



International
Labour
Organization

YOUTH
and **INFORMALITY**

PROMOTING FORMAL EMPLOYMENT AMONG YOUTH

Innovative
Experiences in Latin America
and the Caribbean

EXECUTIVE
SUMMARY



FORLAC

PROGRAMME FOR THE PROMOTION OF FORMALIZATION
IN LATIN AMERICA AND THE CARIBBEAN

Regional Office
for Latin America and the Caribbean



CONTENTS

FOREWORD	3
1 Introduction	5
2 The Challenge of Formalizing Youth Employment	6
3 Policy Experiences	12
4 Innovations	18
5 Policy Recommendations	21

FOREWORD

The Latin American and Caribbean region faces the daunting challenge of creating decent work opportunities for youth. Currently, the Region has some 108 million people aged 15 to 24. Just over half of them are employed.

When youth begin their working lives, they must first overcome the high unemployment rate, which is two to four times higher than that of adults in the region. All too often, young people go out in search of work only to return home discouraged.

The employment scenario for youth has further complications, however. When a young person eventually does find a job, it is usually an informal one, with poor working conditions, instability, low wages, and no social protection or rights. Currently, six of every 10 new jobs available to youth in the region are informal.

At least 27 million youth are forced to settle for these poor quality jobs.

Informality is a serious, persistent problem in the region. Informality affects 48% of the employed population, youth and adults alike. Although it is a heterogeneous phenomenon, current statistics reveal the strong link between informality, poverty and social exclusion. In effect, the informality rate is nearly 75% among low-income workers.

Among youth, the informality rate surpasses 55%. This is a troubling statistic given that informality discourages and frustrates youth when they cannot access the opportunities they deserve. Youth today form part of the most educated generation in the history of Latin America and the Caribbean, where poverty has declined, yet these improvements elude young people in search of dignified employment.

This situation has social, economic and political repercussions since it may lead to a questioning of the system, instability and disenfranchisement, which can affect governance. Young workers' potential is not adequately exploited for economic progress. Additionally, there are nearly 20 million youth who neither work nor study.

The youth employment issue is on the political agenda of many countries in the Region. It is the subject of political debate and discussions on

socioeconomic development. In response, several countries have taken measures to address youth informality.

In addition to the strategies that directly address youth employment, many countries have developed and improved activities to eradicate informal employment, which range from improving productivity and facilitating formalization to guaranteeing social benefits to workers regardless of their employment status.

This report provides a glimpse of the young face of informal employment in Latin America and the Caribbean, and examines the similarities and differences among countries. It describes and analyzes public policy initiatives implemented in several countries of the Region and identifies their innovative aspects and lessons learned. Finally, the document presents policy recommendations.

The objective is to contribute to identifying more effective solutions to address the challenge of youth employment. The creation of more and better jobs for youth must be a priority if we are to advance in the building of more solid economies and more just societies.

Elizabeth Tinoco
ADG

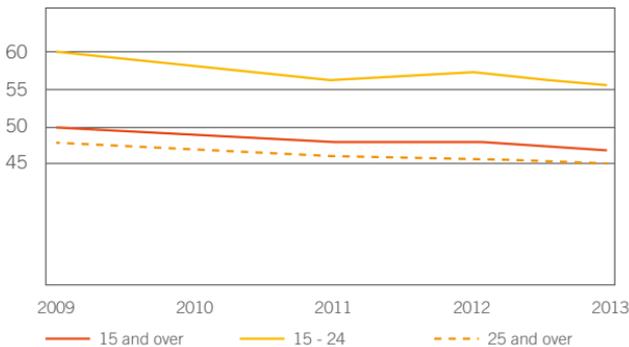
ILO Regional Director for Latin America and the Caribbean

1 | Introduction

Formalizing employment, particularly youth employment, continues to pose a challenge for the countries of the region. Currently, 13% of youth are unemployed and 55.7% are informally employed (ILO 2013¹ and ILO 2014a²). The challenge of enabling the new labour force to actively participate in the labour market is compounded by the additional challenge of guaranteeing that the new jobs meet decent work criteria.

Latin American and the Caribbean countries have played a key role in this area and have accumulated experience in implementing policies on both fronts. The 2015 report, “Youth and Informality: Promoting Formal Employment among Youth – Innovative Experiences in Latin America and the Caribbean,” reviews the most recent policy responses and identifies their innovative aspects.

FIGURE 1 Latin America: Non-agricultural Informal Employment Rate, by Age Group



Source: ILO, based on household surveys of the countries. 2010, estimated.

