

# Roadmap to Economic Formalization



## Promoting Informal Labor Rights (PILAR) in Guatemala and Nicaragua

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## Roadmap for Latin American Leadership to Integrate Informal Economies



The Roadmap to Formalization presents a case study providing evidence that feasible policy can be obtained through a multi-stakeholder process. This process was led by the Global Fairness Initiative under the Promoting Informal Labor Rights program (PILAR), a two-year project funded by the US Department of State to improve government capacity to collect data on the informal sector while developing strategies that encourage formalization. PILAR's broad-based coalition of non-governmental organizations, unions, private sector and government representatives, advocacy groups, and religious organizations has worked together to bring forward their most pressing needs, as well as solutions to break the formality ceiling.

In Latin America, informality continues to represent on average over 50% of the economically active population, becoming the main vehicle for employment for the working poor, the majority of whom are women and girls. In Nicaragua alone, 7 out of 10 jobs are created in the informal economy, providing limited opportunity to millions of workers. To address the economic exclusion of informal workers and successfully incorporate them into national and international markets, the Roadmap presents a holistic approach to address informality within the Decent Work Agenda of the International Labor Organization (ILO). Most important, the Roadmap emphasizes the need to extend social safety nets to workers while expanding government's taxation base for improved services.

In the Roadmap, international donors, multilateral organizations, and national governments have a tool to build consensus and implement targeted solutions to reduce informality. The case study below provides initial steps and long-term solutions, so that the road to formalization can be successfully paved.

## INFORMALITY

The term *informal sector* was used for the first time by the International Labor Organization (ILO) in 1972. As the decades passed, scholars and practitioners uncovered that informality in emerging markets was much more complex, and much more productive, than what they had initially defined as the *working poor*. Thus, thirty years later, at the 90th Meeting of the International Labour Conference in 2002, the ILO changed its original definition and approach to address a new concept: INFORMAL ECONOMY. This term was to encompass the varying, dynamic, and heterogeneous scenario which this unstoppable phenomenon shows itself to be.<sup>1</sup>

Today it is clear that the informal economy is characterized by its vulnerability and diversity, composed of the self-employed, including small-scale farmers, domestic workers, home-based workers, wage employees, and micro-enterprises. Informal workers generally do not have access to legal benefits, are highly exposed to market fluctuations, and lack physical and financial security. This trend presents a critical challenge to poverty reduction, especially as the expansion of the informal economy has been linked not only to the inability of formal firms to absorb labor but also to their unwillingness to do so.<sup>2</sup> The pressure of global competition has increasingly led corporations to subcontract or outsource production to micro-enterprises or home-based workers in the informal economy of developing countries. As a result, informal economies are incorporated into global supply chains without regulation or access to decent work standards.

Far beyond the re-conceptualization proposed by ILO, the informal sector has been the object of studies conducted by different scholars in the social sciences area. One of the most prominent is Hernando de Soto who, in his work “The Other Path” (*El Otro Sendero*), depicts a dynamic sector that has emerged as “the popular response to the rigidity of the predominant ‘mercantilist’ governments in Peru and other Latin American countries, that survive by granting the privilege of legally participating in the economy to a small elite.”<sup>3</sup> More recently, the works of Alejandro Portes and Alexandre De Freitas have contributed other conceptualizations that explore the idea of the informal sector as an answer to an economy “trapped” by government regulations.<sup>4</sup>

There is a current consensus regarding the importance that the informal sector has acquired in developing countries, particularly in Latin America, with regard to both employment and poverty. Academic experts, as well as public and private sector officers, indicate that informality constitutes an unavoidable phenomenon that needs to be addressed because of its close ties with growth and poverty. According to Victor Tokman, in 1999 46.4% of employment in the cities of emerging markets was centered in informal activities. This participation experienced a

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<sup>1</sup> See *Decent work and the informal economy*. ILC, 90<sup>th</sup> meeting, Report VI, ILO 2002, Geneva.

