Informality and Households' Vulnerabilities in Latin America

DATA, INSIGHTS AND IMPLICATIONS FOR LABOUR FORMALISATION POLICIES

OECD dev DEVELOPMENT CENTRE

OISS ORGANIZACIÓN IBEROAMERICANA DE SEGURIDAD SOCIAL

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Data, Insights and Implications for Labour Formalisation Policies

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Executive summary

Informality is part of the daily lives of many workers in Latin America and the Caribbean (LAC). The risks and vulnerabilities it carries constitute a formidable challenge for policy makers aiming to improve social and economic outcomes. In order to craft the policies that can better protect informal workers and their dependents, they need a deep understanding of that complex and multifaceted phenomenon. To date, however, the study of informality has mainly consisted of analysing various measures at the individual level. While this approach has helped to describe the heterogeneity of informal workers in terms of their working conditions, and to make useful international comparisons, it has largely ignored the household dimension. Yet the informality status of working members within a household may have important well-being implications on their dependent members.

This report explores the complexity of labour informality, emphasising the need to understand it not only at the individual level, but also from a household perspective. It uses the OECD *Key Indicators of Informality based on Individuals and their Households* (KIIbIH) database, which covers 19 LAC countries, representing close to 85% of the region's population. It also presents recent policy strategies from Ibero-American countries, including Spain, aimed at fostering labour formalisation and expanding social protection to informal workers.

Most people and households' dependents rely on informal work in LAC countries

Labour informality is widespread in the LAC region and some families are extremely exposed to this phenomenon. Informal and mixed households account for almost two-thirds of the total population in LAC. On average, more than four people out of ten (42.5%) live in a household that depends solely on informal employment, 22.4% live in households with formal and informal workers (mixed households), and the remaining 35.1% live in completely formal households. Informal workers are disproportionately concentrated in informal households. More than two-thirds of informal workers (71.5%) live in completely informal households, which limits their access to social protection through employment-based insurance schemes of other household members, while almost a third (32.7%) of LAC formal workers pool resources in households with informal workers. Household dependents may also be affected by the insufficient social protection coverage of the working members: completely informal households are home to 44.8% of the children under 5, 45% of children aged 5 to 14 years, and 49% of the elderly.

Informality is often associated with precarious working conditions and poverty

Most own-account workers and contributing family workers in LAC belong to informal households. By comparison, wage employees are most likely to belong to formal households and are best protected under social security legislation. Informal workers also have a higher probability of working part-time than formal workers in both mixed and formal households, especially if they are women.

Informal work is often associated with low pay and insufficient contractual protection. On average, on an hourly basis, formal workers earn twice the amount of informal workers. Informal workers are also six times less likely to hold an employment contract, which excludes social security contributions, than formal

workers in their primary job. Similarly, only 11.2% of informal workers in informal households have any written employment contract, a considerable risk to their economic security.

National poverty rates across LAC are strongly associated with the formality status of households. Poor people live predominantly in completely informal households in LAC (68%), followed by those living in formal (17.8%) and mixed (14.2%) households. Among the households with a least two workers, a considerable proportion of the people in the lowest income quintile (64.6%) live in completely informal households, while households in the top income quintile are mostly completely formal households (54.5%).

Informality is higher in the early and late stages of life, as well as in rural areas

Youth and the elderly are considerably more vulnerable to informality. On average, 63.4% of young workers aged 15-24 are informally employed in LAC and the informality rate decreases significantly for workers aged 25-35 and begins to increase again for workers aged 35 or more, gradually reaching an average of 75.9% for workers aged 65 and older. Different patterns in the employment status of informal workers emerge throughout the life cycle. Across LAC countries, young informal workers tend to be employees (64.5%), while elder informal workers tend to be own-account workers (63.2%).

Location is one the main drivers of economic and workers' conditions. Most informal workers (67.5%) live in urban areas, due to generally high rates of urbanisation across the region. However, most people in rural areas (66%) live in a completely informal household, while in urban areas that share accounts for 34% of the population. A very small proportion (24%) of the rural population lives in a household where all its members are formally employed, compared with 36% in urban locations. This fact is correlated with the incidence of agricultural workers in the different areas, and informal households supply the bulk of agricultural labour. Agricultural workers represent 24.7% of all workers living in informal households in LAC, while formal agricultural workers are just 5.1% of workers living in formal households.

Expanding social protection and promoting formalisation to address the negative impacts of informality

Informality remains a major obstacle to social protection across most Ibero-American countries. In response, governments have implemented strategies to expand social protection and assistance, particularly during the COVID-19 pandemic, which disproportionately affected informal workers. These included emergency programmes such as cash transfers and support to vulnerable populations. However, beyond these specific measures, the success of formalisation efforts depends on adopting a strategic, inclusive, and co-ordinated approach to address the structural barriers faced by informal workers.

Efforts to formalise employment have included the adoption of comprehensive policy strategies with a multi-dimensional approach, recognising the complex labour market conditions and limited opportunities of informal workers. Key measures include simplifying administrative procedures and tax frameworks to ease the formalisation of micro and small enterprises, and the transition of informal workers into formal jobs. Improving public employment services, offering targeted skills development and training for workers, and strengthening labour inspections are also critical components of formalisation strategies.

The use of digital technologies has opened new opportunities for formalisation, enabling governments to improve data collection and enhance the management of employment systems. However, new forms of digital work, particularly platform-based employment, present challenges that require tailored regulatory frameworks to ensure social protection for workers. Reforms in social security systems, e.g. introducing flexible contribution schemes and non-contributory pensions, have sought to extend coverage to vulnerable populations – including youth, workers in rural areas, people with disabilities, Afro-descendants, indigenous peoples, and migrants – thereby helping to create more resilient and inclusive labour markets.

Introduction

Informality is one of the most widespread phenomena in labour markets throughout the developing world (OECD/ILO, 2019[1]; OECD, 2024[2]). Similar to other emerging and developing economies, in Latin America and the Caribbean (LAC), informality is pervasive and associated with poorer working conditions (Loayza, 2018[3]; OECD, 2020[4]). Yet, informality is a complex and multifaceted phenomenon, conjuring different connotations and meanings.

Some analyses highlight the survivalist aspects of the informal economy and argue that informal workers have no choice but to run unproductive small businesses or work in jobs characterised by a lack of social benefits, poor working conditions and lower rates of remuneration and productivity. Others consider informality a drag on economic and social development (Koeda and Dabla-Norris, 2008[5]; Inchauste, Gradstein and Dabla-Norris, 2005[6]; Ydrovo Echeverry, 2010[7]) associated with less productivity (Levy, 2008[8]), fewer tax revenues (Perry et al., 2007[9]; Antón, 2014[10]), corruption (De Soto, 1989[11]) and less access to credit (Koeda and Dabla-Norris, 2008[5]). In the case of LAC countries, differences in productivity, profits and capital gains between formal and informal firms have been found in the case of Mexico (Busso, Fazio Maria Victoria and Levy Algazi, 2012[12]), Brazil (Fajnzylber, Maloney and Montes-Rojas, 2011[13]), Colombia, Peru, Bolivia, Argentina and Panama (Perry et al., 2007[9]). In contrast, others recognise the potential of the informal economy to support the livelihoods of workers willing to trade formalisation for informal employment (Albertini and Terrieau, 2019[14]).

Informality remains part of the daily lives of many workers in Ibero-America. It often comes with risks and vulnerabilities that constitute a formidable policy challenge. Recently, the COVID-19 crisis has further highlighted informal workers' great and long-standing vulnerability and the urgent need to protect them and their dependents.

Tackling the vulnerability challenges of informal workers requires a thorough understanding of informality. To date, however, our understanding of informality has been largely driven by analysing different measures of informality at the individual level. While this approach has helped to identify the heterogeneity of informal workers in terms of their working conditions and to make useful international comparisons, it has largely ignored their households' dimension. A household perspective is important for many reasons. For instance, the informality status of working members within a household may have important well-being implications on their dependent members. A household perspective on informality may also cast new light on tackling the vulnerability challenge of informal workers. Moreover, the wide range of formalisation strategies followed by governments, and the detailed policies put in place in order to tackle labour informality are not always well-known and documented. Finally, a household perspective allows to design better gender policies. Women prevalently hold part-time jobs more than men do within households, and women in informal households are more than twice as likely to hold part-time employment than working women in formal households.

The purpose of this document is to present the technical considerations to measure informality at the household level and to provide stylised facts on the socio-economic characteristics of LAC households by their degree of informality and based on the methodology presented previously. It also provides insights

on recent labour and social protection policies established by Ibero-American countries, including Spain, to promote labour formalisation and better protect informal workers.

Regarding the methodology used to measure informality at the household level, the report uses the new OECD *Key Indicators of Informality based on Individuals and their Households (KIIbIH)* database. The KIIbIH database is based on the ILO definition of informal employment (ILO, 2018[15]). It currently covers 19 LAC countries representing close to 85% of the region's population.

The report is structured as follows. The first chapter begins by introducing the methodology and analytical framework used to define and analyse informality at the household level and with a comparable measurement across countries. Building on this, the chapter presents a socio-economic and demographic categorisation of the general population and, more precisely, of households in LAC according to the degree of household informality. It shows that both informal and mixed households account for two-thirds of the total population in LAC. On average, almost half (42.5%) of people in LAC countries live in a household that depends solely on informal employment, 22.4% live in households with formal and informal workers (mixed households), and the remaining 35.1% live in completely formal households. The chapter further includes a detailed scan of the socio-economic and demographic situation of these households by analysing key domains such as workers' conditions, spatial and economic characteristics, education levels and the role of dependents within the households.

The second chapter examines a range of policy experiences from Ibero-American countries, including Spain, in addressing the widespread challenge of informal work and advancing labour formalisation. It also explores how these countries have improved their social protection systems to make them more accessible and inclusive for low-income and vulnerable workers. The initiatives discussed encompass various approaches, including enhancing workforce training and skills development, expanding public employment services, introducing flexible contribution schemes, streamlining registration and tax processes, reinforcing labour inspection efforts, and harnessing digital technologies to increase efficiency and coverage. Together, these strategies illustrate the diverse and innovative ways Ibero-American countries are working to formalise labour markets and extend social protection to all workers.

1 Portraits of informality

This chapter presents the technical considerations behind the definition of labour informality, both at the individual and household level, and from that basis it provides a detailed picture of key socio-demographic categorisation of the population and, more precisely, of households in Latin America and the Caribbean according to the degree of household informality (household type) using the OECD *Key Indicators of Informality based on Individuals and their Households* (KIIbIH) database.

This chapter presents a socio-demographic categorisation of the general population and, more precisely, of households in LAC according to the degree of household informality (household type). It uses the new version of the OECD *Key Indicators of Informality based on Individuals and their Households* (KIIbIH) database. In this report, a household has been defined as an individual or group of people who have a common arrangement for providing themselves with food or other essentials for living, notably income. The persons in the group are expected to pool their incomes, or to have a common budget, whether they are related or unrelated persons. Where possible, live-in domestic workers and their family members are split into separate households for the purposes of measuring the contribution of each working household member to total household labour income.

Measuring informality and the household dimension: Technical considerations

Measures of informality at the individual level help us understand the heterogeneity of informality and allow us to make international comparisons. However, these measures have ignored the household context within which informal workers live. For instance, the informality status of working members within a household may have implications on its dependent members.

Some of the adverse impacts of informality on households' well-being might indeed be mitigated or exacerbated depending on the working conditions of the household members. For instance, households' access to social insurance schemes, which often cover the contributor's spouse or children, and credit markets, might increase through the formal employment of at least one household member. For this reason, households with only informal workers face different vulnerabilities or in a different magnitude than mixed households (i.e. those in which at least one household member is working in the formal economy). Adding the household dimension thus presents an opportunity to design differentiated public policies that address specific needs to effectively mitigate the vulnerabilities and negative consequences of informality on individuals' and households' well-being.

The analysis of informality in LAC faces complex challenges, not only due to the differences in causes and composition between countries but also in standardising concepts and measures. Most statistical offices have made substantial efforts to follow international standards in the measure of informality. However, the methodologies still change from country to country, and the possibility of associating informality with other variables regarding poverty, well-being, and quality of life depends on the institutional capacity (Alaimo et al., 2015[16]; Goñi Pacchioni, 2013[17]; Fernández et al., 2017[18]).

One of the biggest challenges in producing comparable informality measures is the heterogeneity that exists in the region regarding the definition of informality. Fernández et al. (2017[18]) show how it differs across LAC countries. For instance, while in Brazil all own-account workers are considered informal, in Colombia and Uruguay, it depends on whether the worker contributes to social security, and in Mexico and Peru it is conditioned to the sector in which the firm operates. Additionally, health and pension systems have different legal frameworks that make comparison complicated. Countries like Argentina and Brazil have no contributory health systems. Therefore, surveys in these countries do not include questions related to whether the worker contributes to the health system in their labour force surveys, whereas this measure is the most commonly used in other countries (Fernández et al., 2017[18]). Heterogeneities imply that aggregating national indicators of informality can be misleading in the absence of homogenised measurement (Loayza, Servén and Sugawara, 2010[19]; Fernández et al., 2017[18]).

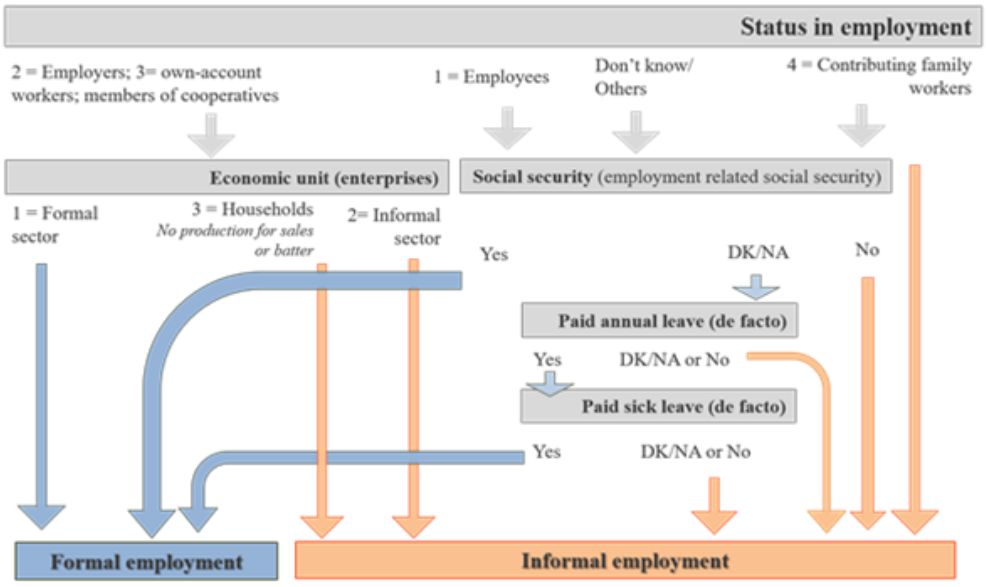
The flexibility in the concept of the informal sector and differences in regulatory frameworks have led to different applications of the criteria established in international resolutions. For example, due to variations in registration requirements, applying the non-registered enterprises' criteria produces different measures of informality, as well as using the employment size criteria (ILO, 2013[20]). Besides, differences in data sources, coverage, cut-offs, and size of the firm, among others, impose some limitations to international

comparability (Tornarolli et al., 2014[21]; Gasparini and Tornarolli, 2009[22]; ILO, 2013[20]). Thus, the existence of heterogeneity in the measurement makes it necessary to harmonise them.

Therefore, one of the main purposes of this report is to present harmonised and standard measures of informality in LAC, considering the household's dimension, using the new OECD Key Indicators of Informality based on Individuals and their Households (KIIbIH) database. The KIIbIH database is based on the ILO definition of informal employment (ILO, 2018[15]). These criteria are applied and translated into common indicators to micro datasets from national labour force surveys or similar household surveys in LAC. As a result, the dataset includes 19 LAC countries representing close to 85% of the region's population and uses 2020 household surveys or the closest year available. It allows computing informality measures and other development indicators at the individual and household levels.

To enhance international comparability, a systematic approach to measuring informal employment and employment in the informal sector is undertaken when processing microdata. In the case of contributing family workers and employees, the informal employment status of the job is determined using characteristics associated with the job position. While for employers and own-account workers, it will depend on whether they are employed or not in the informal sector. All contributing family workers are classified as having informal employment. For employees to be considered part of the informal employment, the employment relationship should not be subject to social protection or entitlement to certain employment benefits. As presented in ILO (2018[15]), an employee's formal or informal nature is determined based on operational criteria such as social security contributions by the employer and entitlement to paid sick leave and paid annual leave. Using these criteria enables international comparisons across the sample of LAC countries. Figure 1.1 summarises this process.