¹ ILO (2013a) “The Youth Employment Crisis: A Call for Action,” Resolution and Conclusions of the 101st Session of the International Labour Conference, Geneva.

² ILO (2014a) “Transitioning from the Informal to the Formal Economy,” Report V(2), 103rd Session of the International Labour Conference, Geneva.

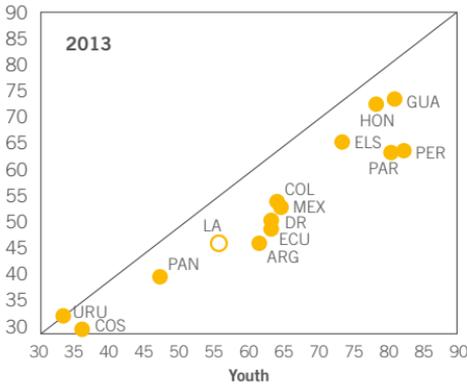
2 | The Challenge of Formalizing Youth Employment

In Latin America and the Caribbean, informality and youth are closely linked. Both the informal and formal sectors contribute to the high rates of informality among youth. Informally employed youth have lower wages, less job security and fewer labour rights. Informal employment is widespread in the region. Informally employed youth with a better socioeconomic and educational background have the best chances of transitioning to formal employment. Informally employed youth without these advantages are especially vulnerable to remaining informal.

Informality and Youth: a Close Relationship

Although labour informality rates have declined over the past decade, informal employment among youth remains consistently higher than that among the total employed population in all countries in the Region (Figure 2). Peru, Guatemala, Paraguay, Honduras and El Salvador had the highest rates in the Region, with between seven and eight of every 10 youth employed in informal conditions in 2013. Costa Rica and Uruguay had the lowest rates, with approximately three of every 10 youth workers informally employed in that year. In the case of Uruguay, the rate was the same as the average for all workers.

FIGURE 2 Latin America (12 countries). Total and Youth Informal Employment Rates (Non-Agricultural) – 2013



Source: ILO (2014b).³ Note: Average for the 12 countries. The youth rate refers to individuals aged 15 to 24.

Informality is less common in some types of employment, such as wage employment, while it is more concentrated in others, such as own-account employment and among contributing family workers⁴ (ILO 2014c). The contribution of the formal sector to informal employment among youth is considerably higher than that among adults (ILO 2013b⁵). Youths’ high informality rates reveal their greater vulnerability to precarious working conditions in “more formal,” situations in employment, such as wage employment, and the increased participation of female youth, especially in more precarious forms of employment, such as contributing family workers.

Table 1 shows the structure of employment for different age groups by status in employment and informality. In the region, youth have higher informal employment rates, regardless of their status in employment. The difference in informality rates by age groups is highest among employees.

³ ILO (2014b) “Panorama Laboral Temático. Transición a la Formalidad en América Latina y el Caribe” ILO, Lima.

⁴ According to the definitions adopted by the 15th ICLS (1993) and 17th ICLS (2003), all contributing family workers have informal employment.

⁵ ILO (2013b) “Trabajo decente y juventud en América Latina. Políticas para la acción” ILO, Lima.

TABLE 1 Latin America (14 countries). Employment by Status in Employment and Informality

	Youth (15 - 24)			Adults (25 and over)			Total		
	Informal employment rate	Composition of informal employment	Informal employment rate	Informal employment rate	Composition of informal employment	Informal employment rate	Composition of informal employment	Informal employment rate	Composition of informal employment
Total	55.7	100.0	44.9	100.0	46.8	100.0	42.9	100.0	
Wage workers.	45.8	64.3	25.6	37.3	29.7	37.3	42.9	42.9	
Public sector.	41.2	4.6	13.5	4.3	15.9	4.3	4.4	4.4	
Private sector (includes employers).	46.2	59.6	29.0	32.9	32.9	32.9	38.5	38.5	
Enterprises with 1 to 10 workers.	72.1	43.6	53.8	24.0	58.6	24.0	28.1	28.1	
Enterprises with more than 10 workers.	22.6	14.8	12.3	8.1	14.4	8.1	9.5	9.5	
Own-account workers	86.4	17.6	81.9	47.6	82.3	47.6	0.9	0.9	
Domestic service workers.	91.8	7.6	75.3	11.2	77.5	11.2	41.3	41.3	
Contributing family workers.	100.0	10.5	100.0	4.0	100.0	4.0	10.4	10.4	
Others.	98.7	0.1	95.1	0.0	96.7	0.0	5.3	5.3	

Source: ILO.

