

Informal Employment in Latin America and the Caribbean: Causes, Consequences and Policy Recommendations

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1. Introduction

Next year will be the thirtieth anniversary of the ILO Kenya Report that started the debate on the Informal Sector (ILO, 1972). These three decades have seen a large literature, both theoretical and empirical, trying to explain the characteristics, causes and consequences of the phenomenon. The period has also seen the expansion of the informal sector, rather than its reduction. Today, informal activities are pervasive in the developing world and are seen in some parts of the developed world. Consequently, the subject is still a matter of concern for researchers and policy makers alike.

The definition of the informal sector has been subject to controversy from its beginnings, but as De Soto 1989 states: “The informal sector is like an elephant we may not be able to define it precisely, but we know when we see it”.¹ Despite differences in definition, the academic community has been able to identify what are the causes and consequences of informal activities. Rules and regulations, on the one hand, and macroeconomic performance, on the other, are mentioned as the main causes of the size of the informal sector. Lack of social protection and low productivity are the consequences for workers who engage in informal activities.

Almost by definition, informal economic activities are related to the compliance, or lack thereof, to rules and regulations about land use, labor contracts, pollution control, corporate taxes, social security contributions and many others. The extension of informal employment can be argued to be the consequence of excessive regulations, which make formal economic activities unaffordable by small entrepreneurs. It can also be said that it is the lack of enforcement of existing regulations which promotes informal economic

¹ Cited by Mead and Morrison (1996).

activities such as street vending, garbage collection and disposal and *barrios* construction in areas whose land use regulation would not permit such activities.

Macroeconomic performance is another cause of the extension of informal activities. In some cases, it is simply the lack of economic growth which, together with a growing labor supply due to the demographic transition, involves a growing share of low-productivity and low-wage informal employment. In other cases, robust economic growth has been achieved through policy measures that are biased against the creation of abundant high-productivity jobs. The reduction of taxes, custom duties, real interest rates and inflation as well as the rise of real exchange rates, have all induced the use of capital intensive technologies in the primary and secondary sectors and the reallocation of labor towards the service sector. In addition, the growing use of information technology in the service sector requires high-skill labor, so the displaced workers from other sectors end up in the low-productivity service sector.

The two causes summarized in previous paragraphs entail two main consequences that explain why researchers and policy makers are concerned about the growing size of informal employment. First, informal workers lack almost every form of social protection. Restricted access to health, unemployment and injuries insurance, make informal workers to be too exposed to the normal risks of work. No access to the pensions system protection make informals unable to retire and force them to work longer, perhaps under decreasing productivity of their human capital. Lack of training and access to capital make their activities petty and unable to grow. These last two elements also involve the second consequence of informal employment. It is low-productivity / low-wage employment which, in most cases, simply serves as a survival

strategy. Little capital accumulation is feasible for informal workers so the returns for informal activities are stagnant. In as much as the informal sector grows, poverty and inequality, which have been associated to the sector, also increase which makes more distant the objective of economic development.

This report summarizes the characteristics and the main issues of the informal sector in Latin America and the Caribbean. Section 2 illustrates the size and trend of the informal sector in the region. It also describes the employment and wage characteristics of informal workers. Sections 3 and 4 review the causes and consequences of informality. Finally, section five concludes and provides policy recommendations

2. Description of Latin America and Caribbean formal and informal sectors

a. Extent and composition of the informal sector

There is no homogeneous and systematic account of the informal sector for the region. This is due to two factors. First, the definition of informal sector is controversial and varies from one researcher to another depending on his/her interest or viewpoint about the informal sector. Second, the available data sources do not always provide the information that the definition asks for. Consequently, available figures about the informal sector size and composition for the region lack a common definition and consistency over time. Mead and Morrison (1996) warn that this problem may lead to confusion when comparing among country studies. Consequently, economic policy recommendations must be extremely cautious because what may be appropriate for a country may not be so for another.

With respect to the definition, Thomas (1992) makes a summary of the different definitions that can be found in the literature. Some early definitions stressed the functioning of the activities that must be classified as informal. For instance, Hart (1973) focuses on whether individuals were wage earning (formals) or self-employed (informals). Mazumdar (1976) suggests that formal workers are protected by regulations and institutions and informals are somehow unable to cross the barriers that prevent them from becoming formal employees. Sethuraman (1981) suggests that informal activities are those created not in response to investment opportunities but to the need to create one's employment. Weeks (1985) proposed that formal activities are all those that are officially recognized, nurtured and regulated by the state whereas informals lack such relation. Thomas himself proposes a definition of informal activities, in contrast to irregular and criminal activities, based on the legality of the goods and services produced and distributed by these activities.

The ILO and the World Bank have made efforts to provide multi-criteria concepts that encompass the various facets of the phenomenon. Usually, their definitions contrast characteristics of one sector against the other. For instance easy of entry vs. restricted entry; reliance on indigenous resources vs. use of overseas resources, family ownership vs. corporate ownership, and so on. In this line, Tokman (1987) produces a complex definition of the informal sector as one that is characterized by activities with little capital, simple technology and marginal wage employment. This lack of human, financial and physical capital involves easy entry into the sector, so individuals participate in it as a mechanism for survival or complementing family income rather than for maximization of firm profits. Furthermore, the sector has institutional characteristics such as sub-

contracting and dependence relation to the formal sector, no government control and incapacity to observe prevailing regulations.

All these definitions, although inspiring and thought provoking, are devoid of guidance on how to measure the size of the informal activity. In the end, most empirical studies rely on the available data. Hence, through the design of national surveys and censuses by the governments, the ILO and other multilateral agencies defines what the informal sector is. In general, and following recommendations from the ILO, most researchers rely on an operational definition of informal workers that includes: self-employed workers (with the exception of liberal professionals), unpaid family workers, domestic service and both employers and employees from small firms.²

In recent years, the Economic Commission for Latin America and the Caribbean (CEPAL) and the International Labor Office (ILO) have published summaries of the size and composition of the informal sector for the region. Tables 1 and 6 summarize this information. As warned by Mead and Morrison, the trends and magnitudes of the informal sector for each country vary according to the source. For instance, ILO reports an increase of informality in Bolivia between 1990 and 1995 from 40% to 58% among the urban employed. On the other hand, CEPAL reports a stable incidence of informality around 59% between 1989 and 1997 for the same country. CEPAL data includes wage earners in five-or-less-worker firms, domestic service and non-professional self-employed workers, whereas ILO data includes wage earners in firms up to ten workers, self employed workers and excludes domestic workers. Differences of the sort pervade the two tables.

² The definition of “small” firm varies but usually includes firms up to 5 or 10 workers.

The most serious concern that this disparity of definitions and accounting creates is that it is very difficult to reach a conclusion about the trend of the size of the informal sector in the region. Data collected by the ILO suggest that no Latin American country has been able to abate informality whereas data from CEPAL shows that at least Chile, El Salvador and Honduras seem to have made a significant reduction of the relative size of the informal sector in the economy (see tables 1a and 6).

Using the more exhaustive data published by CEPAL, some stylized facts about the informal sector in the region can be highlighted. Table 1b shows that, for every country in the region, self-employment is the largest component of informality, followed by wage earners in small firms, and domestic workers. Females have a smaller share of small-firm wage earners than males in every country. The larger share of domestic service among females in every country, and of self-employed workers in some countries, may be explained by cultural factors and the flexibility that these activities provide to working mothers (see tables 2b and 3b). This leads to a larger incidence of informality for females than for males in every country but the Dominican Republic (see tables 2a and 3.a). Finally, earnings as a multiple of the poverty line have declined in every country but Chile, according to CEPAL data. Informal sector workers have followed that trend and their average earnings are always below the national average. However, there are differences among informal workers. Self-employed workers have average wages higher than wage earners do, and these have higher earnings than domestic service workers do, in almost every country (see table 4). There is a positive male/female wage gap in every country, but it has declined almost everywhere (see table 5).

Special mention is needed for the Caribbean region. Again, the lack of a uniform concept and scarce statistical sources make the evaluation of the level and trend of informality very difficult. CEPAL (1999) states: “Most countries of the sub-region show a considerable delay in the production of employment surveys, so employment data is sparse”.³ On the other hand, the ILO makes use of income and expenditure surveys in order to provide a characterization of the labor markets in the area.⁴ Tables 7 and 8 make use of ILO data in order to explore the size and trend of the informal sector for a group of selected Caribbean countries.

The size of the informal sector seems quite stable for the sub-region, with a slight decline in Jamaica and Trinidad/Tobago, on the one side, and a slight increase in Bahamas, Barbados, Belize and Suriname, on the other. In general, the levels of informality look smaller in the Caribbean than in Latin American countries (compare tables 1a, 6 and 7). However, it should be noticed that informality in table 7 is defined as the proportion of self-employed, apprentices, and unpaid family workers as a proportion of total employment. Therefore, small-firm employees are not included, which could explain the smaller incidence of informality in the Caribbean than in Latin America as reported in tables 1a, 6 and 7.⁵ Notwithstanding this, we can confidently say that self-employment (a large component of informality) is larger in Latin America than in the Caribbean. The exception is Jamaica which shows a share of self-employment to total employment similar to Latin America’s.

³ CEPAL (1999), p.345, (translation by the author).

⁴ Employment data for Caribbean nations can be found in the ILO Caribbean Office website: <http://www.ilocarib.org.tt>

⁵ The importance of small firms in the Caribbean could make informality in the region as big as in Latin America. “Between 70 per cent and 85 per cent of enterprises in the Caribbean belong to the Micro and Small enterprise sector” (ILO, 2000-a, Executive Summary, p. 1).

The different incidence of informality among males and females is another divergence between Latin America and Caribbean informal sectors. Informality is more prevalent among males than females in the Caribbean (see table 8). In Barbados and the Bahamas, the share of informals among male workers is almost double than among female workers whereas in Belize and Trinidad/Tobago the informality among males is just 2 to 5 percentage points above informality among females.

The high incidence of informality among females in Latin American countries has been attributed to three factors (see Pollack, 1993). First, female school enrollment rates and average education have risen during the last three decades that has led to an increase of female labor supply. Second, falling household income due to the economic crises has also induced an increase of female labor supply (i.e., the “additional worker effect” predominates over the “discouraged worker effect”). Third, given that the incorporation of women to the labor market has occurred in a recessive period for several countries of the region, formal and high-productivity jobs are scarce and women predominantly find jobs in the informal sector.

