

Formalization policies in Latin America.

Presentation in the Seminar “New and old forms of informality”,
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Based on “Políticas de Formalización en America Latina “
Jose Manuel Salazar Xirinachs y Juan Chacaltana. Eds. 2018



Juan Chacaltana (chacaltana@ilo.org)





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WOMEN AND MEN IN THE INFORMAL ECONOMY: A STATISTICAL PICTURE



Third edition



Organización
Internacional
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100
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POLÍTICAS DE **FORMALIZACIÓN** EN AMÉRICA LATINA AVANCES Y DESAFÍOS

José Manuel Salazar-Xirinachs
Juan Chacaltana
EDITORES

Oficina Regional para América Latina y el Caribe



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2018

New technologies and
the transition to formality:
The trend towards e-formality

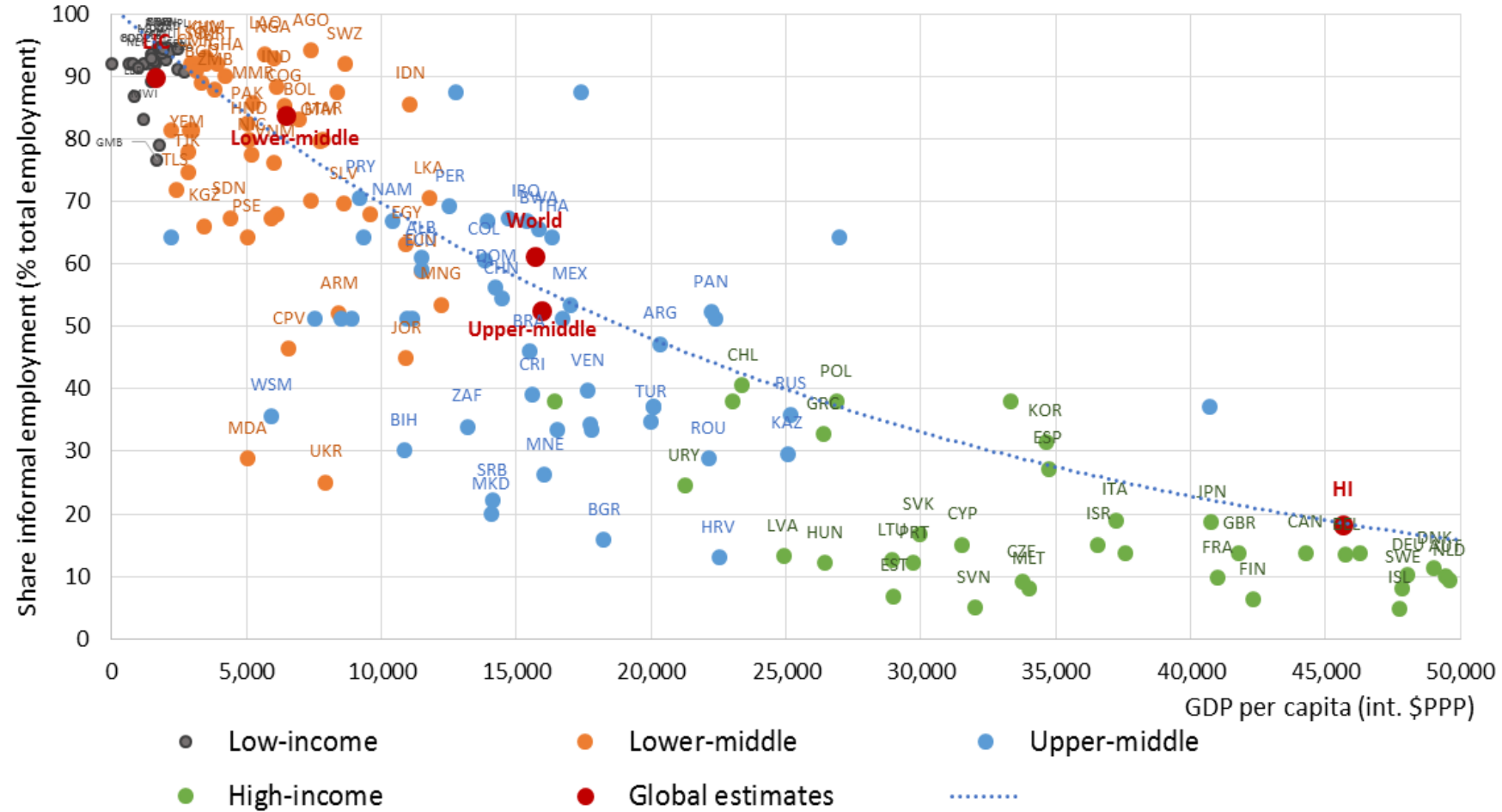
Juan Chacaltana
Vicky Leung
Miso Lee

Development
and Investment
Branch



Tasa de empleo informal total -agrícola y no agrícola- por regiones (circa 2016)

