal/WCMS_534457/lang-en/index.htm)

9 ILO (2015). *Thematic Labour Overview 3. Working in Rural Areas in the 21st Century. Reality and Prospects of Rural Employment in Latin America and the Caribbean*. Lima: ILO. [https://www.ilo.org/americas/publicaciones/WCMS\\_545431/lang-en/index.htm](https://www.ilo.org/americas/publicaciones/WCMS_545431/lang-en/index.htm)

10 ILO (2016). *Labour migration in Latin America and the Caribbean: Diagnosis, Strategy and ILO's work in the region*. ILO Technical Reports, 2016/2 Lima: ILO. [https://www.ilo.org/americas/publicaciones/WCMS\\_548185/lang-en/index.htm](https://www.ilo.org/americas/publicaciones/WCMS_548185/lang-en/index.htm)

mality, the various groups of productive units and workers that are affected, and the design of such policies and “made-to-measure” programmes. Although certain variables, such as economic growth and education, have a high impact on the incidence of informality, a single “silver bullet” cannot be used to combat this phenomenon. Not taking up this challenge in this integrated and “made-to-measure” way means continuing to perpetuate the inequalities and exclusions that exist in the labour market with respect to certain groups of workers.

**c. Social protection schemes must be adapted to promote the formalization of specific groups**

In the region, social protection coverage has improved over the last decade, both in its contributory and non-contributory components, but there are still significant pending challenges, and perhaps the greatest of them is associated with informality. A structural factor that affects the sustainability of the systems is that almost half of those employed in the region work in informality and are not contributors. Thus, the high incidence of informality calls into question the effectiveness of social protection exclusively linked to a formal salaried employment relationship.

Therefore, since the beginning of the 2000s, countries have expanded their strategies to include those informal workers for whom coverage would not have been possible under traditional contributory schemes (own-account workers, domestic workers, migrant and rural workers, among others). For these alternative schemes to be successful, critical aspects such as the modalities of affiliation, access conditions, management and financing of the different benefits must be taken into consideration.

The emergence of an increase in new forms of employment that deviate from the traditional salaried employment relationship represent an additional challenge to social protection systems. To the extent that legislation is not adapted to the new reality and is not properly managed, it puts at risk even those segments of workers who traditionally had relatively satisfactory access to a range of labour protections, including social security.

**d. The emergence of new forms of organization of work and of production creates new opportunities and risks and could exacerbate existing vulnerabilities**

Own-account workers have always constituted an important part of the labour force in the region despite the almost continuous increase in salaried employment in the last decade. There are approximately 28% of self-employed workers and new forms of employment that are difficult to classify in traditional categories have emerged.<sup>11</sup>

This means that, increasingly, workers do not complete full days, but work for less than a full day, that contracts are temporary, that the amount of temporary work provided through agencies and other multi-party modalities is growing or that more “on demand” work is in evidence, as well as disguised employment relationships and dependent self-employment. These new forms of employment, which are products of the reorganization of production and work, have generated new interactions in which the working relationship is unclear.

These changes present multiple opportunities and risks. On the one hand, they create jobs in occupations and sectors that did not exist before, with more flexibility. For certain groups of workers they allow a better work-life balance as long as they are in a voluntary situation. They also allow productive units to increase their productivity and competitiveness. For example, through electronic commerce and digital platforms, many SMEs can expand their markets and sales (a topic that will be discussed in another conference panel). On the other hand, it should be taken into account that they also provide less protection in terms of labour rights, social security coverage and opportunities for organization and representation of workers, in addition to those who were already vulnerable and/or in informal situations. It is likely that existing

11 ILO (2015). *Thematic Labour Overview 2. Small Enterprises, Large Gaps. Employment and Working Conditions in Micro and Small Enterprises in Latin America and the Caribbean*. Lima: ILO. [https://www.ilo.org/americas/publicaciones/WCMS\\_423684/lang--en/index.htm](https://www.ilo.org/americas/publicaciones/WCMS_423684/lang--en/index.htm)

institutions and governance arrangements will not be able to protect all workers.<sup>12</sup>

The fact that workers who have temporary or multiparty working relationships are the first to be dismissed or experience cuts to their working day during an economic downturn, is one of the reasons that makes this topic particularly sensitive in a region characterized by high macroeconomic volatility.