Sector Contributions to Informal Employment among Latin American Youth

↘ *The informal sector in the Region accounts for 30 percentage points (55%) of informal employment –in Colombia, the contribution of the informal sector is 78% while it surpasses 60% in El Salvador, Honduras, Guatemala and Uruguay.*

↘ *The formal sector in the Region accounts for 20 percentage points (36%) of informal employment –in Paraguay, Panama and Ecuador, the formal sector represents 45% of total informal employment.*

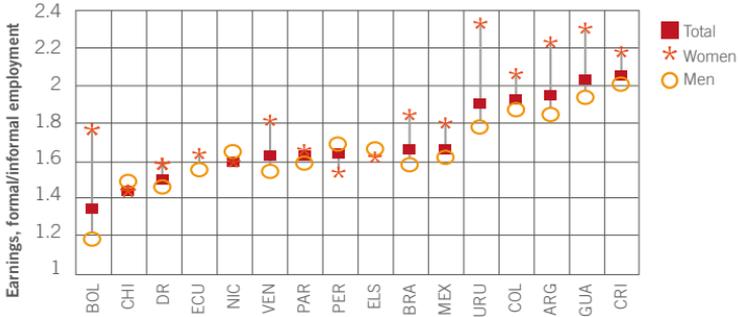
↘ *Although domestic service is highly informal, its average contribution is less given its limited importance to the economy – except in Paraguay, where it accounts for 13 percentage points (16%) of informal employment.*

Source: ILO 2013b.

Immediate and long-term consequences

Informally employed youth are more likely to have lower incomes, limited social benefits and increased job instability. Formally employed youth earn nearly double what informally employed youth do in Costa Rica, Guatemala, Argentina, Colombia and Uruguay. These earnings gaps can be even more significant among young women. In Bolivia and Uruguay, the formal/informal income gap among women is more than 50 percentage points higher than that among men, whereas in Argentina and Guatemala, the difference is nearly 38 percentage points (Figure 3). Less than 10% of young informal employees have health insurance in Argentina, Bolivia and the Dominican Republic. Additionally, informal workers have been employed in their current positions for 40% less time than formal workers –the gap is approximately five months– in Uruguay, the Dominican Republic and Costa Rica.

FIGURE 3 Latin America – 16 countries. Earning gaps among formally and informally employed youth (15-24), by gender. 2010



Source: ILO, based on SEDLAC (CEDLAS). Note: Informal employment is defined based on social protection only.

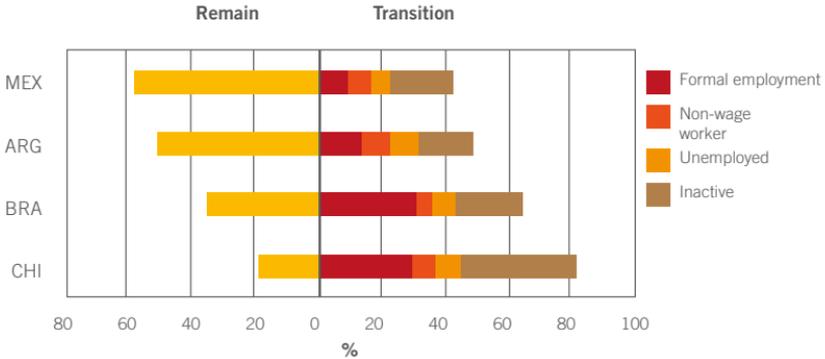
These characteristics associated with informal employment continue throughout an individual’s working life. In the short term, a large percentage of young informal employees will find it difficult to escape informality (Figure 4). Fifty-seven percent of youth employed as informal employees in Mexico in 2012 remained informal a year later; the figure for Argentina was 50%. Transitioning from informal to formal employment over the course of a year was possible for only a small percentage of youth in those countries: 10% in Mexico and 15% in Argentina. In Brazil and Chile, the transition from informal to formal employment among youth was somewhat higher at approximately 30%.

When youth enter the informal labour market, they are penalized throughout their working lives. This is especially true for less educated youth (Cruces and Viollaz, 2013).⁶ In Brazil, cohorts exposed to higher levels of informality in their youth fare systematically worse in the labour market as adults. However, wage penalty effects and their duration are mainly present in the early years of adulthood and tend to dissipate over time, except in the case of less educated workers, where the effects are more pronounced (Cruces, Ham and Viollaz, 2013).⁷

⁶ Cruces, G. and M. Viollaz (2013) “Inserción de los Jóvenes en los Mercados Laborales de América Latina,” report of the project “Mercados laborales para el crecimiento inclusivo en América Latina,” CEDLAS, La Plata.

⁷ Cruces, G., A. Ham and M. Viollaz (2013) “Scarring effects on youth unemployment and informality. Evidence from Brazil,” document under review for publication, CEDLAS, La Plata.

