

# INTEGRATING THE INFORMAL SECTOR IN THE MODERNIZATION PROCESS

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## **A. Support strategies for the informal sector**

There is a general agreement over the need to pay attention to the informal sector, on account of its importance with respect to employment and poverty issues alike. There are also an increasing number of programs aimed at supporting similar informal activities in highly diverse national contexts. This consensus is backed through the adoption, at the highest level, of policy measures that are meeting with growing acceptance and, sometimes, the active support of social actors, in particular among entrepreneurial and trade union organizations. Such a stand is also based on evidence to the effect that policies to promote the informal sector are viable and profitable, even during economic downswings, and have international financial support.

Yet, to the extent that it fails to embrace a shared strategic vision, this is a limited consensus that hinders the effectiveness of policies implemented in this area. While often adequate on an individual basis, they are insufficient and produce limited effects by failing to respond to a more comprehensive approach.

The lack of a shared approach is related to the absence of a common definition of the informal sector, which has grown increasingly complex since it was first described in a pioneering ILO report on Kenya in 1972. Along with the heterogeneous nature of informal economic activities, different readings lead to different strategies. These are reviewed in the first section. Too great an emphasis on the regulatory perspective has identified informality with illegality and labour precariousness. Yet, in spite of their ties to informality, these two categories are conceptually different. The second section is devoted to this subject. Lastly, the third section explores strategic options to regulate the informal sector, tracing the features of a different approach to formalizing informal activities, in order to facilitate their full integration in the modernization process. For the purpose of this paper, the latter concept is defined as the most dynamic part of the economy operating under a common regulatory framework.

## **B. Interpretations and trends**

### **1. Evolution, diagnosis and interpretations**

The notion of the informal sector was brought forward in a 1972 ILO report on Kenya<sup>2</sup>, inspired by a previous contribution<sup>3</sup>. They highlighted that the problem of employment in less developed countries is not one of unemployment but rather on employed workers who do not earn enough money to make a living. They are “working poor”. Their conceptual interpretation was based in opposition to formality and on the basis of their lack of access to the market and productive resources.

This was followed by several contributions<sup>4</sup>. One perspective is guided by the logic of survival. Informal sector activities are the result of pressure exerted by a labour surplus for jobs, when good jobs, usually in the modern sectors, are scarce. The result is that the

people seek low productivity-low income solutions by producing or selling anything that may provide for their survival.

Another rationale associated with globalization and changes to the international division of labour, points to productive decentralization<sup>5</sup>. To deal with an increasingly unstable demand, modern enterprises adapt to the new environment by introducing more flexible productive systems and decentralizing productive and labour processes, which allow them to cut production costs and to externalize demand fluctuation.

Recent research efforts allocate a growing importance to the informal sector's operation beyond the prevailing legal and institutional frameworks<sup>6</sup>. However, the issue of whether this feature is the cause or the consequence of informal activities has not yet been settled.

Efforts to explain the informal sector have shifted focus throughout the years. The logic of survival has been and continues to be a major factor in the development of informal activities. There is a growing presence of new activities generated by the logic of decentralization, particularly in a context of rapid economic opening, and this extra-regulatory behaviour has become an important aspect for analysis and policy.

Independent of the interpretation adopted, the characteristics of the informal sector are similar: small, unsophisticated technologies, low capital requirements per worker, and a distinction between micro and large-sized enterprises in term of capital requirements. Additional features include limited sharing of the property of the means of production and a majority of waged workers labouring without contracts and protection.

The importance of the informal sector as a source of new jobs is unmistakable. By 2000, this sector was providing about 47% of total urban employment<sup>7</sup>. Moreover, its share in the labour market continued to grow steadily. Out of every 100 new jobs created during the 1980's, seventy have been informal ones. Thus, the percentage of informal workers with respect to non-agricultural employment grew from 40% in 1980 to more than half of urban employment at present.

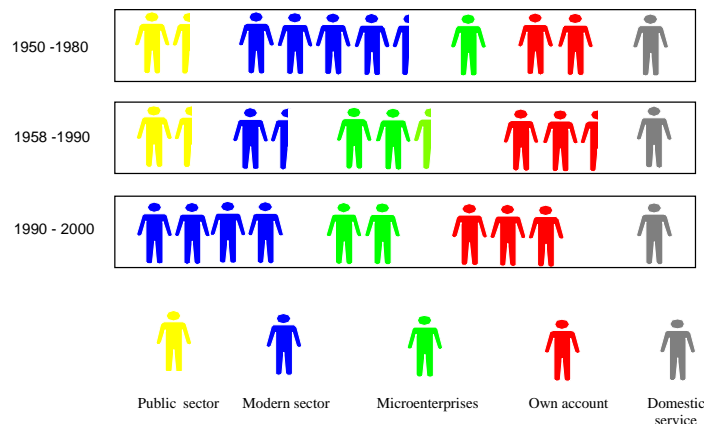
The current process of growing informality is undergoing a transformation in that micro-enterprises (less than 5 workers) are showing the highest rate of growth. Their contribution to job creation more than double the level registered between 1950 and 1980. An increasing number of these enterprises are becoming a valid job-creation option with respect to income, although they are still far from offering acceptable conditions in terms of job stability and labour and social protection.

