

SOCIAL DIALOGUE TO ACHIEVE THE SUSTAINABLE DEVELOPMENT GOALS



FORMALISING
THE
INFORMAL
ECONOMY

COUNTRY BRIEF

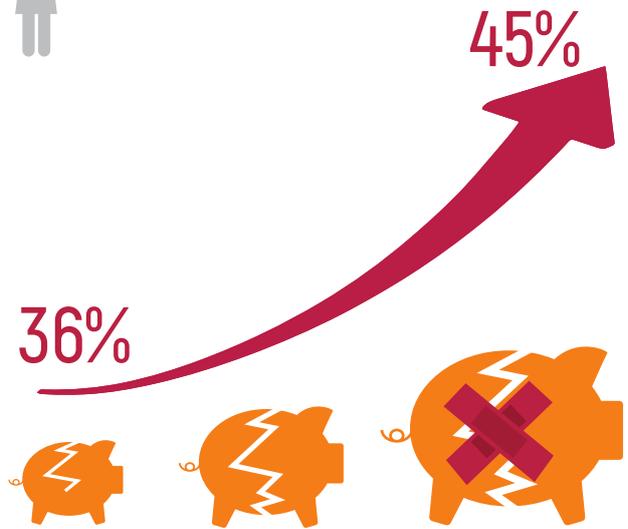


C O S T A R I C A



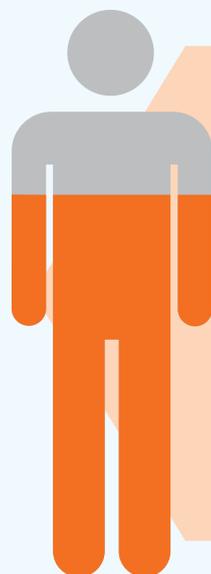


Although Costa Rica's **unemployment** rate has hovered around **9%**, the number of people employed in the **informal economy** has risen from **36% to 45%** over the last decade.



Costa Rica stands as a beacon of progressive values and inclusive economic growth in Central America. A stable democracy and a leader in ecological sustainability with near universal access to healthcare, a 97 per cent literacy rate, not to mention affordable and efficient utility provisions, it's impressive achievements have been implemented over more than 70 years.

However, there are notable deficits. With rising inequality and about 20 per cent of the population living in poverty, Costa Rica is also dealing with challenges related to the high incidence of the informal economy. Until recently, there were very few policies aimed specifically at addressing this issue in Costa Rica, even though the rate of informal employment in the country had risen from 36 per cent to almost 45 per cent between 2010 and 2016.

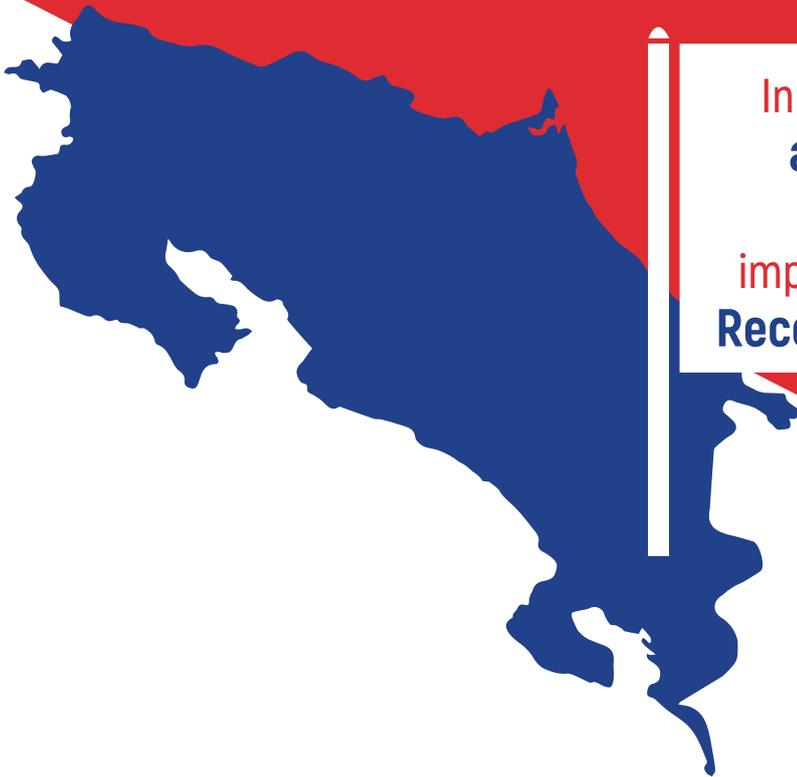


In 2015, **77.3%** of workers in the informal economy were living in **poverty**.