<sup>2</sup> See *Informal Employment and the Economic Crisis*, Organization for Economic Co-operation and Development (OECD), 2009; and *Informal Economy in the Americas: Current Situation, Policy Priorities and Good Practices*, Inter-American Council for Integral Development, April 5, 2005, Buenos Aires, Argentina.

<sup>3</sup> Portes, Alejandro, “*La Economía Informal*” (The Informal Economy) CEPAL, Social Policies Series, 2004

<sup>4</sup> Portes, *Ibid.*

steady growth throughout the past decade: on average, six of every ten new jobs generated in the region since 1990 have been informal.<sup>5</sup> In Latin America, this high number of male and female workers in the informal sector has increased since the 1970s. In the case of Central America, countries such as Guatemala and Nicaragua reflect official numbers that place the informal sector at approximately 65% of the economically active population (EAP).<sup>6</sup>

The IOE<sup>7</sup> has analyzed the informal sector's composition, dividing it into three levels. The first is the inferior level, consisting of independent workers who trade basic products. Second is the intermediate level, with a more organized market and low-scale, simple-transformation activities of basic goods. This level has the greatest potential for employment generation. Finally, low-scale manufacturers with a low technological level, who provide services such as machine and vehicle repairs, are placed at the high level and constitute micro-enterprises. These categories cover the wide range of activities found within the informal economy and its very different groups of workers.

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<sup>5</sup> Tokman, Victor, *Integrating the Informal Sector in the Modernization Process*, 2001

<sup>6</sup> In the case of Nicaragua, the *Instituto Nacional de Información de Desarrollo –INIDE* (National Institute of Development Information), establishes the sector at 64% of the EAP. For Guatemala, the statistics of the *Instituto Nacional de Estadística* (National Statistics Institute) estimate that the sector is around 75% of the EAP.

<sup>7</sup> IOE, *Ibid.*

## DECENT WORK – THE ROADMAP’S GUIDING PRINCIPLE

The International Labor Organization defines Decent Work as “*productive work under conditions of freedom, equity, security, and dignity, in which rights are protected and adequate remuneration and social coverage are provided.*”<sup>8</sup> It recognizes the desire of men and women to achieve, through their work, a dignified standard of living for themselves and their children. The integral elements of Decent Work, the elements essential to helping working people realize this aspiration, are therefore the following:

- Productive work
- Protection of rights
- Adequate income
- Social protection
- Social dialogue (tripartism -- governments, workers, and employers)<sup>9</sup>

At its XVI American Regional Meeting, held in Brasilia in 2006, the ILO formulated a Regional Agenda of Decent Work for Latin America, stressing the reduction of poverty as the solution for the imbalances in the labor market. This report establishes that half of the region’s unemployment is composed of “self-employed workers, domestic workers, unpaid family workers, or wage-earning workers in micro-enterprises with up to five employees. Most of the poverty, as well as most of the informal work and the deficit of decent work in the region, are concentrated in these sectors.”<sup>10</sup>

The same report prioritizes five objectives for countries seeking to ensure Decent Work to all participants in their economies:

1. Ensure that economic growth promotes employment for all
2. Guarantee that labor rights are respected and effectively upheld
3. Strengthen democracy
4. Adopt new protection mechanisms suited to current conditions
5. Use these procedures to combat social exclusion<sup>11</sup>

The Agenda for the Hemisphere, as established by the ILO, contains a mandate for countries in the region to develop National Plans for Decent Work. This mandate has yet to be realized. The lack of implementation of the Decent Work Agenda can be attributed to lack of political will, financial resources, and effective government institutions. Through the active participation of government officials in PILAR’s multi-stakeholder dialogues, Guatemala and Nicaragua have begun a process to define necessary steps to close the political, financial, and administrative gaps necessary to ensure everyone the benefits of their growing economies.