The growing importance of informality in the 1980s is clear and marks a break with the three preceding decades. Between 1950 and 1980, approximately four out of every ten new jobs were created by the informal sector; i.e. the equivalent of 50% of its contribution during the adjustment. This behaviour was determined by two factors: the withdrawal of the public sector as a net employer, and downsizing measures implemented by large-sized enterprises. The public sector conducted its own adjustment process, as part of policies aimed at reducing the fiscal deficit and promoting privatization. Meanwhile, large-sized enterprises dealt with the economic opening by increasing productivity, basically at the expense of employment. Public employment decreased in relative and, in some countries, even in absolute terms. During the 90s there was some recovery in employment created by large-sized enterprises, but by the end of the last decade they have not yet reached the

contribution made before the crisis. In fact, the fast expanding segment of micro-enterprises came in to provide the jobs that large-sized enterprises failed to create (Figure 1).

Figure

**LATIN AMERICA: EMPLOYMENT GENERATION BY SECTOR, 1950 - 2000**  
(Origin by sector of each 10 new jobs)



## 2. Divergent approaches

The interpretations discussed above suggest different strategic courses of action. The main approach of this paper is to seek ways and means to incorporate the informal sector in the process of modernization that to varying degrees is currently underway in Latin America; this is an alternative to designing a survival support strategy conceived as a policy to fight poverty with a welfare bias. While the informal sector embraces survival activities that have no chance of converging with the mainstream of a country's economy, it also includes a large number of activities whose growth is dependent on the ability to incorporate them fully in the overall economic system.

This important objective would help to turn support to the informal sector into a source of self-sustained growth behaviour no longer tied to permanent governmental support. On the other hand, an equally important objective such as poverty alleviation, through the support of survival strategies, tends to perpetuate inequality and segmentation. Therefore, emphasis should be placed on moving towards integration. By doing so, we could also clarify the orientation of a variety of institutions created to support informal activities. Presently, these agencies are torn between welfare interventions and productive initiatives that often lead to conflicting actions and, worse yet, inter-agency strife.

Integration of the informal sector in the process of modernization may be achieved through different but complementary means. Prevailing policies to this effect generally favour a three-pronged approach. The first consists of providing support to foster the productive development of microenterprises by facilitating their access to the market and productive resources. The tools used more frequently for those purposes are credit programs, as well as training and promotional programs to seek access to more dynamic markets by strengthening organizational skills and marketing practices.

The second approach involves the social welfare of informal workers. At this level, policy options tend to get mixed with poverty-alleviation policies. It should be kept in mind, however, that the family unit and the small-scale productive unit always become entangled. Labour and family relations merge in a workshop or small business. Capital goods such as means of transport are investment capital, to the extent that they are used for business purposes. However, they also are consumer goods used for private purposes, which renders them family assets too. Resource fungibility makes the absence of social protection an obstacle to good economic performance. In other words, when the uninsured owner-worker gets sick, the micro-enterprise collapses. Thus, mutually complementing policies implemented from a social welfare perspective have externalities capable of generating a positive interaction with the productive development of the poor.

Lastly, a third course of action focuses on the regulatory framework. Informal activities are not caused by regulatory inadequacies, but rather by the failure of the economic system to create enough productive employment. Yet, we must not neglect the fact that regulatory improvements favour the integration of informal activities in the modernization process. This debate has evolved in the last few years, providing for a substantial narrowing of the previous gap between those who argued in favour of the simplistic notion that legislative or procedural changes are enough to overcome the existing problems, and those who denied the role of regulatory arrangements with respect to the economic system.