FIGURE 4 Argentina, Brazil, Chile and Mexico. Employment transition of youth with informal wage employment - 2012-13 for Argentina, Brazil and Mexico; 2011-12 for Chile



Source: ILO, based on SEDLAC (CEDLAS). Informal employment is defined based on social protection only.

On average, informally employed youth in the Region have two years less of education and are overrepresented in the poorest quintile of per capita household income as compared with formally employed youth (12.6% versus 3%). Additionally, young informal workers are generally poor, in other words, their job earnings are below the poverty line of US\$ 2.50/day. Results of school-work transition surveys carried out in Brazil, El Salvador, Jamaica and Peru demonstrated that only a small percentage of youth transitioned from school to formal employment. Additionally, youth who had more advantages before beginning the transition – in terms of education and resources – had a greater chance of obtaining formal employment upon entering the labour market in all countries analyzed (ILO 2014c⁸; Venturini and Torini 2014⁹; Handal 2014¹⁰ and Ferrer 2014¹¹).

⁸ ILO (2014c) “Labour market transitions of young women and men in Jamaica” Work4Youth Publication Series No. 17, International Labour Organization, Geneva.

⁹ Venturini, G. and D. Torini (2014) “Transições da escola para o mercado de trabalho of mulheres e homes jovens no Brazil” Work4Youth Publication Series No. 25, International Labour Organization, Geneva.

¹⁰ Handal, G. (2014) “Transiciones en el mercado de trabajo de las mujeres y hombres jóvenes en El Salvador” Work4Youth Serie de Publicaciones N° 22, International Labour Office, Geneva.

¹¹ Ferrer, A. (2014) “Transiciones en el mercado de trabajo de las mujeres y los hombres jóvenes en el Perú” Work4Youth Serie de Publicaciones N° 18, International Labour Office, Geneva.

The School-Work Transition

In El Salvador, 70.5% of youth with higher education successfully transitioned to the labour market, as compared with just 48.7% of youth with a basic or incomplete education. Peru has a similar gap, with a successful transition rate of 77.3% for those with higher education, as compared with 48.5% for those with a primary school education.

3 | Policy Experiences

In Latin America and the Caribbean, broad-based, comprehensive policy instruments reduced informality levels more effectively than did specific initiatives to promote formal employment (ILO 2014b). The Region has few assessments of these policies (in the form of laws or programmes). Although most policies were implemented only recently, and their effects cannot yet be measured, in general, no impact evaluations have been planned. Available targeting and performance indicators for some policies suggest a bias toward formalization. The few impact evaluations conducted show positive effects in terms of formalizing employment among youth.

Incentives for Creating Formal Jobs and Conditions for their Development

Initiatives can be divided into two types: those that address labour demand and those that focus on labour supply. The former seek to compensate for the disadvantages youth face in terms of work experience and limited productivity when they seek employment. To this end, they offer economic benefits to employers to encourage them to provide formal employment contracts. They may also offer technical assistance and financing for the development of enterprises – especially in less developed areas. By contrast, policy incentives for workers concentrate on helping youth access formal employment by providing training in technical and soft skills and accreditation of their work experience (Table 2).

TABLE 2 Actions to Create Formal Jobs

Incentives for Formal Job Creation	
Labour Demand	Labour Supply
Compensate <ul style="list-style-type: none"> ↳ initial low productivity (limited skills, experience). ↳ environments not conducive to hiring (own business as alternative). 	Generate <ul style="list-style-type: none"> ↳ technical and soft skills ↳ on-the-job training.
Wage Employment <ul style="list-style-type: none"> ↳ wage subsidies. ↳ discounts for social security contributions. ↳ tax breaks. ↳ hiring quotas. 	Training <ul style="list-style-type: none"> ↳ completion of basic education. ↳ vocational training. ↳ internships
Self-employment or Microenterprise owner <ul style="list-style-type: none"> ↳ business guidance and/or financing. ↳ administrative simplification for registering new enterprises. 	

Source: ILO.

Wage subsidies are the most common incentives to promote labour demand. In some countries, these subsidies are allocated to employers when they hire youth. In other countries, general subsidies are awarded for contracting personnel in enterprises of a specific size or sector where youth actively participate. Targeted programmes include Chile's *Subsidio al Empleo Joven* – which targets youth from the poorest 49%

of the population- and the *Subsidio a la Contratación y Cotización*. In Uruguay, the *Régimen de Promoción de Inversiones* and the Law on the Promotion of Decent Work for Youth establish a bonus for hiring youth. The law's wage subsidy also benefits vulnerable youth. Brazil's Internship Law establishes subsidies for youth internship programmes and quotas for hiring interns.