Figure 1.1. Informal employment definition

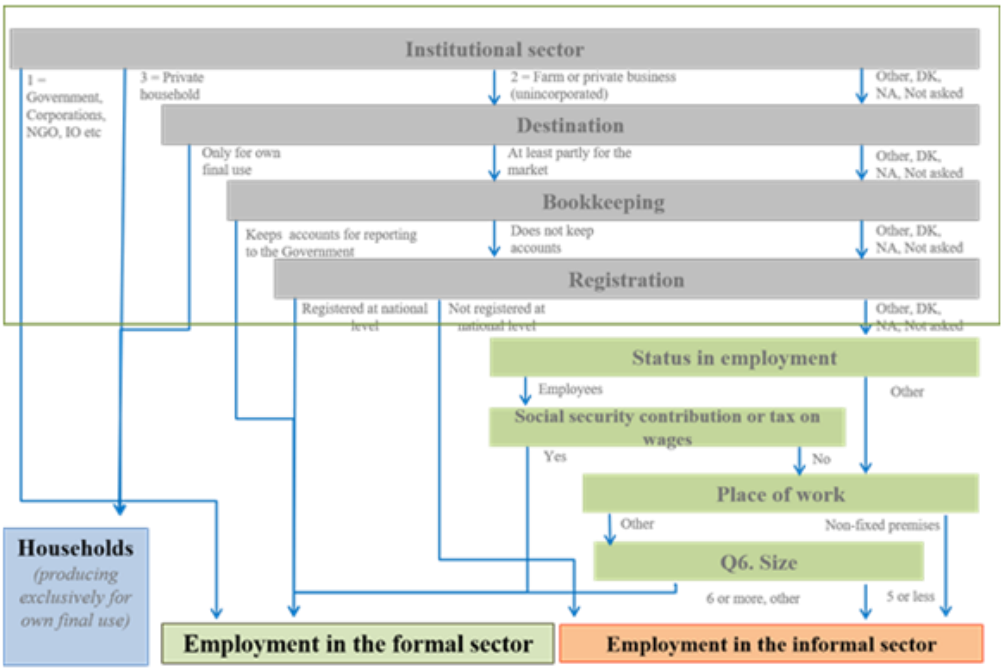


Source: Based on ILO (2018[15]), *Women and Men in the Informal Economy*, International Labour Organization, Geneva.

In the case of own-account workers and employers, the informal employment status of the job is determined by the informal sector nature of the associated economic unit. Own-account workers and employers operating an informal enterprise are classified as informal employment. The criteria start by identifying the institutional sector in which the person works. The final destination of production and inquiries about the bookkeeping of the economic unit are then considered, and lastly if the economic unit

is registered under national legislation (e.g. being constituted as a legal entity). Figure 1.2 presents the steps followed.

Figure 1.2. Informal sector definition



Source: Based on ILO (2018[15]), *Women and Men in the Informal Economy*, International Labour Organization, Geneva.

These criteria are applied and translated into common indicators to micro datasets from national labour force surveys or similar household surveys. Due to availability, the most updated year for Nicaragua's household survey corresponds to 2014. Table 1.1 presents the list of countries, surveys used and last year available. Data are available for 13 LAC countries in total, representing 62% of the LAC population.

Table 1.1. KIIbIH primary sources

List of data sources used and year

Country	Survey	Year
Argentina	Encuesta Permanente de Hogares	2018
Bahamas	The Household Expenditure Survey	2013
Barbados	Barbados Survey of Living Conditions	2016
Bolivia	Encuesta de Hogares	2018
Brazil	Pesquisa Nacional por Amostra de Domicilios Continua	2019
Chile	Encuesta de Caracterizacion Socioeconomica Nacional	2017
Colombia	Encuesta Nacional de Calidad de Vida	2021
Costa Rica	Encuesta Nacional de Hogares	2020
Dominican Republic	Encuesta Nacional de Gastos e Ingresos de los Hogares	2018
El Salvador	Encuesta de Hogares de Propósitos Múltiples	2021
Honduras	Encuesta Permanente de Hogares de Propositos Multiples	2019
Jamaica	Jamaica Survey of Living Conditions	2019
Mexico	Encuesta Nacional de los Hogares	2020
Nicaragua	Encuesta Nacional de Hogares sobre Medición de Nivel de Vida	2014

Paraguay	Encuesta Permanente de Hogares	2018
Peru	Encuesta Nacional de Hogares	2019
Suriname	Suriname Survey of Living Conditions	2022
Trinidad and Tobago	Trinidad and Tobago Survey of Living Conditions	2014
Uruguay	Encuesta Continua de Hogares	2018

Source: Authors' own elaboration.

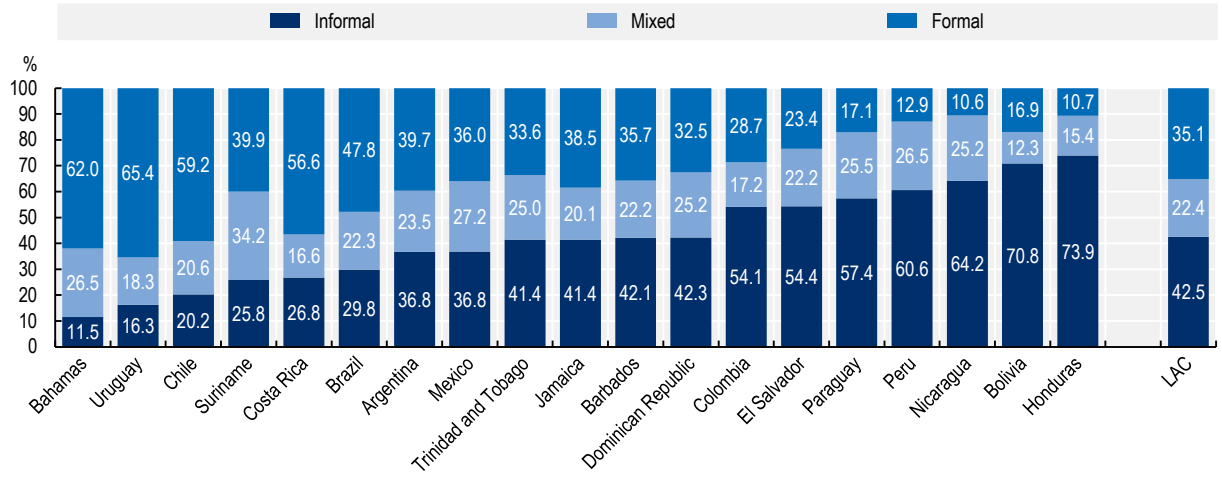
The updated KIIbIH database complements international databases and adds value to ILO statistics that are focused on the individual level by developing household indicators that allow to analyse the taxonomy of households according to their level of informality and to link informality indicators with poverty and well-being outcomes where social protection policies have a significant role to play.

Using the classification by the OECD/ILO (2019[1]) and the ILO (2018[15]), individuals are assigned to three categories of informal households: formal households, when all working members are formally employed; second, informal households, when all working members are informally employed; and, third, mixed households when a share of the household's working members have formal jobs and others have informal jobs. A household that has only one working member is classified either as formal or informal but cannot be mixed.

Almost half of the general population in LAC lives in completely informal households

Both informal and mixed households account for almost two-thirds of the total population in LAC. On average, more than four people out of ten (42.5%) in LAC countries live in a household that depends solely on informal employment, 22.4% live in households with formal and informal workers (mixed households), and the remaining 35.1% live in completely formal households (Figure 1.3).[1]

Figure 1.3. Distribution of population by the degree of informality of households



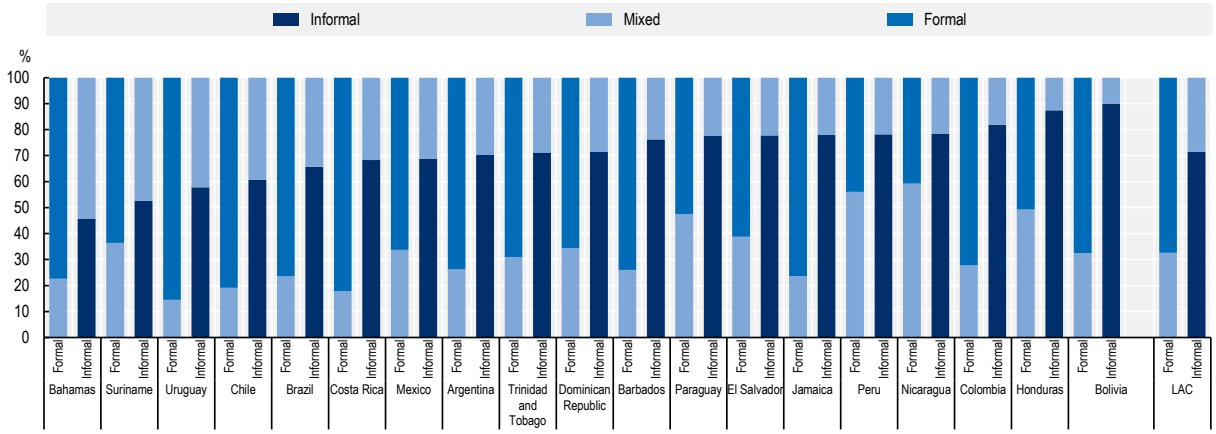
Note: LAC data is an unweighted average. Data for Argentina, Bolivia, the Dominican Republic, Paraguay and Uruguay refer to 2018. For Barbados to 2016. For Brazil, Honduras, Jamaica and Peru to 2019. For Chile to 2017. For Colombia and El Salvador to 2021. For Costa Rica, and Mexico to 2020. For Nicaragua, and Trinidad and Tobago to 2014. For Suriname to 2022. Countries are listed according to the proportion of informal employment in total employment.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

There are also large disparities across countries as to the distribution of the population according to the degree of household informality. Most of the population lives in formal households in some countries like Bahamas (62%), Uruguay (65.4%), Chile (59.2%) and Costa Rica (56.6%). Other countries have a vast majority of people living in informal households. In Peru, Nicaragua, Bolivia and Honduras, more than 60% of the population relies entirely on informal employment, which makes those countries particularly vulnerable to shocks such as the COVID-19 crisis. The exposure of people to lower levels of social security might be reduced for mixed households as compared with completely informal households.

Informal workers are disproportionately concentrated in informal households. Most informal workers in the LAC region live and pool resources with other informal workers, regardless of their status in employment. Figure 1.4 shows the distribution of informal workers across household types. In LAC, more than two-thirds of informal workers (71.5%) live in completely informal households, potentially limiting their access to schemes where household members are covered by employment-based social protection schemes of formal workers.

Despite the high probability of informal workers belonging to the same household, many LAC formal workers pool resources in households with informal workers. Across the region, 67.3% of formal workers live in a completely formal household, meaning that 32.7% of formal workers live with informal workers in mixed households (Figure 1.4). In Chile, Uruguay and Costa Rica, around 40% of informal workers live in mixed households. In contrast, in Bolivia and Honduras just around 10% of workers in informal employment are part of a household with a formal worker.

Figure 1.4. Distribution of formal and informal workers by the degree of informality of their households



Note: LAC data is an unweighted average. Countries are listed in ascending order according to the percentage of informal workers living in informal households.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

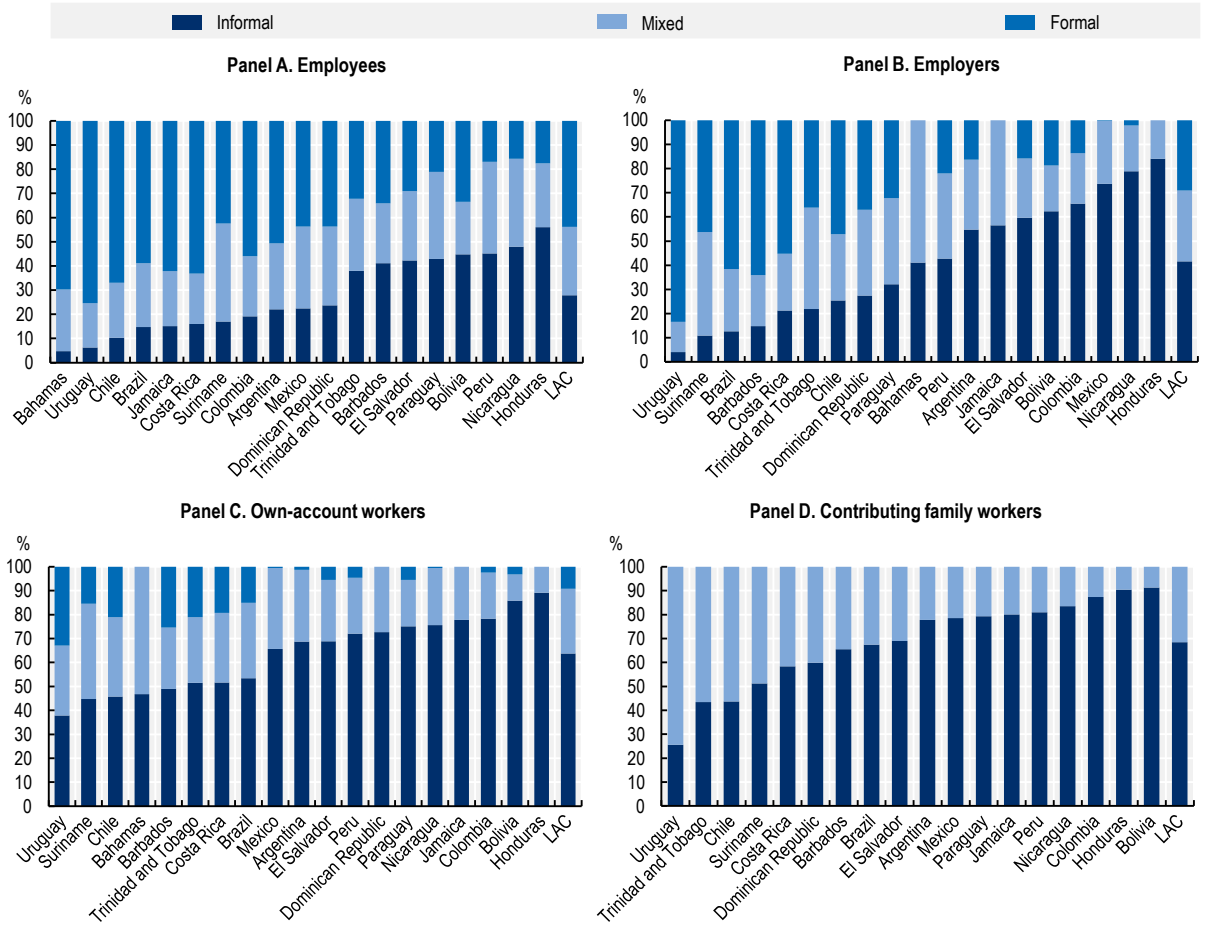
Workers' conditions are strongly associated with the degree of informality at the household level

Workers' employment conditions can have an important impact on the vulnerability of their household's dependents, and among them status in employment is a particularly important dimension to examine. It is an important factor related to a worker's degree of economic precarity and is therefore indispensable when assessing a household's economic vulnerability. Own account workers and contributing family workers, for

example, hold particularly vulnerable forms of employment, in which their employment protections (such as contract type, stability of their employment) and the types of social protection to which they are entitled contribute to lower quality working conditions than in standard employment relationships (i.e. wage employees). Vulnerable employment is particularly correlated with low job and earnings security, unstable remuneration, and excessive working hours. In the LAC region, informal and mixed households have the highest share of vulnerable workers: 63.7% of own-account workers and 68.5% of contributing family workers belong to informal households. By comparison, wage employees in LAC are most likely to belong to formal households (43.8%) and are best protected under social security legislation.

Certain trends emerge by status in employment across the LAC region. Figure 1.5 depicts the distribution of workers by status in employment and degree of household informality. Own-account workers are overwhelmingly associated with informal households as opposed to mixed (27.1%) and formal (9.2%) households. Employees tend to be formal and largely belong to formal households instead of mixed (28.3%) or informal households (27.9%). Employers belong to informal households (41.6%) more than mixed (29.4%) or formal households (29.1%). Contributing family workers, who are by definition considered informal workers, have a higher probability of belonging to informal households, as opposed to mixed households (31.5%).