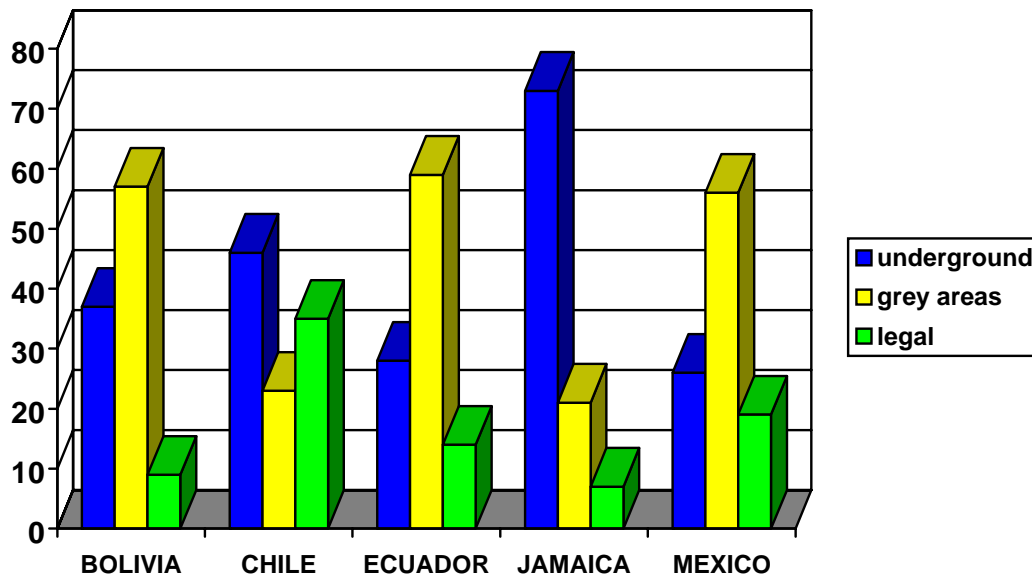
While recognizing the relevance of the first two courses of action discussed above, this essay addresses the latter. It attempts to deepen a strategy aimed at altering the regulatory framework in a manner conducive to the integration of the informal sector.

### **C. Formalization as a means of inclusion**

A generally accepted interpretation of the genesis of informal activities is rooted in their operation beyond the prevailing regulatory systems. In other words, these activities do not comply with legal or administrative requirements. A more positive view suggests that exclusion has to do with the lack of access to development policies, in particular to credit programs, training and the marketplace. This approach to the informal sector emphasizes lawlessness as a feature and tends to deal with it as an area devoted to underground activities.

Actual conditions in the marketplace are not as unequivocal as it would appear. The informal sector is not a “black market” operation and the modern sector is not as law abiding as it could be expected. Gray areas prevail, as it were. In previous works,<sup>8</sup> we described informal activities as the result of limited compliance with legal and procedural requirements, going from complete illegality to full compliance. However, what prevails is a middle ground where certain registration prerequisites are met, while tax obligations are neglected and haphazard compliance with labour law is commonplace. This situation is also found in modern activities, particularly in countries where fiscal discipline is poor and inspection capabilities are limited. Obviously, total illegality is non-existent, but limited legality is significant.

Figure 2  
**INFORMALITY AND ILLEGALITY**  
*(% of informal units by levels of illegality)*



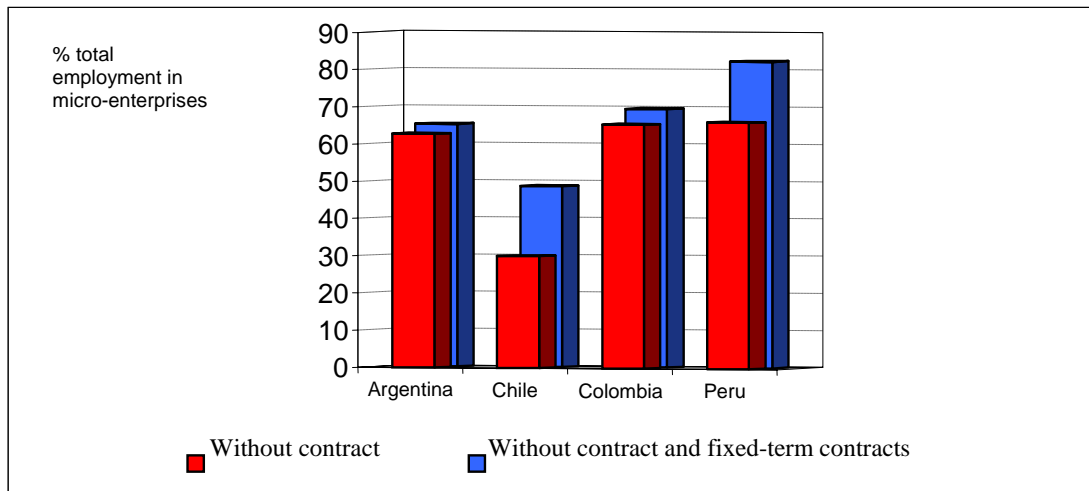
Empirical evidence gathered by ILO researchers provides support to previous findings involving the existence of grey areas in the formal and informal sectors alike. Unregistered labour contracts subscribed by private enterprises in the Mercosur area represent 32% of the total number of wage labour in Argentina, 38% in Brazil, 68% in Paraguay and 24% in Uruguay<sup>9</sup>. Another paper<sup>10</sup> shows that the percentage of wage labour without contract in 1996 was over 40% in Peru, some 32% in Argentina and Colombia, and 18% in Chile. Moreover, a far from marginal percentage of those workers is to be found in large-sized enterprises; over half of them in Argentina and Colombia, one quarter in Peru and one third in Chile. On the other hand, almost all-new jobs created in Argentina throughout the 90s were without contracts and many of them involved large-sized enterprises. Half of the total number of jobs created in Peru had the same characteristics.

