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Ecuador

The Faces of Informality

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The Faces of Informality

Las Caras de La Informalidad

Poverty Reduction and Economic Management
Andean Country Management Unit
Latin America and the Caribbean Region



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WEIGHTS AND MEASURES

Metric System

SELECTED ABBREVIATIONS AND ACRONYMS

Bancóldex	Banco de Comercio Exterior de Colombia	**MCPEC**	Ministerio de Coordinación de Producción, Empleo, y Competitividad
CAE	Centros de Atención Empresarial	**MIES**	Ministerio de Inclusión Económica y Social
COMEFER	Comisión Federal de Mejora Regulatoria	**MRL**	Ministerio de Relaciones Laborales
EMES	Ecuador Micro-Enterprise Survey	**OECD**	Organisation for Economic Co-operation and Development
ENEMDU	Encuesta de Empleo, Desempleo y Subempleo	**RISE**	Régimen Impositivo Simplificado Ecuatoriano
EPS	Economía Popular y Solidaria	**RUC**	Registro Único de Contribuyente
FNG	Fondo Nacional de Garantías	**SALTO**	Strengthen Access to Microfinance and Liberalization Task Order
FOGAPE	Fondo de Garantía para Pequeñas Empresas	**SARE**	Sistema de Apertura Rápida de Empresas
GDP	Gross Domestic Product	**SEDLAC**	Socio-Economic Database for Latin America and the Caribbean
IDB	Inter-American Development Bank	**SIMPLES**	Sistema Integrado de Pago de Impuestos y Contribuciones
IESS	Instituto Ecuatoriano de Seguridad Social	**SME**	Small or Medium Enterprise
ILO	International Labour Organization	**SRI**	Servicio de Rentas Internas
INEC	Instituto Nacional de Estadistica y Censos	**USAID**	United States Agency for International Development
LAC	Latin America and the Caribbean	**VAT**	Value added tax
MCDS	Ministerio de Coordinación de Desarrollo Social		

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Executive summary

Informality hampers economic performance at both macro and micro levels. High degree of informality and low economic growth tend to go hand-in-hand, although evidence shows that the relationship likely comes from common determinants of both (e.g., education, financial depth, and corruption). At the macro level, informality has been shown to congest public goods, erode the confidence in institutions, diminish the rule of law, foster corruption, and exact a high social protection cost. At the firm level, recent studies from the LAC region and beyond identify a negative impact of informality on firm profitability and productivity. While not the root cause of a problem *per se*, high incidence of informality is indicative of numerous constraints to business growth which include the limitations of owners in terms of education, ability, and entrepreneurship as well as deficiencies in other aspects of the local investment climate such as infrastructure.

Informality in Ecuador remains high compared to other countries. Unregistered firms accounted for 37 percent of total employment in Ecuador in 2011, which represents only a marginal improvement from 42 percent observed in 2000. Although the share of workers without social security coverage has improved from 75 percent in 2000 to 62 percent in 2011, it remains the fourth-highest in the Latin America and the Caribbean (LAC) region. Overall, Ecuador's performance on most of the available informality indicators has remained worse than the average in the LAC region since the mid-2000s (Perry et al., 2007).

Recent policy actions by the Government of Ecuador, which address different aspects of informal behavior, underscore the importance of informality for the policy agenda. Recent reforms to the social security system have improved

Resumen Ejecutivo

La informalidad afecta el desempeño económico tanto a nivel micro como a nivel macro. *Altos grados de informalidad suelen ir de la mano de un bajo crecimiento económico, aunque la evidencia demuestra que la relación probablemente proviene de factores determinantes de ambos (el nivel de educación, la profundidad financiera y la corrupción, entre otros). A nivel macro, se ha encontrado que la informalidad aumenta la congestión de bienes públicos, erosiona la confianza en las instituciones, socava el Estado de Derecho, fomenta la corrupción y genera altos costos al sistema de protección social. En el ámbito empresarial, evidencia de América Latina y el Caribe y otras regiones demuestra que la informalidad tiene un efecto negativo sobre la rentabilidad y productividad de las empresas. Aunque la informalidad no sea en sí misma la causa última de ningún problema en particular, la informalidad es síntoma de numerosos obstáculos al desarrollo empresarial, tales como las limitaciones de los empresarios en cuanto a formación, capacidad y espíritu emprendedor, así como deficiencias en otros aspectos del clima de inversión local, como la infraestructura.*

La informalidad en el Ecuador continúa siendo alta en comparación con otros países. *Las empresas informales emplearon a un 37 por ciento del total de ocupados en 2011, lo cual representa una mejora marginal respecto al año 2000, en que 42 por ciento de los ocupados trabajaba en empresas informales. Y pese a que el número de trabajadores no cubiertos por el Instituto Ecuatoriano de Seguridad Social (IESS) se redujo de 75 por ciento en 2000 a 62 por ciento en 2011, este porcentaje sigue siendo el cuarto más alto en la región de América Latina y el Caribe. Desde mediados del decenio de 2000, el desempeño del Ecuador se ha mantenido inferior al promedio de la región de América Latina y el Caribe en la mayoría de indicadores de informalidad (Perry y cols., 2007).*

access to benefits while a national referendum in May 2011 approved criminal penalties for failure to affiliate workers. In early 2012, the *Ley de la Economía Popular y Solidaria* and its accompanying regulations introduced a series of benefits—such as improved access to credit, education and training, and tax benefits—for members of *economía popular y solidaria*, which include family businesses and small-scale entrepreneurs.

This study offers a novel look at informality in Ecuador by directly asking firm owners and workers about their views and behavior. The analysis of the causes and costs of informality for firms in Ecuador in this study is based on data from a 2011 enterprise survey commissioned specifically for this study and complemented by focus groups and in-depth interviews. The survey captures the aspects of the regulatory framework which are most problematic for compliance, and the specific reasons for non-compliance. In addition, the survey contains extensive information to characterize firms in terms of their access to finance, growth potential, and views on the social contract (in particular taxation). The qualitative data provides in-depth information about the entrepreneurs' and workers' views on what it means to be informal and the major bottlenecks to formalization.

The study focuses on micro and small firms in the urban areas of Ecuador. The sectors of activity, geographic locations, and sizes of firms covered by this study were agreed upon with the Government during the initial consultations on the report. Entrepreneurs in manufacturing, retailing, hospitality, transport, and construction were chosen to represent a large portion of the self-employed and micro/small businesses in the country as well as to provide sufficient diversity across types of activity without compromising cross-sectoral comparability. As these sectors represent the bulk of activity in the urban areas, the focus of the study is on

Recientes políticas del Gobierno del Ecuador dirigidas a corregir ciertas prácticas del sector informal, subrayan la importancia de la informalidad en la agenda política. *Las recientes reformas al sistema de seguridad social han mejorado el acceso a sus prestaciones, y un referéndum nacional llevado a cabo en mayo de 2011 aprobó sanciones penales para los empresarios que no afilien a sus empleados. A comienzos de 2012, la Ley de Economía Popular y Solidaria y su reglamento introdujeron una serie de ayudas —como un mejor acceso al crédito, a la educación y a la formación, además de beneficios fiscales— para los miembros de la denominada "economía popular y solidaria", que abarca los negocios familiares y las pequeñas empresas.*

Este estudio ofrece un examen de profundidad de la informalidad en el Ecuador, al interrogar directamente a empresarios y trabajadores sobre sus opiniones y comportamiento. *El análisis de las causas y los costos de la informalidad para las empresas ecuatorianas que realiza este estudio se basa en datos de una encuesta empresarial realizada en 2011 específicamente para este fin, y complementada por grupos focales y entrevistas en profundidad. La encuesta recoge los aspectos del marco regulatorio más problemáticos para el cumplimiento y las razones concretas de la falta de cumplimiento. Asimismo, contiene amplia información en cuanto al acceso al financiamiento, potencial de crecimiento y puntos de vista sobre el contrato social de las empresas (en particular, la tributación). Los datos cualitativos ofrecen información detallada acerca de la opinión de empresarios y trabajadores sobre lo que significa ser informal y los principales obstáculos que existen para la formalización.*

El estudio se centra en las microempresas y en las pequeñas empresas de las zonas urbanas del Ecuador. *Los sectores de actividad, la ubicación geográfica y el tamaño de las empresas estudiadas fueron seleccionados en acuerdo con*

urban informality. The study's concentration on informality among micro and small firms—those with less than 50 employees—is motivated by several factors: micro and small businesses represent the majority (71 percent) of firms in the country and these same businesses represent economic activity where informality is most prevalent, where productivity tends to be low, and where helping firms grow successfully can have substantial economy-wide benefits.