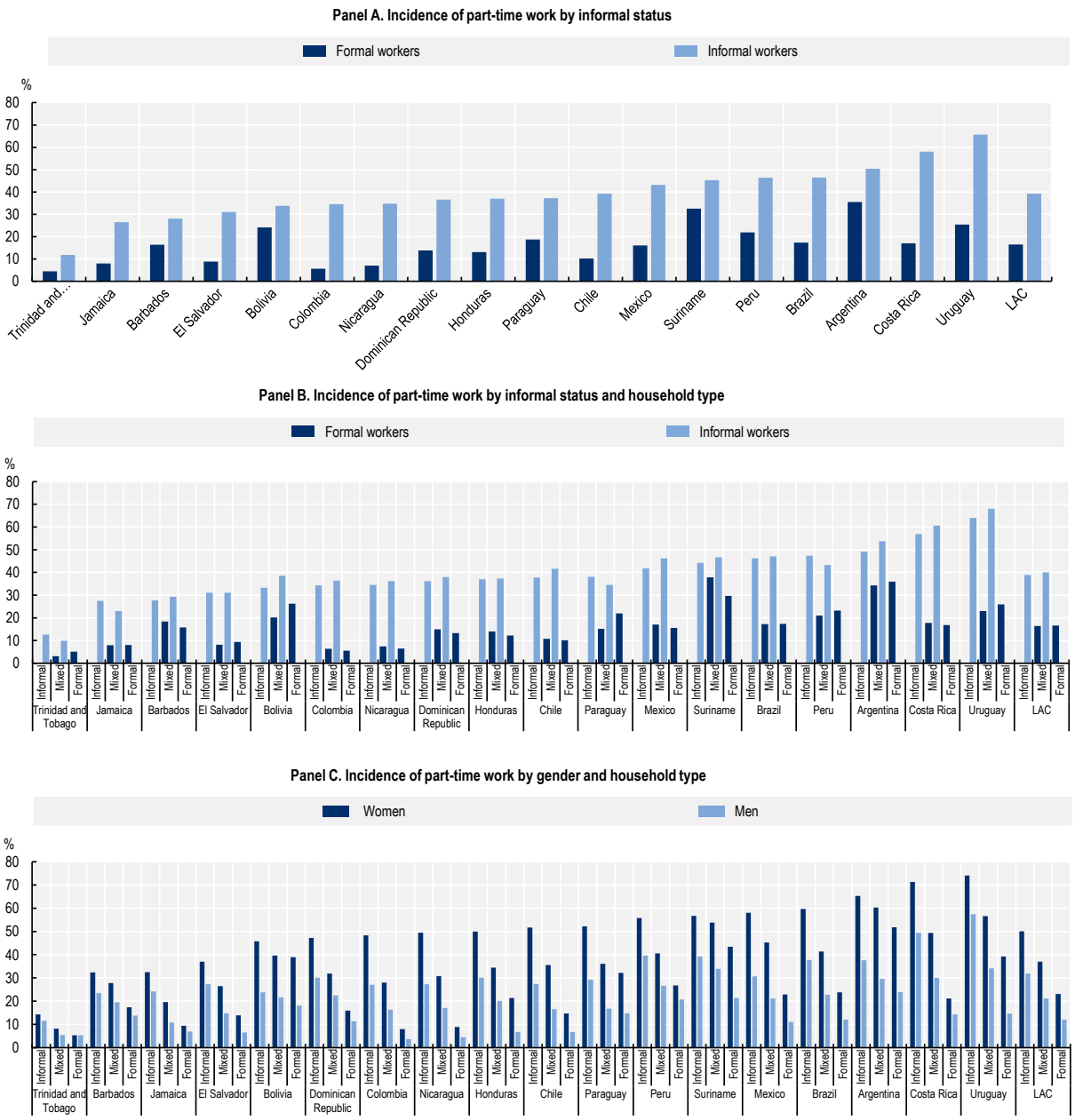
Figure 1.5. Distribution of total employment by status in employment and household type



Note: LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

Informal workers in LAC tend to be more exposed to part-time work while also having a higher probability of holding multiple jobs compared to formal workers. On average, informal workers are more than twice as likely to work part-time than formal workers (39.2% versus 16.5%) (Figure 1.6, Panel A).

Figure 1.6. Women and informal workers are more likely to work in part-time jobs



Note: Workers are considered to hold a part-time job if they work 35 hours or less per week at their primary job. LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

This trend holds across all household types: informal workers have a higher probability of working part-time than formal workers in both mixed and formal households (Figure 1.6, Panel B). In absolute terms, informal

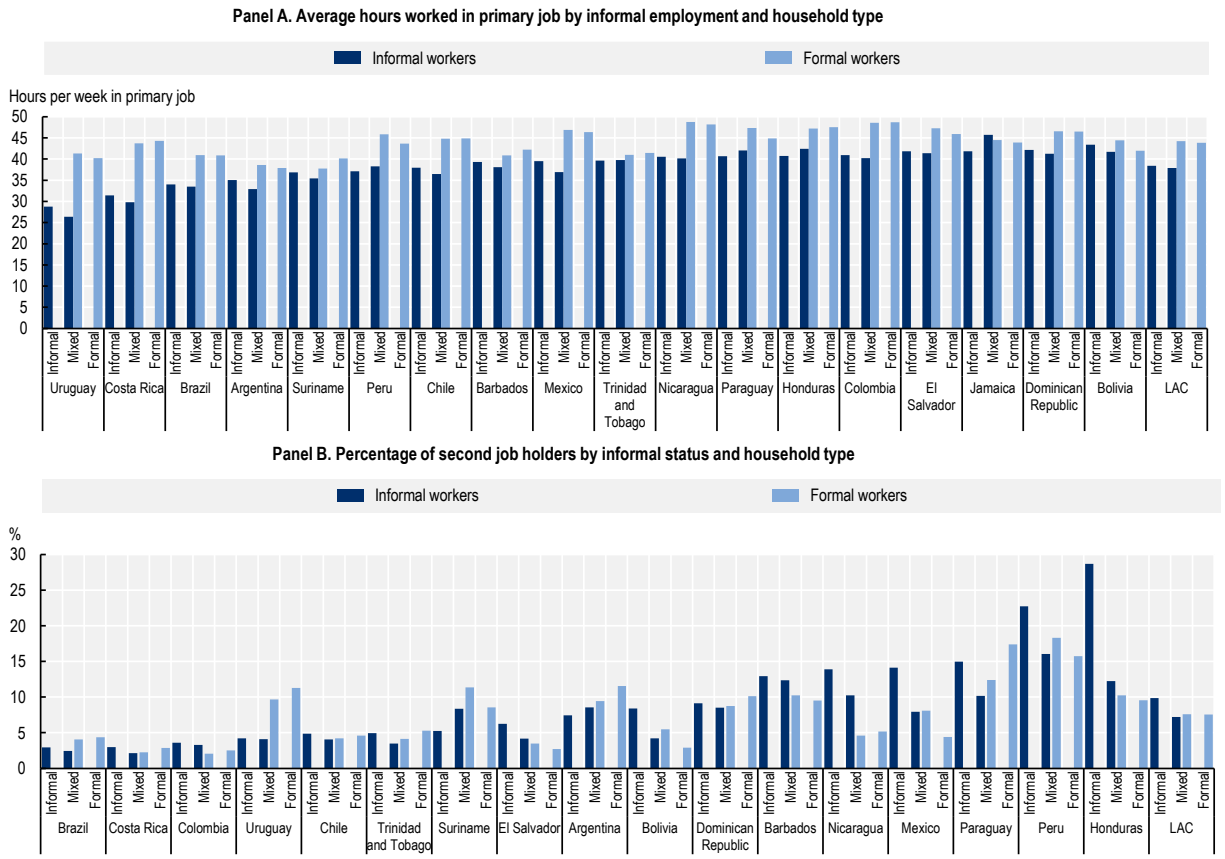
workers averaged 38.2 hours per week in their primary employment, as opposed to the 44 hours per week reported by formal workers (Figure 1.7, Panel A). Within mixed households, the number of hours per week in primary jobs is 6 hours higher for formal workers than for informal workers (Figure 1.7, Panel A).

Women prevalently hold part-time jobs more than men do. Across all countries in the sample, women are 1.7 times more likely to work in part-time jobs than men (Figure 1.6, Panel C). Even between household types, there are differences in the probability of women engaging in part-time work. Working women in informal households are more than twice as likely to hold part-time employment than working women in formal households (Figure 1.6, Panel C).

Furthermore, on average, 9.8% of the region's informal workers have secondary employment compared to 7.6% of formal workers. The probability for informal workers of holding a second job, depending on the household type, varies across countries (Figure 1.7, Panel B). In Barbados, Colombia, El Salvador, Nicaragua and Honduras, the informal workers in mixed households tend to take a second job more often than formal workers in mixed households do (Figure 1.7, Panel B).

While other factors can affect the need for a secondary job, such as employment conditions like remuneration and contract type or household conditions such as poverty status, the general prevalence of secondary jobs amongst informal workers is important to design appropriate policy interventions.

Figure 1.7. Prevalence of second-job holders and average hours worked

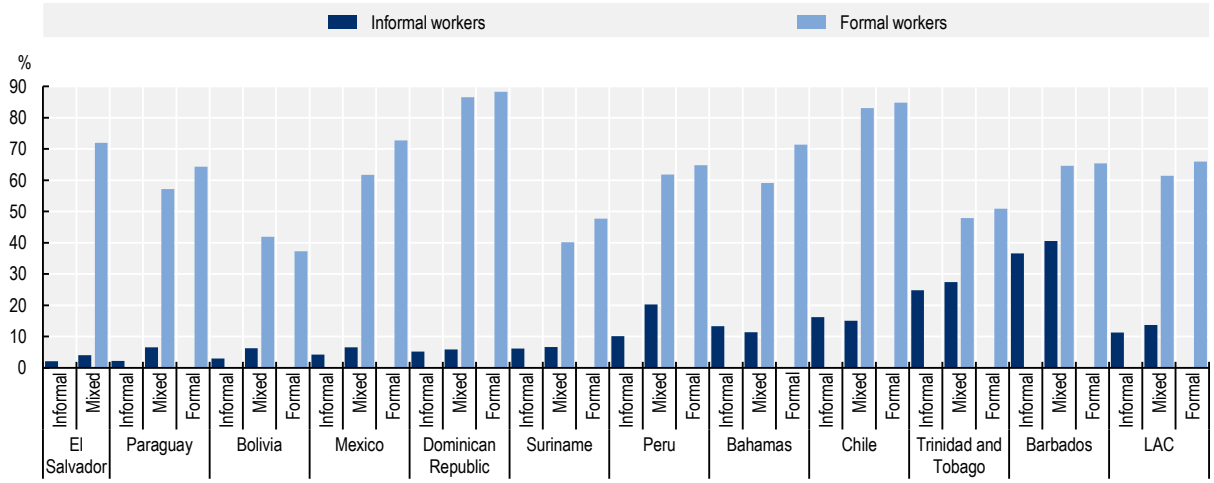


Note: LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

On average, on an hourly basis, formal workers earn twice the amount of informal workers. This wide informal-formal hourly earnings gap has implications for the well-being of households wholly reliant on earnings from informal jobs and is both a cause and a consequence of the nature of informal work.

Additionally, most of the region's informal workers in informal households have little to no contract protection (Figure 1.8). Informal workers are six times less likely to hold an employment contract, which excludes social security contributions, as compared to formal workers in their primary job. Similarly, only 11.2% of informal workers in informal households have any employment contract (without social security contributions), which poses a considerable risk to their economic security in case of macroeconomic shocks like the COVID-19. The economic growth that has uplifted much of the region's risks has nonetheless left behind a large proportion of informal workers in a poverty trap.

Figure 1.8. Incidence of contract holders and contract type

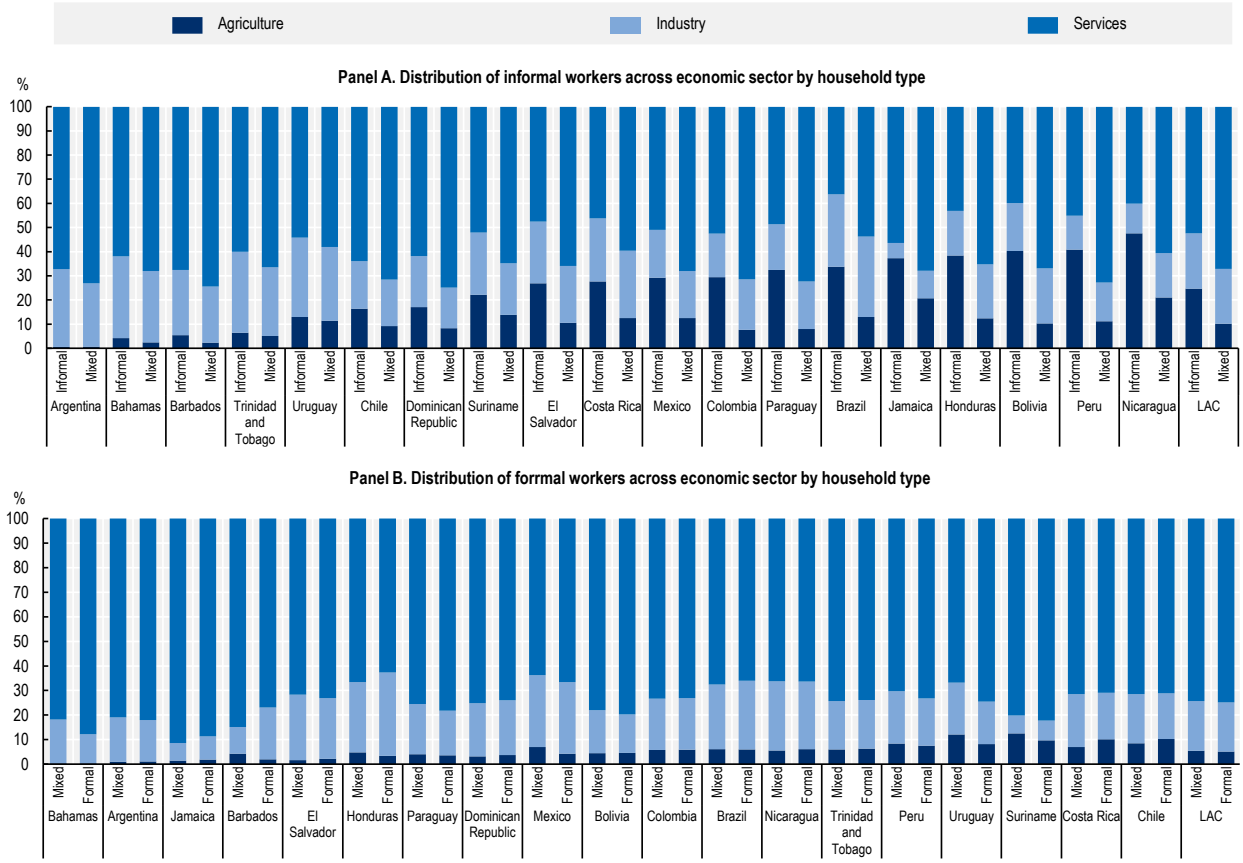


Note: Information is not available for Uruguay, Costa Rica, Brazil, Argentina, Nicaragua and Honduras. LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

While most of the informal jobs are urban and located in the services sector, rurality and agriculture are highly associated with informality

In LAC rural areas, the informal employment rate is at least 70%. This is commonly known to be a result of a high dependency on traditional agriculture and subsistence production in rural areas, which additionally are typically poorly serviced by basic infrastructure, making rural employment more difficult to regulate and to formalise than activity in urban areas (ILO, 2015[24]). Informality is closely linked to agriculture and services in LAC, and informal households supply the bulk of agricultural labour. Agricultural workers represent 24.7% of all workers living in informal households in LAC, while formal agricultural workers are just 5.1% of workers living in formal households. Workers in informal households are relatively more predominant in the primary economic sector, while workers in mixed and formal households are overrepresented in the tertiary economic sector (Figure 1.9).