Another aspect that requires discussion is the persistence of a gender wage-gap in the informal sector. Actually, despite having higher average education, women are paid less than males in the informal sector. This is due to two factors: first, education has very little effect on earnings in the informal sector and, second, experience does have an effect on informal workers and women tend to have less experience than men do. There is also the fact that females concentrate in low-productivity occupations. Finally, there is also evidence (see Psacharopoulos and Tzannatos, 1992; Pollack and Jusidman, 1997; and Olsen and coping, 2001) of unexplained earnings differentials between males and females

in the region. This unexplained gap is usually interpreted as evidence of discrimination. However, none of these authors has studied the sources of the gender gap in the formal and informal sectors. This area still requires more research.

For more details about the characteristics and determinants of the informal sector, researchers and policy makers have to rely on country-specific or topic-specific studies. The following sections summarize the findings of some of the most recent studies on the informal sector for the region.

b. Determinants of informal employment

Who are the workers that are more likely to work in the informal sector? Most studies identify the same group of workers. Those with less experience and education are more likely to enroll in the informal sector. Consequently, the informal sector has a large share of young people. Moreover, females are much more likely to work in the informal sector than males. Finally, household heads are less likely to work in the informal sector. These characteristics have not changed much over time. Marcouiller et al. (1997) and Saavedra and Chong (1999), using data from 1985 and 1993 for Peru, find that youngsters, non-household heads and females are more likely to work in the informal sector, in both years. Similarly, Funkhouser (1999) reports the probit coefficients for several Central American countries for at least two periods over the late eighties and finds that most of these characteristics persist. The only change is in the likelihood of females to engage in informal activities: females are more likely to participate in the informal sector than males for all countries, but this difference declines over time.

Some other variables that affect the probability to work in the informal sector are household composition, migration and race. Marcouiller et al. find that number of children and number of inactive household members has a positive effect on formal work for males but a negative effect for females. In other words, females with children are more likely to have jobs in the informal sector. This may be because the flexibility of work hours in the informal sector allows them to take care of the inactive family members. Funkhouser, however, finds that number of children has no significant effect on informality in Costa Rica.

Another topic usually related to informality, is the link between migration and informality. Several theoretical models associate the growth of the informal sector to the dynamics of rural-urban migration in developing countries (see Harris and Todaro, 1970; Fields, 1975). These models seem to be an accurate representation of the intense migration process that the region underwent in the fifties and sixties. More recent evidence from the seventies and eighties is not conclusive and finds that migration is closely related to informality in some cases but not in others (see Pollack, 1993). Telles (1992) finds scant evidence that migration, recent or long ago, increases the likelihood of informality. Furthermore, Telles (1991, 1992) is the only researcher that identifies the effect of race. He finds, after controlling for other variables such as education, age and gender, that non-whites are more likely to work as informals than whites, using Brazilian census data from 1980.

c. Determinants of wage differentials and informal employment

There is a large literature addressing the issue of wage differentials between the formal and informal workers. There is also abundant evidence that average wages in the formal sector are above average wages in the informal sector for most countries in the region. However, there is no consensus on the causes of this wage gap. Besides, given the overlapping of the wage distributions of these sectors, researchers are baffled by the fact that some informal workers make much higher earnings than many formal workers do.

There are two contrasting views on the causes of the formal-informal wage gap. On the one hand, there is the hypothesis that wage differentials are caused by labor market segmentation. According to this view, jobs in the formal sector are rationed because they are cosseted by unions or because there is some form of gender/ethnic/race segregation or simply because formal jobs are scarce and, since there is some form of wage rigidity, jobs are rationed. Consequently, individuals with identical productive characteristics have different wages depending on which sector they work. On the other hand, the efficient market hypothesis postulates that these wage differentials are simply the market response to differences in individual preferences, in unobservable human capital or in job characteristics. Therefore, individuals choose to work either on the formal or informal sector according to their preferences and consequently they make the most, given their personal characteristics, in the sector they end up working. According to this view, workers are free to search for their better match and eventually get it.

There are multiple anecdotes that give support to each of these views. Marcouiller et al (1997) report a story that fits the efficient market hypothesis:

“At the end of a meeting in Ciudad Nezahualc6yotl near Mexico City, several micro entrepreneurs were asked why they chose informal-sector

employment. One answered 'While I sew uniforms at home, I can also watch over my children and the house' A second said 'I hate having to answer to a boss; I prefer to make my own decisions' A third said, 'I make more money in my shop than I would in a factory' "

On the other hand, El Nacional, a Venezuelan newspaper reports a story that recalls the usual migration-plus-segmentation story:

"I came from Táchira three years ago. I earn 160.000 bolivares per month (around US\$ 225) selling and fixing belts as a street vendor here in Caracas. I would like to work in a firm as a janitor, because there you can progress. I studied until second year in High School. I wish I could finish High School, but I have to work to help my mother. I do not have neither the money, nor the time to finish High School. This is not easy at all..." (EL Nacional, Caracas, August 19th, 2001)

Rigorous data analysis has shown that wage differentials between formal and informal sectors are statistically significant, even after controlling for several personal and household characteristics as well as for selectivity bias. Gindling (1991) for Costa Rica, Funkhouser (1996) for the five Spanish-speaking Central American republics, Marcouiller et al (1997) for Mexico, El Salvador and Peru, Saavedra and Chong (1999) for Peru and Orlando (2000) for Venezuela have failed to reject the hypothesis of no segmentation. All these studies have found that the returns to education in the informal sector are either insignificant or smaller than in the formal sector. This has been taken as evidence of labor market segmentation because the same productive characteristic, i.e. education, is being paid differently across sectors.

The evidence is not unanimous though. Tannen (1991) found no difference between formal and informal wages, after controlling for other variables and selectivity, in Northeast Brazil. More subtly, Pradhan (1995) argues that significant differences in wages may be due to compensating differentials rather than to segmentation. In other words, individuals accept different wages in different sectors simply because non-pecuniary characteristics differ between jobs. For instance, some jobs offer security whereas other jobs bring about more freedom and workers choose according to their preferences. Pradhan then tries to distinguish segmentation from compensating differentials by classifying workers according to their search activities. If workers stop searching despite having personal and household characteristics that make them likely to be looking for a job, then they are assumed to be rationed out. Similarly, workers that keep searching, despite having a job in the formal or informal sectors, are also considered to be rationed out. Using Bolivian data for 1989, Pradhan finds evidence of rationing. However, the probability of being rationed decreases with additional education. This means that the market of jobs for less educated workers has features of segmentation, but the market for better-educated workers does not.

The distinction of different groups within the informal sector has been highlighted repeatedly in the theoretical literature. The empirical literature also recognizes this. Saavedra and Chong (1999) notice that there are unexplained earnings differences between formal and informal wage earners whereas self-employed informals behave like formal workers. In other words, some members of the informal sector seem to have a wage generation process similar to the formal sector whereas others do not. Orlando (2000) makes an interesting simulation. First, she runs separate earnings equations for

formal and informal workers. Second, she computes fitted earnings from the formal sector wage equation using the characteristics of informal workers that do remarkably well (e.g., self-employed informals with earnings above the average formal earnings). Third, she does the same using the characteristics of informal workers that do very badly (i.e., those with earnings below the poverty line). She finds that fitted earnings for the first group are almost equal to their actual levels whereas fitted earnings for the second group are 20% higher than their original level. This can be interpreted as evidence that members of the first group chose to be informals because they seem to be doing as well as if they were in the formal sector. On the other hand, members of the second group seem to be forced to work in the informal sector because they would have done better if they worked in the formal sector.

The most recent challenge to the dual/segmented labor market hypothesis comes from Maloney (1999). He argues that a definite test of the segmented labor market hypothesis requires panel data in order to check whether individuals are certainly trapped in a given sector or they can move freely from one sector to the other. Maloney produces transition matrices as well as multinomial logit analysis of Mexican data for the years 1991 and 1992. He finds that transitions from the formal to the informal sector are as likely as transitions from the informal to the formal. This runs against the segmented labor market hypothesis because it means that there are individuals that willingly move from the formal to the informal sector. However, Maloney acknowledges that less experienced and less educated workers are more likely to stay/enter the informal sector than other workers are.

In conclusion, the debate about the determinants of the formal-informal wage gap is not settled. Actually, it seems that it will not be settled with one view winning over the other but that a synthesis of both will emerge. Recent studies on the topic agree on identifying a group of informals that shows evidence of working in a segmented market whereas a second group appears to choose their labor insertion. The evidence seems to converge to the idea of a heterogeneous informal sector with a group of enthusiast entrepreneurs looking for freedom from the rigidities of formal jobs on the one hand, and a group of uneducated and less experienced workers that queue for a better job in the formal sector, on the other.

Who are the successful informal workers? Few studies have addressed the issue of identifying the characteristics of successful informal workers. Saavedra and Chong (1999) separate between informal wage earners and self-employed informals, and find that the latter tend to earn wages as high as formal wage earners do. However, the self-employed category is too wide for helping in identifying the keys for success in the informal sector. Betancourt and Freije (1994) and Orlando (2000) have made a more accurate description of these groups in Venezuela for the eighties and nineties, respectively. Both define “successful informals” as those informal workers whose earnings are above the average formal earnings. These “successful informals” tend to have more schooling than other informals, but still less than formal workers. They also have more potential experience than both formals and other informals. They are mostly males and are either employers or self-employed. Successful informals seem to be small entrepreneurs, with some financial and human capital accumulated through years of experience, perhaps in the formal sector, that organize a small firm that gives them good

returns. In addition, hiring young workers without paying payroll taxes or family members without salaries makes the business viable. This last point is consistent with the finding from Saavedra and Chong for Peru, that informal wage earners have a disadvantaged position within the informal sector.

3. Policy Issues: The Causes of Informal Employment

a. Labor market rules and regulations and the Informal Sector

Almost every available definition of the informal sector is related to the effect, or lack thereof, of legislation on economic activities. On the one hand, pervasive regulations and red tape impose excessive additional costs on economic activities, thus preventing the creation and operation of formal firms. On the other hand, the lack of some key regulations or weak enforcement allows the proliferation of informal activities.