Share of informal employment and level of GDP per capita

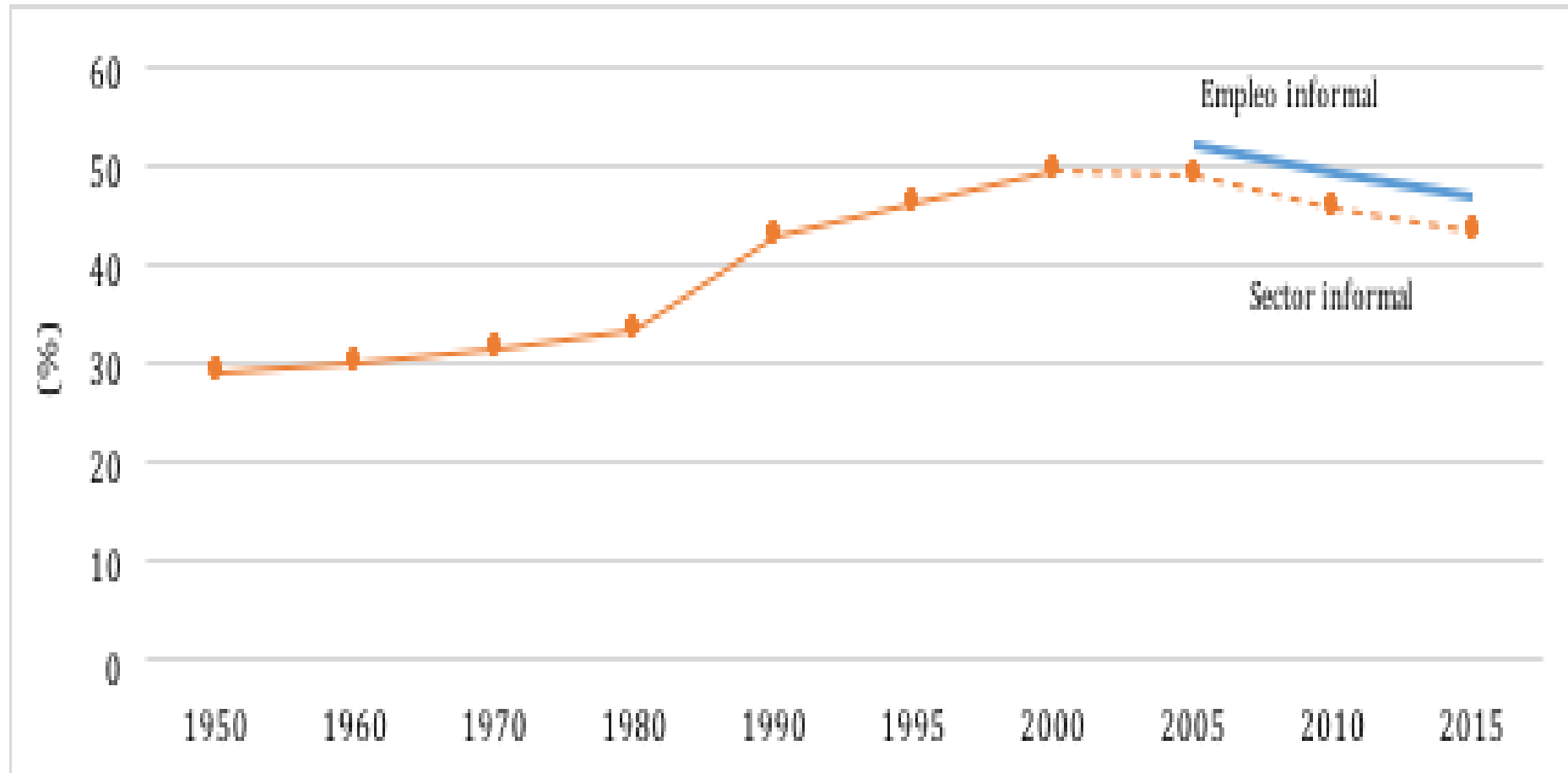


Source: Women and Men report. ILO 2018

	Latin America and the Caribbean	Caribbean	Central America and Mexico	South America
Informal employment rate	53.1	57.6	58.0	50.8
Men	52.3	56.7	55.6	50.5
Women	54.3	58.7	61.8	51.3
In the informal sector	37.4	42.4	36.5	37.3
In the formal sector	11.6	10.2	16.5	9.8
Households sector	4.1	4.9	5.0	3.7
Employers	37.2	34.7	48.3	32.9
Employees (workers)	43.4	42.8	50.5	40.8
Own-account workers	84.1	90.9	75.9	86.0
Family workers	100.0	100.0	100.0	100.0
Rural	68.5	68.9	67.4	69.0
Urban	47.0	55.8	50.0	45.3
Agriculture	79.2	86.9	70.5	82.3
Industry	49.1	52.1	53.7	47.0
Services	49.0	51.4	56.2	46.2
Own-account workers	84.1	90.9	75.9	86.0
2–9 workers	72.4	62.6	81.2	66.3
10–49 workers	29.1	26.3	32.3	26.9
50+ workers	15.3	28.3	14.9	15.0

An episode of formalisation, - 5 pps

Figure 1.2. Latin America (1950–2015). Evolution of informal employment and the informal sector (Non agricultural, in percentages)