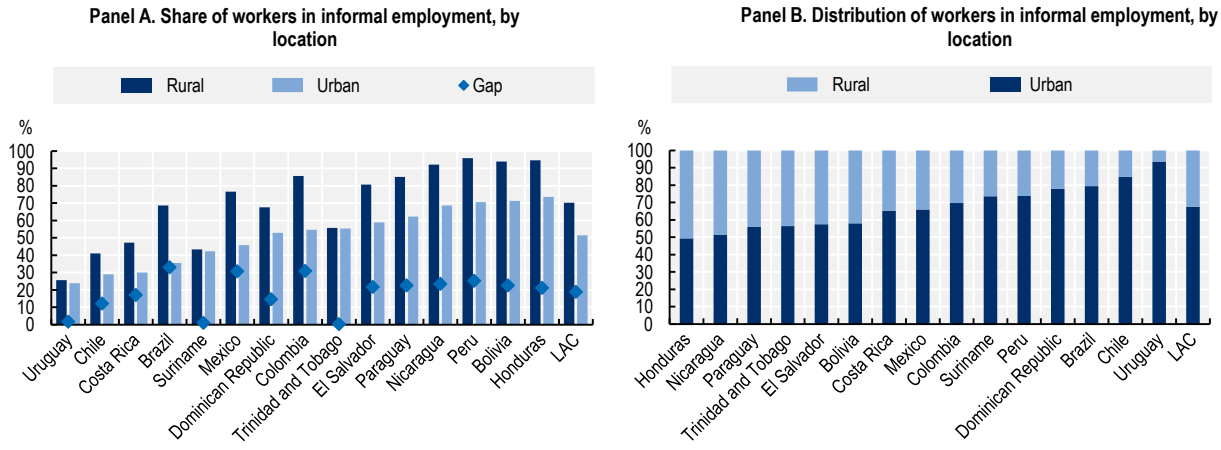
Figure 1.9. Distribution of workers by informal status, economic sector, and household type



Note: LAC average is an unweighted average.
Source: Authors' calculations based (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

Despite informality's strong association with rural areas, most informal workers (67.5%) live in urban areas (Figure 1.10, Panel B). This is due to generally high rates of urbanisation across the region: according to UN urbanisation estimates, 80% of the LAC population lived in urban areas between 2015 and 2020 (UN DESA, 2019[25]). It is worth noting that significant disparities remain in urbanisation levels and therefore in the distribution of informal workers across LAC countries. In Uruguay, for example, 93.7% of informal workers lived in an urban area compared with 49.3% in Honduras (Figure 1.10, Panel B).

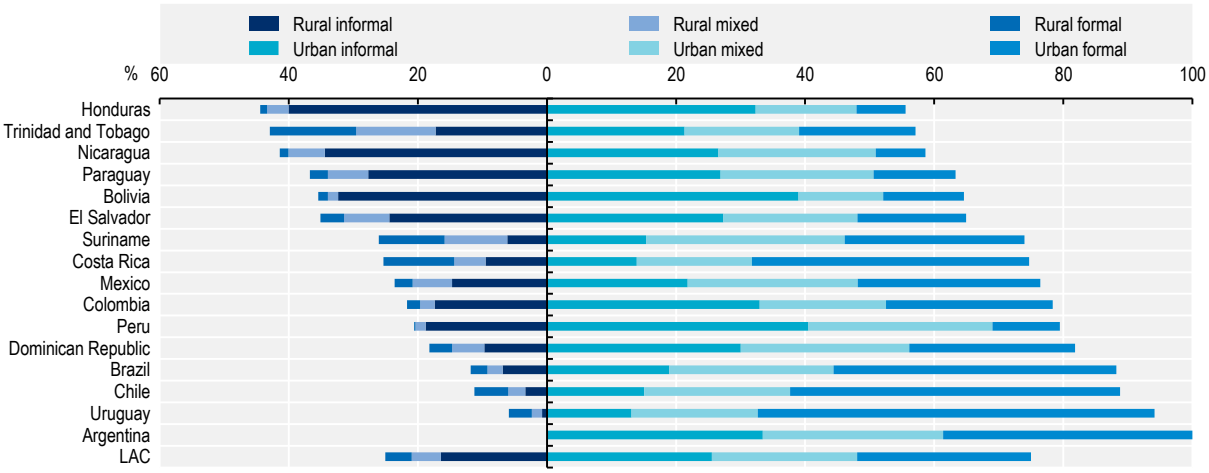
Figure 1.10. Distribution of informal employment by rural/urban location



Note: The survey used for Argentina is an urban survey and was not included in the figure. LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

Households' location also shapes their degree of informality in LAC. In rural areas, the vast majority of the population lives in informal households. In contrast, in urban areas, most households live in mixed and formal households. 75% of all LAC workers live in urban households, of which 27% are formal, 25.5% informal and about 22.5% mixed (Figure 1.11). On the other hand, about 25% of workers live in rural households, of which 16.4% live in informal households, 4.5% in mixed and 4% in formal.

Figure 1.11. Distribution of workers by location and by the household degree of informality



Note: The survey used for Argentina is an urban survey. LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

In rural areas, around 66% of people live in a completely informal household, while in urban areas, that share accounts for 34% of the population. In contrast, only 18% of the rural population is part of a mixed

household compared with 30% in the urban areas. A very small proportion (24%) of the rural population lives in a household where all its household members are formally employed, compared with 36% in urban locations.

Neither mixed nor formal households are common in rural areas. Costa Rica is the country that has the highest proportion of workers in formal rural households (11%). In some instances, formal and mixed households are comparatively important in rural areas, such as in Uruguay and Chile; this fact is associated with and explained by a low concentration of workers in the rural sector. For countries with a relatively high concentration of workers in rural areas, such as Bolivia, Honduras, Nicaragua, Paraguay, Peru and El Salvador, most workers live in informal households.

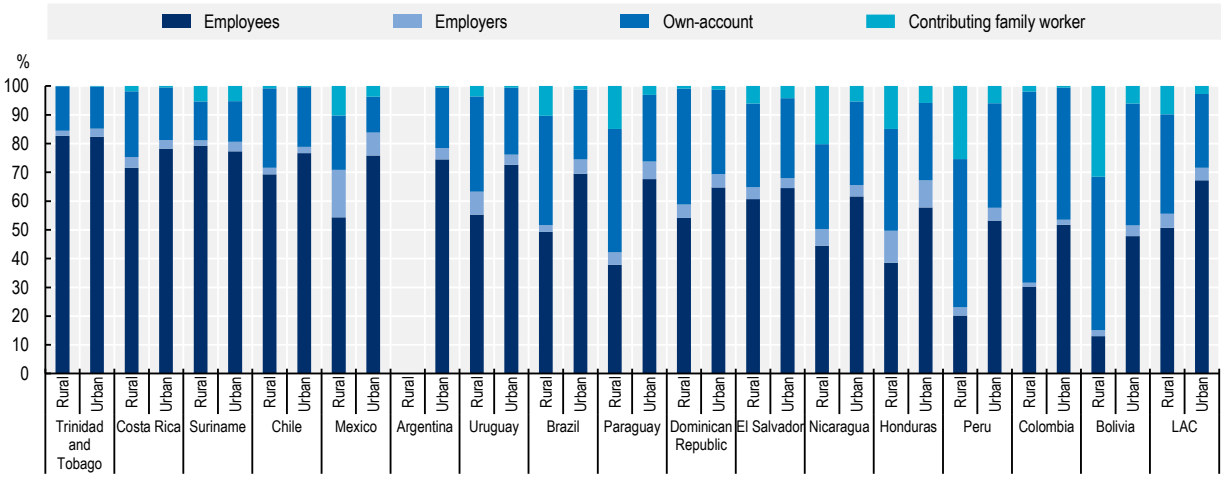
Regarding urban areas, Costa Rica, Chile and Uruguay are the countries where a higher proportion of workers live in formal households (43, 51% and 61% of total workers, respectively). Peru and Suriname have the highest proportion of workers living in mixed urban households, namely 28% and 31% of the total working population. Mexico, the Dominican Republic and Argentina closely follow Peru. All countries have more than 15% of total workers living in urban mixed households. Finally, the countries that have a higher proportion of their workers living in informal urban households are Bolivia (39%), Argentina (33%), Dominican Republic (30%), Honduras (32%) and Peru (41%).

Most LAC workers are employees, especially in urban areas

Figure 1.12 shows the distribution of employment status in LAC countries. In urban areas 67.7% of workers are employees, 25.6% are own-account workers, 4.3% are employers, and 2.8% are contributing family workers. In rural areas, the proportion of employees stands at 50.7%, own-account workers represent 34.5%, employers 4.9% and contributing family workers 9.9%. These results highlight the labour market structure of LAC countries; own-account workers and contributing family workers represent an important proportion of the labour force in LAC countries, especially in rural areas where contributing family workers are especially common. Moreover, both working statuses are usually associated with vulnerability for the workers.

The concentration of own-account and contributing family workers is visible in some countries in the region. For Bolivia and Peru, own-account and contributing family workers represent 85% and 77%, respectively, of the total workers in rural areas. Both countries have the highest proportion of contributing family workers in the sample, together with Nicaragua. These results coincide with what was presented before regarding the high prevalence of rural workers in these countries, indicating a high rural vulnerability. On the other hand, in countries such as Chile, Costa Rica, and Trinidad and Tobago rural workers are primarily employees. Bolivia is also the country from the sample with the lowest proportion of urban employees (48%), closely followed by Colombia (52%) and Peru (53%). These three countries overlap in having a high proportion of urban own-account workers.

Figure 1.12. Distribution of workers by employment status and location



Note: The survey used for Argentina is an urban survey. LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

Different types of workers in rural and urban areas can be further classified by their formality status. Almost half of the informal workers (44.8%) in rural areas are classified as own-account workers, compared to 7.8% among formal workers (Table 1.2). In rural areas, employees account for nearly 39% of informal workers, compared with 88% of formal workers. Contributing family workers are relatively more prevalent in rural areas: 12.3% of informal rural workers are contributing family workers, compared with 4.7% of urban informal workers.

Interestingly, different patterns emerge across countries. In Peru, Paraguay and Uruguay, own-account formal workers are common both in rural and urban areas, while informal employees are extremely rare in rural areas in Bolivia, Colombia and Peru. Employees are over-represented in rural areas in some Caribbean countries like Suriname, and Trinidad and Tobago, compared to the LAC average. In all countries but Paraguay, Peru and Uruguay almost or more than nine formal workers out of ten in rural areas are employees.

Table 1.2. Most informal workers are own-account or unpaid workers, especially in rural areas

Percentages

	Rural areas						
	Formal workers			Informal workers			
	Employees	Employers	Own-account workers	Employees	Employers	Own-account workers	Contributing family workers
Argentina	-	-	-	-	-	-	-
Bolivia	91.1	2.1	6.9	7.9	2.1	56.4	33.6
Brazil	87.5	3.0	9.5	31.8	2.1	51.0	15.1
Chile	89.3	2.4	8.2	40.5	2.3	55.2	2.0
Colombia	96.9	0.1	3.1	19.2	1.5	77.1	2.2
Costa Rica	89.0	4.0	7.0	52.1	3.4	40.7	3.8
Dominican Republic	91.7	8.3		36.2	2.9	59.6	1.3
El Salvador	89.3	2.9	7.8	53.8	4.5	34.2	7.5
Mexico	99.7	0.2	0.1	40.6	21.5	24.7	13.3
Nicaragua	98.8	0.4	0.7	39.8	6.3	32.0	21.9
Paraguay	77.3	11.7	11.0	30.9	3.0	48.6	17.5
Peru	80.0	6.7	13.3	17.7	2.7	53.2	26.5
Suriname	93.8	1.7	4.6	60.3	2.1	25.2	12.4
Trinidad and Tobago	87.4	2.5	10.1	79.1	1.2	19.6	0.2
Uruguay	62.3	10.3	27.4	35.1	0.9	49.8	14.2
LAC	88.1	4.0	7.8	38.9	4.0	44.8	12.3
	Urban areas						
	Formal workers			Informal workers			
	Employees	Employers	Own-account workers	Employees	Employers	Own-account workers	Contributing family workers
Argentina	97.8	1.6	0.7	49.0	6.5	43.6	0.9
Bolivia	82.1	4.8	13.1	34.0	3.3	54.2	8.5
Brazil	85.3	6.4	8.3	40.9	2.4	53.2	3.4
Chile	90.0	1.9	8.2	43.9	3.1	51.7	1.4
Colombia	93.8	0.7	5.4	17.0	2.6	79.4	1.1
Costa Rica	89.7	3.4	6.9	51.5	2.1	44.9	1.5
Dominican Republic	93.8	6.2		38.9	3.2	55.4	2.5
El Salvador	87.9	2.8	9.3	48.2	3.9	40.8	7.1
Mexico	99.6	0.1	0.2	47.8	17.2	27.0	8.0
Nicaragua	97.5	0.8	1.7	45.3	5.3	41.7	7.7
Paraguay	77.7	11.2	11.1	61.6	3.0	30.5	4.9
Peru	73.9	8.1	18.0	44.6	2.9	43.9	8.5
Suriname	89.9	4.4	5.7	60.3	1.8	25.6	12.3
Trinidad and Tobago	85.6	4.1	10.2	79.7	1.8	18.2	0.4
Uruguay	84.8	4.3	10.9	33.6	0.9	62.9	2.5
LAC	88.6	4.1	7.3	46.4	4.0	44.9	4.7

Note: LAC average is an unweighted average. The survey used for Argentina is an urban survey.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

Informality varies substantially throughout the lifecycle

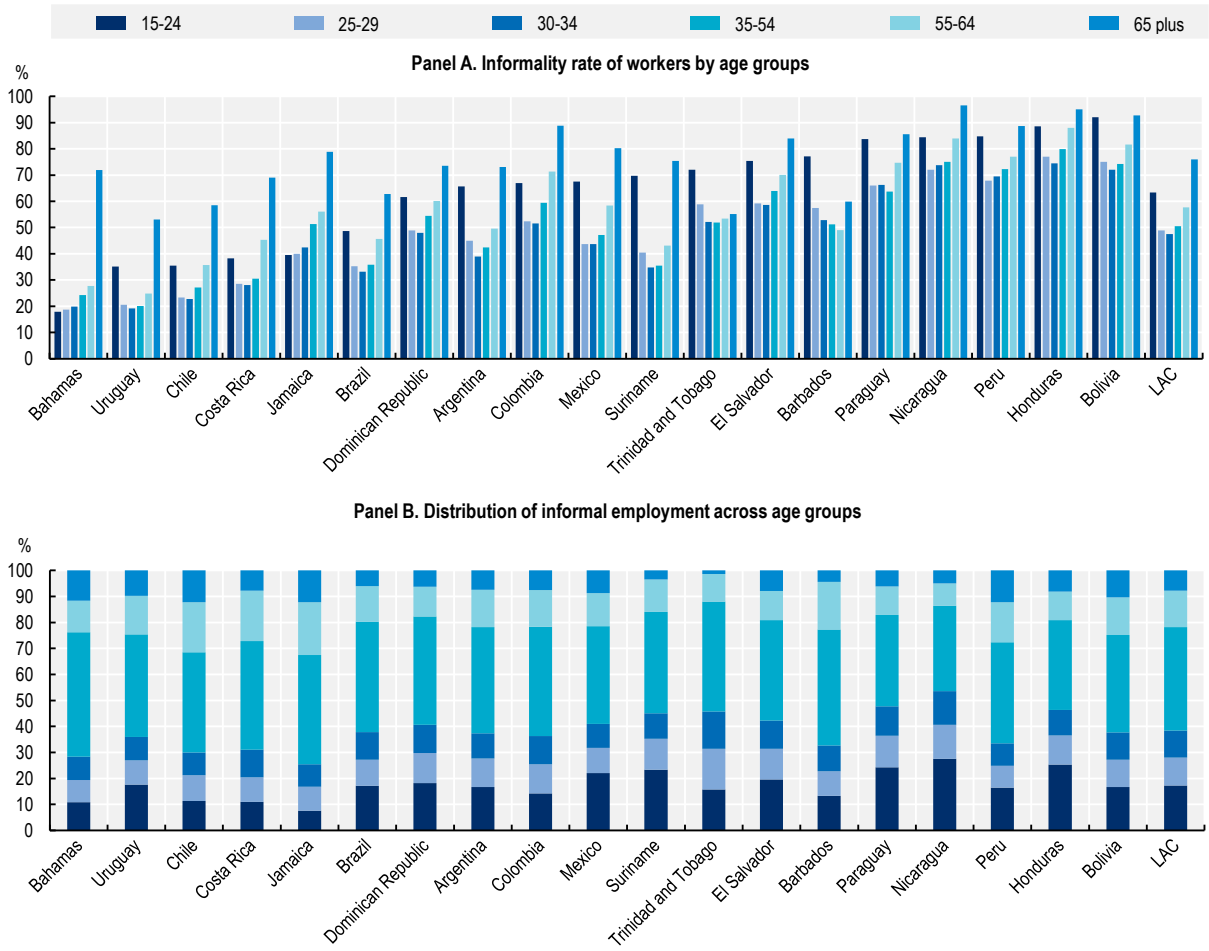
Youth and elder persons are more likely than other age groups to work informally. Lack of good employment opportunities is one of the most significant factors hindering the inclusion of youth in society.