The costs to access the formal sector are the costs associated with the paperwork required for the registration of new firms. De Soto (1989) reports an experiment conducted in Lima to quantify the access costs. A group of research assistants followed all the required steps to legally register a clothing factory. It took them ten months, two bribes and more than US\$ 1000 in losses to complete the procedure. Tokman (1992) finds that the average time to register a small firm varies from one month (in Bolivia and Chile) to two years (in Guatemala). In financial terms, Tokman estimates that costs of entry may reach up to 10% of annual profits.

In addition to access costs, formal firms face high operational costs related to taxes and other bureaucratic regulations. High corporate taxes make very difficult for small firms to remain profitable, because small firms do not have the market size needed

for gaining scale economies on capital investment. Therefore, and given the relative abundance of unskilled labor relative to capital in developing countries, small firms should rely on cheap labor for growing. However, high payroll taxes make labor expensive and prevent small firms from developing. Márquez (1995, 1994) reports that payroll taxes increase the labor costs in around 47% of annual wage in Chile and Uruguay, 81% in Brazil and 100% in Venezuela. In addition to payroll taxes, there are several additional regulations related to worker's dismissal such as advance notice and severance payments. Heckman and Pagés-Serra (2000) estimate that firing costs in Latin America range from a lower end of 15% of annual wage in Brazil and Jamaica, to a top end of 34% in Ecuador and 40% in Bolivia. These figures contrast with the firing costs for selected OECD countries which are less than 15% of annual wage, with the exception of 26% in Spain or 35% in Portugal.⁶

Other studies have focused on the impact of labor regulations on the size of the informal sector. Maloney and Nuñez (2001) study the impact of minimum wages on wage distribution and employment in both the formal and informal sectors. They find that the wage distribution clusters around the minimum wage for Brazil, Chile and Colombia for both the formal and informal sectors during the late nineties. However, the distribution of wages in both sectors seems to be unrelated to the minimum wage in Argentina, Bolivia and Honduras. Therefore, Maloney and Núñez conclude that minimum wages may have a potentially large "lighthouse effect" in the informal sector for some countries. That is, minimum wages not only affect employment and wage determination in the formal sector, but also in the informal sector. Although not conclusively, Maloney and Nuñez find some evidence of minimum wages destroying

⁶ Similar findings are reported by Márquez and Pagés (1998)

informal employment, for those informal workers with earnings close to the minimum wage.

Heckman and Pagés-Serra (2000) evaluate the impact of firing costs on employment. They find that the decline in employment associated with firing costs is greater in the formal sector than in the aggregate; thus, an increase in job security is associated with an increase in informal employment. However, they fail to find a robust estimate of the effect of job security regulations on self-employment. On the other hand, Márquez and Pagés (1998), using a more inclusive index of job security regulations, do find evidence of self-employment being positively related to job security.

As mentioned in the beginning of this section, it is not only excessive legislation what causes the informal sector, but also the lack of governmental regulation and enforcement. Due to defective protection of public areas, informal economic activities proliferate in those areas. For instance, Pichon (1997) reports how the absence of spatial planning and colonization programs for the Amazon region attract migrants who clear the tropical forests and convert them to pastures or crops. Similarly, deficient enforcement of land use regulations in urban areas allows the development of squatter housing, informal building and street vending (see Sassen-Koob, 1989). Eventually, small landowners and squatters acquire *de facto* property rights, but the absence of formal property titles prevents owners from making much-needed investments. De Soto (1989) recounts how families invest very little in their houses before obtaining land titles but as soon as property titles are issued by the state, they invest in improving their homes.

The impact of regulations on the size of the informal sector has been the subject of several recent papers. Loayza (1997) develops a model in line with the previous

discussion of the effect of regulations or lack thereof. Loayza's model is a two-sector growth model where the formal and informal sectors use public services as an input for production. However, only the formal sector pays taxes to finance the provision of public services and, consequently, the informal sector has incomplete access to them. The generation of public services depends on the collection of taxes, the quality of government institutions and enforcement strength. The theoretical model concludes that the size of the informal sector is positively correlated with taxes, and negatively correlated with enforcement strength and quality of institutions. An empirical test using data from Latin American countries in the early nineties finds that the size of the informal sector depends positively on measures of tax burden and negatively on indexes of quality of government institutions.

The interaction between formal and informal sectors has been subject of debate for a long time. Tokman (1978a) summarized the two main views on this topic. On the one hand, some researchers think that there is a benign interaction that favors economic development. The informal sector, given its flexibility and small size, distributes goods and services, mostly produced by the formal sector, to areas where the formal sector would never reach. In this sense, the informal sector depends on market possibilities left out by the formal sector. On the other hand, there is the view that the informal sector is used by the formal sector as a cheap labor outlet, whereby firms avoid expensive payroll taxes and training expenditures.

There is evidence in favor of both viewpoints. Tokman (1978b) states that in the case of commercial activities in Santiago, informal goods and formal goods compete in the same market but have different income elasticities, the former supplying inferior

goods and the latter normal goods. Consequently, the future of informal trade would depend on income: if countries grow and develop, informal activities would decrease and otherwise if countries stagnate. On the other hand, Benería (1989) reports results from a survey among firms that use outsourcing in Mexico City that support the view of the informal sector as a cheap labor outlet. Subcontracting home workers or small informal firms as a way to reduce labor costs was mentioned by 79% of the surveyed firms. When information was available, the wage ratio between the subcontracting firm and the informal firm (i.e., formal wage to informal wage) ranged from 3.6 to 6.2. In any case, it must be said that many firms use outsourcing to reduce fixed labor costs or because the market for their product is very unstable or cyclical. This suggests that small firms and home workers would still exist if there were no excessive payroll taxes, but certainly their size in the economy would be much smaller.

More recently, Maloney (1999) reports that subcontracting is just 20% of informal production in Mexico, so it does not seem to be a good characterization of the informal sector and more studies are needed in order to know the effect of subcontracting on both sectors. Furthermore, Maloney (2000) develops a theoretical model on the multiple determinants of the size of the informal sector such as regulations, interest rates, productivity, human capital accumulation and so on. He then uses data from Latin American and OECD countries to contrast the influence of these variables on the size of the informal sector. He finds that Latin American Labor markets do not appear to have exceptionally distorted or inflexible labor markets, when compared to other European countries. He concludes that formal sector productivity, real interest rates and education have a larger impact on the size of the informal sector than regulations do.

This section concludes with a consideration of the relationship between informality and illegality. Almost by definition, informal activities seem to be illegal activities because, as explained in previous paragraphs, they are the consequence of evading or contravening regulations. However, the link between informality and illegality is treated as a matter of degree by different authors.

Blanes (1989) suggests that the informal activity in Bolivia is pervaded by cocaine production and distribution. The extension of this sector in the eighties was so big that it crowded out most legal economic activities. The influx of cash, together with lack of internal production, led to massive trade of contraband goods through “a myriad of small peddlers”. In addition, cocaine production and distribution required clandestine services that created a large network of small activities to support the largest cocaine “industry”. Finally, cocaine trade entailed such levels of corruption among government officials that law enforcement was severely damaged and informality could then not be curtailed. Other authors see a narrower relationship between informality and illegality (see Holanda, 2000, and Sarkar, 2001). They suggest that some government regulations, such as exchange rate controls, import licenses or high custom duties, make informal activities illegal just because the government issues a decree banning certain product or its distribution. Without such a decree, the activity would not have been illegal and, in some cases, the informal activity would not have emerged.

Finally, others contest the identity between informality and illegality stating that some of these activities overlap but some do not (Casanovas, 1992). This is precisely the approach that Thomas (1992) suggests for identifying and separating some activities from others. He recommends to evaluate three aspects in order to categorize informal

activities: first, whether the activity performs market transactions or not; second, whether the output is legal or not; and, third, whether the distribution is legal or not. Thomas then distinguishes informal activities from irregular and criminal activities in that the former has market transactions with goods whose production and distribution is legal (e.g., petty trade of cigarettes), whereas irregular activities distribute illegal products (e.g., petty trade of contraband cigarettes) and criminal activities produce and distribute illegal products (e.g., marijuana trade).

b. Macroeconomic Policies

The most worrisome problem of Latin American economies is the disappointing performance of the labor markets. After several years, and in some countries decades, of structural adjustment and economic reforms, unemployment has not been abated and informality has increased. According to Lora and Márquez (1998), average unemployment among 19 countries of the region has remained around 10% and population-weighted average unemployment has increased from less than 6% to 8%, during the nineties. At the same time, informal employment has grown from 51.6% in 1990 to 57.4% in 1997.

It is natural to ask whether recent macroeconomic policies have been the cause of these unsatisfactory results. Lora and Olivera (1998) argue that the structural adjustment programs of the eighties and nineties were successful in reducing inflation; aligning incentives and making markets work in general. However, they point out that these programs had the unintended effect of creating a bias in favor of the creation of jobs in the service sector in general and in the informal sector in particular.

Most economic reforms focus on the reduction of structural deficits in the trade and fiscal balances of a country. Consequently, multilateral agencies and governments of the region have pursued programs of privatization, rationalization of the fiscal finances, trade liberalization, and financial sector modernization. Lora and Olivera (1998) reveal that each of these policies has had an effect on the labor market. Privatization has brought on retrenchment of public sector employment. Modernization of the tax codes, together with lower tariffs and financial modernization has reduced the cost of capital and promoted capital inflows. Therefore, given lower interest rates, taxes and tariffs, firms have had the incentive to substitute capital for unskilled labor.

In addition, several countries have adopted a policy of exchange rate appreciation as a further anti-inflation measure (see, for instance, Lora and Olivera (1998) for the region, García Huidobro (1999) for Chile, and Altimir (1999) for Argentina). This policy has had two effects on labor markets. First, it has reduced the price of imported goods, affecting the competitiveness of the manufacturing sector and fueling imports of capital goods. The decline of the manufacturing sector implies that new jobs have to be created in the service sector. Moreover, cheaper capital goods further induce firms to substitute capital for unskilled labor. Both consequences promote the creation of informal jobs. Second, lower inflation has the unintended effect of making wage rigidities binding. In periods of high inflation, real wages can be reduced through price increases. As soon as inflation is reduced, real wages are less downwardly flexible and firms choose to shed labor in order to cope with adverse shocks. Given the high poverty levels and lack of unemployment insurance that characterize most countries in the region, displaced workers choose to make themselves a job in the informal sector.