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<sup>8</sup> Espinoza, Malva, *Trabajo Decente y Proteccion Social*, OIT, 2005

<sup>9</sup> Espinoza, *Ibid.*

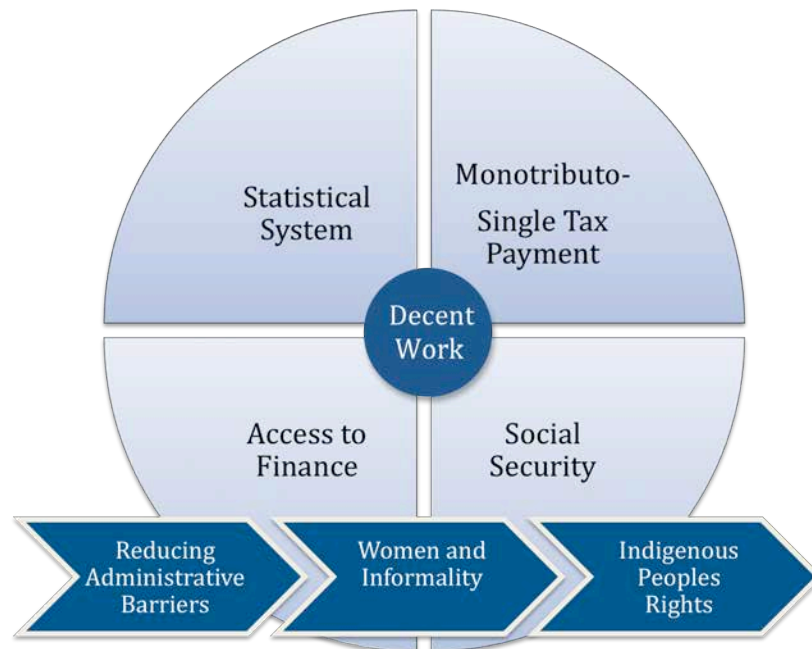
<sup>10</sup> ILO, *Decent Work in the Americas: An Agenda for the Hemisphere*, 2006-2015

<sup>11</sup> ILO, *Ibid.*

## RECOMMENDATIONS

The following pages contain the recommendations gathered by the PILAR project through its two years of dialogue with government entities, workers' organizations, research institutes, universities, NGOs, and private sector organizations. Translated into concrete actions and public policies, this Roadmap will benefit the greatest majority of the economically active population in both countries.

The concept of Decent Work is at the core of the Roadmap because its goal is the protection of rights and the extension of benefits. The Roadmap makes recommendations for improved statistical systems, simplified tax systems, extension of social security benefits, and better access to credit and financing. The following diagram sums up the actions contained in the Roadmap:



The implementation of these recommendations includes a number of special crosscutting considerations. Reducing administrative barriers is crucial for successfully formalizing workers who have little experience or time to deal with official systems. Any effective strategy for formalization must also take into account the extensive presence of women and indigenous communities in the informal population and their special needs. The Roadmap does so and also provides specific recommendations for the fundamental role that workers' and employers' associations can play. On a larger scale, international cooperation institutions and NGOs are encouraged to increase their efforts toward strengthening the capacities of workers in the informal sector.

The Roadmap’s proposed measures are all aimed at economic formalization and can be broken down into the following types of actions:

1. Legal reforms
2. The establishment of institutional protocols designed to guide the necessary coordination among public entities
3. The implementation of in-depth efforts to simplify and reduce procedures

The matrix below summarizes the recommendations developed in the following chapters for Guatemala:

	<b>Legal Reforms</b>	<b>Coordination Protocols</b>	<b>Simplification of Procedures</b>	<b>Responsible Entity</b>
<b><i>Statistics System</i></b>	Organic Law INE	Return information to qualified users: MINTRAB and MINECO	N/A	The Executive, SEGEPLAN, MINECO, INE
<b><i>Taxes</i></b>	Tax Code	Common Databases, SAT, IGSS, and MINTRAB	Simplified Tax System	The Executive, SAT, IGSS, MINTRAB
<b><i>Social Security</i></b>	Organic Law IGSS	Common Databases, SAT, IGSS, and MINTRAB	Simplified Tax System and Individual Affiliation	The Executive, SAT, IGSS, MINTRAB
<b><i>Credit</i></b>	Law on Financial Institutions	Common Databases, National Property Registry	National Micro-credit Program	The Executive, MINECO, State Banks, Collateral Securities Registry