The Impact of Incentives on Labour Demand

The *Subsidio al Empleo Joven* Programme improved the employability of youth and increased their labour participation- particularly among men (Universidad de Chile, 2012).*

Contracts under Brazil's Internship Law increased youths' opportunities to access formal employment in subsequent years and to obtain a permanent work contract, as demonstrated by a study that used workers with temporary contracts as a control group (Corseuil, Foguel, Gonzaga and Ribeiro, 2012). **

Source: * "Evaluación de Impacto del Programa de Subsidio al Empleo Joven" final report, Microdata Centre – Department of Economics, Universidad de Chile** The effects of a Youth Training Program on Youth Turnover in Brazil" Working Paper 042, Applied Economics Network.

Labour supply incentives in the Region focus on developing youths' skills. Argentina, Bolivia, Brazil, Costa Rica, the Dominican Republic, Ecuador, Mexico, Peru and Uruguay implement these types of programmes. Training consists of mandatory studies or a combination of classroom learning and on-the-job training through internships. The internship component has recently been reintroduced in nearly all countries with training initiatives as a means of developing or strengthening skills through concrete work experience. In Argentina, although the programme *Jóvenes con Más y Mejor Trabajo* offers both labour supply and demand incentives,¹² the most developed component is improving youths' skills – through completion of basic education, vocational and on-the-job training- and their linkage to employment services. An impact evaluation of the programme's vocational training component found modest positive effects for

¹² Youth transition through these different components and therefore receive a variety of benefits.

obtaining formal employment (Castillo, Ohaco and Schleser, 2014¹³; World Bank, 2014¹⁴). In the Dominican Republic, the *Juventud y Empleo* Programme combines training in technical and basic skills with on-the-job training. Evaluations of that programme also identified positive effects for promoting formal employment among specific groups.

The Impact of Incentives on Labour Supply

Three impact evaluations of the *Juventud y Empleo* Programme were conducted, two of which estimate effects on quality of employment. Ibararán, Ripani, Taboada, Villa and García (2012)^{*} found positive, significant effects on quality of employment only among men in the short term. Vezza, García, Cruces and Amedolaggine (2014)^{**} identified short-term positive effects on employment among women, which dissipated over the medium term. In the case of men, participants had fewer possibilities for formal employment than the control group in the medium term.

Source: ^{*}“Life Skills, Employability and Training for Disadvantaged Youth: Evidence from a Randomized Evaluation Design” IZA Discussion Papers 6617, Institute for the Study of Labor (IZA) ^{**}“Youth and Employment Program, Dominican Republic” Impact Evaluation Report for the 2008-2009 Cohorts, World Bank, Buenos Aires.

Formalizing Employment

Specific tools exist for formalizing and adapting current standards for informal workers and economic units, as well as mechanisms and sanctions to achieve compliance. These include incentives, labour inspections, advocacy and specific labour regimes to promote and protect formal jobs in highly informal sectors. Additionally, these tools are designed to increase access to formal employment among populations excluded because of their characteristics or because they are subject to a legal regime that differs from that of other formal workers (Table 3).

13 Castillo, V., M. Ohaco and D. Schleser (2014) “Evaluación de impacto en la inserción laboral de los beneficiarios de los cursos sectoriales de formación profesional” Serie de documentos de trabajo 6, ILO Country Office for Argentina.

14 World Bank (2014) “Argentina. Lifelong Learning and Training Project,” Implementation Completion and Results Report (IDRB-74740), Washington D.C.

TABLE 3 Actions to Formalize Employment

Formalizing Employment	
Regularization of informality	Expansion of formality
<p>Legalization</p> <ul style="list-style-type: none"> ↳ Small units of low productivity. ↳ Informal workers. 	<p>Adapt legislation to formalize</p> <ul style="list-style-type: none"> ↳ Marginalized workers. ↳ Formal workers with “fewer rights”.
<p>Advocacy</p> <ul style="list-style-type: none"> ↳ Dissemination and advisory services. 	<p>Specific arrangements/regimes</p> <p><i>Youth without work experience</i></p> <ul style="list-style-type: none"> ↳ Guarantee minimum benefits in first job <p><i>Domestic service.</i></p> <ul style="list-style-type: none"> ↳ Incorporate more labour rights <p><i>Rural workers.</i></p> <ul style="list-style-type: none"> ↳ Sign agreements for worker insurance. ↳ Regularize temporary contracts. <p><i>Own-account workers</i></p> <ul style="list-style-type: none"> ↳ Simplify tax/social security payments by contract. <p><i>Migrant workers</i></p> <ul style="list-style-type: none"> ↳ Regularize citizenship. ↳ Support migrants' return to country of origin.
<p>Incentives</p> <ul style="list-style-type: none"> ↳ Administrative simplification for registration. ↳ Tax deductions. ↳ Remittance of penalties. ↳ Reductions in social security contributions. ↳ Support for the sustainability of the enterprise. 	
<p>Oversight</p> <ul style="list-style-type: none"> ↳ Labour inspections and tax audits. ↳ Penalties for non-compliance. 	