In conclusion, structural adjustment programs have been successful in reducing inflation and promoting growth. However, given the lack of employment creation, it can be said that these programs have created growth through productivity gains in the formal sector, rather than factor use expansion. This dearth of formal jobs, together with the process of demographic transition that characterizes several countries, leads necessarily to the expansion of the informal sector that has been documented for the region (see Duryea and Székely, 1998).

A similar interpretation of the causes of the growth of the informal sector in Latin America is given by Klein and Tokman (2001). They argue that the process of privatization, trade/financial liberalization and the advent of the information technology revolution are different manifestations of the more general process that has been called “globalization”. Globalization, according to their view, has induced an increase of the informal sector through the mechanisms mentioned in the previous paragraph.

Another concern related to “globalization” is the need to set “core labor standards” worldwide. Some argue that the exports of developing countries are competitive due to lack of compliance to “core labor standards” such as no bonded labor, no child labor, no discrimination and freedom to negotiate collectively. According to this view, lack of regulation allows the creation of sweatshops where precarious jobs are the input for producing goods for the foreign markets. However, Brown (2001) reports evidence showing that “*labor standards are at most a secondary determinant of wages in low-income countries*” (p.100). Furthermore, no clear link between these core labor standards and informalization can be made for the region. First, most countries in the area

comply with these core standards and, second, informal activities in the region concentrate in the service sector which mainly produces non-tradable goods.

Lora and Olivera attribute the expansion of the informal sector not to lack of “core labor standards” but to the incomplete reform of the labor legislation and labor market institutions in Latin America.⁷ Guasch (1999) and Márquez (1995) have highlighted the need of a more flexible labor market that allows for the adjustment of both real wages and employment as a response to macroeconomic shocks. The main reason for promoting labor market flexibility is that expensive job security provisions force employment to adjust more slowly to macroeconomic fluctuations. When employment is not allowed to adjust fully as a response to an adverse macro shock, then wages fall more than necessary. Similarly, binding wage rigidities such as minimum wages, make employment adjustments larger than necessary and increase open unemployment.

Given the existence of job security provisions as well as binding minimum wages in several countries of the region, it is worth exploring whether these countries adjust to macroeconomic shocks through wages or through employment. González-Anaya (1999) has computed output elasticities of wages and employment for thirteen Latin American countries and the United States from the early seventies to the late nineties.⁸ He finds that output elasticity of wages is smaller in the U.S.A. than in Latin America (with the exception of Brazil, Venezuela and Uruguay). On the other hand, output elasticity of employment in the U.S.A. is larger than in Latin America (with the exception of

⁷ Some countries as Chile, Colombia and Peru have adopted sweeping changes in their labor legislation, whereas others such as Venezuela and Brazil have had efforts that are more modest.

⁸ The countries included are Argentina, Bolivia, Brazil, Colombia, Costa Rica, Chile, Guatemala, Panama, Peru, Mexico, Uruguay and Venezuela.

Guatemala). In other words, most Latin American countries adjust more through wages than through employment, when compared to the United States. This is consistent with the rise in informal sector that has been documented above. Latin American economies preserve employment through the creation of informal jobs but these jobs, due to lower productivity, entail lower average wages.

4. Policy Issues: The Consequences

a. Poverty, Inequality and Mobility

The lower average earnings reported for the informal sector lead directly to its association with poverty. Rosenbluth (1994) reports that informal workers represent the largest share among the poor in Latin America. However, not all informal workers are poor. Cartaya (1991) finds a weaker relationship between poverty and informality in Venezuela for the eighties. She finds that even though informals have a higher incidence of poverty, they do not represent the largest share of the poor. Actually, the informals represent a sizable portion of the non-poor (30%).

Although there is no automatic link between informality and poverty, the former has a statistically significant effect on the latter. Wodon et al. (2001) run a series of econometric regressions and find that family income is negatively associated with heads and spouses working as self-employed or unpaid family workers. They also find that heads and spouses working in the formal or public sector are associated with households with higher average income.

Informality has also been associated with less mobility. The idea that labor markets are segmented implies that workers in one sector are somehow unable to cross

the barriers that prevent them from working in the formal sector. This issue is still contentious and the evidence is not yet conclusive. Tokman (1987) shows a sector mobility matrix for Costa Rica in the mid-eighties and argues that workers in informal occupations (i.e., self employed, domestic service) are much less likely to move to formal occupations than formal workers are to move to informal activities. On the other hand, Maloney (1999) also constructs a job mobility matrix for Mexico in the mid nineties and states that the likelihood of moving from one sector to another is very similar for every occupation. A different approach is adopted by Freije (2001). Using both transition profiles and logit regressions for Venezuelan data in the nineties, he finds that households with self-employed heads or with a large number of informal non-head workers, are more likely to fall into poverty and less likely to escape from it, than other households.

There is also a relationship between informality and inequality. In its report on inequality, the Inter-American Development Bank gauges the different sources of inequality in Latin America and concludes that being employed in either the formal or the informal sector accounts for between 10% to 25% of Labor Income inequality⁹ (IDB, 1997, pp. 44-45).

The origin of the relationship between informality and income distribution is the expansion of informal activities with low productivity. This low productivity is the consequence of scarce physical and human capital that characterizes the informal sector. Section b deals with the lack of training and capital that informal workers endure. Then, Section c discusses the fact that informal workers not only engage in low-productivity/low-wage jobs but also in precarious jobs characterized by limited social protection

⁹ As measured by de Gini coefficient.

b. Training Programs

Training programs are common in the region. Some of them are impressive in size, such as SENAI in Brazil, which served nearly one million people in the early nineties and PROBECAT in Mexico with half a million workers enrolled per year. Some have long experience such as the training programs SENAI in Brazil, founded in the forties, SENCE in Chile and INCE in Venezuela, which started activities in the early fifties.

However, the traditional training programs of the region do not fit the needs of informal workers. Four common shortcomings make these programs inadequate for providing training for informal workers. First, some programs mostly provide training for individuals already working for a firm. That is the case of the Brazilian SENAI where 70% of its trainees come from large firms. The unemployed and small firm workers do not have easy access to this type of institutions. Second, some programs require levels of schooling that are above the average education of informal workers. That is the case of SENAI and INCE, where complete primary, and sometimes complete high school, is required for some courses. Third, some programs fail to prepare workers for new jobs in a globalized and more competitive world. Most institutions lack the flexibility to adapt their courses to a rapidly changing market. Fourth, the effectiveness of these programs in enhancing the chances of getting a better job or reducing unemployment duration is dubious. Behrman (1996) argues that several studies on the effectiveness of the Colombian training program (SENA) fail to adequately evaluate selectivity problems and may mistakenly claim that the programs are successful. More recently, Wodon and

Minowa (1999) found that Mexican PROBECAT had no effect on employability of its trainees.

There are, however, some training programs in the region aimed at assisting the informals. That is the case, for instance, of Fundacion Carvajal in Colombia or a new special program within PROBECAT called *Programa de Iniciativas locales de Empleo y Ocupacion Temporal* (PILEOT) in Mexico. Fundacion Carvajal provides training, technical assistance and credit for small entrepreneurs. Access to credit is conditioned on attendance to business courses. The projects are monitored and supervised by consultants with several visits to the firm. PILEOT, provides short courses for applicants that are either unemployed or underemployed and intend to work independently. Applicants are required to have only basic literacy and numeracy and the courses are demand driven.

The Chilean training programs SENCE and *Chile Joven* have special characteristics worth mentioning. Training is provided by private firms, municipalities or Universities that apply to SENCE or Chile Joven for subsidies. The funds are awarded through bidding to the best programs, which must include commitment from private firms for a three-month apprenticeship for trainees. SENCE has special funding for programs serving unemployed workers and *Chile Joven* for youngsters aged 15 to 24. The program design induces flexibility and usefulness of the courses because both firms and training institutions have incentives for monitoring quality.

Finally, the experience of vocational education among Caribbean countries has both successful and dismal experiences.¹⁰ Although vocational education has a wider scope than training programs, it also has an impact on the productivity and extension of

¹⁰ For a study that documents the effectiveness of educational schemes that promote employment for the youth see ILO (2000-b)

informal employment. A successful and innovative experience is found in Trinidad Tobago. SERVOL (an NGO aimed at primarily helping the poor) has been able to develop programs for attending dropouts from the conventional school system. Its programs provide 12-month on-the-job training in marketable skills as welding, plumbing, carpentry, masonry, catering, childcare, as well as programs in computer literacy and advanced electronics. It also provides programs to support adolescent life, aimed at building self-esteem and confidence. SERVOL does not depend on state support, but on grants, donations, voluntary work and small fees charged to students.

The programs mentioned in the previous three paragraphs, share characteristics that make them a valuable source of training for the informal sector. First, they target specific groups (youngsters, unemployed/underemployed workers and small firm entrepreneurs) that constitute a large share of the informal sector. Second, they provide training with small stipend, which prevents participants from dropping out of school or just enrolling for the money (and not for the training).

c. Social Protection

Another important concern about the size of the informal sector is that informal workers lack social protection. Informal activities, almost by definition, avoid payroll taxes and social security contributions so workers in this sector do not have access to different forms of social protection such as unemployment insurance, health insurance or old age pensions.

This concern has increased in recent years because, despite two decades of reform and structural adjustment in several Latin American countries, the size of the informal

sector has not diminished. Consequently, coverage of social protection programs is still incomplete, even in countries with an advanced set of reforms. It has been argued that the appropriate set of reforms in labor legislation and social programs would induce an increase of the formal sector and of social protection coverage. For instance, James (1998) argues that pay-as-you-go pension systems are usually financed through distortionary payroll taxes that encourage workers to escape to the informal sector. In contrast, fully funded pensions have a close linkage between benefits and contributions and people are less likely to escape to the informal sector because they would not see their contribution as a tax. However, Cortazar (1997) reports that after several changes in the labor law as well as a radical transformation of the pension system, the size of the informal sector in Chile remains stubbornly around 49% of the labor force during the nineties. In what follows, we will address the problems of participation in the pension system, the unemployment insurance programs and in other social protection programs.

