



# The World Bank

## Latin America and the Caribbean

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### *Informality: Exit and Exclusion* Selected Findings

- On average, **independent workers** –either self-employed or microenterprise owners– in the countries for which household survey data are available **reported levels of welfare or job satisfaction similar to those they would have obtained if they held the formal jobs for which they are qualified**. Most of them are not looking for a formal wage-earning job, with Colombia as an outstanding exception.
- Most of these informal self-employed workers said they chose their occupations based on individual needs (desire for greater flexibility and independence) and skills. **Many women, especially those married with children, prefer self-employment over formal wage-earner jobs to better balance work and family responsibilities**.
- However, **about one third of self-employed workers (more than half in Colombia) report to be there unwillingly and would prefer a formal wage-earning job**.
- Most informal wage earners **reported lower levels of welfare or job satisfaction than what they could obtain if they held jobs for which they are qualified in the formal market**. The majority were looking for better jobs, either as wage-earning workers in the formal sector or as self-employed, with Mexico and Dominican Republic as outstanding exceptions.
- **Informal wage employment is primarily an entry point to the labor market for youth, who hold more than half of the jobs in this sector. Many of the workers in microenterprises (about half in Mexico) are unpaid family members** whose presence in this sector is likely to reflect a combination of personal and professional considerations.
- **Wage-earning informal employment is also prevalent among many older workers;** about half of informal wage jobs are held by prime-age and older workers. **Either they lack the capital or skills to be self-employed or to find a formal wage-earner job, or opt out since they have little to lose**, for instance, because they cannot accrue enough years of formal employment to guarantee an adequate pension.
- **Informal workers reflect both exclusion and exit in their reported reasons to lack jobs with pensions and health insurance coverage**, including low incomes, the decisions of employers not to register them, lack of information on the benefits and

functioning of these programs, or because they resort to coverage through other family members and universal services (free of contributions).

- **Informal employment can expand during economic booms as a result of attractive business opportunities in the informal sector.** During Mexico's economic expansions, the number of workers leaving the formal sector to become self-employed or to accept an informal wage-earning employment is comparable to the number of those who move from the informal to the formal sector.
- **Informality declines with firm size, reflecting both the higher likelihood of detection and the increased perceived benefits from formality.** While 86 percent of Mexican firms with only one wage-earning worker make no contributions to the social security, **71 percent of firms with five wage-earning workers report paying their social insurance for at least some of their workers.**
- In Brazil, **76 percent of microenterprises** lack a license to operate and 94 percent do not pay taxes. These rates drop to 33 and 23 percent, respectively, among firms with five wage-earning workers.
- In Nicaragua, **less than 7 percent of microenterprises** have more than two employees after three years of operation.
- **Informality is positively correlated with inequality levels in the region,** as a reflection of lack of voice, perceptions of state capture and low legitimacy of the State. However, Chile demonstrates that reducing informality, relying on stronger and **more accountable institutions can be achieved amidst high income inequality.**

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*The report and related materials will be available to the public on the World Wide Web at:*  
<http://www.worldbank.org/lac>