Though the multi-stakeholder process is the same in both countries, recommendations differ due to the social and political context in each. Thus in Nicaragua, recommendations are as follows:

	<b>Implementation and dissemination of laws</b>	<b>Coordination Protocols</b>	<b>Simplification of Procedures</b>	<b>Responsible Entity</b>
<b>Statistics System</b>	Implementation of Access to Information Law	Return information to qualified users: MITRAB and MIFIC	N/A	The Executive, MIFIC, MITRAB
<b>Taxes</b>	Implementation and dissemination of MIPYME Law and the Fixed Rate Regime	Strengthening of CONAMIPYME	Study of implementation of the Simplified Tax System	The Executive, DGI, INSS
<b>Social Security</b>	Dissemination of the benefits of optional regime	Common Databases with MINTRAB	Improvement of Systems of Risk Analysis	The Executive, INSS, MITRAB
<b>Credit</b>	Implementation of PROMIPYME	Coordination of the following government programs: Support Fund for MSMEs Development, Guarantee System, Usury Program, MSMEs Guarantee Fund	N/A	The Executive, MIFIC, INATEC



## GOVERNMENT EMPLOYMENT STATISTICS

### Reliable Data for Reducing Informality

No planning or public policy exercise can go forward without data to justify it. To ensure the accurate implementation of the Decent Work Agenda, The World Bank has developed several indicators for measuring the informal economy:

- a. The rate of employment in relation to population, a mechanism for recognizing the efficiency of the economy in creating jobs
- b. The rate of participation of vulnerable employment in total employment, allowing the calculation of the number of workers who do not enjoy social security coverage, minimum wages, or legal protection
- c. The rate of participation of the working poor in total employment
- d. Rates of productive work growth, which measure the capacity of the economy to create jobs with equitable remuneration and good working conditions<sup>12</sup>

The framework exists to address informality in all its complexity. What is needed in Guatemala is government coordination to build and maintain a reliable public statistical system, independent and autonomous, with adequate financial resources and the capacity to disseminate public information and contribute to the exchange of ideas.

**In Guatemala**, the Roadmap's recommendations center on strengthening the capacity of the *Instituto Nacional de Estadística* (INE, National Statistics Institute)

Recommendations regarding INE	
Autonomy	<ul style="list-style-type: none"> <li>• Strengthen INE's organizational structure.</li> <li>• Create administrative foundations necessary to implement and comply with a planning strategy and to reverse the existing deficit in employment measurements.</li> <li>• Approve a Statistical Superintendency law to ensure autonomy.</li> </ul>
Financing	<ul style="list-style-type: none"> <li>• Finance INE through State resources rather than international organisms, making it an official part of the public budget.</li> </ul>
Inter-institutional Coordination	<ul style="list-style-type: none"> <li>• Establish government roundtables to determine strategies for coordination.</li> </ul>
Permanent Training Program	<ul style="list-style-type: none"> <li>• Design and implement a program to improve measurement of formal and informal employment.</li> <li>• Ensure publication of the results.</li> </ul>

<sup>12</sup> World Bank, World Development Indicators, 2009.

In Nicaragua, where priority has already been given to statistics associated with social and demographic issues, the Roadmap’s recommendations are mainly centered on modernization plans to improve measurement quality.

<b>Recommendations for Nicaragua</b>	
User Access	<ul style="list-style-type: none"> <li>• Prepare databases from employment survey with assistance from UNDAF.</li> <li>• Provide clear explanations of databases.</li> <li>• Eliminate computer restrictions.</li> </ul>
Public Access	<ul style="list-style-type: none"> <li>• Implement the Law on Access to Public Information.</li> </ul>
Data Quality	<ul style="list-style-type: none"> <li>• Improve execution of Official Workforce Survey, including improved dissemination, methodological changes, consistent definition of terms, and staff trainings.</li> </ul>

## SIMPLIFIED TAX SYSTEM

### Expanding the Tax Base and Providing Social Safety Nets

The Simplified Tax System consists of a single tax payment with a flat rate. The recommendation for the simplified system follows a regional tendency seen in Uruguay and Argentina, where according to the local Tax Authority, the tax base tripled to 15% in three months after implementation, and more recently in Ecuador. In countries where it has been enacted, this system has expanded the government’s tax base, reduced the incidence of tax evasion, and improved the coverage of services.