Furthermore, despite the existence of legally constituted tripartite bodies such as the High Labour Council (CST), the National Wage Council (CNS) and the management boards of institutions such as the Costa Rican Social Security Fund (CCSS), social dialogue had previously not tackled the issues around informality head on.

To tackle these issues, a number of steps have been instituted. In October 2016, the government, employers' and workers' organisations adopted a Tripartite Agreement for the Implementation of International Labour Organization (ILO) Recommendation 204 on the Transition from the Informal to the Formal Economy.

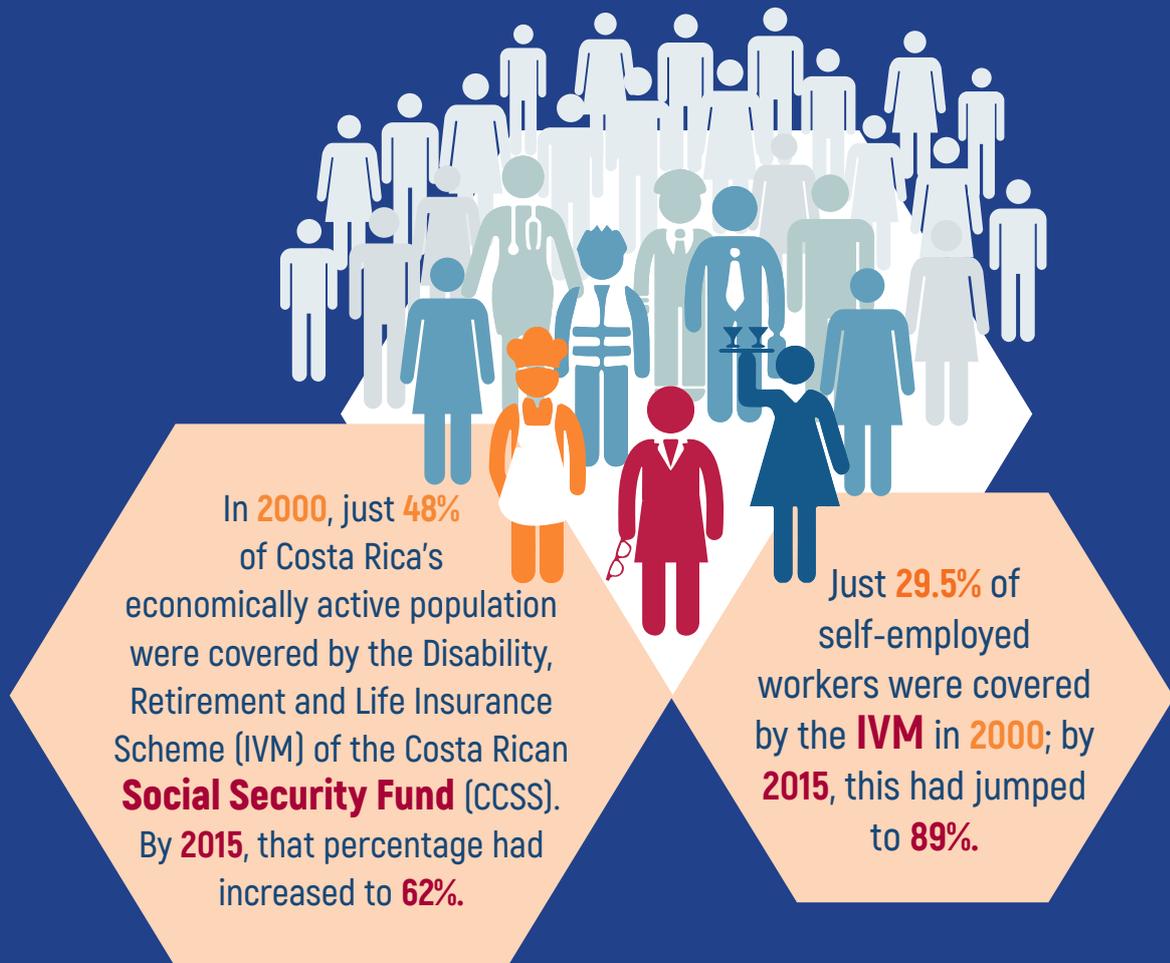
The agreement aims to reduce informal employment to 32 per cent by 2025, while facilitating the formalisation of informal workers and economic units, promoting the creation and sustainability of companies and decent jobs in the formal economy, and preventing the informalisation of formal jobs. On the basis of this agreement and with ILO technical assistance, a process of social dialogue was initiated to draw up a national strategy and an action plan to implement the contents of Recommendation 204. This culminated in the signing of a tripartite agreement for the implementation of this strategy in February 2018.