The study finds that many micro and small firms in Ecuador have limited growth potential, due to low entrepreneurial ability and lack of access to and poor quality of credit. While Ecuadorian firms show higher survival rates than in more advanced economies, other indicators of firm performance suggest that most firms are unlikely to grow and become more productive. Moreover, while the average educational attainment of entrepreneurs is similar to the rest of the employed population, among entrepreneurs the share with higher education is smaller. In addition, most entrepreneurs display low ability to perform basic managerial tasks that would enable their businesses to thrive. Finally, access to credit among these firms is low, even for those firms that have a history of past credit. Furthermore, previous credit—rather than a rich set of owner and business characteristics—seems to be the major determinant of access to financing.

Firm owners value the independence and flexibility of having their own business. Similar to other countries in Latin America, 70 percent of firm owners see being one's "own boss" as the main reason to have their own business while only around 30 percent cite the inability to find wage employment. In particular, women value their own business for the flexibility to care for their children at the workplace, and to establish a schedule that accommodates family responsibilities. More generally, entrepreneurs view their

el Gobierno durante las consultas iniciales. Se eligió a empresas de la industria manufacturera, el comercio minorista, el turismo, el transporte y la construcción afín de cubrir a una gran proporción de los trabajadores por cuenta propia y de las microempresas y pequeñas empresas del país y de analizar una diversidad suficiente de actividades sin comprometer la comparabilidad intersectorial. Dado que dichos sectores representan el grueso de la actividad en las zonas urbanas, el estudio se limita a estudiar la informalidad urbana. El estudio se concentra principalmente en la informalidad de las microempresas y las pequeñas empresas (aquellas que tienen menos de 50 empleados) porque dichas empresas representan la mayoría (71 por ciento) de las empresas en el país y es en estas empresas donde es mayor el nivel de informalidad, donde la productividad tiende a ser baja y donde los incentivos para acelerar el crecimiento de las empresas puede reportar mayores retornos al conjunto de la sociedad.

El estudio encuentra que muchas microempresas y pequeñas empresas del Ecuador tienen un limitado potencial de crecimiento por la poca capacidad empresarial, el escaso acceso y las malas condiciones de crédito. *Aunque las empresas ecuatorianas presentan una tasa de supervivencia mayor que las de economías más avanzadas, otros indicadores de su desempeño sugieren que es poco probable que la mayoría de ellas crezcan y aumenten su productividad. Asimismo, aunque el nivel educativo promedio de los empresarios es similar al del resto de la población ocupada, el porcentaje con estudios superiores es menor entre los empresarios de la muestra que entre los ocupados. Por otro lado, la mayor parte de los empresarios demuestra poca capacidad para realizar funciones administrativas básicas que permitirían que sus negocios prosperasen. Por último, el acceso al crédito entre esas empresas es reducido, incluso para las que tienen un historial crediticio. Además, el haber tenido créditos anteriores parece ser el factor*

business as a source of employment opportunities for family members, and an endowment they can leave to their children. Indeed, a number of business owners value these considerations above the usually-assumed incentives to grow the business and increase profits.

Few firms can be considered fully formal or fully informal, while more than 80 percent operate somewhere on the "formality continuum." The vast majority of firms comply with some but not all regulations and the rates of compliance vary by type of regulation and size of firm. Compliance is much higher for tax-related regulations (tax registration, use of receipts) than for labor regulations (affiliating employees with social security). With regard to the latter, most firms do not offer contracts or social security affiliation to any of their employees while a small minority offers these protections to all workers—with hardly any firms in between the two extremes. In general, workers who are affiliated to social security tend to be better educated and in higher paid jobs.

Firm owners see few advantages and high costs of formalizing. Most firms comply mainly to "follow the rules," and those who do not comply argue that they are too small to do so, reflecting their lack of confidence in the potential for the business to grow. This is confirmed by firm owners' bleak expectations for the future as most of them report that their "ideal" size would be essentially the same as it is today. Cost may also be a factor in the reluctance to hire workers formally, as severance pay and firing restrictions are significantly more stringent in Ecuador than in most Latin American and OECD countries. In addition, demand for affiliation and written contracts from workers is often low, as many employees prefer a higher paycheck and greater flexibility in their schedules to formal protections. Finally, Ecuadorian entrepreneurs have little trust in the public sector to make efficient use of their revenues. Although the vast

determinante para tener financiamiento, antes que las características del empresario y su negocio.

Los propietarios de las empresas valoran la independencia y la flexibilidad de tener su propio negocio. *A semejanza de otros países de América Latina, el 70 por ciento de los empresarios expresa que ser su propio jefe es la principal razón para tener su propio negocio, y solo alrededor del 30 por ciento menciona la imposibilidad de encontrar empleo asalariado. En particular, las mujeres valoran el tener su propio negocio por la flexibilidad para cuidar de sus hijos en el lugar de trabajo y para establecer horarios compatibles con sus responsabilidades familiares. Más allá de eso, los empresarios ven sus negocios como una fuente de empleo para sus familiares y como una herencia para sus hijos. De hecho, muchos empresarios valoran estos aspectos por encima de los objetivos habituales de crecimiento de la empresa e incremento de la renta.*

Pocas empresas pueden considerarse totalmente formales o totalmente informales, pero más del 80 por ciento opera a lo largo del "espectro de formalidad". *La gran mayoría de ellas cumplen algunas de las normas, pero no todas, y el índice de cumplimiento varía en función del tipo de norma y del tamaño de la empresa. El cumplimiento es mucho mayor en el caso de las normas de carácter tributario (registro fiscal, uso de facturas) que en las de naturaleza laboral (afiliación de trabajadores a la seguridad social). En cuanto a esta última, la mayor parte de las empresas no ofrece contratos escritos ni afiliación al IESS a ninguno de sus empleados, mientras que una pequeña minoría ofrece estas garantías a todos sus trabajadores; así, hay muy pocas empresas que las ofrecen solo a una fracción de sus empleados. En general, los trabajadores afiliados al IESS tienden a tener más formación y trabajos mejor remunerados.*

Los empresarios ven pocas ventajas y altos costos a la formalización. *La mayoría de los*

majority believes that tax evasion is not acceptable, around 40 percent of entrepreneurs know a firm which does evade taxes. More worrisome, a majority of firm owners believe that those who have more pay less than they should, reflecting a sense of unfairness of the current system. This suggests that firms' views about the value of paying taxes are not favorable, which partly explains why some firms have little incentive to comply with tax regulations.

Firms which do manage to formalize tend to be more profitable and enjoy better access to credit. Controlling for a large set of firm, owner, and location characteristics, the study finds that firms which demonstrate a higher degree of compliance with regulatory requirements tend to have higher profits. In particular, having a tax identification number, affiliating workers with social security, and issuing written contracts to employees are all significantly and positively associated with higher firm profits. The study also identifies several channels which contribute to the higher profitability of more formal firms, including better access to formal sources of finance (which offer start-up capital at more attractive rates) and the ability to generate more sales and grow the customer base by issuing tax receipts. However, these findings come with a caveat that the results cannot explicitly confirm a causal relationship between formality and profitability because the instruments used to identify formality (i.e., control for the fact that firms may choose to exit formality or could be excluded from formalizing) are not very strong.

Enforcement plays a substantial role in discouraging informality in Ecuador but does not guarantee full compliance. Inspections by the municipality, tax, social security, labor authorities, and other agencies are quite common, with almost two-thirds of surveyed firms reporting to have had at least one inspection in the past year. Firms who have had a visit by the inspectors are

empresarios cumple sobre todo por "estar en regla", y quienes no lo hacen alegan que sus empresas son demasiado pequeñas, lo que refleja una falta de confianza en su potencial de crecimiento. Esto se confirma con su visión pesimista del futuro, ya que la mayor parte de los empresarios señala que el tamaño "ideal" de su empresa sería básicamente el mismo que tienen actualmente. Los factores de costo también parecen tener importancia a la hora de contratar trabajadores formalmente, pues las indemnizaciones por despido son notablemente más altas en el Ecuador que en la mayoría de los países de América Latina y de la Organización para la Cooperación y el Desarrollo Económicos (OCDE). Además, pocos trabajadores exigen ser afiliados y recibir contratos escritos, pues en general prefieren percibir una paga mayor y tener mayor flexibilidad horaria, que gozar de protecciones formales. Por último, los empresarios ecuatorianos tienen poca confianza en que el sector público haga un uso eficiente de sus impuestos. Aunque la gran mayoría cree que la evasión de impuestos es inaceptable, alrededor del 40 por ciento conoce alguna empresa que incurre en esta práctica. Y, lo que es más preocupante, la mayor parte de los empresarios consideran que quienes más tienen pagan menos de lo que deberían, lo que refleja una sensación de injusticia respecto del sistema vigente. Esto sugiere que las empresas tienen una opinión negativa sobre la importancia de pagar impuestos, y en parte explica por qué algunas de ellas tienen escasa motivación para cumplir con sus obligaciones tributarias.

