

INFORMALITY IN URBAN EMPLOYMENT AND HEALTH AND PENSION COVERAGE IN THE REGION

The favourable trends in urban labour markets of Latin America since 2004 have been insufficient to reverse the continuing decent work deficit. Countries are encouraged to address the high levels of informal employment (despite the decrease in this type of employment and the higher levels of wage and salaried employment in recent years) and the large percentage of workers without health and pension coverage through public policy initiatives. This is especially important during the current crisis because workers and their families are more vulnerable.

Informal Employment

This section provides informal employment estimates for a group of five Latin American countries, developed following the recommendations of the Fifteenth and Seventeenth International Conferences of Labour Statisticians (ICLS). This analysis is a continuation of a series begun in 2005.

Informal sector employment refers to employment generated in a sub-group of household establishments (that is, unincorporated), which do not comply with mandatory national laws for operating business units and/or do not keep accounting records for economic reasons, lack of knowledge or other reasons. It includes self-employed workers, as well as establishments with permanent wage and salaried workers that may also include unpaid family workers. *Informal employment* is found in establishments of the formal or informal sector of the economy, as well as in households. In addition to capturing the vast majority of workers in the informal sector, this type of employment also encompasses other types of informal employment such as informal wage and salaried employment, which refers to wage and salaried employment that does not offer social protection or certain job-related benefits. Thus, the concepts of *informal employment* and *informal sector employment* reflect the overall problem of informality, which some authors refer to as the *informal economy*.

Most household surveys in the region still do not include the questions that would allow the measurement of these new concepts defined in accordance with ICLS recommendations. The five countries with available information are Colombia, Ecuador, Mexico, Panama and Peru, although their household surveys do not include the same questions. Countries are encouraged to include the appropriate questions in their household surveys in order to improve and expand on the measurement of these concepts.

According to available information, economic growth observed since 2004 had a positive effect on the labour situation of workers. In 2007, estimated *informal employment* in urban areas of the five countries of the region mentioned was 58.6% (simple average), diminishing -2.9 percentage points with respect to the 2006 level. Despite the decline in informal employment, it remains at very high levels. Differentiated by sex, informal employment among men declined more than among women (-3.2 percentage points and -2.6 percentage points, respectively).

The composition of informal employment varies by country. In 2007, informal employment in Colombia and Peru consisted mainly of own-account workers and to a lesser extent wage and salaried workers (53.6% and 39.0% respectively for Colombia; 45.3% and 38.8% respectively for Peru). By contrast, the incidence of wage and salaried employment was higher in Ecuador and Mexico (representing 56.3% of informal employment versus 31.1% of own-account employment in Ecuador; and 62.7% versus 26.6% in Mexico). In Panama, the contribution of own-account employment and wage and salaried employment to total informal employment was similar, 44.8% and 46.8%, respectively.

By component, the high rate of *informal wage and salaried employment*, which can occur in the formal or informal sector of the economy, is particularly noteworthy. This indicator decreased 3.5 percentage points on average from 2006 to 2007 (from 49.2% to 45.7%), having diminished in four of the five countries studied. The largest decline occurred in Peru due to the growth of sectors such as financial establishments and manufacturing, which employ a large numbers of workers. This indicator increased slightly in Colombia (0.5 percentage points), possibly reflecting the expansion of employment in the trade sector, where hiring of informal workers is common (Table 1a).

TABLE 1a

**LATIN AMERICA (FIVE SELECTED COUNTRIES):
INFORMAL EMPLOYMENT AND INFORMAL SECTOR EMPLOYMENT, BY SEX; 2005 - 2007^{a/}**
(Percentages)