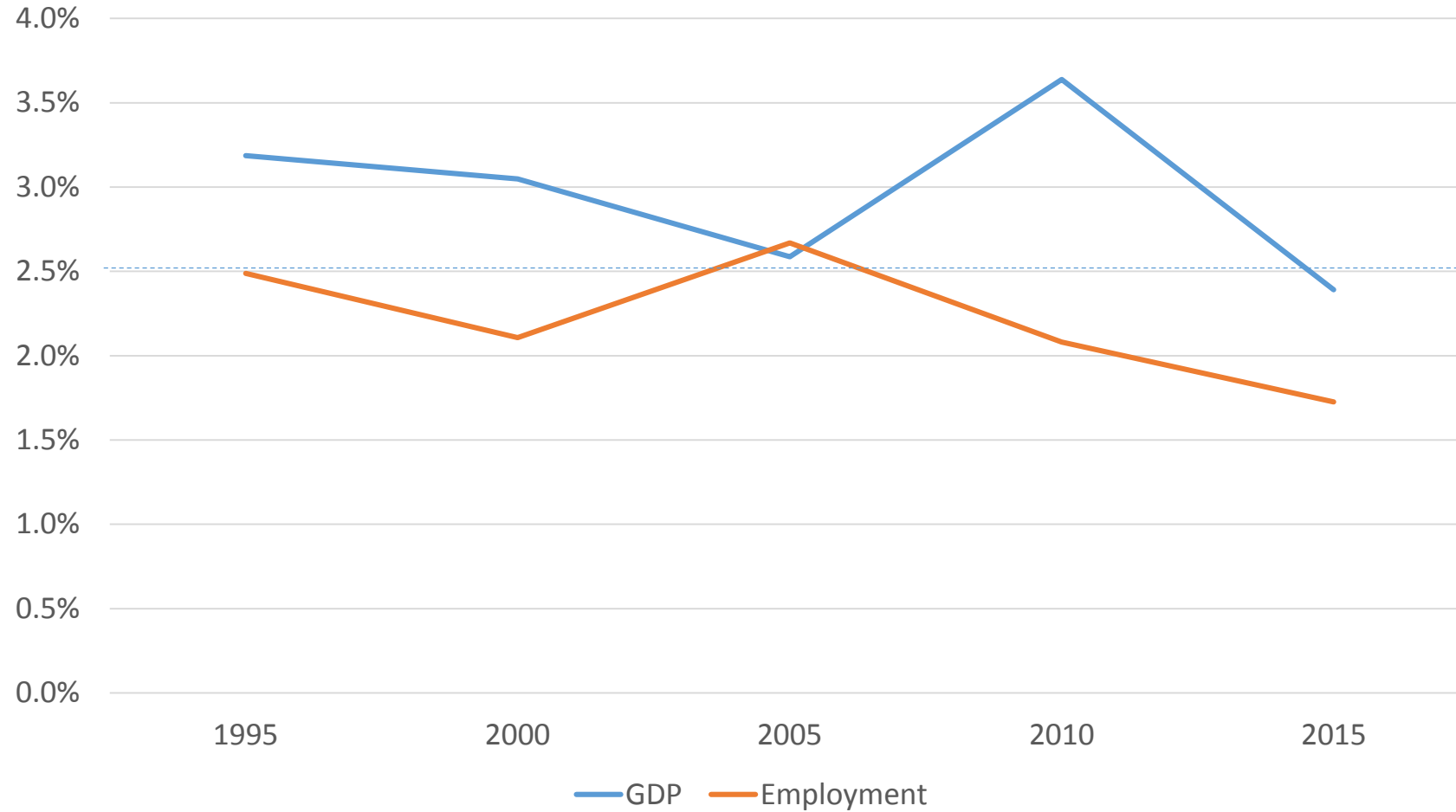


Source: Own elaboration based on SIALC data and editions of the ILO Labour Overview.

What can explain this reduction?

- R204 mentions 3 main drivers
 - Formal business and employment creation