Source: ILO.

No evaluations have been conducted on these initiatives to determine their impact on formal employment, and especially on youth employment. However, given their focus on small production units and certain sectors, it is likely that employed youth benefit from the labour formalization promoted by these instruments.

Examples of these formalization incentives include *Colombia Formaliza*, Mexico’s *Crezcamos Juntos* Programme, Peru’s Microenterprise and Small Enterprise Law, the *Nossa Primeira* Programme for rural youth in Brazil, and *Jóvenes Rurales Emprendedores* in Colombia. Additionally, labour inspections have been promoted or strengthened in several countries in the region, including Argentina, Brazil, Ecuador, Mexico and Peru. Some countries have also implemented special regimes for own-account and domestic service workers. Moreover, there are regimes for the rural sector and outsourcing, legislation for inclusion of disabled workers and a recent focus on migrant workers.

Extension of Coverage to Informal Workers, Even without Job Formalization

The expansion of social protection in Latin America and the Caribbean has increased informal workers' access to benefits usually reserved for formal employment. These policies emerged as a complement to conditional cash transfer programmes to increase child and maternal health and education coverage. Additionally, temporary employment programmes expanded coverage to working-age individuals who did not have access to these benefits because they did not have formal employment or a sufficient formal employment history to meet access requirements (Table 4).

TABLE 4 Actions to Provide Social Benefits to Informal Workers

Extending coverage to informal workers
<p>For:</p> <ul style="list-style-type: none"> ↳ Vulnerable workers and their families
<p>Health insurance. Family coverage. Maternity coverage</p> <ul style="list-style-type: none"> ↳ Introduction of solidarity pillar in contributory system. ↳ Specific insurance for non-contributors. ↳ Coverage through status in employment regimes. ↳ Coverage through participation in social programmes.
<p>Unemployment benefits</p> <ul style="list-style-type: none"> ↳ Temporary employment programmes.

Source: ILO.

As a group that is particularly vulnerable to informality and unemployment, youth have participated in initiatives to strengthen social protection floors (ILO 2011¹⁵; ILO 2014d¹⁶). Among social benefit programmes in the region, the most successful have focused on increasing health care coverage. A government subsidy in Chile expanded coverage of the *Fondo Nacional de Salud* to individuals living in poverty. The health reform in Colombia, implemented through the *Régimen Subsidiado de Seguridad Social en Salud*, also extended coverage to the poor. Mexico provided health care to individuals not covered by social security and exempted contributions of individuals and households in the lowest

¹⁵ ILO (2011) "Social Protection Floor for a Fair and Inclusive Globalization, Report of the Advisory Group, International Labour Office, Geneva.

¹⁶ ILO (2014d) "World Social Protection Report 2014/15. Building Economic Recovery, Inclusive Development and Social Justice," International Labour Organization, Geneva.

income bracket. Peru's public *Seguro Integral de Salud* offers health care to individuals without health insurance and includes a subsidy for people living in poverty. Other countries have also implemented initiatives to extend health care coverage to vulnerable groups by linking them to specific registration regimes, such as Peru's *Seguro Integrado de Salud* for the different types of status in employment, Argentina's *Monotributo Social* and Uruguay's *Monotributo Social MIDES*. Expanded health care coverage is also associated with other social programmes, such as Argentina's *Plan Sumar*,¹⁷ which provides maternal and child health care services to vulnerable populations, including the beneficiaries of the *Asignación Universal por Hijo* Programme.

4 | Innovations

The initiatives described above are innovative in terms of their design and implementation. Design innovations include the combination of components for the formalization strategy and their adaptation to diverse economic and informal employment scenarios. In terms of implementation, innovations include partnerships with local actors who bring together informal units and workers, giving them responsibilities for guaranteeing compliance with labour rights.

i. Generating stable employment opportunities for youth

Today, youth hiring practices have safeguards against precarious employment. For employers, the main incentive is a wage, social security or tax subsidy that discourages them from hiring workers with limited benefits. Conditions established for accessing subsidies include the duration and type of labour relationship with youth (Argentina's *Jóvenes con Más y Mejor Trabajo*, Chile's *Subsidios al Empleo Joven y a la Contratación*, Mexico's Law on the Promotion of the First Job and Uruguay's Youth Employment Law) or with workers in general (Argentina's Employment Promotion Law).