In 2016, a **tripartite agreement** was adopted for the implementation of **ILO Recommendation 204**.

These initiatives are in line with the 2030 Agenda and have particularly positive impacts on promoting gender equality (SDG 5) and decent work (SDG 8) for vulnerable groups such as domestic workers, indigenous peoples, migrant labourers working in the coffee sector and low-income self-employed workers, as well as on helping to broaden access to social protection (SDG 10).

In December 2017, trade unions joined the multi-stakeholder National Pact for the Sustainable Development Goals (SDGs) introduced by the Costa Rican government in September 2016 with a view to mobilising efforts to implement the 2030 Agenda for Sustainable Development.



FORMALISATION OF THE INFORMAL ECONOMY, CHALLENGES AND RESPONSES

Costa Rica's social security model was designed for formal employment. As a result, the urgent need to extend social protection coverage has been identified in the form of the diversification of insurance models for groups with low cover such as domestic workers, seasonal coffee harvesting workers and self-employed workers. Experts are also calling for improved labour inspection, the extension of insurance coverage for self-employed workers belonging to trade unions and cooperatives, and the temporary exemption of microenterprises with five or less workers from contributing to social security programmes such as the Social Development and Family Allowances Fund (FODESAF) and the Mixed Social Assistance Institute (IMAS).

On the issues of gender equality, there are more men in employment (seven out of ten) than women (four out of ten). In addition, more working women in both the formal and informal sectors are without social security coverage than working men. The situation can be partly explained by the lack of childcare and education services for children under the age of three, which limits women's ability to enter the labour market. However, improving access to vocational training for informal workers, particularly women and self-employed workers, could also help even the playing field.

There is also support for other measures to improve the conditions of informal workers. They include simplified administrative procedures (to address unfair competition between formal and informal businesses, for example) and a simplified tax system, starting with research to identify the strengths and weaknesses of establishing a single tax in Costa Rica to facilitate the formalisation of micro and small enterprises. Such measures all contribute to the empowerment and economic inclusion of groups with scarce resources (SDG 1), as well as to reducing the gap between formal and informal employment (SDG 10).

However, building a national strategy has been a politically and technically challenging task. It has involved the establishment of social dialogue structures, capacity building for the social partners, the identification of priority areas, the closing of knowledge

and information gaps, and the adoption of a methodology to facilitate the social dialogue process.

Another constraint has been the limited representation of informal economy actors in the social dialogue process. This is because employer organisations are made up of formal companies while trade unions are largely made up of public sector and formal private sector workers, with the exception of the CMTC national trade union centre. However, the social partners have recognised the need to incorporate the views and interests of the many and varied groups operating informally.

Following the signing of the Tripartite Agreement in February 2018, a number of suggestions to improve the contribution of social dialogue to the formalisation process work have been put forward:

- **Build the capacity of informal economy actors, particularly with regards to negotiation and advocacy. This is crucial to help facilitate their full inclusion in social dialogue structures and the integration of their interests in the proposals formulated at a local and national level;**
- **Improve the convening and configuration of technical roundtables to ensure that representatives have the technical knowledge, decision-making powers and mandate required to negotiate and implement the agreements adopted;**
- **Balance the need for realism and impact: building a national strategy based on pre-existing institutional programmes and projects ensures the political, technical and financial viability of the proposal but limits the possibility of integrating initiatives with a long-term impact and that will tackle the structural causes of informality;**
- **Manage the expectations of social partners regarding the outcomes of the social dialogue process to secure their participation and commitment, as well as the consolidation and sustainability of the agreements.**

The Trade Union Development Cooperation Network (TUDCN) is an initiative of the International Trade Union Confederation (ITUC), bringing together affiliated trade union organisations, solidarity support organisations, regional ITUC organisations, the Global Union Federations (GUFs), the European Trade Union Confederation (ETUC) and the Trade Union Advisory Committee to the OECD (TUAC).

TUDCN's objective is to bring the trade union perspective into international development policy debates and improve the coordination and effectiveness of trade union development cooperation activities.



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This summary is based on in-depth country research, the full research document is available at
www.ituc-csi.org/social-dialogue-informality

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