Las empresas que consiguen formalizarse tienden a ser más rentables y disfrutan de un mejor acceso al crédito. *El estudio, que abarca un amplio abanico de características de empresas, propietarios y localidades, concluye que las empresas que muestran un alto grado de cumplimiento de la regulación tienden a generar mayores beneficios. Así, las empresas que disponen de un número de registro único del contribuyente (RUC), que afilian a los trabajadores al IESS y que les ofrecen contratos*

significantly more likely to have a tax registration number and a municipal license, use receipts, issue written contracts, and affiliate their employees with IESS. However, enforcement does not guarantee full compliance: the compliance rate is significantly below 100 percent even for firms who have been inspected. Moreover, the impact of inspections varies by type of regulation: among the firms who have been inspected, the likelihood of complying with labor regulations is substantially below the probability of complying with tax rules.

Despite the existence of a number of support programs for small businesses, their use among firms in Ecuador is still relatively low, indicating the need for better dissemination of information. More than three quarters of the surveyed firms were aware of at least one of the 11 support programs available to firms in the urban areas of Ecuador but just 11 percent of firms participate in the programs with which they are familiar. Additionally, regardless of their knowledge of the support programs, most firms indicated their interest in learning more. Therefore, although these results should not be interpreted as an evaluation of the overall effectiveness of the reach of these programs—as many of these programs were not specifically designed to benefit the exact types of firms included in the survey—they nonetheless illustrate that there could be further benefits to improving the communication and knowledge of state initiatives among entrepreneurs. This is corroborated by qualitative evidence from the focus groups, where few, if any, participants expressed accurate knowledge or understanding of the concept of *Economía Popular y Solidaria* (EPS)—despite a number of participants potentially being part of EPS—or the differences between EPS and the informal economy.

Drawing on the experience of other countries, the report proposes a menu of policy options which could encourage formalization.

escritos tienden a realizar mayores rentas, y esta relación es estadísticamente significativa. El estudio también identifica diversos canales a través de los cuales la formalidad facilita la obtención de mayores rentas, como el mayor acceso a fuentes formales de financiamiento (que ofrecen capital inicial a tasas más atractivas) y la capacidad de generar más ventas y aumentar la clientela gracias al uso de facturas. Sin embargo, estas relaciones no permiten aislar una forma de causalidad entre la formalidad y la rentabilidad, ya que los instrumentos utilizados para identificar la formalidad (es decir, la separación entre la decisión de abandonar la formalidad y la imposibilidad de formalizarse) son válidos solo bajo ciertos supuestos.

Las inspecciones juegan un papel muy importante en la lucha contra la informalidad en el Ecuador, pero no garantizan el pleno cumplimiento. *Las inspecciones municipales, del Servicio de Rentas Internas (SRI), del Ministerio de Relaciones Laborales, del IESS y de otros organismos son cada vez más frecuentes, y casi dos terceras partes de las empresas entrevistadas afirman haber sido objeto de al menos una inspección durante el año anterior. El estudio encuentra que es mucho más probable que una empresa que tuvo visitas de inspectores cumpla con las diferentes regulaciones; sin embargo, las inspecciones por sí solas no garantizan el cumplimiento pleno: la tasa de cumplimiento es sustancialmente inferior al 100 por ciento, incluso en las empresas donde se han hecho inspecciones. Además, el impacto de las inspecciones varía en función de la regulación: entre las empresas que han sido inspeccionadas, la probabilidad de cumplir con la normativa laboral es sustancialmente menor que la de cumplir con las normas tributarias.*

Pese a la existencia de varios programas de ayuda para las pequeñas empresas, pocas empresas se benefician de ellos, lo que refleja la necesidad de una mejor divulgación de la

International experience shows that public policy can play a great role in encouraging formality. Simplification of procedures through creation of one-stop-shops in Colombia and Mexico has successfully increased firm registrations. The introduction of simplified taxpayer regimes in Brazil and Argentina, which combine multiple taxes (including social security) into one payment, has also had a positive effect on firm registrations while encouraging formal employment, although recent evidence shows that this approach must be carefully balanced against creating perverse incentives for firms to remain small. Improvements in access to finance—via credit guarantees in Chile and Colombia and, more recently, factoring in Mexico—have facilitated firm start-ups and growth. Finally, increased enforcement has been successfully used in Argentina, Brazil, and Panama to reduce informal employment, although in some cases it also results in reduced output of small firms who are unable to pay the higher salary costs.

Best results are achieved with a package of reforms which address all aspects of informality. The reforms implemented by Spain in the 1980s and 1990s is a good example of a package that addresses multiple dimensions of informality simultaneously to maximize the positive impact. In addition to reducing the costs of formality, streamlining administrative procedures, and increasing enforcement, the package also included a clear communication strategy and a reform of the social protection system. In particular, removing labor market rigidities while widening the coverage of social safety nets reduced firm labor costs and increased equity through the provision of basic social security to all. Public media campaigns were also crucial in building support and understanding of the reform. At the same time, it is important to keep in mind that even wide-ranging reforms may not achieve all desired outcomes at the same time.

información. *Más de tres cuartas partes de las empresas encuestadas conocían al menos uno de los 11 programas de ayuda disponibles para las empresas en las zonas urbanas del Ecuador, pero solo el 11 por ciento participa en programas con los que están familiarizadas. Asimismo, independientemente de su conocimiento de los programas de ayuda, la mayor parte de ellas expresaron su interés por obtener más información sobre el tema. Aunque estos resultados no se deben interpretar como una evaluación de la eficiencia del alcance de esos programas—muchos de ellos no estaban diseñados específicamente para las empresas analizadas en este estudio—la evidencia sugiere que se debería mejorar la comunicación y el conocimiento de las iniciativas del Estado entre los empresarios. Más aún, los datos cualitativos obtenidos en los grupos focales demuestran un total desconocimiento del concepto de "economía popular y solidaria" (EPS) o de las diferencias entre la EPS y la economía informal.*

Basándose en la experiencia de otros países, el informe brinda un "menú" de políticas para promover la formalización. *La experiencia internacional demuestra que las políticas públicas pueden hacer mucho para incentivar la formalidad. La simplificación de los trámites mediante la creación de una ventanilla única en Colombia y México incrementó significativamente el registro de empresas. La introducción de regímenes fiscales simplificados en Brasil y Argentina, que combinan varios impuestos (incluida la seguridad social) en un solo pago, también ha tenido un efecto positivo en el registro de empresas y ha aumentado las contrataciones formales, aunque también se observa que los regímenes aplicables solo a micro y pequeñas empresas pueden tener incentivos perversos e impedir el crecimiento de las mismas. Las mejoras en el acceso al financiamiento (mediante garantías de crédito en Chile y Colombia y, más recientemente, sistemas de factoreo en México) han facilitado la creación y el crecimiento de las empresas. Por último, en Argentina, Brasil y Panamá*

In the case of Ecuador, several policy options could be particularly relevant. The quantitative and qualitative results of this study show that public policy can be an effective tool in reducing informality in Ecuador. First, enforcement could be scaled up further. The survey results show that inspections significantly increase the likelihood of compliance, yet firms interviewed for this study report a lower incidence of tax inspections than similar-size firms in other countries in Latin America. Second, the costs of compliance could be reduced. Drawing on the successful experience of the one-stop-shop registration concept in other counties, the reach of the *Tramifácil* program could be expanded to encourage firm registrations. Third, better information sharing and broader consultations could reduce knowledge gaps and widen the reach of the reforms. Many focus group participants demonstrated a systemic lack of understanding of labor and social security regulations as well as new concepts and policies such as *economía popular y solidaria*. Together with recent reforms which have made it easier to access benefits provided by *Instituto Ecuatoriano de Seguridad Social* (IESS), increasing awareness would help raise the demand by workers to be affiliated with social security. Similarly, although many of the surveyed firms were aware of the numerous state support programs for small businesses, few took advantage of them—illustrating the need for further engagement with the entrepreneurs to ensure they take maximum advantage of the existing opportunities.

se ha recurrido de forma eficaz a un incremento de las inspecciones afín de reducir el empleo informal, aunque, en algunos casos, esto hace que disminuya la producción de las pequeñas empresas que no pueden asumir los altos costos salariales.