Recently, changes to labour law made it easier for entrepreneurs to hire workers under atypical, generally fixed-term contracts characterized by higher degrees of precariousness, either because of built-in occupational instability, or due to a legal or *de facto* reduction of the levels of social and labour protection. More than 55% of labour contracts have those features in Peru, as do over 20% in Chile and 10% in Colombia. In Argentina, 85% of new contract jobs created in 1997 involved atypical contractual arrangements.

Thus, undeclared and precarious work, usually associated with informality, builds up in the labour market. Informality, illegality and precariousness become used as synonymous. The ILO recognizing the existence of unprotected labour beyond microenterprises widened the definition of the informal sector and introduced the concept of the informal economy. The new definition, adopted by the International Labour Conference of 2002<sup>11</sup>, includes all unprotected labour even is working in larger enterprises (more than 5 employees); in addition to the informal sector as previously defined by the ILO.

As previously discussed, the absence of contractual relationships and the use of precarious contractual arrangements are regular practices. Yet, this trend does not necessarily denote informality, but rather tax evasion or, sometimes, the use of an instrument that has been cleared by labour law. The informal nature of small-scale economic activities results in the inability to absorb the cost involved in regularizing the contractual situation of the workers and to comply with social protection requirements, but this is not the case for larger enterprises. Only in micro-enterprises, do these concepts tend to represent a single phenomenon of informality. The following figure shows that, on average, some 65% of wage labour manufacturing in micro enterprises in Argentina, Chile, Colombia and Peru had no contract or found themselves in a precarious situation. The above mentioned percentages vary from over 80% in Peru to about 50% in Chile (Figure 3).