These changes in the labour market have generated an extensive debate on how to respond to this reality and how to adjust legislation, regulations and labour institutions for the benefit of all. The ILO is putting forward recommendations that cover four main policy areas: 1) eliminating policy gaps; 2) strengthening collective bargaining; 3) strengthening social protection; and 4) formulating social and employment policies in order to manage social risks and accommodate transitions.

**e. Recommendation No. 204 promotes transition to the formal economy with an integrated approach and through social dialogue**

The governments of the region, workers' organizations and employer's organizations have worked on a series of initiatives to promote the transition from the informal to the formal economy for decades.

The Transition from the Informal to the Formal Economy Recommendation, 2015 (No.204) approved by the International Labour Conference in 2015, set out a general framework of consensus tripartite policies which have great potential to be applied in the region. In terms of diagnosis, the recommendation recognizes the multiple causes of informality (subparagraph a) and its diverse nature (subparagraph b). In terms of policy, it recommends an integrated approach with agreements between institutions that are mutually reinforcing (subparagraphs a, b and c).

In Latin America and the Caribbean, two countries have adopted R204. In Costa Rica, a Tripartite Agreement for the Implementation of Recommendation No.204 was finalized in 2016 and a tripartite board, which was subsequently established, concluded its work with the adoption of a Strategy for Transition to the Formal Economy. In Paraguay, an Integrated Strategy on Formalization was approved by the Tripartite Advisory Council in February 2018. In other examples, such as in Peru, the Ministry of Labour and Promotion of Employment approved a Sectoral Strategy for the Formalization of Labour (2018) and created a National Council for Competitiveness and Formalization. It is also noteworthy that promotion of the transition to the formal economy has been a priority in several countries where strategies were being implemented before R204; as in Argentina, Brazil, Colombia, Mexico and other countries.

These types of processes on social dialogue are necessary in order to define the priorities of countries with respect to labour and how they wish to transform their economies, job creation patterns and objectives on formalization. In addition, special policies on formalization that are not connected to national development strategies and part of long-term government policy are unlikely to have a sustained impact.

Success requires coordination of the collective efforts of different stakeholders, led by public policy: the public sector; employers and workers; civil society (universities and research centres); and international alliances.

In summary, countries of the region already faced a significant historical challenge in reducing informality and a new challenge is approaching with the emergence of new forms of employment. The future of work in the region will depend to a large extent on the success of achieving more inclusive labour markets and institutions that do not reproduce inequality and that are engines of productive development, ensuring social mobility, improved incomes and better standards of living for workers.

12 ILO (2018). *New directions for the governance of work*. Issue Brief prepared by the 2nd meeting of the Global Commission on the Future of Work, 15-17 February. Geneva: ILO. [https://www.ilo.org/global/topics/future-of-work/publications/issue-briefs/WCMS\\_618174/lang-en/index.htm](https://www.ilo.org/global/topics/future-of-work/publications/issue-briefs/WCMS_618174/lang-en/index.htm)



**— Suggested discussion points**

- 1) **What policy measures are required in order to sustain and strengthen the progress that has been made in the last two decades in terms of reducing the high and persistent levels of informality in both employment and productive units?**
- 2) **What type of institutional arrangements are necessary to ensure that new forms of employment do not become the informality of the future and that they are covered by social protection systems and are not excluded? What is the role of employers' and workers' organizations in this process?**
- 3) **What potential do new technologies have for contributing to the formalization processes of the economy, employment and productive units (strengthening of labour administrations, simplifying administrative procedures, increased productivity, etc)? What potential would they have to increase the participation and reach of workers' and employers' organizations in these processes? What regulations should be put in place with respect to access and use of personal data information?**
- 4) **How would the sustainability of social protection systems be ensured so that they continue to include the groups that are the most difficult to cover without compromising the amounts of the benefits and the quality of the services provided, in a context in which there is an increase in workers in new forms of employment that are not recorded?**
- 5) **What institutional arrangements are necessary in order to ensure that social dialogue, in all its forms, contributes to just solutions for all participants in the labour market? How can we ensure that governments adequately fulfil their facilitating role in this process?**