Los mejores resultados se consiguen mediante un paquete de reformas que aborde todos los aspectos de la informalidad. *Las reformas introducidas en España en la década de los 80 y 90 son un buen ejemplo de paquetes de medidas dirigidas a abordar múltiples dimensiones de la informalidad para lograr el máximo efecto. Además de reducir los costos de la formalidad, simplificar los trámites administrativos e incrementar el cumplimiento de las normas, el paquete también incluyó una clara estrategia de comunicación y una reforma del sistema de protección social. La flexibilización de los trámites y de las rigideces del mercado, combinada con la ampliación de la protección social redujeron los costos laborales para las empresas y lograron una mayor equidad al brindar prestaciones sociales básicas a toda la población. Las campañas públicas en los medios de comunicación también fueron fundamentales para lograr el apoyo a la reforma y su comprensión por parte de la población. No obstante, es importante tener en cuenta que incluso las reformas más amplias pueden no lograr todos los resultados deseados al mismo tiempo.*

En el caso del Ecuador, algunas de estas opciones de política resultan altamente relevantes. *Los resultados cuantitativos y cualitativos de este estudio demuestran que las políticas públicas pueden ser instrumentos eficaces a la hora reducir la informalidad en el Ecuador. En primer lugar, es importante continuar los esfuerzos por parte del Estado para que se cumplan con las regulaciones. Los resultados del estudio demuestran que las inspecciones aumentan significativamente la probabilidad de cumplimiento, pero las empresas entrevistadas para este estudio reportan una incidencia de las inspecciones tributarias menor que*

en empresas de tamaño similar en otros países de América Latina. En segundo lugar, se podrían reducir los costos de los trámites (en tiempo y dinero). Partiendo de la exitosa experiencia de la ventanilla única de registro en otros países, podría ampliarse las funciones y la cobertura geográfica del programa Tramifácil para incentivar el registro de empresas. En tercer lugar, un mejor intercambio de información y consultas más amplias podrían reducir las brechas de información y ampliar el alcance de las reformas. Muchos participantes de los grupos focales demostraron una incomprensión sistemática de la normativa laboral y de seguridad social, así como de nuevos conceptos y políticas como la EPS. Junto con las recientes reformas que han facilitado el acceso a las prestaciones del IESS, una mayor concientización ayudaría a incrementar la demanda de afiliación entre los trabajadores. Igualmente, aunque muchas de las empresas entrevistadas conocían los numerosos programas públicos de ayuda para pequeñas empresas, pocas se habían beneficiado de ellos, lo que refleja la necesidad de un mayor compromiso con los empresarios para asegurar que saquen el máximo provecho de las oportunidades existentes.

1. A profile of small and medium firms in 4 Ecuadorian cities

This chapter establishes a profile of the small firm and its owner in the two main cities of Ecuador (Quito and Guayaquil) and in two cities close to the country's northern and southern borders (Tulcán and Machala). The main source of data is a survey specifically conducted for this study, which covers the main sectors of economic activity among this class of firms in urban areas of Ecuador. There is a relatively even split between male and female entrepreneurs and firm owners have a similar level of education as the rest of the employed urban population. In general, firm owners are satisfied with their choice of having their own business rather than being salaried employees; however, they experience difficulty in performing many of the tasks that would enable their businesses to grow. As a result, firms generate low revenues and have a limited potential for expansion, which is visible in their low level of access and quality of credit.

This chapter provides a comprehensive analysis of the nature of the economic activity of micro and small businesses in the main urban areas of Ecuador. The objective is to draw portraits of the firm owner and of the firm itself, which in turn provide valuable information on the challenges that the firms face both from internal deficiencies and the overall business environment. The focus is on firms with 50 employees or less in Ecuador's two largest cities, Quito and Guayaquil, plus the main centers of economic activity near the northern and southern borders (Tulcán and Machala, respectively). There are two main reasons why micro and small firms are the subject area of the study: first, they make up 71 percent of all firms in the country (INEC, 2010), and second, focusing on these firms allows the study to gain insights into how informality and the investment climate can affect the potential of firms to survive and grow into successful businesses, as well as the barriers that may be preventing an efficient firm selection process.[1]

To analyze in depth the characteristics of these micro and small firms, the World Bank conducted a new enterprise survey in Ecuador in May-June 2011. This survey, the Ecuador Micro-Enterprise Survey (EMES), focused on the six most important sectors of urban economic activity documented in the 2004 SALTO project (USAID, 2005): textiles, apparel, shoes, and leather manufacturing; other manufacturing; grocery retailing; street food vendors; hotels and restaurants; ground transport and auto repair; and construction. Because the goal of the study is to understand informality as a cross-sectoral phenomenon, activities where firm dynamics and the nature of informality are highly sector-specific and cannot be easily compared to the rest of the economy, such as agriculture and mining, were not included in the study—similar to the approach taken by other recent studies of informality such as World Bank (2008) in Peru and World Bank (2009) in Bolivia. The universe of firms that the EMES survey represents—namely, firms with 50 employees or less operating in manufacturing and service sectors in Quito, Guayaquil, Machala, and Tulcán—represent 28 percent of the total number of economic establishments in Ecuador according to the Economic Census (INEC, 2010). The survey was complemented by a series of focus groups among entrepreneurs as well as workers in all four cities, that aimed to document the views of entrepreneurs and workers about the nature of their business, their current difficulties, and their perceptions of informality and the role of the state (See Box 1 and Annex A).

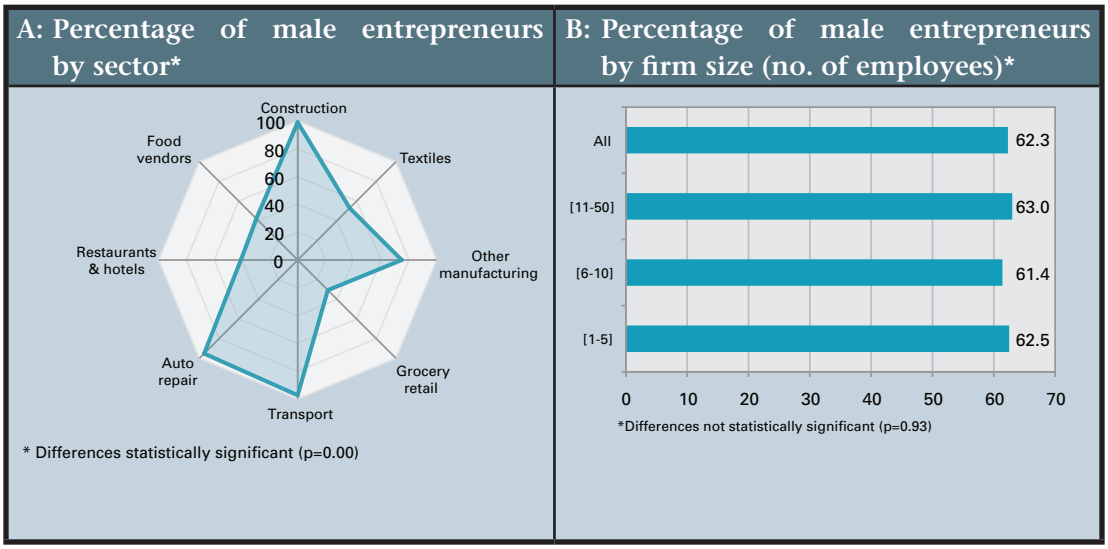
[1] It should be acknowledged that we do not observe firms that have left the market; nonetheless, observing surviving firms can provide a glimpse of the environment in which firms operate and compete.

The chapter is organized as follows: the chapter starts by examining the main characteristics of the micro and small entrepreneur and continues by focusing on some key aspects of firm performance. The chapter concludes by analyzing the main features and determinants of access to finance, one of the key drivers of firm growth.

1.1 Business owners and their characteristics

Micro and small firm owners are somewhat older than average and are more likely to be male. Male entrepreneurs are predominant in construction (99 percent), transport (97 percent), auto repair (95 percent), and other manufacturing (75 percent, Figure 1.1:A). On the other hand, men are only a slight majority (53 percent) among textile manufacturing firm owners, but women dominate among food vendors (58 percent), grocery retail (69 percent), and restaurants and hotels (59 percent). Interestingly, there is no difference in gender ownership across firm sizes, although men dominate overall, as they run 62 percent of firms (Figure 1.1:B). In terms of age, we find that on average entrepreneurs are about four years older than the average of the population (45 years old), which suggests that a large fraction of firms surveyed are not entry-level occupations for young workers who can't find salaried employment.

Figure 1.1: Distribution of entrepreneurs, by gender



Source: EMES

More than half of the firm owners have not completed high school, and only 6.8 percent have completed tertiary education. Average years of education for firm owners (10 years) are very similar to the average years of education for adult employed men (10.2 years) and women (10.7 years) in these four cities (ENEMDU, June 2011). However the share of firm owners with tertiary education (complete or not) in our sample is significantly lower than for the general employed adult population. Indeed, while in our sample 6.8 percent of them have completed tertiary education, among employed adults in these cities, ENEMDU data show that 22 percent have complete tertiary education and 38 percent have at least some tertiary education (Figure 1.2). This discrepancy and the shape of the education distribution in both cases suggest that while average education years are close, the variance of education among small firm owners is significantly lower than for the rest of the employed population, which indicates that the typical small firm is run by a low-to-medium skilled person.