The flat-rate single tax would combine the Value Added Tax, Income Tax, and Social Security into one single monthly payment, calculated with the following variables:

- Income
- Consumption of electricity
- Area occupied for economic activity
- Number of employees

Taxpayers could easily determine their payments using a scaled chart and would not be required to submit accounting books or records.

The application of a Simplified Tax System will optimize tax administration resources, reduce indirect tax pressure, and reduce tax compliance costs, allowing the incorporation of the informal economy into the tax base and offering counter benefits such as health services, social security, and disability and old age retirement pensions. The following chart summarizes the advantages and risks of adopting this system:

Advantages	Risks
<ul style="list-style-type: none"> <li>• Segmentation strategy and improved efficiency in the use of resources</li> <li>• Improved tax-paying culture</li> <li>• Reduction of informality and unfair competition</li> <li>• Simplicity</li> <li>• Expanded tax base</li> </ul>	<ul style="list-style-type: none"> <li>• Tax cost – risk and benefit</li> <li>• Could promote <i>fiscal dwarfism</i></li> <li>• Difficult tax collection</li> <li>• Strong change in tax culture</li> <li>• Transformation of public service culture</li> </ul>

## SOCIAL SECURITY

### Protecting Self-Employed Workers

Access to social security provides workers with medium- and long-term benefits, guaranteeing health services and retirement security. In public opinion surveys conducted in Guatemala and Nicaragua in 2009, self-employed workers viewed the protection of social security as the most appealing reason to pay fees from their own limited incomes.

**In Nicaragua**, existing legislation offers self-employed workers voluntary enrollment in the Optional Insurance Regime. The chart below compares social security coverage for workers in the formal and informal sectors.

<i><b>Mandatory Regime (Workers – formal sector)</b></i>	<i><b>Optional Regime</b></i>
<ol style="list-style-type: none"> <li>1. Mandatory enrollment.</li> <li>2. Billing cycle with complete or incomplete period (depends on period worked).</li> <li>3. Payment depends on salary and is variable.</li> <li>4. Includes coverage for professional risks.</li> <li>5. Eight weeks of contribution qualifies for disability compensation.</li> <li>6. INSS contribution assumed by employer and worker.</li> </ol>	<ol style="list-style-type: none"> <li>1. Optional enrollment.</li> <li>2. Billing cycle is one month.</li> <li>3. A fixed payment is established at the time of enrollment.</li> <li>4. Does not cover professional risks.</li> <li>5. Right to unemployment compensation after one continuous year (integral coverage).</li> <li>6. INSS contribution assumed only by insured individual.</li> </ol>

While the optional regime offers an important first step in the search for universal coverage, it has limitations:

- A high percentage of informal workers are unaware of its benefits, so there must be greater efforts to disseminate information about it.
- The fixed payment is problematic for workers without a steady income; some flexibility needs to be built into the system.
- The existing lack of professional risk coverage can be addressed by classifying the activity performed by each enrolling worker within the Uniform Classification of Occupations of Nicaragua (CUONIC, in Spanish).

**In Guatemala**, it is essential to establish and implement a system of voluntary registration for Social Security. Such a system will require inter-institutional coordination and a study of the single tax system conducted by the Guatemalan Institute of Social Security (IGSS, in Spanish) to determine the possible number of beneficiaries and the cost of extending the system. IGSS will need the cooperation of the National Statistics Institute (INE, in Spanish) since employment and income data, along with other information, must be kept up to date. Coordination with municipal authorities is also vital, as the administration of IGSS services through local governments is one possibility for lowering any costs associated with extending coverage. Finally, the simplification of procedures would necessarily involve the Tax Administration Superintendency (SAT, in Spanish).