 - Policies to facilitate the transition from the informal to the formal economy
 - Policies to avoid the transition from the formal to the informal economy

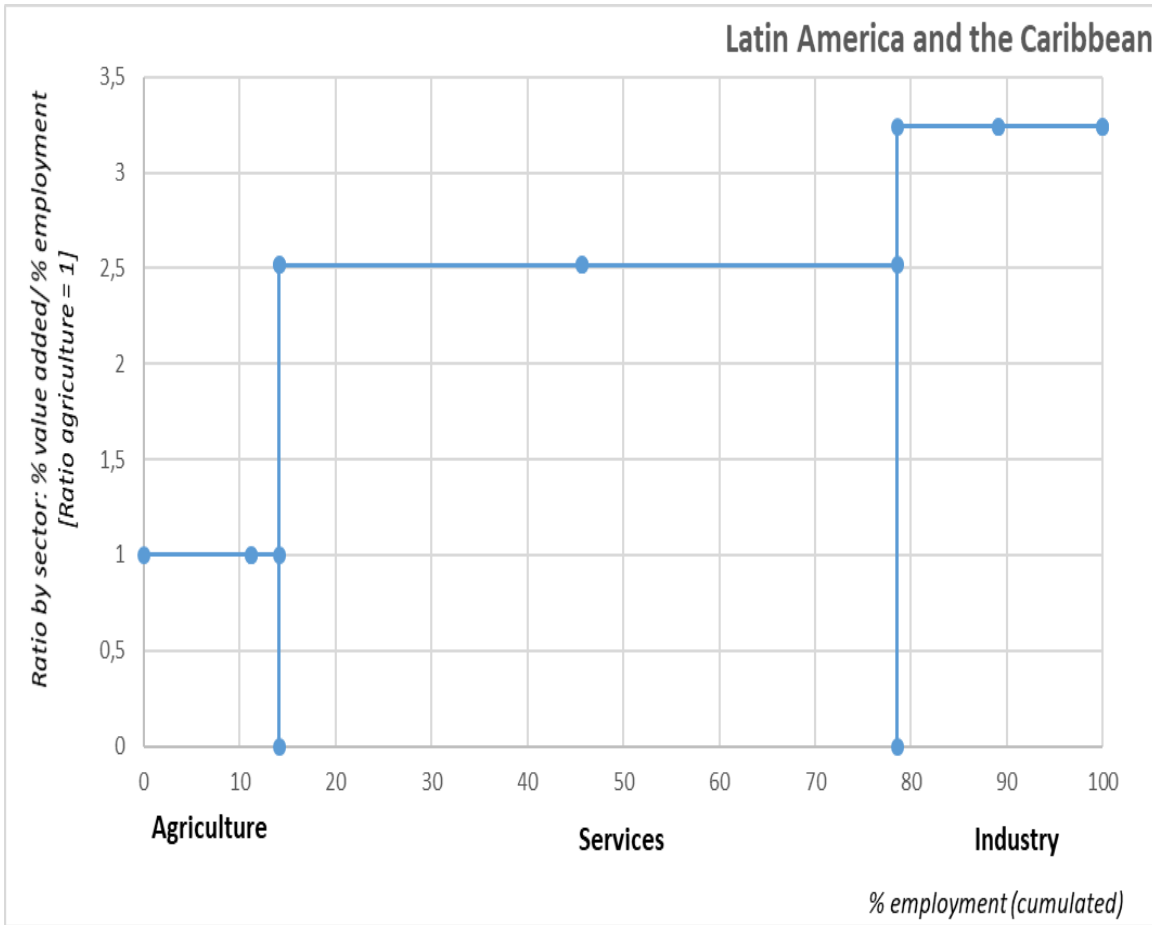
LAC. GDP and Employment growth 1995-2015 (annualised 5 year average)