Another innovative aspect of these policies is the eligibility of employers based on the hiring of regular staff to avoid replacing workers. Employers

¹⁷ This initiative began in 2005 with *Plan Nacer* as a health insurance programme for vulnerable mothers and children.

must demonstrate that they have not had layoffs (Argentina's *Jóvenes con Más y Mejor Trabajo*) or that the job in question was recently created and will continue to exist for at least three years (Chile's *Subsidio a la Contratación y Cotización*).

Initiatives involving internship or learning exchange contracts have a shorter duration than regular work contracts. These policies require accreditation of continued formal education studies and/or on-the-job training. For example, Brazil's Internship Law establishes a two-year time limit for the contract whereas Uruguay's *Yo Estudio y Trabajo* Programme has a duration of one year. In other cases, participants must certify that they are continuing with their studies during the contract period.

ii. Financial support to informal units undergoing formalization

Recently, unlike the approach focusing exclusively on legality, formalization strategies have been addressing informality from a perspective of productivity. Administrative simplification and tax break policies have added components to help small production units maintain their profitability, which is affected by the financial burden of formalization.

When an informal enterprise chooses to become formal, it may access coaching programmes to improve enterprise productivity, income and sustainability. Mexico and Colombia have programmes that take this approach. The initiative *Crezcamos Juntos* provides advisory and support services during the transition to formality and the *Ruedas y Brigadas de Formalización* Programme offers a service packet to enterprises that want to formalize their operations and workers. Additionally, policies to support the development of low-productivity or subsistence enterprises have long been applied in rural development and self-employment programmes throughout the Region.

iii. Social protection policies to complement formalization policies

In their efforts to expand programmes and strengthen social protection floors, employment initiatives compete for space with other policies. Given that many youth employment programmes focus on vulnerable youth, there is often an overlap with poverty reduction or income

improvement programmes. Where simultaneous participation in the two types of programmes is prohibited, the overlapping of target populations may lead beneficiaries to shift from one programme to another.

While this movement among programmes and population groups continues, governments in the Region are now attempting to make these programmes more complementary. In Colombia, the Law of Formalization and Job Creation links contracts under this law with participation in the *Familias en Acción* Programme and in the *Seguro Subsidiado de Salud*. The worker who obtains a formal contract under this regime and is a beneficiary of these programmes will continue to receive benefits for a year in the case of *Familias en Acción* and two years in the case of the *Seguro Subsidiado de Salud*. In Argentina, benefits of the *Asignación Universal por Hijo* Programme are available to workers registered in the single social tax registry as well as to registered domestic service workers. These workers, who earn less than the minimum wage, can receive benefits from that programme. In the case of workers with seasonal contracts, the law also stipulates that after these workers have completed their contracts – for which they received family benefits – they will continue to receive the child benefit during periods of unemployment, thereby assuring continued coverage.

iv. Local strategic partners

Inspection and oversight systems to formalize enterprises and workers have become more decentralized in an effort to form local partnerships. National and state governments have benefited from local networks' extensive knowledge of the geographic area, proximity to the production units and workers and long-term interactions with other local actors, enabling them to access a wide-reaching, highly fragmented network

Institutional agreements include activities ranging from those to raise awareness, provide information and registration to the assignment of legal responsibilities. In Ecuador, the *Seguro Social Campesino* Programme expanded coverage through coordination with peasant organizations, which act as intermediaries between member workers and the Ecuadorian Social Security Institute. For its part, *Colombia Formaliza* celebrated agreements with Confecámaras, which established formalization brigades to identify and contact local informal production units to expand coverage in municipalities.

v. Inclusion through legislation for specific groups of workers

Some countries in the Region have developed specific labour regimes for workers in certain sectors or for those who face obstacles for joining the labour force. These have innovative formalization schemes with guarantees for minimum social benefits for vulnerable workers not covered by general labour law, such as domestic service, rural and own-account workers.

In compliance with ILO Convention 189, several countries have adapted legislation for domestic service workers or enacted specific laws for these workers. Initiatives for rural workers include their incorporation into social security programmes through less traditional compliance mechanisms. These were implemented through agreements between workers and employers in Argentina, Costa Rica and Ecuador. The expansion of special simplified regimes for own-account workers is noteworthy because these define which groups to include, incorporate own-account workers with an earnings limit, establish subsidiary systems for those with lower earnings, and guarantee access to health and pension benefits.