## CREDIT AND FINANCING

### Access to Economic Citizenship

Credit is the engine that promotes growth in the formal economy. Lack of access to financial services seriously limits the ability of informal workers to benefit from economic citizenship and, therefore, to improve their living conditions. In order to gain financing, informal workers often have only the following alternatives:

- Family loans, a highly widespread practice
- Usury
- Micro-credit

Although micro-credit is a growing option in Central America and is generally considered in a positive light, several constraints exist:

- Financing availability and effectiveness need to be improved
- Interest rates are often prohibitive for borrowers below the poverty line
- Loan recipients would benefit from training in financial management
- Micro-finance generally does not address asset registration
- Micro-finance does not formalize workers

**In Nicaragua**, under the MIPYME Law a program in support of micro, small, and medium-sized enterprises (PROMIPYME) has been established. This program, in existence through 2017, includes stipulations such as coordination among different institutions to promote the competitive development of rural and urban MSMEs. The Roadmap recognizes this positive effort and recommends that the Government of Nicaragua make this program a reality.

**In Guatemala**, a reform of the legislation governing financial institutions must be made a priority in order to improve the fund-capturing capacity of micro-credit organizations. Micro-credit institutions should receive tax incentives to promote their consolidation and sustainability. In addition, the Government of Guatemala should consider creating a credit program for SMEs. This program could be established through a trust fund in association with private and public banking systems and would require follow-up actions and technical assistance for credit recipients in order to guarantee its effectiveness.

In both countries, support for new enterprises is crucial to helping them survive the so-called “death valley,” the first two years after registration in which the majority of new enterprises fail due to the high costs of formality. Easy access to credit must be accompanied by continued technical and financial assistance aimed at avoiding a return to informality.

## SPECIAL CONSIDERATIONS

### Removing Administrative Barriers

Although the informal economy consists mainly of workers who cannot find formal employment and therefore turn to informality to survive, there are also a percentage of small and medium-sized enterprises that do not pursue formality by choice. These enterprises make a cost benefit analysis, eventually deciding that payments and time spent meeting all the requirements needed to acquire and maintain legal status are cost prohibitive. Daunting bureaucratic requirements as well as bribes make formality even less appealing for these enterprises. High costs and little to no government services in return have created a wide spread belief that formality is detrimental to business growth and informality is the norm.

Removing administrative barriers to formalization requires that the Executive Branch assume a major role. Clear and sustained leadership will help promote social participation in the construction of public policies in this area.

This leadership should encourage and lead cooperation among different public institutions. In **Nicaragua**, the government should implement the Law for the Simplification of Procedures and Services in Public Administration.

Local governments can also play an essential role in the elimination of barriers to formalization. For most workers in the informal economy, municipalities – particularly the municipal police and tax collection offices – represent their first contact with an institutional structure. This potential for contact can be used to disseminate information on the advantages of formalization.

In a social and economic environment characterized by exclusion, the historical distrust of authorities will limit political will. This is the case with the informal economy. In spite of improvements in the operations of the public apparatus, *a system of clearly communicated benefits and incentives needs to be designed to encourage formalization*. PILAR's findings confirm that those incentives are found in initiatives such as the Simplified Tax System. This type of measure would serve to encourage and ease the way for small entrepreneurs and workers in the informal economy to take the leap to the formal sector, thereby protecting them in times of economic crisis recurring in Latin America.

## SPECIAL CONSIDERATIONS

### Women and Informality

The traditional role assigned to women in Guatemala and Nicaragua leads to the mistaken notion that women make only a small contribution to national economies. In both countries the majority of the EAP is informal (65% in Nicaragua and 75% in Guatemala), and in both countries most informal workers are women.