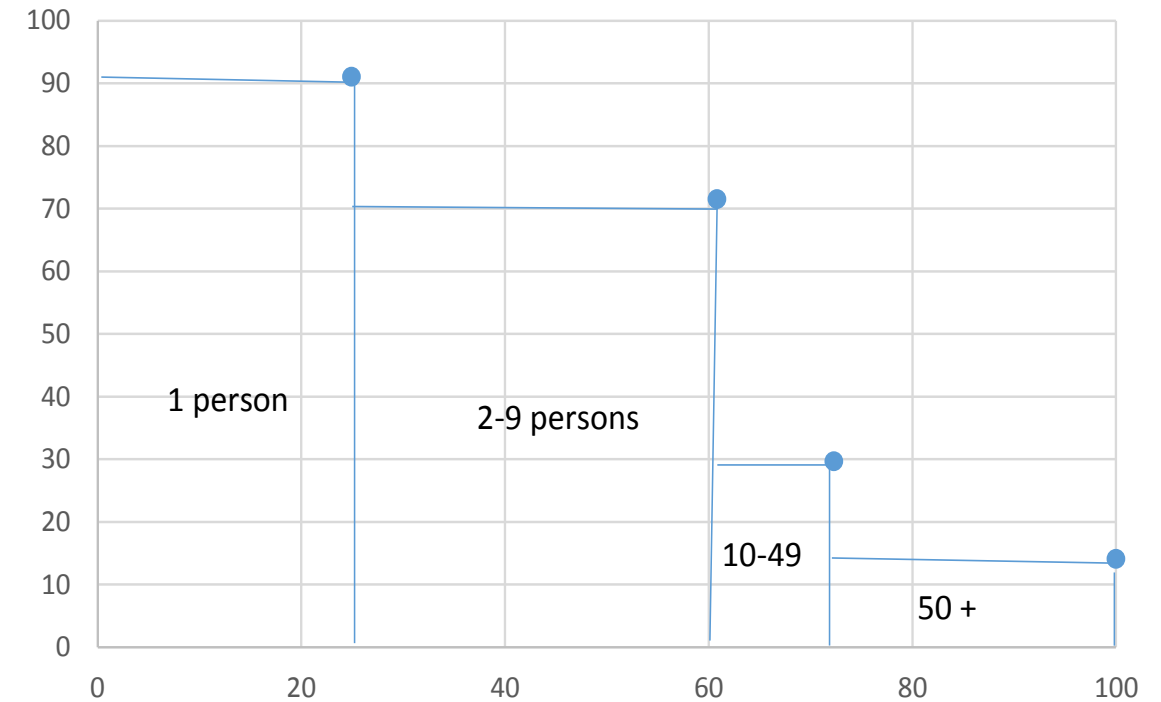
Source: WB and ILO

Heterogeneity

LAC: Composition of employment by economic sector and relative productivity.