With respect to participation, there are two sets of reasons why it is difficult to extend social protection to the informal sector.¹¹ First, there are program design characteristics that prevent informals from contributing to the social security programs. Second, given their own set of preferences and budgetary restrictions, it is an optimal choice for some informals to opt out the system.

The program design obstacles to informal workers participation are the following:

Low coverage: low coverage increases the average administrative costs of the pension system, in particular for fully funded systems. These higher administrative costs make contributions more expensive and make more difficult for informals to participate which, in turn, aggravates the low coverage problem.

¹¹ This part follows closely Holzman et al. (2001).

Moral Hazard: the existence of a first pillar publicly funded and partially or not-at-all related to contributions, as recommended by World Bank (1995), creates the incentive for non-participation among those who feel that the minimum pension is enough for retirement.

Employer contributions: social security contributions are sometimes divided between the employer and the employee. If employers are significantly sensitive to labor costs, they may reduce their labor demand and make informals less likely to find jobs in the formal sector.

Health Insurance: It has been found that the poor and the self-employed prefer health insurance to old-age security. Given their day-to-day risk and the dependence on their work for subsistence, health is a very valuable asset. If pensions and other social security protection schemes are not bundled with health insurance, these groups are less willing to participate. There is evidence that, when these programs are linked, participation is more likely (see Holzman, Packard and Cuesta, 2001).

In addition, there are rational choice reasons why informals do not contribute to the social protection funds. Some of these reasons are:

Higher rate of discount among the poor: for those living close to the subsistence level, the rate of discount for future consumption is very high. Therefore, allocating funds for future pensions does not rank high among the priorities of the poor.

Existence of informal social security mechanisms: traditional societies and rural dwellers where multigenerational families are common usually have informal mechanisms of social protection. The old are taken care of by the young, the young are trained by their parents, the unemployed are housed and fed by their relatives and so on.

Breaking this informal system may be difficult if it entails social stigma or retaliation among members of the group. Besides, contributing to the new system implies double costs for the young members of the family who have to contribute for their own retirement and still support their elders.

Credit constraints: for the self-employed and for owners of small firms, access to capital for productive investment is in short supply and expensive. Allocating scarce capital in an illiquid retirement account is not an option that many informals consider seriously.

Bundled taxes: if social security contributions are used by federal or local governments to collect other taxes and enforce labor regulations, informals will be reluctant to participate.

Own risk management: some individuals may have a different savings path than the pension system requires or may choose to manage their risks with their own individual investment decisions.

Confidence: households must have confidence in the government and the financial institutions (private or state-owned) that manage the social programs. If there are antecedents of mismanagement or corruption, individuals may distrust the institutions and opt not to participate in the system.

There is evidence that these different causes affect contributions to the social security system. Holzman, Packard and Cuesta (2001) perform an econometric analysis of the factors that affect the probability to contribute to the pension system in Argentina and Chile. They find that informals and self employed workers are less likely to contribute to the system, although they cannot identify if it is due to liquidity constraints

or to self-selection. They also find that the better educated (which may be interpreted as a proxy for income), male and married individuals are more likely to contribute. Finally, they also find that those who also contribute to bundled health plans are more likely to contribute to pension funds.

With respect to unemployment insurance programs, the evidence is conclusive. Informal workers do not participate in these programs simply because they are linked to contributions made while in the formal sector so informals are automatically excluded. Actually, it has been argued that the poor coverage of unemployment insurance in Latin America is among the causes of the large informal sector. Poor workers cannot afford to be unemployed and thus have to create themselves a job. Mazza (2000) reports that unemployment insurance covers around 15% of the unemployed in Argentina, 10% in Brazil and 12% in Barbados.

Other social programs have been implemented in the region. Especially after the Tequila crisis of 1994, these programs try to overcome the loss of income and employment due to macroeconomic shocks. Márquez (2000) reports the use of three additional programs: cash transfers, public works and wage subsidies.

Cash transfers such as the Beca Alimentaria in Venezuela, are social assistance programs targeted to the poorest segments of the society. These transfers are usually linked to a more comprehensive program that includes schooling and clothing for children. The problem with cash transfers is that they may discourage labor supply by increasing the reservation wage of parents.

Public works and wage subsidies have been implemented in several Latin American countries as a means to provide jobs to the unemployed and informal workers.

According to Márquez (2000), these programs have been an important source of jobs in Argentina and Mexico, where they have represented up to 9% and 4% of the labor force, respectively. The main advantage of the public works programs is that they are self-targeted. Since these jobs pay less than the market wage, only those in urgent need of a job take it, and as soon as they get a better job, they leave the program. Actually, public works do not pay better wages than some informal jobs and are less flexible. However, participation does not increase the future likelihood of workers entering the formal sector.

Wage subsidies, on the other hand, make hiring new workers less expensive for firms and may help enter the formal sector. For instance, in Argentina, employment vouchers were handed to displaced government employees and unemployment insurance recipients. These vouchers were given to employers who can use them to pay tax liabilities. Only previously formal workers had access to these vouchers. Consequently, this mechanism does not help informal workers to get formal jobs. Since 1995, “promotional employment contracts” were introduced in the Argentine legislation, which allowed for subsidies in some industries and more flexible contracts for certain categories of employees. These measures allow for more creation of jobs in the formal sector by reducing payroll taxes but at the same time create more jobs lacking social protection.

In conclusion, there is ample evidence that social protection does not reach informal workers. Reforms of the labor legislation and social programs during the last two decades have failed to reduce the size of the informal sector in the region. Both program design and personal rational choice explain the lack of coverage among informal workers. Consequently, there is the need to design programs that especially cater

informal workers and try to revert the trend of growing insecurity in the labor markets of the region.

5. Conclusions and Recommendations

Four issues stand out as the most important and urgent to deal with respect to the size and trend of informal activities in Latin America and the Caribbean. These issues are: first, the complex effect that regulations have on informal activities; second, the impact that macroeconomic policies have had on the informal sector in the last two decades; third, the lack of social protection that informal workers endure; and fourth, the low and stagnant productivity that most informal activities display. The literature has identified the first two issues as the main causes of the large informal sector that still characterizes the labor markets of the region. The last two issues are the dire consequences of having such a large informal sector and the reasons why researchers and policy makers must find strategies to abate the problem.

The role of legislation on the magnitude of the informal sector is still subject to debate. Some authors argue that red tape, payroll and other taxes, as well as lack of enforcement are the main determinants of the growth of informal activities in the region (see, for instance, Guasch 1999, Saavedra and Chong 1999, Loayza 1997, De Soto 1989). Others state that it is actually lack of regulation and enforcement the source of informality (Briassoulis 1999, Loayza 1997, Sassen-Koob 1989, De Soto 1989). On the other hand, some authors contend that rules and regulations cannot be solely responsible for this either because the empirical evidence is inconclusive (see Heckman and Pages 2000, Grüber 1997, MacIsaac and Rama 1997) or because despite widespread

deregulation informality remains high (Cortazar 1997). Given this, it is necessary to identify and separate the forms of regulation. Some appear to be unnecessary and obstruct the creation and growth of formal enterprises whereas others are needed to provide property rights and social protection.

The type of economic growth brought about by recent macroeconomic policies as well as other long-term characteristics such as levels of education and demographic transition also take part in explaining the phenomenon (see, for instance, Maloney 1999, Lora and Olivera 1998, Duryea and Székely 1998). Structural adjustment policies have been successful in reducing inflation, generating growth and promoting efficiency. Nevertheless, these policies have created an anti-formal-job bias that, together with the sizable growth of labor supply and deficiencies in its education, explain the size and trend of informality in the region.

The size of the informal sector would not be a matter of concern were it not for the lack of social protection and low productivity that its members display. Informal workers do not usually have access to social security, unemployment insurance, training and, unless some other family member does, health insurance. This makes the living of informals vulnerable because they are susceptible to all the shocks that workers may undergo. This is due to the design of these programs, which prevent most informals from participating but also to rational choice among some workers (see Holzman, Packard and Cuesta 2001, Márquez 2000). It is therefore necessary to make an additional effort in designing programs that allow and induce the participation of informal workers in order to reduce the vulnerability of their jobs.

There is ample evidence that informal workers have lower wages and less productivity than formal workers (see, for instance, Orlando 2000, Saavedra and Chong 1999, Marcouiller et al. 1997, Funkhouser 1996, Gindling 1991). As a result, informality has been associated to the persistent inequality and poverty that affects the region. Simple microeconomic analysis teaches that more capital, both human and financial, is needed to increase productivity and wages for a given labor force. Basic education, training programs and credit facilities need to be made more accessible to informal workers and small entrepreneurs.

Previous paragraphs have summarized the causes and consequences of informal employment. These issues call for a series of policies aimed at reducing the number of involuntary informal workers and protecting those who choose to remain informal from vulnerability and poverty. These policies can be sorted out into three categories: regulatory framework, macroeconomic policy, and social programs design. In what follows, we elaborate these three categories stating specific policies according to its time-span implementation (first short term and then long term policies) and suggesting the institutions that ought to execute them.

1.- *Changes in the regulatory framework.* These changes must address three facets: registration, labor law regulations and property rights enforcement.

1.1.- *Facilitate new firms registration.* Registration of new firms, irrespective of their size or economic activity, should be made an easy and fast procedure. Local governments as well as banks dedicated to microfinance should embark in promotional activities that induce small entrepreneurs to register their firms in order to have access to micro-credits and instruction of managerial skills.

This registration promotion might encounter resistance from firms that want to remain unregistered in order to avoid tax collection.

1.2.- *Evaluate the labor legislation.* There is consensus that some regulations affect the creation of formal jobs, but there is also evidence that the magnitude of this effect varies from country to country. A team of social scientist should evaluate the specific labor code of the country and produce a report with specific recommendations on changes of the labor law in order to promote employment creation. Minimum wages, severance payments and payroll taxes that are found to have a harmful effect on employment because they have a strong incidence on employers costs and employees do not value the social services they finance, must be scrapped or reduced. Once these studies have been concluded, the legislative must promote the necessary changes of the labor law.

1.3.- *Provide new and enforce existing property rights.* Individual and community property rights, be it on housing, land use or refuse disposal, must be clearly defined and enforced. Two programs seem to be of special interest for the region:

1.3.1.- *A cadastral survey of barrios and slums in order to determine property rights followed by a titularization program.* This program will provide households with assets that can be used as collaterals for borrowing capital and, also, will induce investment in housing improvements.