Figure 3  
**PRECARIOUS AND “BLACK” LABOUR IN MICRO-ENTERPRISES**

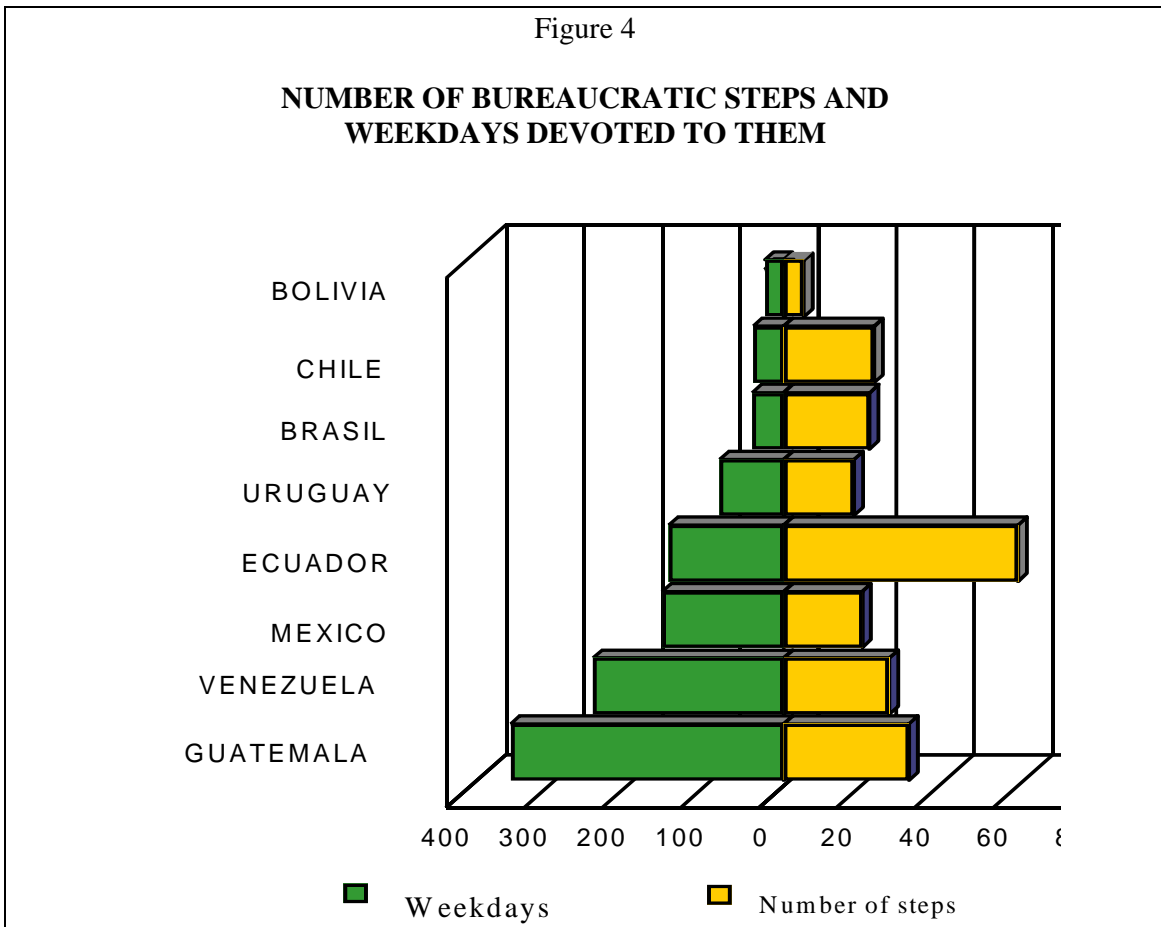


These statistics do not include registered contracts that under declare wages in order to cut down the contributions due to health and pension plans by workers and employers alike. On the other hand, data on the informal sector show that microenterprises making limited contributions to finance labour benefits reach 65% in Peru (only 6.4% is in full compliance, while 28.6% fails to make any payments), 70% in Brazil and 57% in Chile<sup>12</sup>.

The proportion of microenterprises that pay some taxes is significantly higher: 94% in Peru in 1996; in Chile, where some 70% of the micro-enterprises employing five or less workers and 96% of those employing five or more workers paid income tax and value added tax in 1990; in Ecuador, where 78% of small micro-enterprises and 94% of larger micro-enterprises paid income tax, while 54% and 81% paid VAT, respectively. Moreover, close to 80% of Ecuadorian micro-enterprises paid some municipal taxes. However, a significant proportion of the micro-enterprises operating in all these countries, and a majority in some of them, fail to comply fully with labour and tax laws.

ILO research also confirmed the high cost of formality. To bring a microenterprise in line with regulations, micro-entrepreneurs in Brazil must go through at least eleven different

administrative procedures, while those in Peru must go through nine, those in Colombia six and in Chile four. Obviously, each of these procedures, such as applying for a license to start a business or requesting sanitary clearance, entails a large amount of paperwork and bureaucracy. Besides, microentrepreneurs must pay at least ten different taxes and social insurance contributions in Brazil, seven in Colombia and eight in Peru. The number of procedures involved and weekdays devoted to them varies from country to country, depending on the number of regulations, the competence of the bureaucratic system and the nature of the country's administrative and institutional organization (Figure 4).



Given this heterogeneity of relations to the regulation system, informality can not be defined solely by this variable. Structural features related to the existence of surplus labour, production and work organization and market structures are more important determinants of the existence of informal activities than access costs to legality. However, they result in a certain degree of illegality.

But even considering this conceptual difference, it is also important to deepen strategic options to integrate the informal sector in the regulatory system as a means to achieve a fuller participation in the modernization process. The starting point is the inability of informal entrepreneurs to comply with the requirements and to shoulder the cost involved in becoming formal. A study conducted in Peru<sup>13</sup> estimated that only 35% of the micro-enterprises employing five or less workers and 60% of those employing between six and ten workers could comply with the whole package of social insurance contributions. It was also

estimated that full compliance would represent over a 50% cut into the profits of 75% of these enterprises. But the proportion of compliant micro-enterprises would significantly drop under 35% if the burden of complying with income and other taxes were to be added. Regardless of the various factors involved, this situation shows a unbalanced relationship between requirements and possibilities, and calls for a more reasonable balance, if the goal is to advance the formalization process as a tool to achieve integration in the modern sector.

Given the existence of grey areas and segmentation within the informal sector, we should ask ourselves whether a differentiated set of regulations responding to the specific characteristics and capabilities of this economic sector and its different segments should apply. Before addressing this question and undertaking the design of strategic options to regulate informality, we should assess the chances of each informal segment to accomplish a successful process of modernization. Available empirical evidence about productivity and income in the segment of productive units that respond to survival strategies shows that they would accomplish very little through productive modernization. Most of them are family units in which regular labour relations have no place and which operate at such low levels of productivity and income that compliance with administrative regulations and tax laws is hardly feasible. Without neglecting issues such as access to credit and training, and occupational safety and hygiene, the situation of these informal units would be more adequately addressed through anti-poverty interventions. Therefore, strategic options seeking to formalize informality should concentrate their efforts on productive units that show some potential in terms of achieving productive modernization.