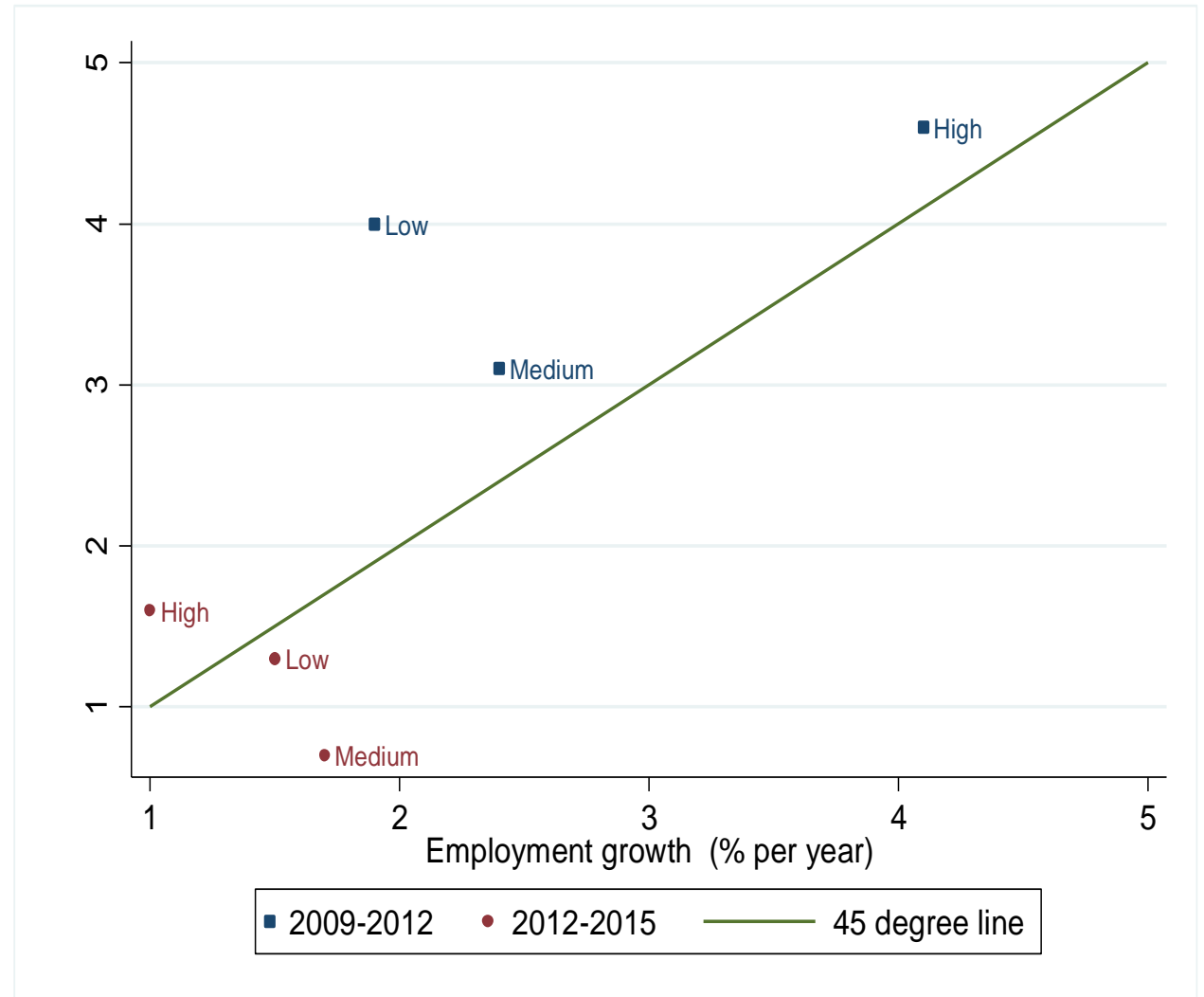


LAC: Composition of employment by firm size and informality.