Box 1: Data and sample design*

The analysis in this report is based on a combination of quantitative and qualitative tools. The quantitative data were collected with the Ecuador Micro-Enterprise Survey (EMES), a 66-item questionnaire administered to more than 1,200 firms in urban areas of Ecuador in May-June 2011. The questionnaire, based on similar surveys recently carried out by the Bank in Bolivia and Peru, was designed by the authors to understand the costs and benefits of informality as well as the challenges in the overall business environment from the perspective of micro-entrepreneurs. To supplement the survey information, qualitative data were collected through focus group discussions and in-depth interviews with both micro-entrepreneurs and their employees. The objective of the qualitative component was to ask open-ended questions in the same subject areas covered by EMES, in order to allow for a greater variety of answers and a more in-depth discussion of reasons behind the observed behavior.

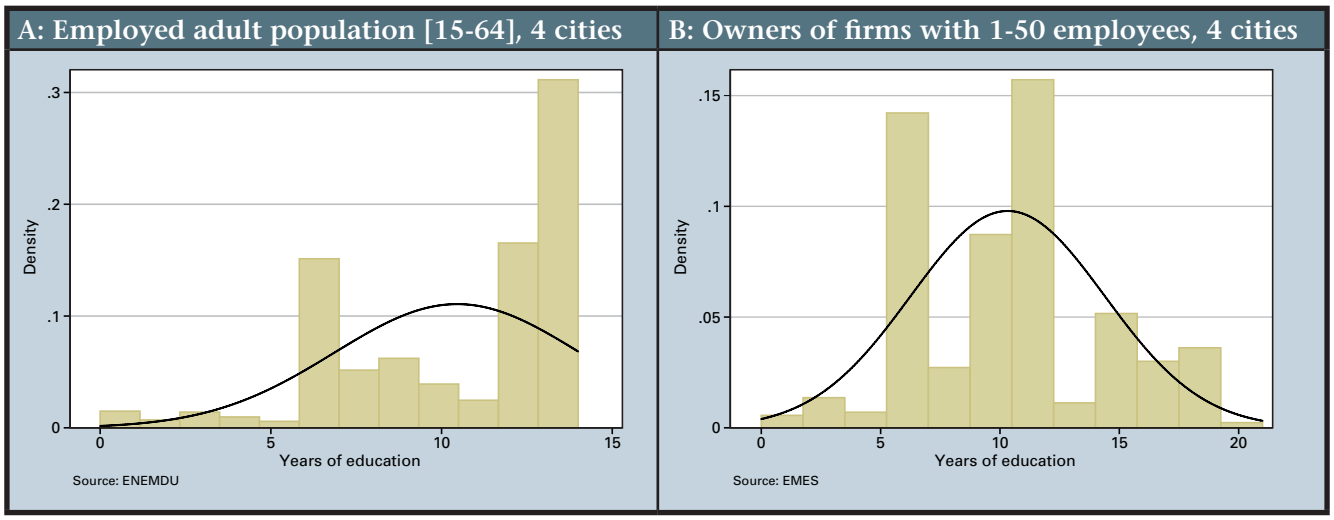
The quantitative data were gathered through face-to-face interviews with enterprise owners and managers. The questionnaire, based on similar questionnaires used by the World Bank in Bolivia and Peru (McKenzie and Sakho, 2010; World Bank, 2008), was adapted by the authors to the Ecuadorian case and validated through a pilot phase. The survey respondents were the "individual ultimately responsible for the operations of the company or business" and the participating firms were chosen through random geographic sampling by census tract in each city. Overall, the questionnaire was administered to 1,222 micro and small firms (1-50 employees) in eight sectors of economic activity (textiles, apparel, shoes, and leather manufacturing; other manufacturing; grocery retailing; street food vendors; hotels and restaurants; ground transport; auto repair; and construction) in Quito, Guayaquil, Machala, and Tulcán. Firm size was defined according to the number of persons employed in the business (both part-time and full-time), and sector of economic activity was defined as the activity that is the main source of income for the business. Due to the difficulties of identifying and interviewing larger firms in the much smaller Machala and Tulcán, only firms with up to 10 employees were sampled in these cities.

The sampling framework of the EMES is based on the 2004 national survey of urban micro-enterprises but the results also correspond closely to the recently completed economic census. The survey design was based on a 2004 survey sponsored by USAID under the project "Proyecto SALTO" (USAID, 2005a), which collected information on close to 18,000 micro-entrepreneurs in low- and middle-income urban areas of Ecuador. Using this structure, the EMES sample was designed in such a way that sufficient observations to permit statistical analysis and hypothesis testing would be available along any of the three dimensions of firm size, sector, and city. Unfortunately, the recently completed economic census (Censo Economico) was not available at the time of the EMES sample design; moreover, there are several important methodological differences such as the fact that Censo Economico only surveyed businesses with a fixed place of establishment and therefore did not cover most street vendors, construction workers, or taxi drivers. However, the correspondence between the EMES results and those of the economic census—for the same cities and firm sizes—is quite high for a number of characteristics, such as having a tax identification number (RUC) and the gender of the firm's owner.

The survey data were complemented with focus group discussions and in-depth interviews with firm owners and their employees. The discussions, conducted separately for workers and entrepreneurs, followed an interview guide designed specifically for each group. Overall, there were 24 focus groups and 10 interviews conducted in May-June 2011, whose participants were selected according to firm size, main sector of economic activity, and city of operations. All groups, both entrepreneur and worker, were mixed by sector of activity. Each group lasted an average of two hours, was recorded on video, and had 6-8 participants. Due to the difficulties in recruiting the owners of larger firms (11-50 employees) for participation in the focus groups, these entrepreneurs were interviewed one-on-one in their offices using the same interview guide as the focus groups. These interviews lasted an average of 45 minutes and were recorded on audio.

* See Annex A for a more detailed description of the data.

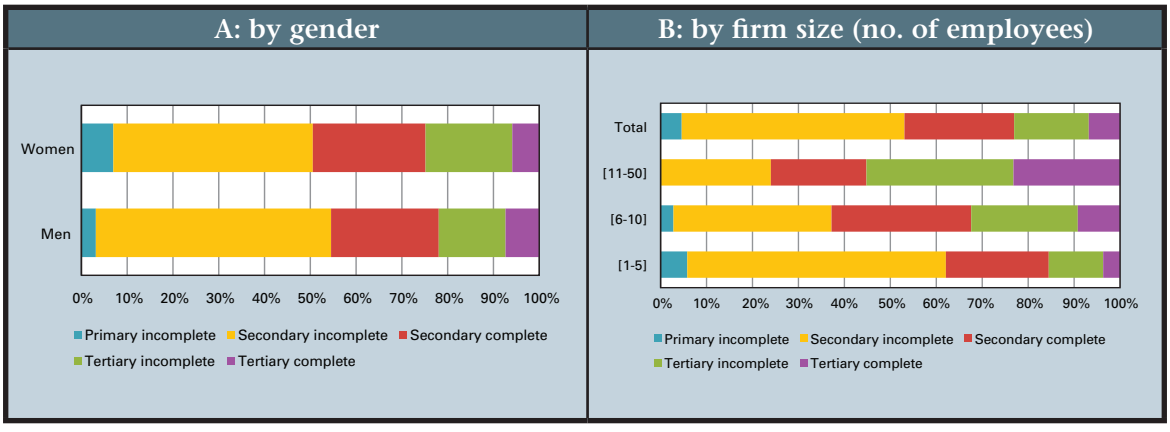
Figure 1.2: Years of education



Source: ENEMDU, EMES

Owners of larger firms are better educated, while there is little difference in the education of men vs. women. There seems to be a larger variance in education attainment among women owners, as there are relatively more women with low education (less than complete primary) and also more women with at least some tertiary education (Figure 1.3:A). This variance is also visible in the education distribution across sectors: almost 80 percent of street food vendors have less than complete secondary (and 21 percent have less than complete primary), and among grocery shop owners 60 percent have less than complete secondary. In contrast, 53 percent of textile firm owners have at least complete secondary education. There is also a wide variation in the education attainment of firm owners with respect to the size of their business; among medium size firms over half of owners have at least some tertiary education, while among micro firms over 60 percent have not completed secondary (Figure 1.3:B). This confirms the well-documented international evidence on the positive relationship between owners' education and firm size (see, for instance, the world-wide Enterprise Survey data).[2]