#### **D. Strategic options to regulate informality**

A first possible option would be to design an ad hoc regulatory system, different from existing regulatory schemes that apply to activities and individuals occupied in more organized sectors. This would involve the adoption of dual or preferential regimes. This approach is opposed on fiscal, commercial and, above all labour grounds. Distinctions sanctioned by law hamper fiscal oversight both with respect to micro-enterprises and large-sized enterprises, by causing “sliding” for tax evasion purposes<sup>14</sup> Furthermore, limitations imbedded in special regimes often become obstacles to the growth of the micro-enterprises involved. In the labour field, the implementation of preferential schemes would entail that, depending on the size of the enterprises, workers would no longer be treated equally before the law. Therefore, for reasons that mainly take into account the labour dimension of this issue, a single system would be preferable, even acknowledging that full compliance with existing legal requirements is impossible, at least during a transition period of time<sup>15</sup>.

It should be emphasized that the preference of single systems has to do with special comprehensive regimes, but it does not exclude the implementation of *de facto* differential tax procedures such as a non-taxable basic income, simplified tax declarations or tax estimations based on presumptive income, nor does it not involve either the implementation of credit programs at preferential interest rates. Even the objections raised with respect to labour issues depend on the nature of the affected rights. For instance, it is generally acceptable to introduce a distinction on collective bargaining to best address the peculiarities of small productive units.

The single regime proposition also generates a variety of options open to the implementation of different policies. The first one argues that to accept a *de facto* dual situation without enforcing penalties entails a certain degree of tolerance, as well as the adoption of a different promotional rationale with respect to the informal sector while other



economic sectors are being penalized. This is one of the courses of action usually followed in the field of labour rights, where legal requirements become goals and progress towards greater compliance is an area subject to monitoring and oversight. All this should be qualified by the respect due to certain basic labour rights whose enforcement is required regardless of the nature of the activity or labour relationship involved, to the extent that these are labour-related human rights, notably, freedom of association and bargaining, forced labour, non-discrimination and eradication of child labour. We may describe this option as a “single regime with qualified tolerance and minimum floors”.

A second, non-exclusionary strategic option consists in adapting formalization requirements to bring them closer to the capabilities of informal entrepreneurs, insofar as the costs of formality and formalization procedures and machinery are concerned.

The cost of legalizing informal activities may be cut down, without affecting the “single regime” perspective, provided that the reduction is universal. This is the current stand in the labour field, where the flexibility and reduction of non-salary labour cost sought by the modern sectors to improve competitiveness, should also lead to the abatement of obstacles to the integration of informal activities. The same thing may take place in the fiscal area, due to reduced taxation or increased emphasis on informal activities. Unlike current trends in the labour area, present tendencies in the fiscal area go in the opposite direction, as expanding tax collection becomes a major priority and taxation increasingly relies on the VAT.

Simplifying bureaucratic procedures is an additional way of bringing down access barriers. Numerous measures have been adopted to implement simplified registration regimes, both in terms of unifying registries and administrative steps towards compliance. Current trends point to the implementation of a single registry-single window regime. This approach would minimize the cost of formalization, but its feasibility has not yet been tried. Creating a single authority would facilitate the dissemination of information and avoid overlapping and contradictory regulations, administrative procedures and oversight efforts. However, this field is littered with obstacles, from bureaucratic vested interests to technical demands raised by oversight and enforcement actions. This situation may suggest in some fields the opportunity of combining interventions by institutions with different objectives to follow a unified procedure. The cost involved for the micro-entrepreneurs will be less than in the present multiple agency inspections.

Lastly, there is room for action regarding the mechanisms for formalization. An increasingly popular device first suggested by De Soto<sup>16</sup> is the recognition of property titles as a mechanism to have access to credit. The proposed innovation seeks to simplify the release of a legal property title and to adapt it to prevalent conditions of *de facto* ownership. This course entails disregarding contractual prerequisites and providing proof of property, using alternative means of recognition such as long-term usufruct, calling on witnesses (preferably neighbours when housing or land are involved) and having boundaries recognized by third parties that might have conflicting interests. Thus, entitlement responds to a major obstacle to having access to credit, since collateral requirements, which usually involve assets, represent a further hurdle to a sector where “property” is not formalized.

An additional formalization tool, which could be modified for the same purpose, is the recognition of labour relationships. In Peru, for instance, 90 per cent of labour contracts in informal activities are not written, although this is an indispensable prerequisite to have access to the benefits of employment promotion laws. Yet, a verbal contract entered by

mutual agreement could be accepted as an alternative, without having to stretch the existing regulation. A note in the employer's monthly book may provide proof of the labour relationship, by calling witnesses to attest to that effect or to the performance of a regular work schedule, or by showing proof that salaries have been paid. All of this would help to "formalize" the labour relationship, as a first step to entering into regulated relations.