On average, 63.4% of young workers aged 15-24 are informally employed in LAC (Figure 1.13, Panel A). Informality among youth exceeds 70% in Barbados, Bolivia, El Salvador, Honduras, Nicaragua, Paraguay, Peru, and Trinidad and Tobago. The incidence of informality is much more extensive for youth from poor and vulnerable households than for those belonging to the middle class (OECD/CAF/ECLAC, 2016[26]). In general, the informality rate decreases significantly for workers aged 25-35 and begins to increase again for workers aged 35 and up, gradually reaching an average of 75.9% for workers 65 and older. In all selected countries, excluding Barbados, Chile, Trinidad and Tobago, and Uruguay, the informality rate in the age 65-plus exceeds 60%. That suggests that most youth and elderly have limited access to social insurance, low and informal savings, poor access to credit and little social mobility during a part of the life cycle where they would need it the most.

On average, almost one in every five informal workers is aged 15 to 24 years old. This share is higher in countries like Honduras (25.3%), Mexico (22%), Nicaragua (27.5%), Suriname (23.3%) and Paraguay (24.3%). Similarly, nearly 22% of informal workers in LAC are 55 and older (Figure 1.13, Panel B). Evidence from selected LAC countries shows that workers aged 55+ have a higher probability of being informal than formal in comparison to mid-age workers (Fernández and Villar, 2017[27]). The relative share of informal workers above the age of 55 is exceptionally high in countries with low levels of informality, such as the Bahamas (23.8%), Chile (31.5%), Uruguay (24.6%) and Costa Rica (27.1%).

Older workers show high preferences for informality in some countries. This could be explained by the diminishing returns of experience and the design of pension systems as in Colombia for example, where the minimum number of weeks of contributions in the pension system required to get a pension could discourage informal workers over the age of 55 from formalising (Fernández and Villar, 2017[27]). In the case of Chile, the reason may be that many retirement-aged workers have delayed retirement, and pensioners have turned to the informal economy in their old age as a result of inadequate pension benefits and the inability of the formal economy to absorb them.

Figure 1.13. Informal employment by age groups

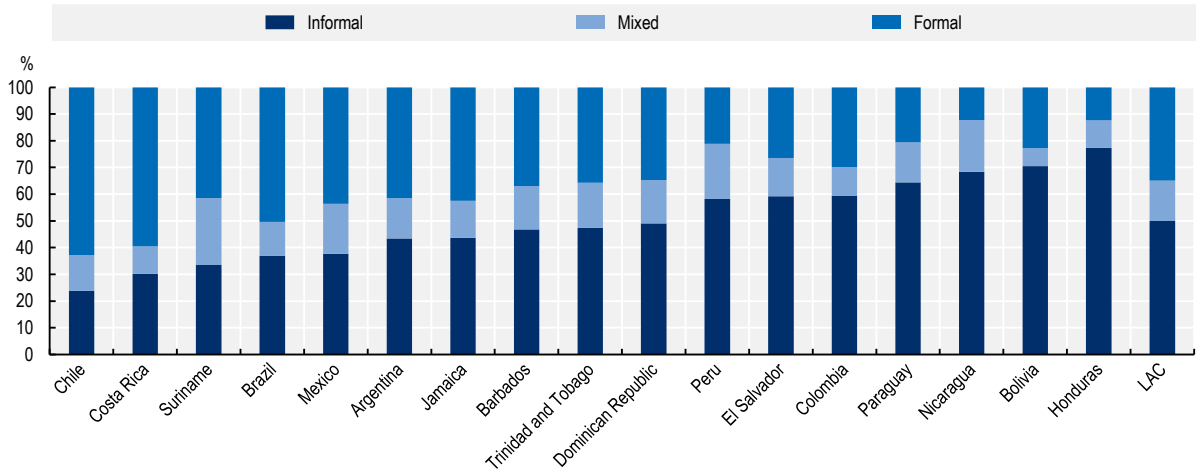


Note: The survey used for Argentina is an urban survey. LAC average is an unweighted average.
Source: Authors' calculations based (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

The jobs that youth in LAC hold are typically less productive, more insecure and less rewarding than those for youth in OECD countries (ILO, 2013[28]). LAC youth also hold fewer and worse jobs than adults in the region. One-fifth of the youth living in LAC is not engaged in employment, education or training (NEET). For those working, the informality rate is close to 65% higher than the average for the total population. In the LAC region, the challenges that youth face in their path to work are severe, particularly among those from disadvantaged socio-economic backgrounds (OECD/CAF/ECLAC, 2016[26]). Thus, entering the labour market in the informal rather than formal sector can lead to very different outcomes, making the transition from school to work a particularly critical stage in young people's careers and futures.

Half (50%) of young people aged 15-29, not in education, employment, or training, live in completely informal households, followed by 15% who live in mixed households, and 35% living in formal households (Figure 1.14). In Colombia, El Salvador, Nicaragua and Paraguay, over half of all NEET youth live in informal households and almost 75% in Bolivia and Honduras.

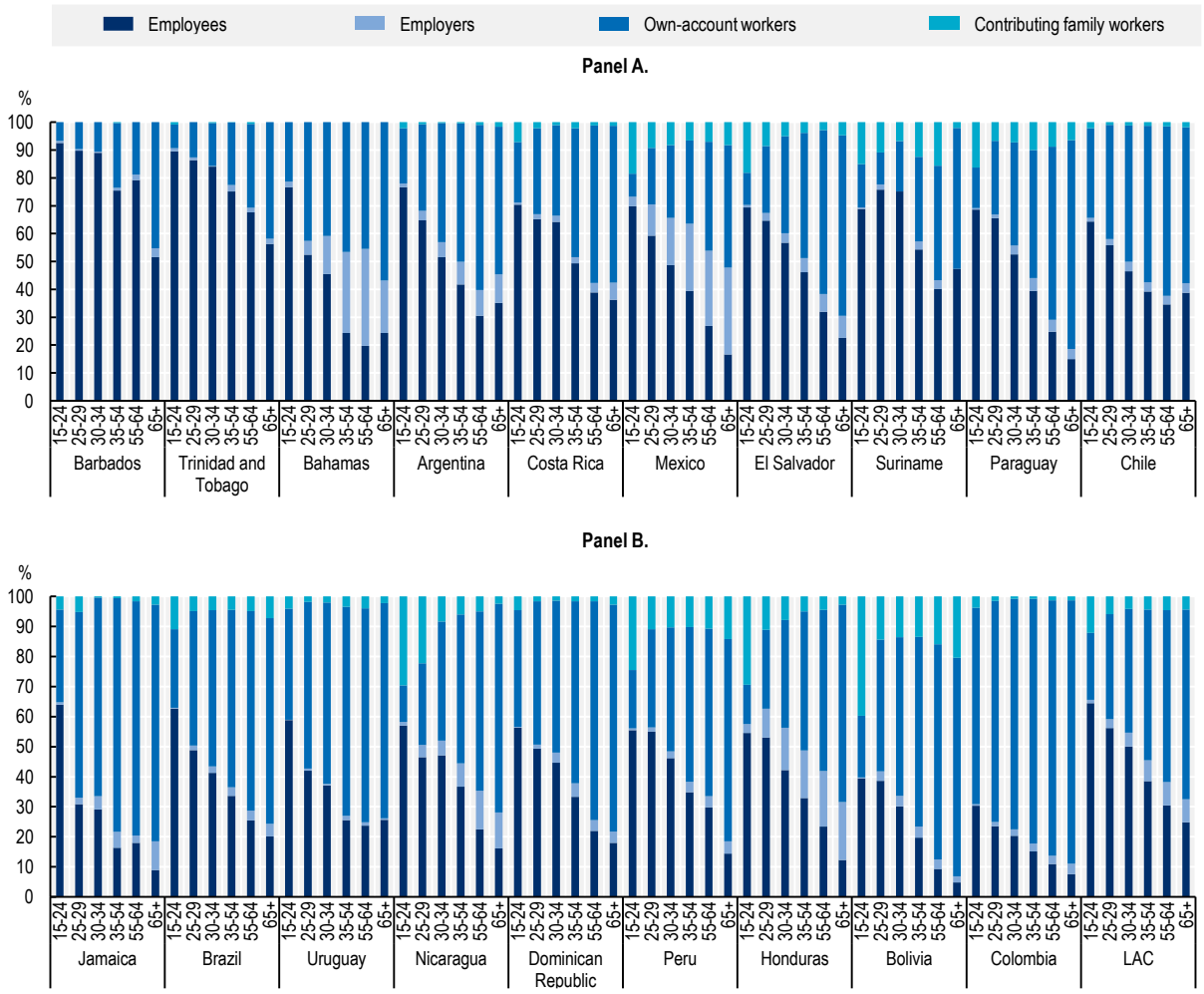
Figure 1.14. Distribution of youth (15-29) not in education, employment, or training by household type



Note: Data is not available for Uruguay, Chile, Mexico, Peru and Paraguay. LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

Different patterns in the employment status of informal workers emerge throughout the lifecycle. Figure 1.15 shows that consistently across countries, employees and contributing family workers are disproportionately concentrated among informal workers at younger ages, while own-account workers are overrepresented among older workers. This is especially true among the countries with the highest levels of informal employment, such as El Salvador, Peru, Paraguay, Bolivia and Honduras. On average, 64.5% of young informal workers work as employees, compared to only 24.8% of the oldest segment (aged 65 and more). By contrast, only 22.3% of informal youth (15-24) work on their own account compared to 63.2% of older workers (65+). These patterns attest to the discrepancies regarding informal labour activities between youth and elders. Youth are less likely to have the resources (capital, networks or know-how) to become entrepreneurs or find steady work as own-account workers. On the other hand, elders are less likely to have the right skills to access the formal labour market. Therefore, policies should be targeted to the specific needs of people to better ensure a well-functioning transition towards formal work. Furthermore, differences across countries remain important. In comparison with other LAC countries, the proportion of employees among informal workers is relatively large in Barbados, Argentina, Chile, Costa Rica, Paraguay, and Trinidad and Tobago, while the same is true for own-account workers in Colombia and Uruguay, as well as for employers in Mexico.

Figure 1.15. Distribution of informal workers in age segments by employment status



Note: LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

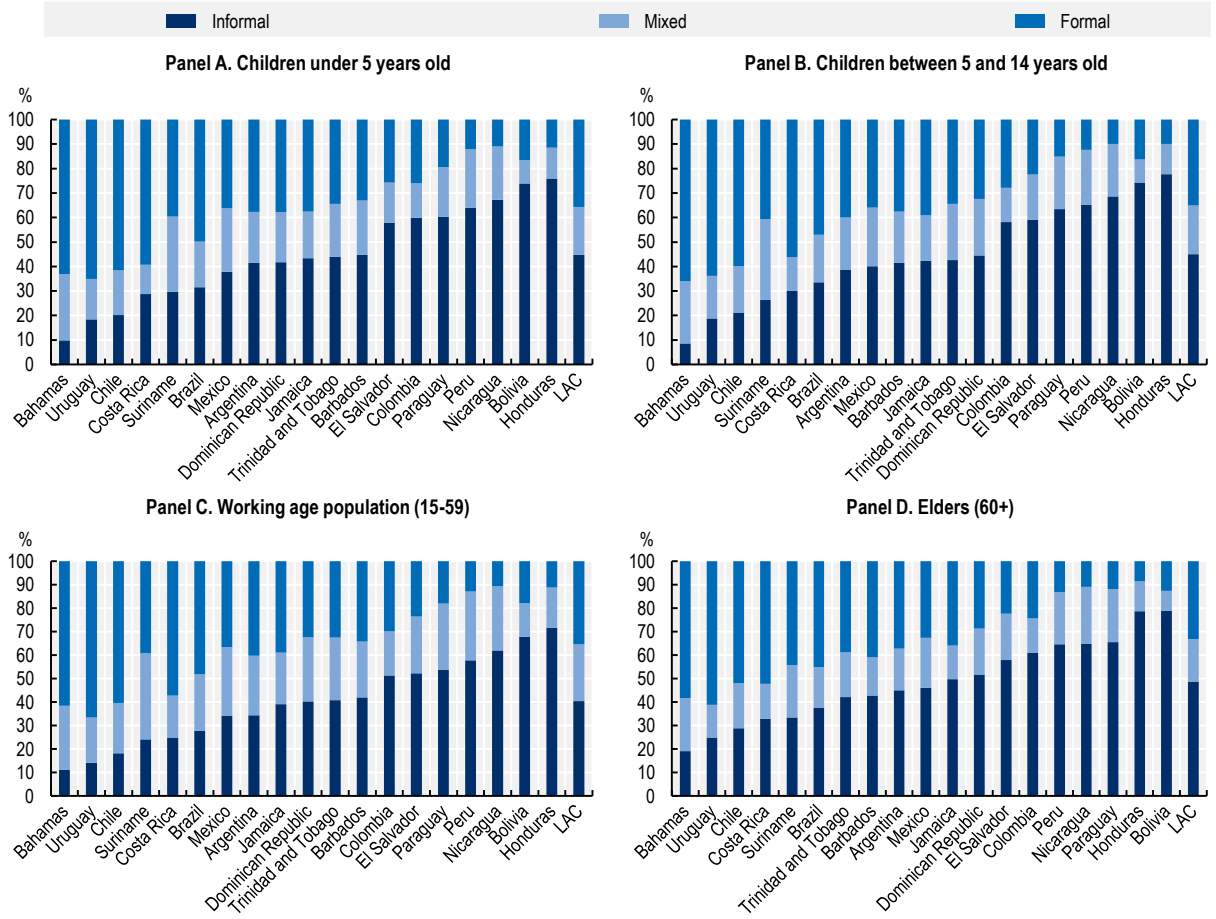
There is a larger presence of dependents in completely informal households

Dependents, i.e. children and elder people, live predominantly in completely informal households. Completely informal households have demonstrably lower access to basic services, like education and health care. Vulnerable groups like children under 15 years old and people over 60 have disproportional unmet needs compared to formal or mixed households. Completely informal households are home to 44.8% of the children under 5, 45% of children 5 to 14 years old, and 48.7% of the elderly (Figure 1.16). The latter group could be in an even more vulnerable position if it is not a recipient of a pension, as discussed in the next chapter. On the other hand, the working-age population, 15-59 years old, live predominantly in informal and mixed households, which account for 40.4% and 24.6%, respectively, of each group.

Innovative policy actions should be taken to protect those dependents that rely entirely on the economic activity of informal workers. As it is difficult to extend social protection to household members through a formal household worker, policies that increase the coverage and the extent of social protection schemes

should be considered. The absence of social security and job stability can significantly affect children and the elderly, with particularly dire consequences for some countries. In Honduras, Bolivia, Nicaragua, Paraguay and Peru, more than 60% of children under 5 and more than 64% of people above 60 years old live in completely informal households.

Figure 1.16. Distribution of population by age groups, according to the degree of household informality



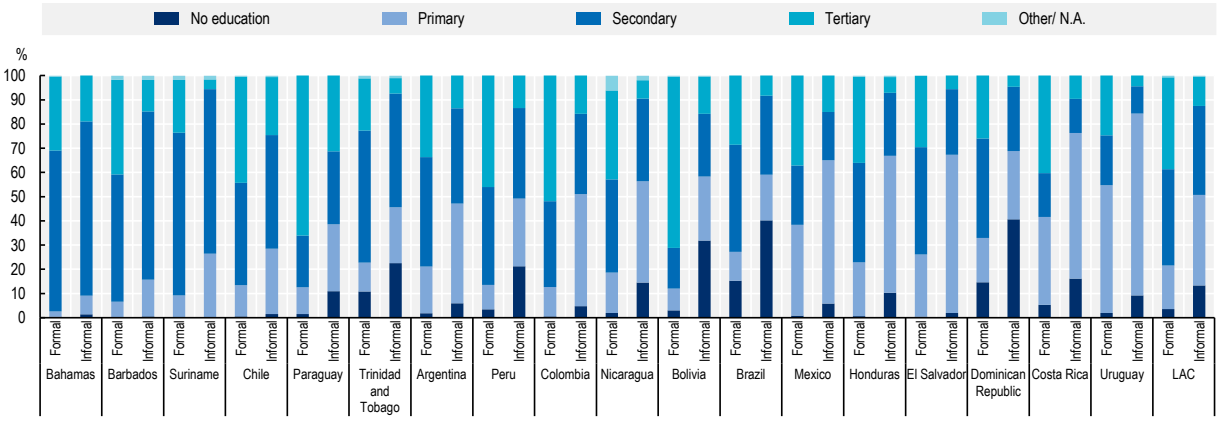
Note: LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

Informal employment generally absorbs less educated workers

About 50% of informal workers have primary or less education in LAC compared with only 21% among formal workers (see Figure 1.17). On the contrary, nearly four in ten formal workers (38%) have tertiary education, while only one in ten (12.1%) does so among informal workers. Low education attainment could mirror the subsistence nature of such informal employment. Workers who would prefer to work in formal employment but cannot have access to a formal job are trapped in a segmented labour market due to their low labour productivity since their combination of education, experience and location makes them structurally different from formal workers.