What type of growth? (Infante 2018)

Productivity sectors	GDP share	Employment share
High	35.8	14.0
Medium	44.5	46.7
Low	19.7	39.3
Total	100.0	100.0



Institutional factors

Pathways to formality

Productivity

Macro
(environment)

Meso
(sectors, chains)

Micro
(enterprise level)

Legislation

Information
Training

Simplification

Social dialogue
(improvement,
modification)

Incentives

Linkage to formal
sector (registration,
taxes)

Linkage to social security
(emphasis on collectives with
limited coverage and
unconventional methods)

Specific approaches
(formalization laws, specific
agreements, etc.)

Oversight

Culture of
compliance

Institutional
strengthening (advocacy,
management, automation)

Specific approaches
(substitution of fines,
formalization agreements, etc.)

Wage workers

Own-account workers

Domestic workers

Systemathic review of impact evaluations

country	Freq.	Percent	Cum.	Freq.	Percent
Argentina	3	2.61	2.61	1	3.57
Bangladesh	2	1.74	4.35	2	7.14
Benin	3	2.61	6.96	1	3.57
Brazil	25	21.74	28.70	9	32.14
Colombia	32	27.83	56.52	5	17.86
Georgia	10	8.70	65.22	1	3.57
Malawi	12	10.43	75.65	1	3.57
Mexico	8	6.96	82.61	3	10.71
Peru	9	7.83	90.43	2	7.14
Russia	2	1.74	92.17	1	3.57
Sri Lanka	5	4.35	96.52	1	3.57
Turkey	4	3.48	100.00	1	3.57
Total	115	100.00		28	100.00

This section is based on Kluge J and Jessen J. 2018

Sign and significance of estimated impacts

sign_significance	Freq.	Percent	Cum.
negative statistically significant	7	6.09	6.09
insignificant	48	41.74	47.83
positive statistically significant	60	52.17	100.00
Total	115	100.00	

- The (slight) majority of impact estimates are positive and statistically significant (52%)
- Only 7 impact estimates (6%) are negative and statistically significant; this means that more than 40% of impact estimates (48) are not statistically different from zero

Sign/significance by intervention types

— (i) Information:

sign_significance	Freq.	Percent	Cum.
insignificant	12	46.15	46.15
positive statistically significant	14	53.85	100.00
Total	26	100.00	

— (ii) Simplification/registration:

sign_significance	Freq.	Percent	Cum.
negative statistically significant	2	4.65	4.65
insignificant	19	44.19	48.84
positive statistically significant	22	51.16	100.00
Total	43	100.00	

— (iii) financial incentive:

sign_significance	Freq.	Percent	Cum.
negative statistically significant	4	4.94	4.94
insignificant	37	45.68	50.62
positive statistically significant	40	49.38	100.00
Total	81	100.00	

— (iv) labor inspection:

sign_significance	Freq.	Percent	Cum.
negative statistically significant	1	9.09	9.09
insignificant	3	27.27	36.36
positive statistically significant	7	63.64	100.00
Total	11	100.00	

— There is no apparent / strong pattern by intervention type in the raw results.

Impact of policies

- Most evaluations focus on institutional programmes
 - Less impact evidence on policies (strategies)
- Most evaluations focus on business formality.
 - Probably there are more interventions of this type.
 - Less evidence on labour formalization, and yet the debate here is most intense!
- Little effects!!!
 - And when there are effects, they tend to disappear over time
 - Recall: The transition to formality takes time and multiple interventions
- Note:
 - Most evaluations of formalization programmes focus on one intervention only
 - mostly interventions at the institutional level (and mainly programmes)
 - LAC experience. Multiple interventions + some coordination (need a multi treatment approach)
 - Infante 2018, “60% of the formalisation episode in LAC was due to economic factors, the rest to institutional factors”

A new tendency: “e - formality”

(Chacaltana, Leung and Lee 2018)

- **Business formalisation**
 - Registration and payment: Virtual one stop shops, on line portals, e payment mechanisms
 - Productivity improvement: SME tablets (MX)
- **Labour formalisation**
 - Registration and payment (e Social, Electronic payroll)
 - Registration to Social Protection (Integrated payroll for payments-COL; BPS-UR)
 - Strengthening of labour inspection. (Digital inspector – ARG, SL; apps-USDOL)
- **Registration of transactions**
 - Incentives for the use of credit card/ non cash
 - Incentives for reporting cash transactions