Street vendors deserve special treatment through the implementation of a strategy capable of reconciling the public's right to enjoy public spaces and the right of street vendors to have a stable, income-generating occupation. While these activities must be regulated within a single legal, fiscal and labour framework, the relevant formalization and modernization strategy must also take into account the peculiarities of this sector. First, access to land through ownership or leasing, for the purpose of setting up commercial activities in compliance with municipal regulations; secondly, rendering the supply of available urban land compatible with the public transportation system, in order to provide the public with adequate access to shopping areas; thirdly, encouraging street vendors to organize both at the market level and also at a higher level, to improve the rate of return of their investment by developing economies of scale.

The separation of assets between the individual and the entrepreneur (also a very important step to micro-entrepreneurs), is usually conducted by creating firms of a diverse legal nature and diverse degrees of complexity. Requirements associated with this simple but crucial change to the patrimonial responsibility of micro-entrepreneurs, entail a monetary cost, as well as compliance with a series of regulations that render this enfranchising step towards formality a difficult one. This process could be simplified by conferring legal status to the entrepreneur along with the business license<sup>17</sup>.

**E. A different view on formalization:  
From informality to economic citizenship**

Previously discussed options lead to a different vision of formalization as a tool to ease the integration of informal activities in the modernization process. The extension of formalization is not warranted from the point of view of the organized sectors, but rather by the benefits that access to formality may bring about to foster the development of informal activities and the people occupied in this economic sector.

Oversight campaigns targeting informal activities are often justified by the need to widen the tax base, cut down evasion and punish illegality. While these are important objectives *per se*, it is also well known that these campaigns usually do not yield the expected results. (According to SUNAT, every additional sol collected in Peru entails an administrative cost of 0.75.) Actually, the importance of the integration of an informal activity as a tax paying entity is that its first consequence consists in meeting a basic business requirement, such as producing accounting information. If the entrepreneur fails to do so he is deprived of a key tool of modern management, a requirement to achieve full economic citizenship.

The same thing happens with the recognition of labour contracts, an area where the goal should not be so much to punish illegality, as to create citizens who are ready as workers to gain access to labour protection, or embrace the logic of business, as would be the case of the micro-entrepreneurs who have to adapt to formal labour relationships. Having to respect certain labour rules is conducive to more modern management standards.

A similar argument may be advanced with respect to the recognition of ownership titles for the purpose of gaining access to credit or to a patrimonial division between the individual and the business, brought about by receiving the legal right to subscribe contracts. As far as street vendors are concerned, stopping police harassment and assuring a stable and lawful place of business, reduces the cost of informality and may also provide access to new markets and productive resources.

Micro-enterprises present a paradox. Large enterprises are shifting strategies to improve competitiveness and increase productivity, by adopting more flexible productive systems to smooth supply-side fluctuations; by producing goods upon request, and by getting closer to customers before and after delivering the goods. This is the kind of approach traditionally followed by small businesses. A new opportunity is opening up.

Yet, to take advantage of it, micro-entrepreneurs must radically alter their behaviour by going through a process of cultural change. They must move from individualistic ways of doing business, driven by the imperative of succeeding by any means in a wild competitive environment, to a culture that seeks the benefits of pooling productive resources as well as associating with other producers in their efforts to gain access to the marketplace. Previous ways of relating to customers should change too, and new forms of communicating with different actors should be explored. From working on an individual basis and being barred from credit in an environment in which he or she usually entertains a personal relationship with customers, the entrepreneur must start producing for a market in which customers are faceless, request good quality, expect timely services and expect professionalism. The informal sector operates in flexible ways but it is culturally unprepared to produce for demanding markets

In order to have access to credit, informal micro-entrepreneurs must undergo a cultural change that involves establishing and nurturing relationships within the banking system. Likewise, dealing with state institutions requires learning to take advantage of existing programs designed to assist entrepreneurs, as well as not letting themselves be intimidated by ministerial and other public authorities. They must also get acquainted with the ways and means of collective representation, when securing benefits and concessions is the result of social efforts. Usually, micro-entrepreneurs or their workers do not join business or trade union organizations. After all, it was not so long ago that these organizations stopped seeing them both as disloyal competitors, and started to make efforts to integrate them and accommodate their concerns, mainly as a result of a quest for greater representation.