LAC seems trapped in a "vicious cycle" in which high turnover discourages the education and training of workers, resulting in low productivity. Moreover, low labour productivity relative to the costs of formality contributes to a high level of informality in the region (OECD et al., 2019[29]). Owing to high turnover and high informality, most workers lack support to withstand a period of unemployment while looking for a good job suited to their skills and training. This leads to inefficient job matches. These inefficient matches, in turn, tend to break up quickly, generating high turnover and completing the vicious cycle (Alaimo et al., 2015[16]).

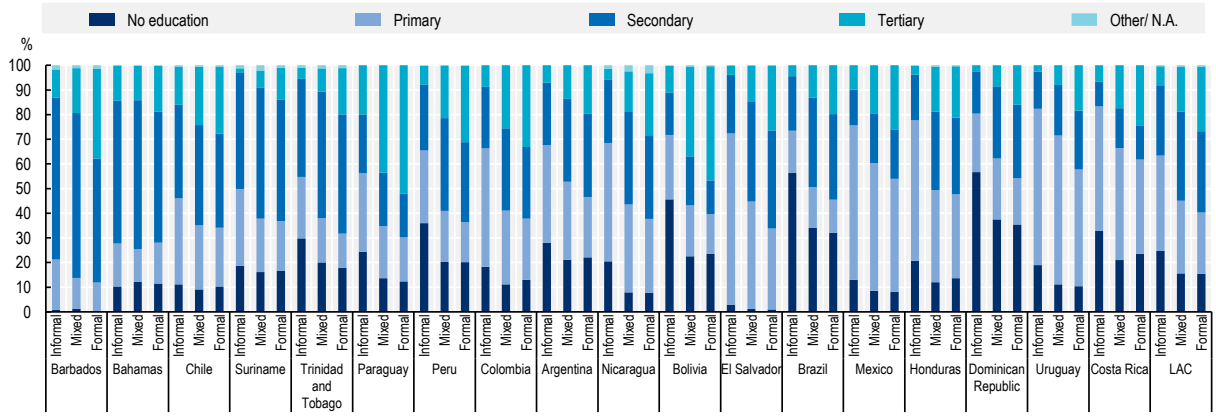
Figure 1.17. Distribution of formal and informal workers by level of education



Note: LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

Regarding the distribution of educational outcomes across different households, on average for LAC countries there is a higher proportion of highly educated people in formal households in comparison with mixed and informal households. In the former, 26.3% of people hold tertiary education degrees, and 24.8% completed primary education. In informal households, only 7.7% of people hold a tertiary degree, and 38.7% completed primary education. The mixed households seem to lay in the middle of the informal and formal households, with 19.4% of inhabitants with tertiary education and 34.2% with primary education.

Figure 1.18. Distribution of education level by household informality status



Note: LAC average is an unweighted average.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

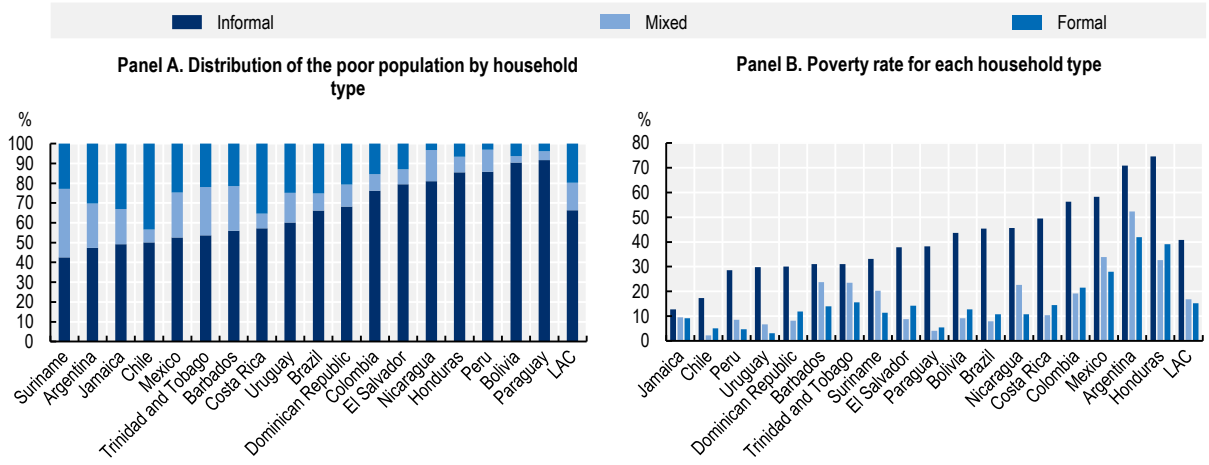
These results are in line with other findings that highlight how informal jobs are usually associated with low-quality and low-skill occupations, not requiring much human capital. From the country's perspective, the graph shows a relationship between informality and no schooling, especially for Brazil, Bolivia, the Dominican Republic and Peru. Almost 57% of Brazilians living in informal households have no schooling, while these shares are 46% in Bolivia, 57% in the Dominican Republic and 36% in Peru (Figure 1.18).

Poor workers are disproportionally exposed to informality, increasing their vulnerability

Poverty is strictly entangled with the formality status of households. Poor households are much more likely to be completely informal than non-poor households (OECD/ILO, 2019[1]), in line with the findings of Laporta and Shleifer (2014[30]) and Bloeck, Galiani and Weinschelbaum (2019[31]). Part of this relationship is explained by the wage gap between informal and formal workers (Ulyssea, 2020[32]). Nevertheless, empirical evidence also shows that there is no simple relationship between poverty dynamics and transitioning to formal employment. For instance, estimations for Brazil, Indonesia and South Africa using panel data suggest that although formal jobs are associated with lower poverty levels, getting a formal job is not associated with a substantial reduction in poverty (OECD/ILO, 2019[1]), probably because informal workers are unlikely to access good formal jobs.

The juxtaposition of poverty and informality affects households and their components. In LAC, 66.3% of the poor live in completely informal households leaving them out of the reach of social protection systems that cover household members of formal workers. 14% of the poor live in mixed households, and 19.7% live in completely formal households (Figure 1.19). The lack of social security for these families can be particularly severe in countries like Bolivia, El Salvador, Honduras, Nicaragua, Paraguay and Peru, where more than 80% of the poor population do not live with a worker who relies on formal employment.

Figure 1.19. Poverty and informality represent a sum of vulnerability conditions

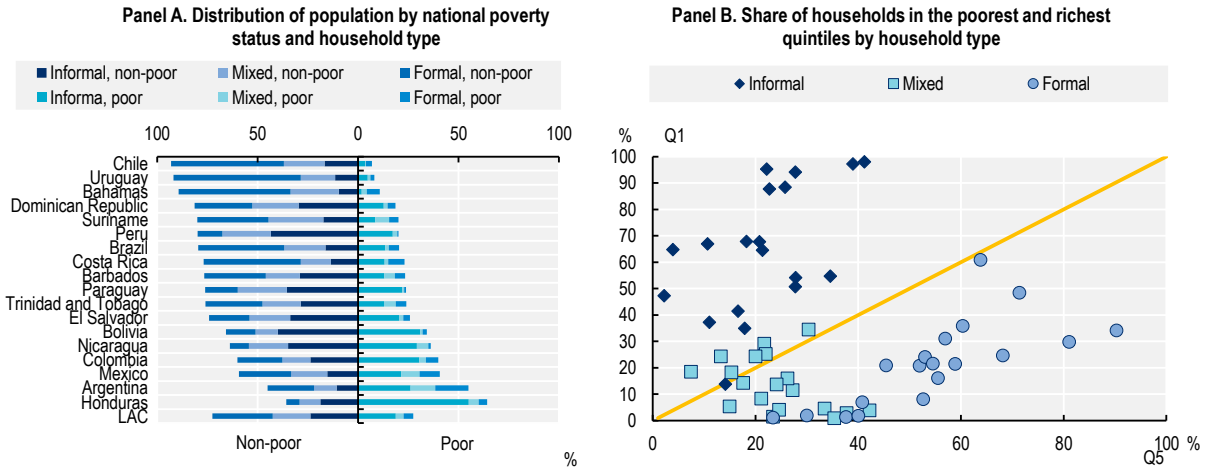


Note: The survey used for Argentina is an urban survey. LAC average is an unweighted average. The poverty rate is calculated based on national poverty lines.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

Informality cuts across different income groups but dominates among lower-income households

Looking at the distribution of population across households' welfare levels further shows a strong association between the degree of informality in the household and the incidence of poverty. Poor households are much more likely to be completely informal; non-poor households are much more likely to be mixed (formal and informal workers) or completely formal. Non-poor households distribute more equally between degrees of informality. In LAC, 23.8% of the population live in non-poor and informal households, 30% live in non-poor and mixed ones, and 30% in non-poor and formal. Poor people live predominantly in informal households in LAC (18.7%), followed by those living in formal (4.9%) and mixed (3.9%). Countries with larger poverty rates at the household level show the largest proportion of completely informal poor households. However, there is an important heterogeneity across LAC countries. For instance, in countries such as Barbados, Mexico, Argentina, Suriname, and Trinidad and Tobago, poor mixed or formal households are relatively more numerous than the proportion of poor and completely informal households (Figure 1.20, Panel A).

Figure 1.20. A disproportionate share of the poorest households across countries are employed in the informal economy



Note: The survey used for Argentina is an urban survey. LAC average is an unweighted average. The poverty rate is calculated based on national poverty lines.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

A similar pattern appears when looking at the distribution of households by income quintiles. The degree of informality is correlated with low income. Among households with at least two workers, a considerable proportion of the people in the lowest quintile (64.6%) live in completely informal households, while households in the top quintile are mostly completely formal households (54.5%) (Figure 1.20, Panel B). Mixed households have more stable and higher incomes thanks to the presence of a formal worker. As the degree of a household's informality affects its income, it also affects the overall income distribution. In most countries, living in a mixed household positively changes the odds of being in the wealthiest quintile compared to the poorest quintile. However, in countries like Argentina, the Bahamas, Barbados, Suriname, and Trinidad and Tobago people living in mixed households represent a non-negligible share of those in the poorest quintile.

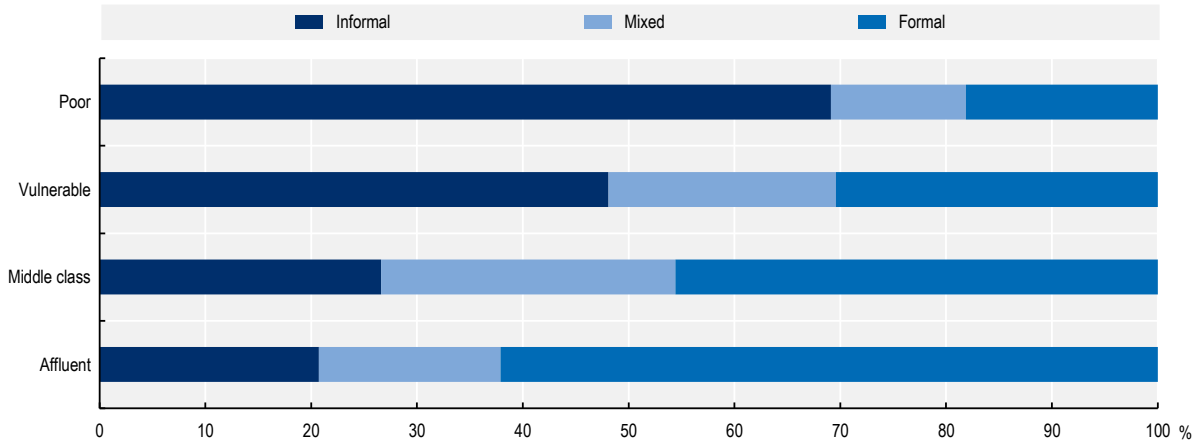
Prior to the COVID-19 crisis, LAC countries had reduced their poverty rates significantly, but members of the middle class that rely on informal employment were particularly vulnerable to economic shocks. As highlighted in the next chapter, due to the pandemic, poverty rates have increased, and extreme poverty

rates in particular. Since the beginning of the century, income growth paired with strong social policies has significantly reduced poverty in the region. Yet, most of those who escaped poverty are now part of a new vulnerable and diverse middle class representing 40% of the LAC population, facing low-quality jobs, low social protection and income volatility. Because of these circumstances, they do not invest in their human capital or lack the capacity to save and invest in entrepreneurial activity (OECD/ILO, 2019[1]). This situation refers to the so-called "vulnerability trap" (OECD et al., 2019[29]).

Income volatility is an immediate pressing concern for informal workers. Part of the higher incidence of poverty in informal households is because they face much more uncertainty and instability in their labour earnings (Gomes, Iachan and Santos, 2020[33]). Transitions in and out of informality affect their well-being, creating barriers to sustainable development. For the large vulnerable middle class in LAC, the high levels of informality constitute a significant risk that can bring them back to poverty, a risk that increased during the COVID-19 crisis. Income stability can increase if at least one working member of the household has a formal job as opposed to all its members being in informal employment. Evidence for Mexico provides new insights on this front. Using a novel employer-employee household panel dataset, and exploiting random inspections that took place between 2005 and 2016, Samaniego de la Parra (2017[34]) found that when one member of the household receives a formal job (i.e. transits from informal to formal employment as a result of the inspection), non-employed spouses are more likely to remain non-employed. Still, their reservation wages are higher than spouses of non-inspected workers. Employment in the formal sector can then be seen as an insurance strategy adopted by the household, making it even more necessary to understand informality from a household perspective.

Almost half (48.1%) of LAC's economically vulnerable population lives in informal households, illustrating the low resilience to shocks such as the COVID-19 pandemic (Figure 1.21). According to international poverty lines, 69.1% of individuals living in poor households are also part of a household that depends solely on informal employment. This share is only 26.6% and 20.7% for the middle class and affluent class, respectively. The economic class with a higher proportion of mixed households is the middle class (27.8%), followed by the economically vulnerable class (21.5%), indicating an opportunity to extend social protection coverage to dependent members in these households through the formal member. This is not the case for poor households since the participation of mixed households is only at 12.8%.

Figure 1.21. Economically vulnerable and poor households are more exposed to informality's vulnerabilities



Note: The survey used for Argentina is an urban survey. LAC average is an unweighted average. The poverty rate is calculated based on national poverty lines. Poor households are those living with less than USD 5.50 per day; vulnerable households have a per capita household income between USD 5.50 and USD 13. The middle class is composed of households whose per capita income lies in the interval between USD 13 and USD 70. The availability of data on income in surveys varies by country, which may result in non-comparable data that the harmonisation process cannot fully solve.
Source: Authors' calculations based on (OECD, 2024[23]), *Key indicators of Informality based on Individuals and their Households (KIIbIH)* database.

2 Strengthening social protection and fostering labour formalisation: Recent experiences from Ibero-America

This chapter outlines policy experiences from Ibero-American countries, including Spain, in addressing the widespread challenge of informal work and promoting labour formalisation. It also examines how these countries have improved their social protection systems to make them more accessible to low-income and vulnerable workers. Key measures include enhancing worker training and skills development, strengthening public employment services, introducing flexible contribution schemes, and simplifying registration and tax processes. Additionally, the chapter discusses efforts to improve labour inspections and use digital technologies to boost compliance and coverage. These initiatives illustrate how Ibero-American countries are working to formalise labour markets and provide better social protection for all workers.

Recent policy initiatives from Ibero-American countries

Informality remains a widespread challenge in many countries, significantly affecting workers' access to social protection systems. Across various regions, a substantial proportion of the labour force works informally, hence lacking the protection and benefits provided by formal employment. This issue is particularly pronounced in developing economies, where informal employment constitutes a significant share of total employment (ILO, 2002[35]). Informal workers are often excluded from contributory social security schemes, leaving them vulnerable to economic shocks and limiting their access to essential services such as healthcare, unemployment benefits and pensions (OECD/ILO, 2019[1]).

The COVID-19 pandemic has underscored the critical importance of robust social protection systems, especially during times of crisis. As economies worldwide were disrupted by the pandemic, informal workers were among the most affected due to their lack of access to formal social protection systems (OECD et al., 2021[37]). The crisis highlighted the need for comprehensive social security coverage that can provide a safety net for all workers, regardless of their employment status. Many countries have responded to this challenge by expanding social assistance programmes and introducing temporary measures to include informal workers (OISS, 2023[38]). These efforts have demonstrated the potential benefits of more inclusive social protection systems, prompting a re-evaluation of existing policies and practices (Arnold et al., 2024[39]).