1.3.2.- *Enforcement of land use regulations.* Informal workers should not be allowed to have a competitive advantage because of evading

taxes or not complying with land use or pollution control regulations. Local authorities must enforce regulation on public areas, urban land use, garbage disposal and pollution. This implies that some informal workers must be displaced of their current areas of operation. Therefore, alternative land plots, with adequate services and according to land use regulation, need to be provided by the local authorities. This suggests the creation of commercial/industrial centers of informal workers.

2.- *Macroeconomic Policy.* Macroeconomic policy must strive for inflation reduction, efficiency gains and stable growth. These results will promote savings and investment in both physical and human capital whose accumulation will result in higher labor productivity and wages. It should be acknowledged though that modern technology is complementary to skilled labor so new investments are likely to shed unskilled labor. Therefore, a long-term commitment to invest in formal education and general training is required for avoiding labor retrenchment due to capital accumulation. In addition, facilitating the credit access to new and small firms is part of a sound investment promotion policy. Specific policies in this area, which must be executed by monetary and fiscal authorities, are:

2.1.- *Insist on structural fiscal and trade balance in order to promote long-term growth and low inflation.* These policies, and its consequences, induce higher savings and investment which are the source of higher productivity and better standards of living.

2.2.- *Avoid real exchange rate misalignments.* In particular, over valuation of the exchange rate because it stimulates the use of foreign goods and

imported capital which accelerate the demand for skilled labor in detriment of demand for, more abundant in the region, unskilled labor.¹²

2.3.- *Develop stabilization schemes that prevent excessive macroeconomic disturbances.* Latin American countries are particularly prone to macro instability because of their productive characteristics and their economic policies. Hausman and Gavin (1986) show how this volatility is magnified for some social groups, particularly the poor. Consequently, Rodrik (2001) highlights the importance of preventing excessive volatility due to capital mobility and fixed exchange rate regimes. Therefore, monetary authorities must choose monetary and exchange rules that minimize the excessive volatility that characterizes the region.

3.- *The Design of Social Programs.* The design of social programs has to allow and induce the participation of informal workers. There are four areas where social programs must be enhanced: general training, small-firm credit, social insurance and social assistance.

3.1.-*General training for workers.* General training must be made available to not only current workers of large firms, but also to workers of small firms and independent workers. These training programs must serve the needs of firms and individuals. This means that the courses must teach skills and abilities actually needed in the market place. In addition, the training programs must be flexible enough so that courses can evolve swiftly with market needs. The experience of funding through competitive bidding of the Chilean training

¹² In the seventies, the growth of the informal sector was induced, among other things, by the high real exchange rate due to excessive trade protection. Now that custom duties have been reduced and simplified, overvaluation of the real exchange rate must be avoided because of the same reason.

programs is a model worth following and extending because it puts in place the right incentives for the development of training programs. The participation of the private sector will set up the incentives for implementing programs that teach the “marketable” skills. However, federal or local government funding of these programs should concentrate on general training and avoid financing firm-specific training for which public funding is not warranted (see Behrman 1996).

Small firm credit programs should not only facilitate access to loans, but must also include training and supervision. These two additional factors increase the likelihood of success of new ventures. Otherwise, the experience in both developed and developing countries shows that funding of small enterprises may end-up financing unsound projects.

3.2.- *Extension and Improvement of Basic and Secondary Education.*

There is evidence that the impact of training programs on employment and wages of the trainees depend on the level of formal education already acquired by the trainees. Consequently, improving general training requires as a pre-condition the enhancement and extension of primary and secondary education (see Paredes and Riveros, 1994).

3.3.- *Social Insurance.*

With respect to social insurance, four types of risks must be considered: old-age, health, job accidents and unemployment. The financing of these programs should evaluate the tax incidence and employment effects mentioned above. Protection against sickness and accidents are likely to be of interest for informal workers, whereas unemployment insurance perhaps not, if they have chosen to be self-employed. Liquidity constraints, lack of confidence in

the institutions involved and personal preferences may induce workers to choose not to participate in old-age security programs. These programs should then allow the participation of informal workers. Taylor-made programs for informal workers need to be designed, in some cases allowing for flexible contributions and in others simply making access free for a means-tested group of the population. In this case, social insurance becomes social assistance and the scope and intent of the program change.

3.4.- *Social assistance.* Social assistance is required for informal workers who because of their low levels of education are rationed out of the formal sector and are in poverty or in risk of poverty. Free access to basic education, general training and health, should be provided to these people, after a means-tested selection procedure and for a limited period.

The set of policy recommendations that have been outlined in this section includes both long-term and short-term measures that must be adopted in collaboration by federal and local governments, non-governmental organizations and private firms. Multilateral organizations have two important roles to perform in this endeavor.

1.- Provide funding for the creation or extension of programs that enhance the productivity and security of informal workers. In this respect, some key funding projects will be:

1.1.- construction and endowment of primary and secondary schools;

1.2.- construction and equipment of training centers;

1.3.- construction and design of “informal workers”

commercial/industrial centers.

1.-4.- funding of small-firms credit schemes. This project requires not only capital funding, but also assistance in technical design of the program as well as in the provision of training and supervision of the borrowers activities.

2.- *Coordinate and promote the study of experiences in the region that deal with the problem of informality.* In this sense, multilateral agencies can provide their own technical expertise as well as promote the participation of local specialists in the region for the analysis and elaboration of:

2.1.- cadastral study of land use in urban areas;

2.2.- evaluation of labor regulations and proposals of change;

2.2.- evaluation and design of macroeconomic stabilization policies;

2.3.- design of social programs such as training, social insurance and social assistance;

2.4.- a region-wide research program that clearly identifies the size and trend of the informal sector for the region. This will allow for a better comparison among countries and monitoring of the programs implemented.

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Annex

TABLE 1a : Percentage of Urban Employed Population in the Informal Sector

	1979	1980	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1997	1998
Argentina		46.2					40.3				44.5			42.1
Bolivia						59.1					55.8		59.5	
Brazil	37.5						45.0			43.1			44.1	
Chile							37.0				32.1			30.8
Colombia		31.4						32.9			30.3			37.5
Costa Rica			32.2				31.7				31.5			30.8
Ecuador							50.3				49.0			50.6
El Salvador							52.7					46.0		46.7
Guatemala					55.2	51.7								
Honduras							51.6				45.9			47.7
Mexico				27.3		21.6					24.1			39.5
Nicaragua													57.9	
Panama	23.1							34.6			33.5			31.2
Paraguay					49.1		47.3				47.9		52.2	
Dominican Republic									36.0			34.4	44.2	
Uruguay			34				36.2				36.5			37.7
Venezuela			44.3				34.2				40.6			48

Source: CEPAL, 1999-2000, Panorama Social de America Latina

Data for Mexico, Panama, Dominican Republic have changes in coverage of small firms

Data for Argentina has changes in coverage of non-professional self-employed

TABLE 1b: Composition of Informal Workers by Employment Position

	1979	1980	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1997	1998
Argentina														
wage earners		22%					29%				33%			37%
domestic workers		8%					14%				11%			11%
self-employed		70%					57%				56%			51%
Bolivia														
wage earners						21%					25%		18%	
domestic workers						10%					9%		6%	
self-employed						69%					66%		75%	
Brazil														
wage earners	29%						38%			20%			22%	
domestic workers	20%						14%			19%			20%	
self-employed	51%						48%			61%			59%	
Chile														
wage earners							25%				27%			31%
domestic workers							16%				19%			19%
self-employed							46%				54%			49%
Colombia														
wage earners		0%						0%			0%			0%
domestic workers		22%						17%			17%			12%
self-employed		78%						83%			83%			88%
Costa Rica														
wage earners			31%				31%				36%			34%
domestic workers			17%				14%				12%			16%
self-employed			52%				56%				52%			50%

Composition of Informal Workers by Employment Position (continued)

	1979	1980	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1997	1998
<u>Ecuador</u>														
wage earners							22%				25%			26%
domestic workers							9%				10%			11%
self-employed							69%				66%			63%
<u>El Salvador</u>														
wage earners							25%					23%		26%
domestic workers							12%					10%		9%
self-employed							63%					68%		65%
<u>Guatemala</u>														
wage earners					30%	27%								
domestic workers					14%	14%								
self-employed					57%	60%								
<u>Honduras</u>														
wage earners							26%				24%			25%
domestic workers							13%				12%			10%
self-employed							61%				64%			66%
<u>Mexico</u>														
wage earners				0%		0%					0%			38%
domestic workers				10%		13%					15%			10%
self-employed				90%		88%					85%			52%
<u>Nicaragua</u>														
wage earners														26%
domestic workers														11%
self-employed														63%
<u>Panama</u>														
wage earners	0%							15%			17%			21%
domestic workers	26%							20%			22%			21%
self-employed	74%							65%			61%			58%
<u>Paraguay</u>														
wage earners					24%		33%				28%			24%
domestic workers					27%		22%				24%			20%
self-employed					48%		45%				48%			56%
<u>Dominican Republic</u>														
wage earners									0%			0%		19%
domestic workers									9%			11%		10%
self-employed									91%			89%		71%
<u>Uruguay</u>														
wage earners			26%				28%				26%			28%
domestic workers			22%				19%				19%			19%
self-employed			52%				52%				55%			53%
<u>Venezuela</u>														
wage earners			46%				19%				23%			23%
domestic workers			14%				18%				10%			6%
self-employed			41%				63%				67%			71%

Source: CEPAL, 1999-2000, Panorama Social de America Latina

Data for Mexico, Panama, Dominican Republic have changes in coverage of small firms

Data for Argentina has changes in coverage of non-professional self-employed

TABLE 2a: Percentage of Urban Employed Male Population in the Informal Sector

	1979	1980	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1997	1998
Argentina		44.0					37.3				40.8			39.3
Bolivia						49.8					44.2		50.1	
Brazil	32.0						42.4			37.6			39.6	
Chile							32.2				27.5			26.2
Colombia		26.4						28.8			26.3			33.9
Costa Rica			30.8				28.6				28.6			27.4
Ecuador							46.1				43.8			45.4
El Salvador							41.8					36.1		38.3
Guatemala					49.0	46.2								
Honduras							44.6				41.1			44.4
Mexico				24.1		18.0					18.6			35.2
Nicaragua													52.0	
Panama	22.0							35.3			33.3			28.8
Paraguay					34.0		37.0				38.8		43.0	
Dominican Republic									36.3			35.4	44.3	
Uruguay			26.8				30.8				31.4			33.9
Venezuela			43.6				32.4				41.6			47.3