5 | Policy Recommendations

Promoting formal employment among youth requires aligning programmes, legislation and national plans with this aim. To this end, policymakers should first review initiatives and their effects –when they are known– to identify policy options. With this information, public policy recommendations can be made based on solid evidence and cost-effectiveness. Additionally, it provides insight on what type of research is needed to contribute to policy analysis and debate.

There are two main approaches to reducing youth informality in the Region. While policy responses for young informal workers are the same as those established for other workers, they have led to initiatives to promote formal job creation specifically for youth. The implementation of these approaches and their respective interventions depends on the specific country context.

Recommendations for designing policies to address informal employment among youth are summarized below:

Determine relevance: have a clear idea of the profile of youth labour informality and how it is addressed with the current intervention strategy

Based on the findings from monitoring the labour market and the studies carried out, policymakers should:

- ↳ Have a clear profile of the current situation, identifying the sources of youth informality in terms of worker and employment characteristics, and how these differ from those of formal workers.
- ↳ Collect and share information on access of youth to employment and social protection programmes as a first step for obtaining feedback on what they receive and what they should receive.
- ↳ Determine which strategies, laws or programmes are being applied and why the evidence indicates a need for change: Is it the targeting, coverage or the nature of the interventions themselves?

Assess available options

Policy options range from new interventions to innovative aspects of current initiatives. To weigh potential options, policymakers should determine the potential impact on the affected population and identify the advantages and disadvantages of each alternative.

Regional experience suggests that it is useful to incorporate management guidelines which, without compromising fiscal space, can lead to improved results in:

Formalization policies

- ↳ Establish alerts with inspection mechanisms to identify informally employed youth to link them to employment policies.
- ↳ Establish linkages with local networks to raise awareness, engage in research, and contact youth and economic units (enterprises, social cooperatives, household economies). Countries should advance with labour inspection activities as these linkages become consolidated.

↘ Encourage the active participation of employees' organizations in oversight activities to detect precarious labour arrangements among youth.

Youth employment policies

↘ Centralize and disseminate points of access to formal employment among youth beyond the programmes. This can be achieved through service windows or employment services for targeted youth.

↘ Incorporate quality standards for on-the-job training as an opportunity to acquire practical knowledge, guaranteeing legal protection and ensuring that internships are not simply replacing paid jobs.

↘ Encourage employers to actively participate in setting quality standards and in developing and implementing training programmes.

↘ Adopt initiatives to support youth-led microenterprises to increase productivity levels beyond subsistence and promote their formal operation, defining medium-term coaching periods.

↘ Encourage the active participation of employers' organizations (of both the public and private sectors) in coaching entrepreneurs and linking them with value chains.

↘ Design and consolidate complementary actions between employment and social protection programmes, with a focus on benefits relevant to youth –regardless of the managing programme– and sign agreements between programmes to coordinate operations on the ground.

Plan the generation of information and research relevant for decision-making

Generating and systematizing information is a crucial policymaking strategy because it enables measurement, monitoring and evaluation to identify best practices, promotes advocacy for policy adoption and facilitates discussions on specific issues.

To ensure that the information is a strategic resource for policymakers, it is necessary to:

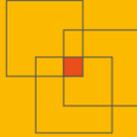
- ↳ Include information collection, monitoring and evaluation in the programme design and establish partnerships with public agencies that bring together administrative or statistical information to provide an institutional framework.
- ↳ Make use of research and emerging evidence from policy evaluations to resolve public policy problems; provide evidence on how public policies are functioning; and focus research on areas with the largest knowledge gaps.

The relevance of this information goes beyond programmes. Evidence is essential to support the design of legislation given that developing laws entails a lengthy discussion and review process. Additionally, once these laws are in effect, they cannot be changed or corrected immediately.



International
Labour
Organization

YOUTH
and **INFORMALITY**



FORLAC

PROGRAMME FOR THE PROMOTION OF FORMALIZATION
IN LATIN AMERICA AND THE CARIBBEAN

In Latin America and the Caribbean, 55.7% of employed youth are affected by informality, more than any other group. While policy responses to this problem have generally been the same as those for other workers, Latin American and the Caribbean countries have implemented specific initiatives to promote formal employment among youth. Countries in the Region have developed innovations to preserve pro-employment growth without resorting to precarious forms of employment. Innovations have also been designed to stimulate productivity associated with legal status, expand local networks for policy implementation, guarantee basic social benefits for excluded youth, and tailor interventions to worker profiles and contexts.

ISBN: 978-92-2-129692-8

Regional Office for Latin America and the Caribbean