The present proposal is indeed addressed to the ongoing cultural change. It seeks to foster new attitudes and behaviour to favour the development of the micro-enterprises and of those who labour in them in an environment more conducive to success. Formalization may be the gateway to full economic citizenship as a prerequisite to competition in the marketplace. It entails rights as well as duties. The proposed views alter previous priorities. Rights should be emphasized over duties, because the former are tools for development and progress. Enfranchisement may inspire “virtuous circles” leading to the expansion of the regulatory framework and to the creation of new conditions to allow citizens to comply with their duties, while also benefiting from them. Such a context would provide incentives to turn informal businesses into the main force behind formalization efforts.

Lastly, the present strategy faces at least two limitations that it is unlikely to overcome on its own. The first one is represented by a segment of survival activities that

would gain very little from formalization. The second is that the effects of formalization will not come automatically and may become insufficient to integrate informal activities into the modernization process. Therefore, complementary measures should be taken to secure the benefits of enfranchisement. Entitlement requires financial institutions to make adjustments, in order to acknowledge the value of property. To have access to safe places of business of their own, street vendors need marketplace support, credit and advice. The recognition of legal status as a corporate, labour and fiscal subject must go along with educational efforts to learn to take advantage of administrative and productivity accounting books, patrimonial division and more formal labour relationships. Special machinery and financing may also be necessary to facilitate the transition period.

This proposal is a necessary but insufficient condition to have access to the modernization process. It incorporates into informal sector strategies under implementation in many Latin American countries. Ultimately, the objective of the initiatives for the integration of the informal sector into the modernization process has to be the advancement of rights and the attainment of economic citizenship.

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**Notes:**

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<sup>2</sup> ILO, 1972. *Employment, income and equality. A strategy for increasing productive employment in Kenya*, (Geneva, ILO).

<sup>3</sup> Hart, K. 1973. "Informal income opportunities and urban employment in Ghana", in *The Journal of Modern African Studies* 11(1)

<sup>4</sup> Tokman, 1978. *An exploration into the nature of informal-formal sector relationships*, World Development, N 6, Oxford, Pergamon Press Ltd..

<sup>5</sup> Portes, Castells and Benton, 1989. *The informal economy. Studies in advanced and less developed countries* (Baltimore and London, The Johns Hopkins University Press).

<sup>6</sup> De Soto, 1986. *El otro sendero. La revolución informal* (Lima, Instituto Libertad y Democracia).

<sup>7</sup> The informal sector is defined including self-employed with less than 13 years of education, unpaid family members, employees and employers in establishments of less than 5 employees. The arithmetic average and the median for Latin America in the year 2000 was around 50 percent.

<sup>8</sup> Tokman, 1992. *Beyond regulation. The informal sector in Latin America* (Bolder, Lynne Rienner Publishers). Tokman and Klein, 1996. *Regulation and the informal economy: Micro-enterprises in Chile, Ecuador and Jamaica*, editors, (Boulder, Lynne Rienner Publishers).

<sup>9</sup> Galín, 1997. *Informe sobre el empleo no registrado en el MERCOSUR* (Buenos Aires; draft).

<sup>10</sup> Martínez and Tokman, 1998. *La agenda laboral en la globalización: eficiencia económica con progreso social*, ILO, Lima, Perú.

<sup>11</sup> ILO, 2002a. *Decent Work and the Informal Economy, Report VI*, International Labour Conference, 90<sup>th</sup> Session, Geneva and ILO, 2002b. *Provisional Record 25, Sixth item in the agenda: The informal economy*, ILC 90<sup>th</sup> Session, Geneva

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<sup>12</sup> ILO, 1997a. *La legislación laboral y su impacto en la microempresa: Análisis comparativo y propuestas*. In *De la informalidad a la modernidad*, directed by V. E. Tokman , chapter II, ILO, Santiago,2001 and 1997b. *La legislación tributaria y su impacto en la microempresa: Análisis comparativo entre países*, chapter III, ibid.

<sup>13</sup> ILO, 1997. Labor Overview, 4, Lima, Paru

<sup>14</sup> Revilla, 1998. La modernización del sector informal y las cargas tributarias y administrativas a las empresas en el Perú. Documento de Trabajo,Oficina Regional de la OIT, Lima

<sup>15</sup> ILO, 1991. *Dilemma of the informal sector*, Report of the Director- General presented at the 78° International Labour Conference. Geneva

<sup>16</sup> De Soto, 1995. *¿Por qué importa la economía informal?*, in V. E. Tokman (ed.) *El sector informal en América Latina. Dos décadas de análisis* (México, Consejo Nacional para la Cultura y las Artes), Chapter VI.

<sup>17</sup> Fuentes, 1997.Sugerencias de políticas para la integración de los sectores informales, de micro y pequeños empresarios, Documento de Trabajo, ILO, Lima