Figure 1.3: Entrepreneurs' education

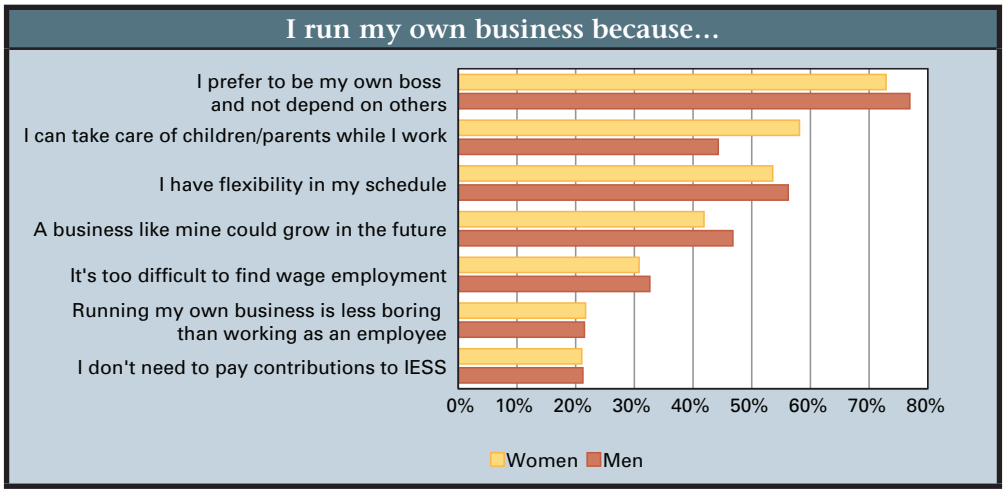


Source: EMES

[2] www.enterprisesurveys.org

A large majority of entrepreneurs value the independence and flexibility of having their own business. The survey asks entrepreneurs to establish a ranking among seven different reasons for preferring to own a business rather than being a wage employee. Figure 1.4 displays the percentage of firms that cite each of the reasons among the top three in their ranking. Consistent with other evidence from Latin America (see Perry et al., 2007), over 70 percent of firm owners cite the advantage of being one's "own boss" as a top reason to prefer having their own business. Again this evidence suggests that many people who decide to become business owners do so by preference and not because of a lack of better alternatives. In fact, only around 30 percent of entrepreneurs cite the lack of wage employment as a top reason, and only around 20 percent prefer their own business so as not to have to pay mandatory contributions to IESS. Focus groups participants also consistently expressed how important it is to have flexibility and freedom. Women value their own business for the flexibility to care for their children at the workplace, and to establish a schedule that accommodates family responsibilities. Men also value the flexibility to spend more time with their family and the freedom of being their "own boss". Moreover, entrepreneurs view their business as a source of employment opportunities for family members, and an endowment they can leave to their children.

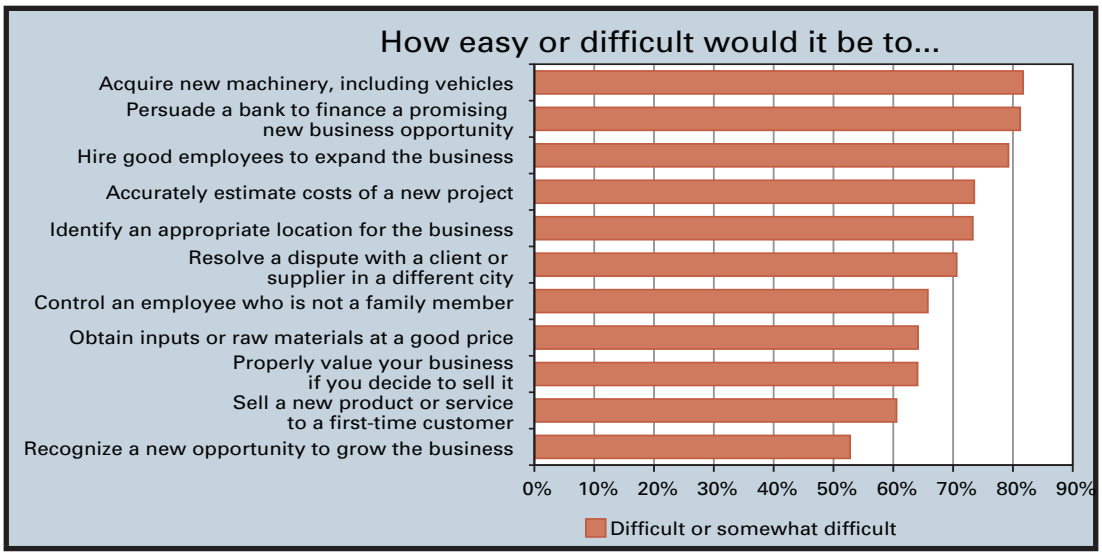
Figure 1.4: Entrepreneurs' reasons for having their own business



Source: EMES

However, entrepreneurs seem to struggle to perform basic managerial tasks that would enable their businesses to thrive. Following McKenzie and Sakho (2010), the survey asks entrepreneurs to assess the difficulty of successfully achieving a series of objectives on a four-point scale, from very easy to difficult (Figure 1.5). The objectives include important tasks such as acquiring new machinery or vehicles, obtaining a loan, or hiring good workers. Interestingly, the achievement of each one of these objectives was rated as "difficult" or "somewhat difficult" by at least 50 percent of the respondents, indicating the magnitude of challenges faced by the entrepreneurs in the performance of typical business tasks (or perhaps their lack of confidence in their abilities). This perception was also prevalent among focus group participants, who in general feel that it takes much effort to make a business grow, or even stay afloat. They also report that profits have been stagnant or declining, that there is high (unfair) competition, difficulties to find good employees, unpredictable changes in materials' prices due to regulatory changes (e.g., tariffs), crime, corruption, and lack of access to credit.

Figure 1.5: Self-assessed entrepreneurial ability



Source: EMES

1.2 Firm performance

Firm selection and survival is a key mechanism underpinning economy-wide productivity growth. It is well documented that, in both advanced and emerging economies, the firm selection process is intense and many firms do not survive for long, while those that survive tend to grow fast in their first years. For instance, a study conducted by Bartelsman et al. (2004) finds that in a sample of 14 countries 61–87 percent of firms that enter the market in a given year still operate after two years and that 27–66 percent of them are still operating at age seven.[3] In addition, surviving firms generate enough employment to partly offset the loss from young firms exiting the market. This implies that although at most two-thirds of the firms that enter the market in a given year will survive past age seven, those that do are usually the most productive and efficient firms.

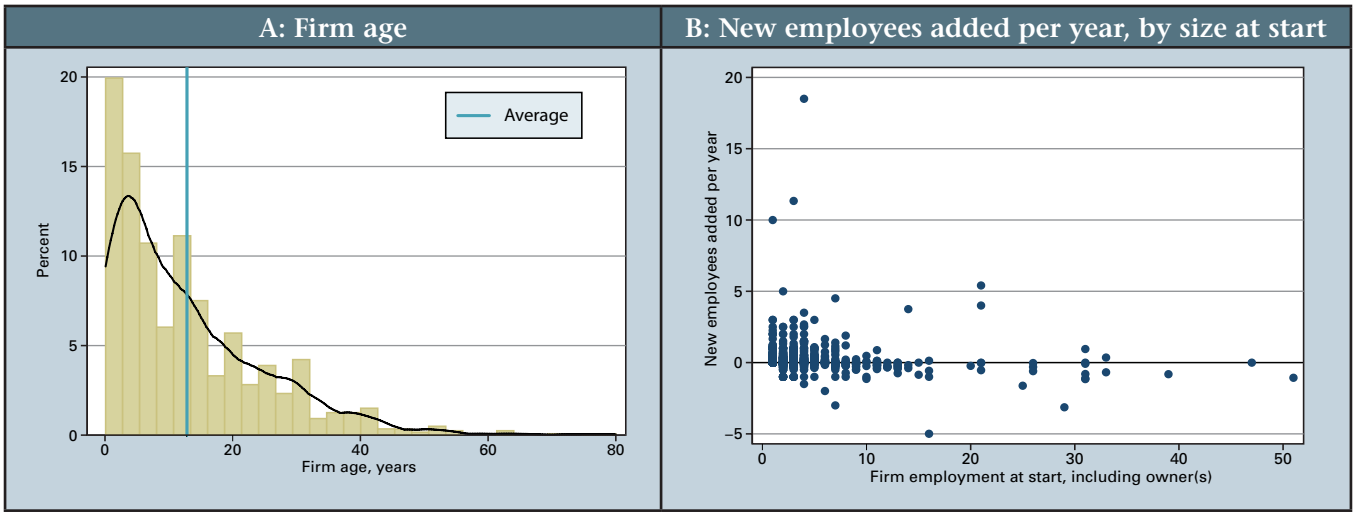
The rate of firm survival in Ecuador is consistent with the rest of Latin America but higher than international benchmarks. Among the firms interviewed for EMES, almost 20 percent have operated for two years or less, which reflects the normal process of constant firm entry and exit (Figure 1.6:A). The median age is 10 years and the mean is 12 years, which is consistent with evidence on formal urban firms with 1-50 employees in Ecuador (10 and 15 years, respectively) and in all of Latin America (14 and 19 years, respectively) from the 2010 round of Enterprise Surveys. However, these survival rates are very

[3] See Motta et al. (2010) and references therein.

high when compared with OECD averages.[4] This could be explained in part by a low level of competitive pressure that enables many inefficient firms to survive longer than they normally would.