Public policies for formalization must consider the following aspects:

1. Reproductive work directly affects the living conditions of women working in the informal economy and their families. The role of women who are heads of households therefore deserves special attention, as there is need for childcare and other family-oriented services.
2. Capacity building is needed to develop entrepreneurial values, including leadership and organizational skill trainings, and should be followed by trainings on best business practices .
3. Tax exemptions or benefits for women-owned business should be considered.
4. Promotion of women-owned business can be achieved through a program that provides credit for SMEs that register at a preferential rate.
5. **In Guatemala**, the situation concerning the personal documentation of women should be especially considered by the State. Furthermore, RENAP should implement efforts to break cultural patterns that become negative incentives for the registration of daughters, particularly in the Highlands (Altiplano) region.

All the recommendations included in this Roadmap require special emphasis in the case of women (social security, taxation, statistical systems, and part-time work). Criteria should be applied with more flexibility in relation to micro-credit applications, the registration of new businesses, and the affiliation to Social Security. In the area of taxes, the Governments should consider the possibility of awarding tax exemptions to women who are entrepreneurial leaders in small and medium-sized enterprises.



## SPECIAL CONSIDERATIONS

### Formalization of Indigenous Communities

The Guatemalan Statistical Institute (INE) estimates that 38.4% of the Guatemalan population is indigenous. Organizations working to promote the rights of indigenous populations believe that this percentage is actually well above 60%.

Official numbers indicate that 74.8% of indigenous peoples live in poverty. Moreover, the literacy rate among indigenous people is much lower than in the rest of the population, especially among indigenous women. In some rural communities, illiteracy in adult indigenous women is as high as 90%. Indigenous boys in rural areas attend school for an average of little more than two years, while girls attend school for barely one year. In addition, 65% of indigenous people do not have access to a water system, more than 80% are not connected to drainage systems, and half do not have electricity.

These data reflect the political, economic, and cultural exclusion experienced by the indigenous population (Mayas, Xincas, and Garífunas) in Guatemala. Looking only at the macroeconomic effects, numbers provided by CODISRA indicate an 80% rate of unemployment.

The Roadmap suggests the following measures, which have been reviewed in accordance with ILO's Agreements 111 and 169, and which are based on the promotion of respect toward indigenous cultures:

1. Promote non-discriminatory treatment in the workplace. The first step in addressing and eliminating discrimination against tribal and indigenous populations in the areas of employment and occupation is its identification. In this regard, strengthening the Labor Inspectorate General (Inspección General del Trabajo) plays a fundamental role in guaranteeing equal remuneration and payment of minimum wages to agricultural workers. It is also necessary to study the possibility of implementing quota systems to assist in the fight against occupational segregation.
2. Improve the statistical system to gather specific information concerning the employment of indigenous peoples. The challenge here lies in creating a better understanding and gathering more specific information regarding discrimination against indigenous and tribal workers, including detailed information on the situation of indigenous women.
3. Review policies aimed at agricultural development, the fight against poverty, and local development, from the perspective of equal opportunity, making sure that indigenous populations are able to carry out their traditional occupations.
4. Promote access to basic and technical education in conditions comparable to that of the rest of the population.
5. Promote a special program to extend Social Security benefits.

These recommendations aim to encourage the strengthening or the adoption of national policies to promote equality in the areas of employment and occupation. Employment or occupation discrimination can only be eliminated if national policies benefit all groups under the same conditions.

## RECOMMENDATIONS FOR THE PRIVATE SECTOR

In 2001, the International Organization of Employers (IOE) adopted a document called “La Economía Informal, la Posición de los Empleadores” (“The Informal Economy, the Position of Employers”) which introduced guidelines on how employers can undertake the challenge generated by the existence of the informal economy. The document emphasizes the role that employers’ organizations, along with other related organizations or institutions, can play in promoting formalization given that the services required for MSMEs are pertinent to enterprises in the informal economy.