In response to these challenges, several countries are making concerted efforts to accelerate firms' and workers' formalisation and expand social protection coverage to a broader range of workers, including those in the informal sector. Policy innovations and reforms have been implemented to integrate informal workers into contributory schemes, recognising the long-term social and economic benefits of such inclusion (OISS, 2023[38]). These initiatives include offering public employment services, strengthening workers' training and skills, offering flexible contribution options, simplifying registration processes and tax frameworks, strengthening labour inspection, and leveraging digital technologies to enhance access and coverage, among others. Ibero-American countries have designed comprehensive policy strategies to address the challenges posed by informal work with a multi-dimensional approach, as well as innovative non-contributory retirement schemes to protect vulnerable workers in old age (Arenas de Mesa and Robles, 2024[40]). By extending social security to informal workers, countries aim to build more resilient and inclusive societies, ensuring that all workers can benefit from the protections and opportunities afforded by formal social security systems. This chapter presents some of the recent policy strategies implemented by Ibero-American governments to address this global challenge. It includes insights gathered from events organised by the OISS, focused on promoting labour formalisation and social protection in the region, particularly for groups that are challenging to formalise, such as young people, domestic workers, individuals in rural areas, people with disabilities, Afro-descendants, indigenous peoples and migrant workers.

Policy responses to COVID-19

During the COVID-19 crisis, LAC governments implemented a range of social assistance measures to protect the most vulnerable populations. The crisis highlighted the vulnerabilities of informal workers, underscoring the need to integrate them into formal systems to build economic resilience. A central component of these efforts involved expanding cash transfer programmes to reach more individuals and households. Governments broadened the scope of existing programmes by increasing the number of beneficiaries and creating new schemes aimed at segments of the population previously without protection. In addition to expanding coverage, the amount and frequency of benefits were also increased to replace a larger share of lost income (OECD et al., 2021[37]). For example, Argentina introduced the Ingreso Familiar de Emergencia programme, targeting unemployed individuals and households reliant on informal and

independent employment. Additionally, the country raised the transfer amounts for traditional programmes such as the Asignación Universal and non-contributory pensions. Similar initiatives emerged across the region, including Auxílio Emergencial in Brazil, Ingreso Familiar de Emergencia in Chile, Ingreso Solidario in Colombia (Garda and Arnold, 2022[41]), Subsidio Pytyvõ in Paraguay, and Bono Familiar Universal, Bono Independiente, and Yo me quedo en casa in Peru. These programmes provided new safety nets for vulnerable households and informal workers, addressing gaps in social protection systems that existed prior to the pandemic (OECD et al., 2021[37]).

In Costa Rica, the COVID-19 pandemic accelerated government efforts towards economic formalisation, focusing on digitalisation and decarbonisation. As part of its recovery strategy, Costa Rica expanded its formalisation initiatives by introducing measures that promote economic formalisation and support digitalisation (OISS, 2023[38]). By enhancing digital skills and providing access to digital platforms, the government facilitated the integration of informal workers and businesses into the formal economy. These efforts are also aligned with Costa Rica's long-term decarbonisation goals, recognising that a green economy can contribute to both formalisation and sustainability (OISS, 2023[38]).

Similarly, Guatemala faced significant challenges in addressing informality during the COVID-19 pandemic, prompting a revaluation of its labour market strategies. The inability to fully register the population hindered efforts to provide targeted subsidies during the crisis, revealing the limitations of traditional approaches (OISS, 2023[38]). In response, the Ministry of Labour and Social Security (MTPS) developed more inclusive strategies to address informal work and unemployment, aiming to foster a more resilient labour market. For instance, Guatemala launched a strategy to decentralise public employment services through municipal one-stop centres. The crisis, while challenging, also created opportunities for innovation in public employment services, including a shift away from over-reliance on private employment platforms that lacked broad regional coverage.

In Spain, the pandemic prompted the implementation of targeted actions to reduce informality and extend social security benefits. Temporary employment protection measures and job retention schemes, such as the ERTE (Temporary Employment Regulation Expedient) scheme, were crucial in preserving jobs and maintaining workers' connection to the social security system (OECD, 2020[42]). By lowering labour costs, job retention schemes helped prevent a sharp rise in unemployment in many OECD countries. At the same time, these schemes mitigated financial hardship and supported aggregate demand by maintaining the incomes of workers on reduced working time (OECD, 2020[42]). These actions contributed to post-pandemic employment growth and higher income levels, reinforcing the role of well-structured social security networks in promoting formalisation (OISS, 2023[38]). Spain's measures improved the resilience of the labour market by gradually closing gaps between the formal and informal sectors.

The role of technological advancements in formalising employment became increasingly evident during the pandemic, particularly in Spain. Digital platforms enabled the unified management of employment, enhancing oversight and compliance in sectors with traditionally high levels of informality (OISS, 2023[38]). The adoption of technology has since become a cornerstone of Spain's broader efforts to combat informal work, creating a more transparent and efficient labour market.

In Uruguay, the government implemented various programmes to mitigate the economic impacts of the pandemic, with a focus on foreign investment and job creation. Uruguay's response, marked by tripartite collaboration, led to the establishment of a National Health and Safety Protocol, which was a significant step in addressing labour market vulnerabilities during the pandemic (OISS, 2023[38]). The introduction of youth employment legislation and other reforms aimed at supporting vulnerable groups further strengthened the country's labour market. Additionally, Uruguay enacted new labour regulations, including a telework law, and modernised labour inspection processes to ensure efficient rights protection. A proposal to establish minimum protections for app-based workers is also under parliamentary consideration, reflecting ongoing efforts to adapt labour regulations to emerging forms of employment (OISS, 2023[38]).

The Dominican Republic made substantial strides in expanding social security coverage during the COVID-19 crisis, despite a significant portion of its workforce remaining informal. Informal workers make up about 49% of the workforce, along with 5% engaged in domestic service, which has traditionally limited their access to formal employment. Most informal workers are between 25 and 60 years old, with a substantial portion lacking higher education (OISS, 2023[38]). A key achievement has been the extension of health coverage through the Family Health Insurance scheme, now covering over 97% of the population (OISS, 2023[38]). This remarkable expansion during the COVID-19 pandemic added more than two million previously uninsured individuals.

The multi-dimensional nature of informality underscores the importance of adopting a horizontal, inclusive and strategic approach to formalisation

Costa Rica's comprehensive National Strategy for the Transition to Formality demonstrates a strong commitment to tackling informality through social dialogue and adherence to international standards. The strategy was developed based on ILO Recommendation No. 204 (ILO, 2015[43]), which provides a global framework for transitioning from informal to formal economies (MTSS, 2019[44]). What sets Costa Rica's approach apart is its foundation in a tripartite social dialogue involving the government, employers and workers. This inclusive process ensured that the needs of all stakeholders were considered, helping to foster shared responsibility and secure widespread buy-in. The strategy recognises that informality undermines workers' rights, weakens the social security system, and distorts fair competition, while acknowledging that many individuals turn to informal work due to limited opportunities in the formal economy (MTSS, 2019[44]). Costa Rica's policy aligns with the ILO's Formalisation Strategy for Latin America and the Caribbean 2024-2030 (ILO, 2024[45]).

Box 2.1. Recommendation concerning the transition from the informal to the formal economy

ILO Recommendation No. 204, adopted in 2015, outlines three primary objectives for member states: facilitating the transition to formality, promoting decent work in the formal economy, and preventing the informalisation of formal jobs. To meet these goals, it advises the adoption of coherent and integrated policies in macroeconomic, employment and social protection spheres, alongside fostering social dialogue. The recommendation underscores the role of public policies in accelerating this transition, with a focus on vulnerable groups such as women, youth and migrants, who are disproportionately affected by informal work.

The recommendation also calls for measures that respect workers' rights while ensuring income security and entrepreneurship opportunities. It highlights the importance of effective governance, co-ordinated strategies, and institutional capacity building. Moreover, it advocates for establishing social protection floors and extending social security coverage, both essential for safeguarding workers' livelihoods during the transition process.

This balanced approach to formalisation promotes a combination of compliance incentives and regulatory enforcement. It calls for tailored strategies that account for the diversity of workers and economic units in the informal economy, ensuring the transition to formality contributes to achieving decent work for all.

Source: ILO (2015[43]), *Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy*.

Costa Rica's strategy is organised around four thematic axes: technical training, social protection, administrative simplification, and tax reform. These axes reflect the country's understanding that a

multi-dimensional approach is required to tackle informality effectively (MTSS, 2019[44]). For instance, technical and professional training aims to enhance the skills and employability of informal workers, aligning their qualifications with the demands of the labour market. Simultaneously, administrative simplification, particularly in business registration, seeks to reduce the bureaucratic burdens that discourage small businesses from formalising. By addressing these structural barriers, Costa Rica aims to make formalisation more accessible for both workers and micro, small and medium-sized enterprises (MSMEs) (OISS, 2023[38]).

Inter-institutional co-ordination has been essential to the successful implementation of Costa Rica's formalisation strategy. While the Ministry of Labour and Social Security plays a central role, the strategy relies on active collaboration across multiple government ministries and agencies. This cross-sectoral co-operation has enabled a more integrated approach to informality, ensuring alignment between policies in areas such as taxation, education and social protection (MTSS, 2019[44]). This inter-institutional collaboration has led to significant progress, particularly in increasing the formal registration of MSMEs, which are a key target group in the informal economy (OISS, 2023[38]). The co-ordinated approach has also strengthened government agencies' ability to provide necessary support and incentives for businesses and workers transitioning to formality.

In Spain, a comprehensive approach to labour market reforms has improved working conditions, reduced informality, and fostered greater inclusivity. The Spanish government has implemented a multi-dimensional policy strategy that combines targeted interventions with structural reforms. In recent years, reforms in areas such as employment contracts, wage policies and collective bargaining have created a more transparent and inclusive labour market. Since 2020, Spain has integrated its inclusion, social security and migration policies under a single ministry, creating a comprehensive framework to support vulnerable populations. This approach combines direct financial assistance with policies aimed at improving the social and economic inclusion of individuals, providing a model for other countries seeking to advance universal social protection and address informality.

Active citizen participation has been key to advancing formal employment in Spain, reflecting the population's preference for formal systems over informal arrangements. Through numerous social dialogue initiatives, the government demonstrated its commitment to maintaining open communication with stakeholders. Flexible conditions for accessing social security benefits were introduced, including measures such as unemployment insurance, advanced annual leave, and sick leave for quarantine periods. Additionally, the free zone regime was adapted to accommodate telework, and a subsidy for those over 65 was established (OISS, 2023[38]). Social dialogue and negotiation have resulted in the development of protocols to protect health and safety, as well as measures to address informality (OISS, 2023[38]).

Expanding social protection for vulnerable groups and independent workers to address informality

Informal employment limits access to adequate social protection for the most vulnerable populations, particularly women, youth, people with disabilities, Afro-descendants, and individuals from rural or indigenous communities (OISS, 2022[46]; 2024[47])**.** Several countries have implemented targeted strategies to protect the most vulnerable populations, ensuring access to social protection, inclusive employment opportunities, and essential services tailored to their specific needs.

Increasing access to social security for informal and vulnerable workers has been a central element of Costa Rica's formalisation strategy. Costa Rica has targeted vulnerable groups by introducing innovative mechanisms to extend social security coverage. For instance, collective insurance schemes have been introduced, allowing informal workers to access healthcare and pension benefits that were

previously out of reach (OISS, 2023[38]). These mechanisms are intended to ensure that formalisation brings tangible advantages, thus encouraging workers to participate in the formal economy.

Costa Rica's social protection system also ensures special support for people with disabilities. As mandated by Article 51 of the Constitution (Legislative Assembly of Costa Rica, 1949[48]), the country provides financial and social assistance through CONAPDIS (National Council for People with Disabilities), along with universal access to healthcare. Concrete actions are also in place for the labour inclusion of people with disabilities, through the National Plan for the Labour Insertion of People with Disabilities (MTSSCR, 2012[49]), the National Commission for Employability, and the National Employment System (OISS, 2023[38]).

Costa Rica has also implemented measures specifically aimed at formalising domestic work, a sector traditionally characterised by high levels of informality. The government recognised that domestic workers face significant obstacles to formalisation, such as complex registration procedures and limited awareness of their rights. In response, it simplified the registration process to facilitate access to social security benefits for these workers. This initiative is part of a broader effort to extend social protection in informal sectors, highlighting the government's commitment to gender equality and improving conditions for vulnerable populations (OISS, 2023[38]).

Guatemala has undertaken efforts to improve social and employment assistance to older adults. One key initiative, the "Programa del Adulto Mayor", provides monthly stipends to over 65 000 seniors living in extreme poverty, particularly in rural areas (OISS, 2023[38]). Moreover, Guatemala organised a job fair specifically for older adults, targeting individuals over the age of 60 who have previous work experience in various fields. Older workers often bring reliability and stability to their employers, qualities that foster trust within companies. The initiative aimed at providing employment opportunities for this vulnerable group, recognising their valuable contributions, and promoting their inclusion in the workforce.

In Spain, strengthening social security contributions and revenue collection has been a critical component of its goal to achieve universal social protection. The sustainability of these systems relies on sufficient funding, and Spain has implemented measures to improve compliance, reduce tax evasion, and increase transparency within the labour market (OISS, 2023[38]). By securing more financial resources, the country has been able to expand social security coverage and provide comprehensive protection to workers, irrespective of their employment status.

The introduction of a minimum income scheme in Spain also highlights efforts to support vulnerable workers. This scheme, designed to assist low-income households, not only offers financial aid but also encourages formalisation by requiring recipients to regularise their status with tax authorities. As a result, the scheme has contributed to reducing fraud and integrating more workers into the formal economy, enhancing both economic stability and tax revenues (OISS, 2023[38]).

Colombia has faced the dual challenge of integrating a growing migrant population, particularly Venezuelans, into its social protection system, while addressing gaps in its pension and labour systems. The country's latest National Development Plan has included specific provisions to improve labour market integration for migrants. Under the leadership of Colpensiones, the government has introduced reforms aimed at expanding pension coverage and enhancing living conditions for both Colombians and migrants (OISS, 2023[50]). These reforms promote decent work opportunities, reduce informal employment, and facilitate access to social security programmes, including pensions.

A key aspect of Colombia's approach has been the implementation of reforms to its pension system, which aim to create a more sustainable and inclusive model. These reforms are designed to expand the coverage of the system, particularly for vulnerable populations such as migrants, women and rural workers. One of the most important initiatives in this regard is the adoption of the Multilateral Ibero-American Social Security Agreement (see Box 2.2), which was ratified by the Colombian Constitutional Court and the Congress. This agreement facilitates the co-ordination of social security systems across

Ibero-American countries, enabling migrant workers to have their social security contributions recognised across borders. For many migrants, this agreement represents a critical step toward achieving economic security in their later years, as it ensures that their contributions to social security systems, both in Colombia and in their home countries, are counted towards pension eligibility (OISS, 2023[50]).

Box 2.2. Ibero-American Multilateral Social Security Agreement

The Ibero-American Multilateral Social Security Agreement is a key international agreement aimed at promoting the social protection of workers across Ibero-American countries. Signed in 2007, the agreement facilitates the co-ordination of national social security systems, allowing workers to maintain and transfer their social security rights when moving between participating countries. The agreement is designed to protect migrant workers from losing their social security entitlements, particularly pensions, by ensuring the recognition of contributions made in different countries.

This multilateral agreement offers a comprehensive framework to address the challenges faced by migrant workers, including access to pensions, disability benefits, and survivors' benefits. By harmonising the various social security systems, it ensures that contributions made in one country can be recognised and counted toward benefit entitlements in another. This is particularly significant in a region characterised by high levels of labour mobility, where many workers are employed across borders or relocate during their working lives.

The agreement currently covers 15 Ibero-American countries and is seen as a vital tool for promoting social cohesion and economic security in the region. It supports both formalisation efforts and labour market integration by providing legal certainty to migrant workers. The agreement also underscores the importance of international co-operation in building inclusive and equitable social protection systems, particularly considering increasing migration flows.

Note: The 15 signatory countries are Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Honduras, Paraguay, Peru, Portugal, Spain, Uruguay, and Venezuela.
Source: OISS (2013[51]), *Convenio Multilateral Iberoamericano de Seguridad Social*.