Source: CEPAL, 1999-2000, Panorama Social de America Latina

Data for Mexico, Panama, Dominican Republic have changes in coverage of small firms

Data for Argentina has changes in coverage of non-professional self-employed

TABLE 2b: Composition of Male Informal Workers by Employment Position

	1979	1980	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1997	1998
<u>Argentina</u>														
wage earners		22%					33%				38%			46%
domestic workers		2%					5%				1%			1%
self-employed		75%					62%				61%			53%
<u>Bolivia</u>														
wage earners						33%					41%		28%	
domestic workers						1%					1%		1%	
self-employed						66%					57%		71%	
<u>Brazil</u>														
wage earners	39%						50%			27%			29%	
domestic workers	1%						1%			2%			2%	
self-employed	59%						49%			71%			69%	
<u>Chile</u>														
wage earners							31%				33%			37%
domestic workers							0%				0%			0%
self-employed							52%				67%			63%
<u>Colombia</u>														
wage earners		0%						0%			0%			0%
domestic workers		1%						1%			1%			1%
self-employed		99%						99%			99%			99%
<u>Costa Rica</u>														
wage earners			36%				36%				41%			44%
domestic workers			5%				1%				1%			1%
self-employed			59%				63%				58%			55%

Composition of Male Informal Workers by Employment Position (continued)

	1979	1980	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1997	1998
<u>Ecuador</u>														
wage earners							30%				34%			36%
domestic workers							1%				1%			2%
self-employed							69%				65%			62%
<u>El Salvador</u>														
wage earners							44%					40%		42%
domestic workers							1%					1%		1%
self-employed							56%					59%		57%
<u>Guatemala</u>														
wage earners					41%	38%								
domestic workers					0%	0%								
self-employed					59%	62%								
<u>Honduras</u>														
wage earners							39%				35%			36%
domestic workers							1%				0%			1%
self-employed							60%				65%			63%
<u>Mexico</u>														
wage earners				0%		0%					0%			49%
domestic workers				2%		3%					3%			3%
self-employed				98%		97%					97%			47%
<u>Nicaragua</u>														
wage earners														37%
domestic workers														0%
self-employed														63%
<u>Panama</u>														
wage earners	0%							17%			20%			25%
domestic workers	1%							2%			4%			3%
self-employed	99%							82%			76%			72%
<u>Paraguay</u>														
wage earners					49%		56%				47%			39%
domestic workers					1%		0%				4%			2%
self-employed					50%		44%				49%			59%
<u>Dominican Republic</u>														
wage earners										0%		0%		21%
domestic workers										1%		1%		1%
self-employed										99%		99%		78%
<u>Uruguay</u>														
wage earners			37%				38%				34%			34%
domestic workers			1%				0%				0%			1%
self-employed			61%				61%				66%			65%
<u>Venezuela</u>														
wage earners			51%				25%				26%			28%
domestic workers			4%				6%				4%			3%
self-employed			45%				69%				70%			69%

Source: CEPAL, 1999-2000, Panorama Social de America Latina

Data for Mexico, Panama, Dominican Republic have changes in coverage of small firms

Data for Argentina has changes in coverage of non-professional self-employed

TABLE 3a: Percentage of Urban Employed Female Population in the Informal Sector

	1979	1980	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1997	1998
Argentina		50.9					45.4				50.8			46.4
Bolivia						71.7					70.8		72.1	
Brazil	48.3						49.2			51.6			51.1	
Chile							45.8				40.3			38.1
Colombia		39.1						39.1			36.1			42.3
Costa Rica			35.5				37.2				36.5			36.3
Ecuador							57.8				57.3			58.9
El Salvador							66.1					57.7		56.4
Guatemala					66.0	60.6								
Honduras							61.9				53.3			52.3
Mexico				34.6		29.0					34.6			46.8
Nicaragua													64.8	
Panama	24.5							33.3			33.8			34.7
Paraguay					67.2		62.3				59.5		63.9	
Dominican Republic									35.4			32.4	44.1	
Uruguay			46.2				44.3				43.6			42.5
Venezuela			46.0				37.5				38.8			49.0

Source: CEPAL, 1999-2000, Panorama Social de America Latina

Data for Mexico, Panama, Dominican Republic have changes in coverage of small firms

Data for Argentina has changes in coverage of non-professional self-employed

TABLE 3b: Composition of Female Informal Workers by Employment Position

	1979	1980	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1997	1998
Argentina														
wage earners		21%					22%				26%			26%
domestic workers		20%					28%				24%			25%
self-employed		59%					50%				50%			49%
Bolivia														
wage earners						9%					11%		10%	
domestic workers						18%					16%		11%	
self-employed						73%					73%		80%	
Brazil														
wage earners	14%						23%			12%			14%	
domestic workers	45%						32%			38%			40%	
self-employed	41%						46%			50%			46%	
Chile														
wage earners							18%				19%			25%
domestic workers							39%				42%			40%
self-employed							37%				39%			35%
Colombia														
wage earners		0%						0%			0%			0%
domestic workers		35%						35%			35%			25%
self-employed		65%						65%			65%			75%
Costa Rica														
wage earners			22%				23%				28%			23%
domestic workers			39%				32%				28%			34%
self-employed			39%				45%				44%			43%

Composition of Female Informal Workers by Employment Position (continued)

	1979	1980	1981	1984	1986	1989	1990	1991	1992	1993	1994	1995	1997	1998
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<u>Ecuador</u>				
wage earners		12%	13%	13%
domestic workers		20%	21%	22%
self-employed		68%	66%	65%
<u>El Salvador</u>				
wage earners		11%	10%	13%
domestic workers		20%	16%	16%
self-employed		69%	74%	71%
<u>Guatemala</u>				
wage earners	15%	13%		
domestic workers	32%	30%		
self-employed	53%	57%		
<u>Honduras</u>				
wage earners		11%	11%	12%
domestic workers		26%	26%	20%
self-employed		63%	63%	69%
<u>Mexico</u>				
wage earners	0%	0%	0%	23%
domestic workers	22%	24%	28%	19%
self-employed	78%	76%	72%	58%
<u>Nicaragua</u>				
wage earners				15%
domestic workers				22%
self-employed				63%
<u>Panama</u>				
wage earners	0%	12%	12%	15%
domestic workers	62%	53%	54%	43%
self-employed	38%	35%	35%	42%
<u>Paraguay</u>				
wage earners	10%	14%	12%	12%
domestic workers	43%	41%	41%	34%
self-employed	47%	45%	47%	54%
<u>Dominican Republic</u>				
wage earners		0%	0%	15%
domestic workers		25%	32%	26%
self-employed		75%	68%	59%
<u>Uruguay</u>				
wage earners	15%	18%	17%	21%
domestic workers	42%	39%	39%	39%
self-employed	43%	43%	44%	40%
<u>Venezuela</u>				
wage earners	35%	9%	15%	12%
domestic workers	33%	40%	23%	12%
self-employed	32%	51%	62%	75%

Source: CEPAL, 1999-2000, Panorama Social de America Latina

Data for Mexico, Panama, Dominican Republic have changes in coverage of small firms

Data for Argentina has changes in coverage of non-professional self-employed

**TABLE 4: National Average Income and Informal Average Income By Employment Position
(as a multiple of the national poverty line per head)**

	1979	1980	1981	1984	1986	1989	1990	1991	1993	1994	1997	1998
<u>Argentina</u>		6.9					6.4			8.6		7.2
wage earners		5.1					3.6			-		-
domestic workers		3.1					3.5			3.3		2.6
self-employed		5.2					7.2			-		-
<u>Bolivia</u>						4.2				3.5	3.6	
wage earners						2.7				2.0	2.2	
domestic workers						1.6				1.0	1.1	
self-employed						3.8				2.2	2.3	
<u>Brazil</u>	5.6						4.7	4.3			5.0	
wage earners	2.5						2.6	2.0			2.5	
domestic workers	1.1						1.0	1.1			1.5	
self-employed	5.2						3.4	2.7			3.7	
<u>Chile</u>							4.7			6.2		7.4
wage earners							2.4			2.9		3.0
domestic workers							1.4			2.0		2.2
self-employed							5.0			4.9		6.5
<u>Colombia</u>		4.0						2.9		3.8		3.8
wage earners		-						-		-		-
domestic workers		2.1						1.3		1.7		1.6
self-employed		3.7						2.2		3.0		2.9
<u>Costa Rica</u>			6.6				5.2			5.7		5.6
wage earners			3.5				3.2			3.6		3.2
domestic workers			1.9				1.5			1.6		1.8
self-employed			6.9				3.4			4.0		3.6
<u>Ecuador</u>							2.8			2.9		3.0
wage earners							2.3			1.9		1.8
domestic workers							0.8			0.9		0.9
self-employed							1.9			2.0		2.1
<u>El Salvador</u>										3.4	3.8	
wage earners										2.0	2.3	
domestic workers										1.0	1.9	
self-employed										2.0	2.1	
<u>Guatemala</u>					3.1	3.5						
wage earners					1.5	1.7						
domestic workers					1.7	1.4						
self-employed					2.2	2.9						
<u>Honduras</u>							2.8			2.3	2.0	
wage earners							1.6			1.3	1.1	
domestic workers							0.8			0.5	0.5	
self-employed							1.5			1.6	1.2	
<u>Mexico</u>				4.8		4.4				4.4		4.1
wage earners				-		-				-		1.9
domestic workers				1.7		1.4				1.2		1.3
self-employed				4.1		4.4				3.3		2.6

**TABLE 4: National Average Income and Informal Average Income By Employment Position
(as a multiple of the national poverty line per head)
(continued)**