Firm employment growth is surprisingly low. Firms the EMES sample show surprisingly low employment growth rates since the year of creation. Average annual employment growth in micro firms was only 5 percent (equivalent to one employee every four years for a 5-employee firm, which implies it would take 20 years to double the size of the firm), and firms that started with more than 10 employees have added few workers and many have actually downsized. On average, a firm which began with 11-50 workers has in fact contracted by 2.4 percent per year. One caveat to this argument however, is that the survey does not observe firms of more than 50 employees (14.72 percent of firms in these cities, according to the Economic Census), and also that for many firms downsizing brings efficiency gains that allow them to stay afloat, so negative growth in employment does not necessarily imply productivity loss.[5] Still, it is worrisome that employment growth is so low among micro, small, and medium firms as it reflects the difficulties of these firms to expand the scale of their operations.

Figure 1.6: Firm survival, age and growth



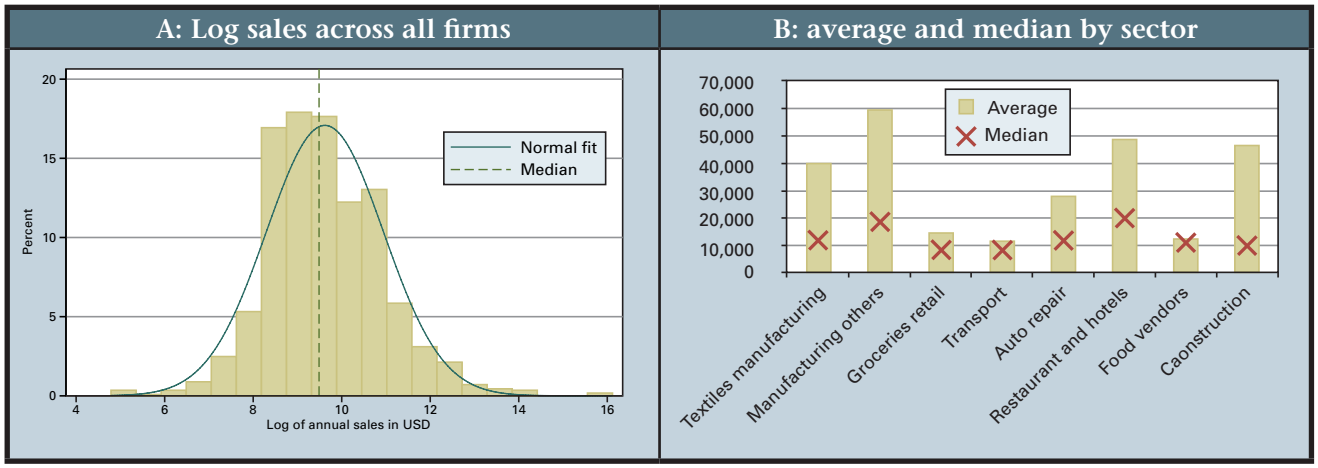
Source: EMES

[4] Although it is not possible to compute exact survival rates with a cross-section of firms, looking at the age distribution provides a rough idea of the extent of "churning" among firms; if the age composition is biased towards young firms it is likely that survival rates are low, and vice-versa if the distribution is biased towards older firms. In the case of Ecuador, the fact that only about 20 percent of firms is less than 2 years old suggests that the survival rate is higher than in OECD countries, where it is estimated that between 20-40 percent of entering firms fail within the first two years, so that–assuming that there is no firm entry in a 2-year period—at most 80 percent of firms would be older than 2 years. Since it is not realistic to assume zero entry for two years, it must be the case that at any given time the age distribution shows less than 80 percent of firms being two years and older. In Ecuador more than 80 percent of firms are older than two, which means that the survival rate is probably much higher than the average for the OECD. In turn, this is consistent with low rates of firm exit, which typically occur when there are high exit costs. See López-García and Puente (2006).

[5] When comparing this low employment generation with the Enterprise Survey data for Ecuador—which includes firms of all sizes—the results are not particularly different. Firms which had 50 employees or less in 2007 have on average added less than one new employee per year, virtually the same rate as all of Latin America (LAC Enterprise Surveys, 2010).

The revenue generation capacity of micro and small firms is limited. On average, firms in the EMES sample generate US$55,000 per year in gross sales (Figure 1.7:A). The median firm, however, generates only US$12,000 per year, and 50 percent of firms generate between US$5,800 and US$34,000 in sales per year. Median sales are relatively homogeneous across sectors, although some sectors, like manufacturing, restaurants, and construction have larger variance in sales (Figure 1.7:B). In general, firms appear to have a limited ability to generate sufficient income to cover the basic needs of firm owners and their families or, sometimes, even to keep them above the poverty line: consider that the basic consumption basket for a family of four in 2010 cost US$6,400 per year, and the poverty line for a family of four was around US$3,300.[6] Although the size of revenues does not provide accurate information about profits, the numbers clearly indicate that the revenue generation capacity of micro and small firms in Ecuador tends to be low.[7]

Figure 1.7: Distribution of annual sales



Source: EMES

Other indicators of firm performance confirm the view that few firms are likely to grow and become more productive. For instance, only 0.5 percent of firms exported their product to foreign clients, only 36 percent own the premises used for business, only 36 percent are able to live solely on the income generated by the business, and only 25 percent belong to a guild (*gremio*), which indicates that most firms have no connection to other similar businesses within a platform that enables them to access better business opportunities or to have a voice in regards to regulations and other aspects of the business environment that affects them.

[6] Banco Central del Ecuador (2010)

[7] Profits are discussed in detail in Chapter 3.

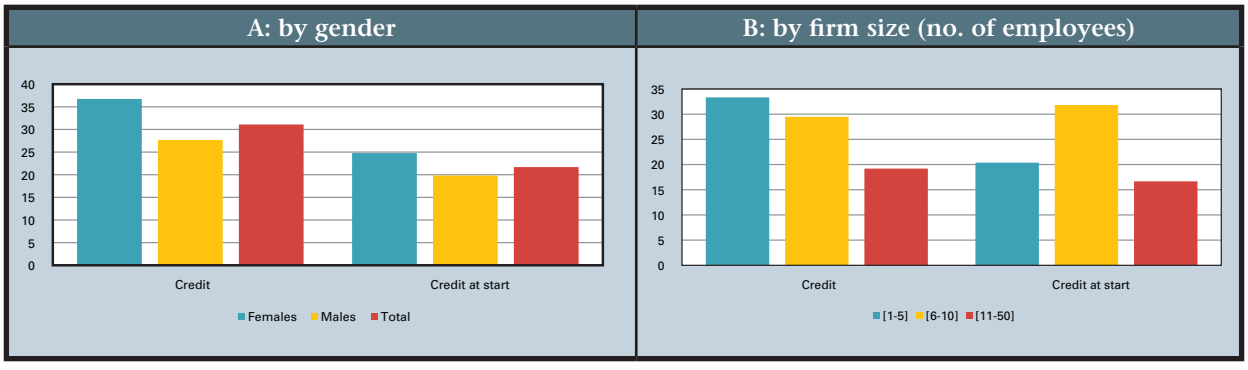
Box 2: Perceptions of the businesses environment

Firm owners believe that their businesses have grown little or stagnated. Although focus group participants mentioned a number of different challenges to firm growth, depending on their sector of activity, there were some common concerns for all entrepreneurs, such as difficulty of access to credit, ineffective and poorly trained workers, costly dismissal of employees, legal and economic measures of the government, inflation, crime, theft within the company (by employees), bribes and constant supervisions. Firm owners in Machala and Tulcán were also specifically concerned about smuggling and immigration.

1.3 Access to credit

Access to credit among micro and small firms is low, although women tend to be more successful at obtaining loans. Another key indicator of the degree of access to better opportunities and the potential for firm growth is the access and the quality of credit.[8] By and large, access to credit for firms in the EMES sample is low. Only 22 percent of firms borrowed funds at their inception, and only 31 percent of them obtained a loan in the last year. This is substantially lower than the share of formal urban firms of all sizes who currently access credit in Ecuador (49 percent) and formal firms with 50 employees or less in all of Latin America (42 percent; LAC Enterprise Survey 2010). Looking at some characteristics of entrepreneurs that obtained loans either at the start or during the last year, we find that female entrepreneurs are more successful in obtaining loans (Figure 1.8:A), and that smaller firms are also more likely to obtain a loan either at the start or in the last year, compared to their larger counterparts (Figure 1.8:B). This is likely explained by the fact that most of the credit –and thus the liability—is given to the entrepreneur, not to the firm (this was confirmed by focus group participants), which increases the risk and difficulty for larger firms to obtain loans (that are typically also larger). As a result, larger firms are more likely to use their own earnings to finance their operations, although retained earnings alone are not likely to be sufficient to consistently finance business expansion.

Figure 1.8: Access to credit at start and in the last year



Source: EMES

[8] By "quality" of credit we understand the terms of loans that firms obtain, for instance, loan maturity, loan size, and interest rate.