Despite various initiatives, challenges remain in ensuring that all migrants can participate in Colombia's social protection system. Many migrants, particularly those in the informal sector, continue to face obstacles such as lack of documentation or legal status, limiting their access to formal employment. In response, the Colombian government has introduced several programmes to facilitate migrant integration into the formal economy and ensure access to social security benefits. One such initiative is the Programa Nacional de Jóvenes en Paz (National Programme for Youth in Peace), which provides comprehensive support – including training, employment opportunities and access to social security – to young people, including migrants, living in extreme poverty (OISS, 2023[50]).

Colombia's 2024 pension reform further addressed the needs of vulnerable populations, including migrant workers. The reform introduced a universal old-age pension scheme, aiming to reduce inequities in the system and offer basic income to older adults not covered by the contributory scheme. This reform is especially significant for migrant workers, many of whom have spent years in informal employment without contributing to social security systems (Congress of the Republic of Colombia, 2024[52]).

In Peru, the government has focused on integrating independent workers into the formal economy as part of its broader strategy to address informal employment. The 2021-2022 general policy prioritised occupational health and safety, recognising that many self-employed workers remain outside the formal economy. Policy initiatives have been introduced to ease the transition to formal employment, particularly for groups such as unpaid family workers and domestic workers, who often lack social security

coverage, including pensions and healthcare (OISS, 2023[38]). Peru's efforts aim to promote decent employment, improve employability and contribute to national productivity while safeguarding labour rights.

Informal employment in Peru also reveals significant disparities based on gender and age, with young workers and male-dependent workers experiencing higher rates of informality. In response, Peru's Ministry of Labour and Employment Promotion (MLEP) has focused on youth employability through regulation and support initiatives. One prominent example is the Lurawi Peru Programme, which aims to reduce informality by funding temporary employment projects. With a budget of PEN 1 billion (Peruvian sol), 52% allocated to local and regional governments, the programme provides temporary jobs in vulnerable regions and encourages private sector hiring of participants through subsidies (OISS, 2023[38]).

Uruguay has established a comprehensive legal framework to ensure social security coverage for domestic workers. Central to this framework is the ratification of the ILO Convention No. 189 on 14 June 2012, which formalises the rights and protections for domestic workers. The 2006 Domestic Work Regulation Law No. 18.065 guarantees equal labour conditions and social security benefits for domestic workers, comparable to those of other salaried employees. The legal provisions in Uruguay ensure that domestic workers are fully integrated into the national social security system. This includes mandatory contributions to the pension system, health insurance, unemployment benefits, and coverage for occupational risks. The law also mandates employers to register domestic workers with the Social Security Bank (BPS), ensuring automatic inclusion in social security benefits upon registration (ONU Mujeres, OISS and OIT, 2022[53]).

In addition to legislative reforms, Uruguay has developed specific policy mechanisms to address the unique challenges domestic workers face in accessing social security. One such mechanism is the establishment of differentiated minimum wage categories for domestic workers to integrate them into the national wage-setting system. However, challenges remain, as 14.6% of domestic workers still earned below the minimum wage as of 2021 (ONU Mujeres, OISS and OIT, 2022[53]). Uruguay has also led extensive awareness campaigns, beginning in 2007, to inform employers and workers about their rights and the importance of formal social security registration. These efforts have been instrumental in reducing informality in the domestic work sector, which dropped from 67% in 2006 to 40% in 2021 (ONU Mujeres, OISS and OIT, 2022[53]).

Uruguay's success in expanding social security coverage to domestic workers has also been supported by institutional partnerships. The collaboration between the BPS and the University of the Republic's Faculty of Law has provided legal assistance to domestic workers and employers, reinforcing the system's accessibility (ONU Mujeres, OISS and OIT, 2022[53]). Uruguay's approach to enforcement, particularly the inspection of domestic work standards, is noteworthy. The General Labor and Social Security Inspectorate is authorised to conduct home inspections, with judicial approval, when non-compliance is suspected. This strategy, coupled with targeted inspections, has been effective in safeguarding the rights of domestic workers (ONU Mujeres, OISS and OIT, 2022[53]).

Promoting the transition of informal workers to formal employment through skills development and improved alignment of supply and demand

In Costa Rica, aligning technical and vocational education with the demands of the formal economy has been a key strategy for fostering formal employment. The creation of the National Qualifications Framework (Legislative Assembly of Costa Rica, 2021[54]) standardises technical and professional education to ensure that it meets the needs of the formal labour market. Programmes like "Empléate" target youth and vulnerable populations, such as people with disabilities and female heads of household, providing them with the training and support needed to access formal employment. By improving access to quality education and training, Costa Rica is addressing both employability and the root causes of

informality, such as low skill levels and limited access to professional development opportunities (MTSS, 2019[44]).

In Guatemala, a territorial strategy was implemented to improve accessibility to employment services through the decentralisation of public employment services. Guatemala's cultural diversity, with 25 languages spoken across the country, required employment policies tailored to local contexts. The decentralised approach included the establishment of over 300 municipal one-stop windows, which facilitated job placements by bringing employment opportunities directly to communities. These centres organised job fairs and kiosks adapted to the specific linguistic and cultural needs of each region (OISS, 2023[38]). The decentralisation efforts also revealed a mismatch between local workforce skills and employer demands, prompting the government to introduce targeted training programmes. In regions where workers' skills did not align with available job opportunities, specific training initiatives were designed to improve employability and match local workforce capabilities with employer needs (OISS, 2023[38]).

Guatemala further supported vulnerable groups through targeted job fairs and employment programmes. For example, initiatives aimed at individuals with disabilities provided tailored job opportunities, while the Ministry of Labour and Social Security (MTPS) advised companies on inclusive practices. In response to the challenges posed by irregular migration, particularly the return of many Guatemalans during the pandemic, the government also created job fairs for returned migrants, helping them validate skills gained abroad and connect with local job opportunities. Specialised employment programmes were also developed to address the needs of older adults and women. Employment fairs for individuals over 60 capitalised on their experience and reliability, while women-focused initiatives not only facilitated job searches but also promoted workplace adaptations, such as the “Espacios Amigos de la Lactancia Materna” programme, which supports the creation of safe, hygienic lactation spaces in workplaces (OISS, 2023[38]).

Foreign investment and skills development have played an important role in Guatemala’s employment strategy. In 2023, the country received over USD 1.5 billion (US dollars) in foreign investment. To address the challenge of training the workforce for these new jobs, the government has launched programmes like “Escuelas-Taller” (workshop schools), which offer on-the-job training and stipends, as well as subsidised English courses and nursing scholarships to improve workforce skills (OISS, 2023[50]). Youth unemployment in Guatemala has been tackled through the “Beca Mi Primer Empleo” programme, aimed at young adults aged 18 to 24. This programme subsidises 51% of the minimum wage for four months, allowing young people to gain work experience while employers cover the remaining 49%. The programme acknowledges that youth employment is about more than gaining experience; it also involves helping young workers understand job preferences, such as flexible hours or remote work (OISS, 2023[38]).

In Peru, investment in youth training and skills development has also been a priority. The government offers free training programmes and access to digital platforms, aiming to provide young people with formal accreditation and improve their transition into the formal labour market. These initiatives help enhance job stability for young workers (OISS, 2023[38]).

Digital technologies offer new formalisation opportunities, while new forms of digital work require specific social protection mechanisms

Digital platforms have become important tools for expanding employment opportunities in Guatemala. Through the National Employment Service platform, companies can post job vacancies while tech-savvy individuals register for employment from any location globally. These digital solutions complement the government’s broader Labour Mobility Programme, which partners with consulates and

foreign companies to secure employment opportunities abroad. For example, over 15 000 Guatemalans have been employed in Canada's agricultural sector through this programme (OISS, 2023[38]).

In Spain, technological advancements and digitalisation have significantly contributed to improving labour market conditions and promoting formalisation. The Spanish government has used technology to streamline administrative processes, enhance data collection, and improve the delivery of social security and labour compliance services. Digital platforms have facilitated worker registration, monitored compliance, and supported the implementation of social protection programmes. For example, digital tools have simplified interactions with the social security system for small and medium enterprises (SMEs) and self-employed workers, easing bureaucratic processes and encouraging formalisation (OISS, 2023[38]). Additionally, the reduction of cash transactions in Spain has enhanced tax compliance and increased social security contributions. The shift towards digital transactions has expanded the tax base without raising tax rates, improving VAT collection, and supporting the broader formalisation efforts driven by economic and digital reforms (OISS, 2023[38]).

Spain's Riders Law represents a landmark regulation aimed at formalising digital platform work by reclassifying delivery couriers as employees, granting them access to employment benefits. This law, passed in 2021, was developed following a Supreme Court ruling that recognised the employment relationship between couriers and platforms, especially in cases where working conditions were controlled algorithmically by the platforms. By ensuring that platform workers are treated as employees, the law seeks to address the precarious nature of gig work while also mandating transparency in the use of algorithms to manage workers. Despite being praised for protecting worker rights, the law has faced criticism from both trade unions, who argue that it does not go far enough, and digital platforms, which claim it could reduce flexible job opportunities (Politico, 2021[55]; EU-OSHA, 2022[56]).

In Peru, digital platforms like Empleos Peru play a critical role in enhancing employability by efficiently matching job seekers with employers. This platform allows Peruvians to showcase their skills, education and experience while enabling employers to list job openings. By matching candidates with suitable job offers, the platform has helped launch over 240 000 job opportunities, making a significant contribution to employment in the country (OISS, 2023[38]).

Simplifying tax and administrative procedures, strengthening inspection, and streamlining regulatory frameworks to support formalisation

Costa Rica has prioritised simplifying administrative procedures as part of its strategy to reduce regulatory burdens and encourage formalisation, particularly for micro and small businesses. Administrative simplification has been a core element of Costa Rica's formalisation efforts, with a focus on improving the ease of doing business (Legislative Assembly of Costa Rica, 2021[54]). This includes initiatives such as streamlining business registration processes, reducing redundant regulations, and implementing a user-friendly "one-stop shop" model at the municipal level. By making these processes more accessible, Costa Rica aims to facilitate the transition of informal businesses into the formal economy. Additionally, the National Policy for Regulatory Improvement and Simplification of Procedures supports this effort by fostering inter-institutional co-operation to eliminate outdated regulations, enhancing the regulatory environment to promote entrepreneurship and reduce informality (MTSS, 2019[44]; Rivera, 2009[57]).

Costa Rica's tax simplification strategy complements its formalisation efforts by addressing the financial and administrative barriers that informal businesses face. High tax burdens and complex procedures often deter informal businesses from formalising. The government's strategy focuses on developing simplified tax regimes that align with the realities of micro and small businesses (Legislative Assembly of Costa Rica, 2021[54]). By introducing a progressive tax system, Costa Rica aims to ease the

financial and administrative pressures that contribute to informality. Additionally, educational campaigns to improve tax literacy and promote voluntary compliance are integral to this strategy, fostering a more equitable tax environment and encouraging informal businesses to register (MTSS, 2019[44]; Gómez Sabaini and Morán, 2012[58]).

The Spanish government's Master Plan for Dignified Work, launched in 2018, aimed to ensure fair competition by targeting businesses that violate labour and social security regulations (MITES, 2018[59]). The plan focused on sectors with high rates of informality and included measures to strengthen labour inspections, such as conducting inspections during non-standard hours and increasing the number of labour inspectors by 23% (ILO, 2020[60]). Moreover, strengthening labour inspection mechanisms has been central to tackling informal work. Informality poses significant challenges for both workers and businesses, and major business organisations, such as the Spanish Confederation of Business Organizations (CEOE) and the Spanish Confederation of Small and Medium Enterprises (CEPYME), have supported efforts to reduce taxes on small businesses and simplify regulations to promote formalisation (ILO, 2020[60]).

The Spanish government, following a tripartite agreement with business and labour representatives, has focused on addressing fiscal fraud and informal employment. The 2018 Agreement for Employment and Collective Bargaining (MTMSS, 2018[61]) established a national commission on the underground economy, composed of high-level representatives from employers, unions and the government. This commission developed a comprehensive plan to reduce informality through regulatory reforms and collective bargaining (ILO, 2020[60]). Employers have emphasised that combating fiscal fraud and informal employment improves public finances and reduces unfair competition for compliant businesses.

Peru has faced challenges with labour outsourcing, which has contributed significantly to workforce informality. The country’s outsourcing regulations, under the Peruvian Outsourcing Law (Law 29.245), have been criticised for being too lax, allowing many workers, especially in sectors like mining, to be hired as outsourced labour without proper rights or benefits. For instance, in the mining industry, eight out of ten workers involved in accidents are outsourced, performing the same tasks, and working the same hours as regular employees but without the same protections. Despite resistance from various sectors, the Peruvian government has addressed this issue through a Supreme Decree, although three bills have been submitted to Congress to repeal this decree. Peru’s labour framework is regulated by the National Labour Council, which includes the state, business associations, and major labour unions. Despite the council's potential to address labour issues, its activities have been hindered by business groups opposing the outsourcing law and refusing to participate until the decree is repealed. This has stalled essential dialogues necessary for comprehensive labour reform (OISS, 2023[38]).

Conclusions

Informality is a complex and multi-dimensional challenge affecting the daily lives of many people across Latin America and the Caribbean (LAC). To date, most research on informality has focused on individual workers, an approach which overlooks the impact of the informality status of working members within a household, which may have important well-being implications on their dependent members. Adopting a household lens to the analysis of informality not only provides a more accurate picture of the vulnerabilities faced by different members of the household, but also contributes to better informed design and implementation of social protection policies.

This report contributes to this endeavour by presenting different indicators of labour informality from the household perspective, drawing on the *OECD's Key Indicators of Informality based on Individuals and their Households (KIIbIH)* database, covering 19 LAC countries representing 85% of the region's population.

In LAC, as much as 42.5% of people live in households dependent solely on informal work, while 22.4% live in mixed households, representing altogether nearly two-thirds of the total population. Notably, over two-thirds of informal workers (71.5%) reside in completely informal households, limiting their access to social protection through employment-based insurance. This affects not only the workers but also dependent members like children and the elderly, many of whom lack adequate social protection.

In LAC, informal and mixed households face higher risks of low income and social exclusion. Many informal workers are own-account or contributing family workers, while formal workers are more likely to be wage employees with better social security. Informal workers generally earn less and are less likely to have written contracts, adding to their financial insecurity. Poverty and income inequalities are highly associated with household informality in LAC as most poor individuals live in completely informal households. In fact, poor people live predominantly in completely informal households in LAC (68%).

Youth and the elderly are considerably more vulnerable to informality. On average, 63.4% of young workers aged 15-24 are informally employed in LAC. The informality rate decreases significantly for workers aged 25-35 and begins to increase again for workers aged 35 or more, reaching 75.9% for workers aged 65+.

Geographical location is a key driver of informality and working conditions. Most informal workers (67.5%) live in urban areas, due to generally high rates of urbanisation in LAC. However, most people in rural areas (66%) live in a completely informal household, compared to 34% in urban areas.

This report presents recent policy strategies from Ibero-American countries aimed at promoting formal employment and extending social protection to informal workers. Governments have implemented policies to support vulnerable workers, particularly during the COVID-19 pandemic. These measures include emergency cash transfers and other forms of social assistance and actions to protect jobs. Longer-term strategies focus on simplifying administrative processes, easing formalisation for micro and small enterprises, and strengthening public employment services and labour inspections. Digital technologies are also playing a role in enhancing formalisation efforts, though platform-based work presents new challenges, as new precarious jobs have appeared due to digitalisation. Reforms in social security systems, such as flexible contribution schemes and non-contributory pensions, are vital to expanding coverage to vulnerable populations – including youth, rural workers, people with disabilities, indigenous peoples, Afro-descendants and migrants – and to create more resilient and inclusive labour markets.

Notes

[1] Households sampled for this analysis include only those with at least one working member, representing between 90% and 100% of the households in the 19 countries covered.

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Informality and Households' Vulnerabilities in Latin America

DATA, INSIGHTS AND IMPLICATIONS FOR LABOUR FORMALISATION POLICIES

This report examines labour informality in Latin America and the Caribbean (LAC), focusing on both individual workers and households. Using data from the OECD's Key Indicators of Informality based on Individuals and their Households (KIIbIH), which cover 19 LAC countries, it shows that two-thirds of the region's population lives in informal or mixed households, many of which rely entirely on informal work. The report then discusses how informality limits access to social protection and affects household well-being, particularly for women, youth and the elderly. It highlights differences between rural and urban areas, and the prevalence of informality in sectors like agriculture. Additionally, it presents recent policy efforts aimed at expanding social protection and formalising employment, including strategies to address the challenges posed by digital and platform-based work. It offers insights for policy makers and researchers interested in understanding informality and its implications for social protection and labour markets in the region.

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