	1979	1980	1981	1984	1986	1989	1990	1991	1993	1994	1997	1998
<u>Nicaragua</u>												2.6
wage earners												1.6
domestic workers												0.9
self-employed												1.9
<u>Panama</u>	5.6							5.0		5.1		5.6
wage earners -								2.6		2.4		2.6
domestic workers	1.4							1.3		1.3		1.4
self-employed	2.9							2.3		3.4		3.4
<u>Paraguay</u>					3.1		3.4			3.6		3.6
wage earners					1.7		1.8			2.0		2.3
domestic workers					0.7		0.8			1.3		1.2
self-employed					2.2		3.6			2.9		2.5
<u>Dominican Republic</u>												4.4
wage earners												2.4
domestic workers												1.4
self-employed												4.0
<u>Uruguay</u>			6.0				4.3			4.8		4.9
wage earners			3.0				2.5			2.9		3.0
domestic workers			1.8				1.5			1.7		1.8
self-employed			8.1				5.1			3.5		3.5
<u>Venezuela</u>			7.6				4.5			3.8		3.6
wage earners			6.7				2.5			2.0		1.7
domestic workers			4.1				2.1			1.9		1.4
self-employed			4.9				4.3			3.8		3.9

Source: CEPAL, 1999-2000, Panorama Social de America Latina

**TABLE 5: Male/Female Income Ratio,
National and Informal Average Income By Employment Position
(as a multiple of the national poverty line per head)**

	1979	1980	1981	1984	1986	1989	1990	1991	1993	1994	1997	1998
<u>Argentina</u>		0.5					0.6			0.4		0.3
wage earners		0.3					0.1					
domestic workers		0.1					1.2			0.4		0.1
self-employed		0.4					1.0					
<u>Bolivia</u>						0.8				1.0	0.8	
wage earners						0.3				0.5	0.3	
domestic workers						1.5				0.9	0.8	
self-employed						0.7				1.0	0.7	
<u>Brazil</u>	1.3						0.8		0.9		0.7	
wage earners	0.2						0.4		0.1		0.1	
domestic workers	0.4						0.4		0.4		0.3	
self-employed	2.1						1.3		1.6		1.4	
<u>Chile</u>							0.6			0.5		0.5
wage earners							0.1			0.2		0.2
domestic workers							0.4			0.1		0.5
self-employed							0.3			0.4		0.4
<u>Colombia</u>		0.8						0.5		0.5		0.5
wage earners												
domestic workers		-						-		-		-
self-employed		1.3						0.9		0.8		0.7
<u>Costa Rica</u>			0.4				0.5			0.5		0.3
wage earners			0.0				0.1			0.3		0.3
domestic workers			1.0				-			0.3		0.3
self-employed			1.2				1.5			1.0		1.2
<u>Ecuador</u>							0.7			0.6		0.4
wage earners							0.3			0.2		0.1
domestic workers							0.6			0.2		0.4
self-employed							0.9			0.9		0.9
<u>El Salvador</u>										0.6	0.4	
wage earners										0.5	0.2	
domestic workers										0.9	0.6	
self-employed										0.8	0.6	
<u>Guatemala</u>					0.6	0.5						
wage earners					0.1	0.2						
domestic workers					(0.2)	0.9						
self-employed					0.6	0.9						
<u>Honduras</u>							0.7			0.7	0.8	
wage earners							0.4			0.2	0.2	
domestic workers							1.0			2.2	0.6	
self-employed							1.4			0.8	1.1	
<u>Mexico</u>				0.6		0.8				0.8		0.8
wage earners												0.4
domestic workers				0.2		0.6				0.8		0.7
self-employed				1.7		1.4				1.4		1.3

**TABLE 5: Male/Female Income Ratio,
National and Informal Average Income By Employment Position
(as a multiple of the national poverty line per head)
(Continued)**

	1979	1980	1981	1984	1986	1989	1990	1991	1993	1994	1997	1998
<u>Nicaragua</u>											0.6	
wage earners											0.3	
domestic workers											0.7	
self-employed											0.4	
<u>Panama</u>	0.4							0.2		0.4	0.3	
wage earners								0.0		(0.1)	(0.0)	
domestic workers	0.2							0.1		0.7	0.4	
self-employed	0.7							0.6		0.6	0.7	
<u>Paraguay</u>					1.1		0.8			0.7	0.6	
wage earners					0.2		0.3			0.2	0.2	
domestic workers					-					0.8	0.7	
self-employed					0.7		0.6			0.5	0.7	
<u>Dominican Republic</u>											0.3	
wage earners											0.3	
domestic workers											0.6	
self-employed											0.6	
<u>Uruguay</u>			1.1				1.0			0.7	0.6	
wage earners			0.4				0.4			0.2	0.2	
domestic workers			1.5				-			0.8	0.1	
self-employed			1.8				3.1			1.0	0.8	
<u>Venezuela</u>			0.4				0.5			0.4	0.4	
wage earners			0.3				0.0			-	0.1	
domestic workers			1.0				1.0			0.9	0.8	
self-employed			1.1				0.8			0.7	0.4	

Source: CEPAL, 1999-2000, Panorama Social de America Latina

TABLE 6: Alternative Measures of Urban Informal Sector Employment

	Source:	1990	1991	1992	1993	1994	1995	1996	1997
Argentina	2	41.1							
	1	39.6	40.7	41.8	42.9	45.1	45.7		
Bolivia	1	40.5	49.3	50.7	54.7	56.1	58.2		
	2							58.5	
Brazil	2	37.4							
	1	44.3	45.5	46.5	46.6	47.3	48.2		
	2					25.0			
Chile	1	41.8	42.1	42.4	43.3	44.9	44.7		
	2								30.3
Colombia	2	50.0		55.0		53.4		53.4	
	1	49.8	50.4	50.6	51.0	51.0	51.5		
Costa Rica	1	36.5	39.0	36.2	38.7	38.7	39.6		
Ecuador	2	42.0	44.2	45.3	44.3	42.6	44.5	43.9	40.0
	1	45.6	49.0	49.0	48.3	46.3	47.6		
Jamaica	2							74.5	
Honduras	1	47.2	44.0	44.0	39.1	45.9	49.0		
Mexico	2	49.9	50.3	50.5	51.5	51.6	54.0		
	1		25.4		25.7		27.4		
Netherland Antilles	2			10.0	10.0	12.0	12.0	13.0	11.0
Panama	1	33.3	33.3	33.0	31.9	32.3	33.7		
Paraguay	1	50.7	52.0	51.2	50.9	57.2	54.9		
	2							46.4	
Peru	2	45.7	46.3	48.9	48.8	48.4	49.3	50.7	50.8
	1	46.7	47.0	49.6	49.6	49.2	49.1		
	2							50.8	51.9
Uruguay	1	30.3	30.7	30.3	30.9	31.6	31.8		
	2							30.0	30.1
Venezuela	1	34.7	34.4	34.0	35.2	41.8	44.6		
	2					41.3	41.7	42.3	42.4

Source: ILO, 2000, Key Indicators of the Labor Market, KILM, table 7

Notes:

(1) International Labor Office estimates

(2) National Household Surveys figures

TABLE 7: Informal Employment in Selected Caribbean Countries (*)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
The Bahamas									
unemployment	7.8	7.8	9.8	11.5	11.1	13.3	13.1	14.8	12.3
informality (1)	16.8	15.1	15.3	18.2	14.8	15.1	14.7	14.2	13.3
informality (2)		16.8	12.6	8.0	6.9	9.0	16.3	9.1	
Barbados									
unemployment	10.4	12.3	14.5	15.6	19.7	21.9	24.3	23.0	17.3
informality (1)	14.1	12.9	12.7	13.0	12.8	12.7	13.2	12.6	11.9
informality (2)		9.1	12.2	17.7	15.4	13.2	14.8	14.6	12.1
Belize									
unemployment	12.8	14.3	12.7	13.8	12.5	9	9.8		
informality (1)	26.8	24.9	27.2	26.9	25.6	23.7	23.3		
informality (2)									
Guyana									
unemployment								11.7	
informality (1)								47.6	
informality (2)									
Jamaica									
unemployment	15.7	15.5	16.5	16.0	16.2	15.4	16.3	15.4	15.7
informality (1)	38.6	38.6	37.3	38.3	38.0	39.4	40.3	42.5	42.6
informality (2)									
Suriname									
unemployment		10.6	10.5	10.9	8.4	12.4	14.0		
informality (1)		18.6	21.5	18.7	16.7	18.3	16.9		
informality (2)									
Trinidad and Tobago									
unemployment	13.1	14.2	15	16.2	17.2	18.4	19.8	19.6	18.5
informality (1)	19.4	18.9	20.2	20.7	22.1	22.3	22.4	21.4	20.7
informality (3)		46.9	45.9	44.5	43.8				

Source: author's calculations based on data from ILO Caribbean Office website: <http://www.ilocarib.org.tt/>

(*) These measures of informality are only approximate because no information was available on small firm employment and on liberal professionals share within own-employment

(1) self-employed, apprentices and unpaid family workers as a proportion of total employment

(2) workers covered by employment injuries benefit as a proportion of total employment

(3) workers covered by social security as a proportion of total employment

TABLE 8: Informal Employment in Selected Caribbean Countries by sex (*)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
The Bahamas									
males	21.1	19.0	19.3	21.6	16.9	18.1	17.6	18.5	15.7
females	11.8	11.0	10.9	14.3	12.5	11.7	11.5	9.4	10.6
Barbados									
males	18.2	16.1	15.8	16.1	15.8	14.6	15.6	15.0	14.4
females	9.5	9.2	9.0	9.6	9.4	9.6	9.7	9.6	8.4
Belize									
males	27.5	25.7	28.0	29.4	26.9	24.2	24.7		
females	25.1	23.1	25.2	21.0	22.5	22.5	20.3		
Guyana									
males								47.8	
females								47.1	
Jamaica									
males	42.4	42.4	40.9	41.9	41.7	42.9	44.0	46.3	46.3
females	33.4	33.3	32.4	33.5	33.2	34.9	35.6	37.6	37.8
Suriname									
males		21.3	24.4	21.8	18.7				
females		13.0	15.7	12.7	13.0				
Trinidad and Tobago									
males	20.1	19.7	20.5	21.6	22.9	22.2	22.8	21.8	20.6
females	18.2	17.5	19.7	19.1	20.7	22.4	21.6	20.7	21.0

Source: author's calculations based on data from ILO Caribbean Office website: <http://www.ilocarib.org.tt/>

(*) Self-employed, apprentices and unpaid family workers as a proportion of total employment.
 These measures of informality are only approximate because no information was available on small firm employment and on liberal professionals share within own-employment