Country, Sex and Year			Informal Employment			Informal sector employment
			Total	Wage and salaried employment	Wage and salaried employment in the formal sector	
Latin America (simple average)	Total	2005	62.3	50.1	36.9	42.1
	Men		61.7	50.0	39.0	43.8
	Women		63.1	50.4	34.0	39.7
	Total	2006	61.5	49.2	36.0	41.3
	Men		60.6	48.8	38.3	42.5
	Women		62.8	49.6	32.6	39.7
	Total	2007	58.6	45.7	31.6	40.8
	Men		57.4	45.3	33.6	41.6
	Women		60.2	46.0	28.6	39.6
Colombia ^{b/}	Total	2005	63.5	42.6	22.7	52.5
	Men		64.2	43.3	26.9	55.6
	Women		62.5	41.8	17.1	48.5
	Total	2006	62.2	42.2	22.0	51.5
	Men		62.6	41.7	25.3	54.7
	Women		61.7	42.8	17.7	47.6
	Total	2007	61.4	42.7	21.9	51.4
	Men		61.8	42.3	24.7	54.6
	Women		60.9	43.2	18.4	47.6
Ecuador ^{c/}	Total	2005	71.3	70.1	61.7	38.6
	Men		71.2	71.9	64.4	39.2
	Women		71.5	67.1	57.0	37.8
	Total	2006	72.2	70.6	62.8	39.8
	Men		71.9	73.2	65.9	39.2
	Women		72.7	66.1	57.2	40.7
	Total	2007	69.6	66.3	58.1	39.3
	Men		68.1	68.8	61.3	37.5
	Women		71.8	62.4	52.5	41.9
Mexico ^{d/}	Total	2005	54.8	47.0	35.9	29.0
	Men		53.9	47.3	37.4	30.8
	Women		56.0	46.6	33.6	26.1
	Total	2006	53.9	46.2	35.6	28.1
	Men		52.9	46.6	37.5	29.3
	Women		55.3	45.5	32.5	26.3
	Total	2007	52.7	45.1	34.2	27.3
	Men		51.7	45.5	35.9	28.5
	Women		54.3	44.4	31.6	25.9
Panama ^{e/}	Total	2005	44.1	27.6	14.6	36.3
	Men		45.3	26.9	17.0	41.3
	Women		42.4	28.5	11.2	29.1
	Total	2006	43.4	26.6	14.6	34.4
	Men		43.7	24.8	17.3	38.7
	Women		43.0	29.1	10.3	28.1
	Total	2007	40.6	25.1	12.0	34.4
	Men		40.8	23.0	12.9	38.6
	Women		40.4	27.7	10.6	28.6
Peru ^{f/}	Total	2005	78.0	63.4	49.8	54.2
	Men		73.8	60.5	49.1	51.9
	Women		83.1	67.7	51.0	57.1
	Total	2006	75.9	60.3	45.3	52.9
	Men		71.7	57.6	45.3	50.6
	Women		81.3	64.3	45.4	55.7
	Total	2007	68.8	49.2	32.1	51.3
	Men		64.7	47.0	33.3	49.1
	Women		73.8	52.4	30.0	53.9

Source: ILO, based on information from household surveys of the countries.

a/ Data refer to urban areas.

b/ Continuous Household Survey – Second quarter of 2005 and 2006 – Municipal cities. Integrated Household Surveys, Second quarter, 2007.

c/ Household Survey – Fourth quarter, 2005, 2006 and 2007. Urban areas.

d/ National Occupation and Employment Survey – Second quarter of 2005, 2006 and 2007. Most urbanized areas.

e/ Household Survey. August 2005, 2006 and 2007.

f/ National Household Survey, January-December for all years.

One aspect that stands out is the decline in *informal wage and salaried employment in the formal sector* occurring from 2006 to 2007 in the five countries studied. The average indicator for the five countries decreased from 36.0% to 31.6%. Peru and Ecuador accounted for much of the change in this indicator.

Also noteworthy is the modest decline in average *informal sector employment* in the five countries, from 41.3% to 40.8%. This result reflects the slight decreases in this indicator in four of the five countries; Panama was the only country where the level remained unchanged from 2006 to 2007, at 34.4%.

Advances in Health and Pension Coverage

One challenge the region faces is to increase and improve coverage of social security benefits because this contributes to improving the quality of employment and decreasing poverty. The region has made progress in raising the percentage of employed individuals with health and/or pension coverage, from 55.0% in 1995 to 60.8% in 2006 and slightly increasing between 2006 and 2007, to 61.0%. This improvement was associated with a period of strong economic growth beginning in 2004, which allowed an increase in employment in establishments with six or more workers and in sectors such as construction, as well as financial establishments and manufacturing, which usually comply with worker registration requirements.

However, this means that 39% of urban employed persons still do not have health and/or pension coverage. Moreover, 71.7% of own-account and unpaid family workers lack this coverage, together representing the group with the highest level of exclusion. Given that own-account employment accounts for more than a fifth of employment in the region, developing adequate programmes for this group of workers is a challenge for national social protection systems. Domestic workers (7.5% of employed persons, mainly women) and wage and salaried workers in establishments with a maximum of five workers (13.1% of employed persons) also have a major deficit in health and/or pension coverage, since only 34.5% and 40.8% of these workers, respectively, are covered.

The high health and/or pension coverage in some countries of the region is noteworthy. In 2007, the countries with the highest percentage of employed persons with social protection coverage were Uruguay (96.3%), Chile (93.9%) (2006), Colombia (86.0%) and Costa Rica (82.0%).

Since 2000, employed women have had slightly higher social protection levels than employed men. In 2007, 62.6% of employed women had health and/or pension coverage, compared with 59.7% of men. Progress in protection of female own-account and domestic workers permitted this change, although high percentages of exclusion persist in both categories of employment. Part of the employed population with health and/or pension coverage is covered through the employment of a third party (generally a direct family member) rather than through their own job. This contributes to the higher percentage of coverage among women since this practice favours women more often than men.

In summary, the labour situation of workers in the region improved in 2007 given that informal employment indicators diminished, especially among wage and salaried workers, and health and/or pension coverage among urban employed persons rose slightly. Nevertheless, informal employment remains extremely high and health and/or pension coverage is insufficient. The positive changes in these indicators are closely associated with the period of economic growth which occurred in the region since 2004. Therefore, the shift in trends that may occur as a result of the current economic crisis is of particular concern.

Note:

Excerpt from: ILO, Regional Office for Latin America and the Caribbean. *2008 Labour Overview, Latin America and the Caribbean*. Pages 18-20. Visit our webpage: <http://www.oit.org.pe>