Below are the recommendations most relevant to the model in this Roadmap, and which are therefore adopted herein:

- Promote and encourage the simplification of regulations that affect entrepreneurial activities, the reduction of transaction costs, etc.
- Influence legislators to develop temporary policies and incentives that encourage workers in the informal sector to begin the transition to the formal economy and enroll in a legal regulatory structure.
- Help development the corresponding support services for small entrepreneurs.
- Provide information lacking in the informal economy, such as information related to legislation, government regulations, and market opportunities.
- Assist informal enterprises in gaining admission to, or creating, pertinent associations.
- Provide basic services to improve personnel management, improvements in productivity, accounting and financing, adapted to the needs of informal micro and small enterprises.
- Assist with value chain linkages nationally and internationally.
- Promote or lead programs tailored to the needs of informal enterprises but with the goal of having an environmental impact -- for example, improved productivity through waste reduction, improvement of health and security, and promotion of cleaner working environments.
- Provide assistance in obtaining access to credit, insurance, technology, networks, and other resources.
- Promote national policies aimed at literacy and universal elementary and high school education, geared toward building a skilled workforce.
- Collaborate with institutions that can provide services, such as entrepreneurial education or training, to satisfy the needs of enterprises in the informal economy.

## RECOMMENDATIONS FOR LABOR UNIONS

Labor union organizations in the region have made great efforts to incorporate workers of the informal economy and to defend their rights. An example in Nicaragua is the case of the Central de Trabajadores por Cuenta Propia (CTPC, Labor Union of Self-Employed Workers). GFI also recognizes the enormous support provided in Guatemala by organizations such as Fundación Mario López Larrave (Mario López Larrave Foundation).

The Roadmap makes the following recommendations to the labor union movement:

- Make labor union structures more flexible in order to incorporate workers in the informal economy on equal terms – with special emphasis on gender – and with respect for, and application of, the Decent Work concept.
- Promote the perspective of the informal economy to the social and economic mainstream, using available alternative media whenever possible.
- Conduct campaigns to promote the use of terms such as autonomous worker; independent worker; and self-employed, non-dependent, or non-wage worker that reflect a more dignified situation of workers in this sector.
- Continue efforts to improve the organizational, legal, economic, and social education of workers in the informal sector.
- Support the dissemination and implementation of this Roadmap, especially promoting the need for formalization to the State.
- Promote changes in the Social Security System in order to expand the coverage of its services to workers in the informal economy.

## RECOMMENDATIONS FOR THE INTERNATIONAL COMMUNITY

International cooperation institutions and non-governmental organizations can play a significant role, both technical and political, in ensuring the implementation of the recommendations contained in this Roadmap. Their participation, along with that of the Guatemalan and Nicaraguan governments, made it possible to develop an instrument characterized by the high level of consensus achieved here.

In accordance with the provisions of the Paris Declaration on Aid Effectiveness, which ordered international cooperation entities to strengthen the national development strategies of its member states and their operational frameworks, the contents of this Roadmap aim to assist in the development of a public policy for formalization, to be adopted by the governments of Guatemala and Nicaragua as a priority to promote Decent Work and competitiveness.

Finally, international cooperation organizations are asked to increase efforts to strengthen the capacities of workers in the informal sector, in particular regarding the development of entrepreneurial values and skills, to take advantage of the enormous potential of this sector.

## MOVING FORWARD



Informality is a complex phenomenon and a constant characteristic of most developing countries, where the informal sector employs more than 60% of the Economically Active Population (EAP). In these countries, the relationship between a large informal sector and poverty<sup>13</sup> is directly proportional and is often the result of the systematic exclusion that characterizes many of these societies.

PILAR offers the governments of Guatemala and Nicaragua this Roadmap for incorporating informal workers into the formal economy, thereby assuring all their citizens the benefits of economic growth and assuring their growing economies the active and productive participation of a competitive and skilled labor force.

At the Global Fairness Initiative we believe that creating meaningful economic progress for the global poor requires people and programs that connect local knowledge and leadership with global innovation and structures so that top down opportunity is interwoven with bottom up capacity. Thus, it is in the hands of national leaders in diverse sectors to make economic citizenship for all a reality. We have been humbled and honored to have met such leaders and we look forward to the implementation of the Roadmap to Formalization.

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<sup>13</sup> Refer to “World Development Indicators,” published by the International Monetary Fund (IMF), for 2007 and 2008