Box 3: Perceptions of access to credit

Firms agree on the importance of credit to ensure liquidity and to expand their business. However, firm owners affirm that they usually try to avoid loans due to the perceived risk and the uncertainty; and they resort to various alternative sources to obtain the capital needed (savings, earnings, personal loans, informal lenders, family, etc.). Although they prefer bank loans to informal lending, because the general sense is that bank loans are safer, they complain about the high interest rates and the difficulty in obtaining loans due to the many requirements, which often lead them to take personal loans rather than firm loans.

Small firms whose owners belong to a producers' guild and have some collateral (proxied by owning the establishment) are more likely to have obtained a loan to start the firm. Table 1.1 presents the results of a model of access to credit which controls for a number of firm and owner characteristics simultaneously. Consistent with international evidence, older firm owners are slightly more likely to get a loan, but this relationship does not hold for subsequent loans obtained by the firm (i.e., other than credit at start). When considering the determinants of the probability of having obtained a loan in the last year, we find that only belonging to a producers' guild remains significant, but even this effect vanishes when we control for having received a loan at the start of the firm. This finding raises the question of whether lenders use the information on previous credit as a way of screening for "good borrowers" among firms, instead of considering all additional information about the firm. It may also be the case that firms that received credit at start are more likely to seek out subsequent loans, therefore self-selecting into additional borrowing.

Firms are more likely to obtain initial financing from an informal source, but those that continue accessing credit markets tend to rely more on the formal financial sector. Figure 1.9 highlights important differences in the composition of sources for initial loans and for current loans. Figure 1.9:A shows that among firms that obtained a loan at their start, 42 percent used an informal funding source, such as a relative or friend, a pawn-broker, or an informal lender (*prestamista*), while 33 percent used a formal financial sector institution (either a private or public bank). Informal sources are also more common among food vendors, auto repair shops, and restaurants (Figure 1.9:B). In contrast, among firms that obtained a loan in the last year 67 percent got it from the formal financial sector, suggesting that having obtained a first loan could act as an incentive for the firm to use credit more actively in subsequent years, and could also motivate the firm to approach the financial sector. It is not clear, however, that banks consider this history when granting loans to firm owners.

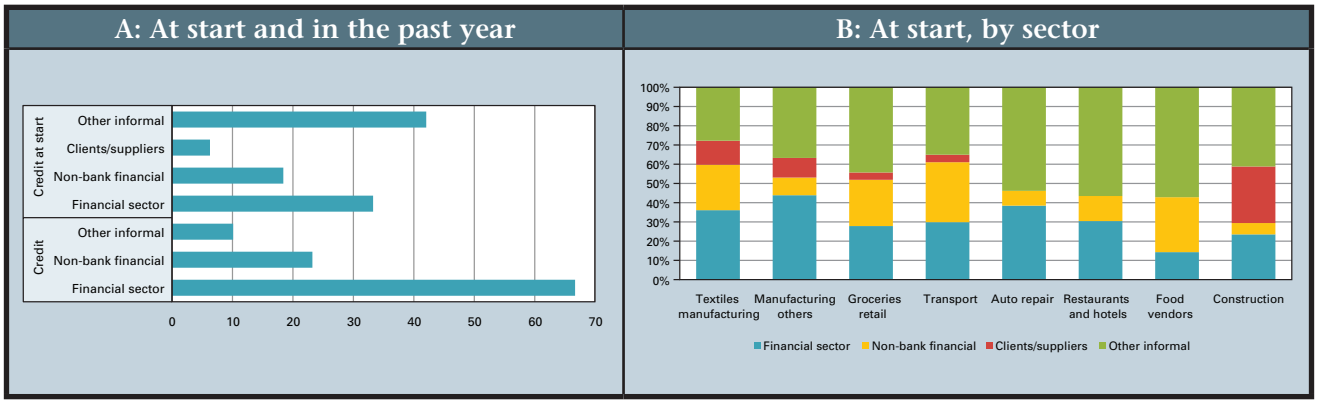
Table 1.1: Determinants of receiving credit

	Probit	Probit	Probit
Dependent variable	Credit	Credit	Credit start
Male	**-0.152***	-0.13	-0.176
Age	0	0.001	
Age at start			**0.007****
Parents had business	0.08	0.073	0.066
Ability	-0.032	-0.005	**-0.112****
Belongs to guild	**0.197****	0.144	**0.239****
Log hours worked	0.013	-0.006	0.068
Secondary incomplete	0.015	0.041	0.003
Secondary complete	-0.007	-0.006	0.235
Tertiary incomplete	-0.144	-0.138	0.194
Tertiary complete	0.03	0.05	0.185
Exporter	0.198	0.049	0.685
Owns establishment	-0.097	-0.146	**0.160***
Credit at start		**0.812*****	
Size: 6-10 employees	-0.155	**-0.209***	
Size: 11-50 employees	**-0.366****	**-0.402****	
Size at start: 6-10 employees			**0.544*****
Size at start: 11-50 employees			0.192
Guayaquil	0.121	**0.228****	**-0.408*****
Machala	0.157	0.172	0.023
Tulcán	**0.351****	0.112	**0.879*****
Manufacturing others	-0.194	**-0.258***	0.239
Groceries retail	-0.223	**-0.249***	0.021
Transport	-0.192	**-0.350****	0.602***
Auto repair	**-0.700*****	**-0.651****	-0.357
Restaurants and hotels	-0.177	-0.209	0.06
Food vendors	0.015	-0.026	0.197
Construction	**-1.088*****	**-1.046*****	**-0.649****
Observations	1218	1218	1153

Note: confidence intervals calculated with robust standard errors.

* significant at 10 percent; ** significant at 5 percent; *** significant at 1 percent

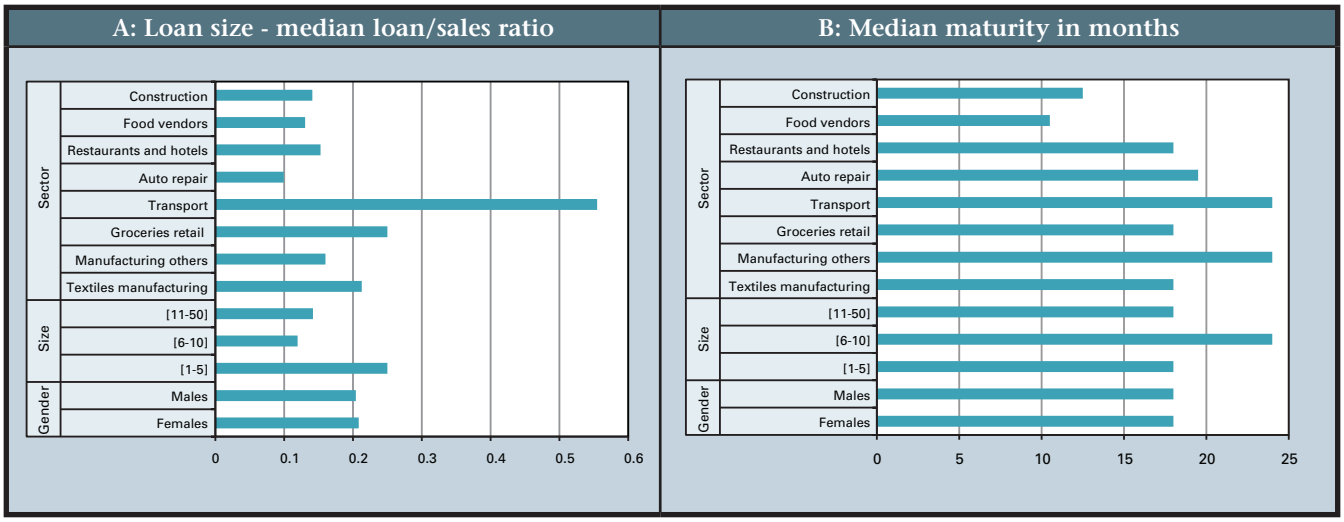
Figure 1.9: Sources of credit



Source: EMES

For firms that obtained a loan in the last year, the size of the loan is typically small, and the maturity is short compared to international standards.[9] The median loan is equivalent to about 20 percent of annual sales (Figure 1.10:A), which corresponds in absolute terms to a small amount even for a micro firm (if median annual sales are US$12,000, the median loan is US$2,400). This suggests that most likely these loans are used to provide short-term cash flow to the firm, rather than for long-term investment. The exception to this is the transport sector, where loans are granted to purchase vehicles. As for duration, most loans are repaid within 1 ½ years (Figure 1.10:B); although the maturity is slightly longer in transport and manufacturing it is still significantly shorter than in OECD countries. Interestingly, international evidence suggests that short loan maturity is associated with markets with high information asymmetries and low borrower bargaining power, which is likely the case in Ecuador (see Kirschenmann and Norden, 2012).

Figure 1.10: Maturity and loan size

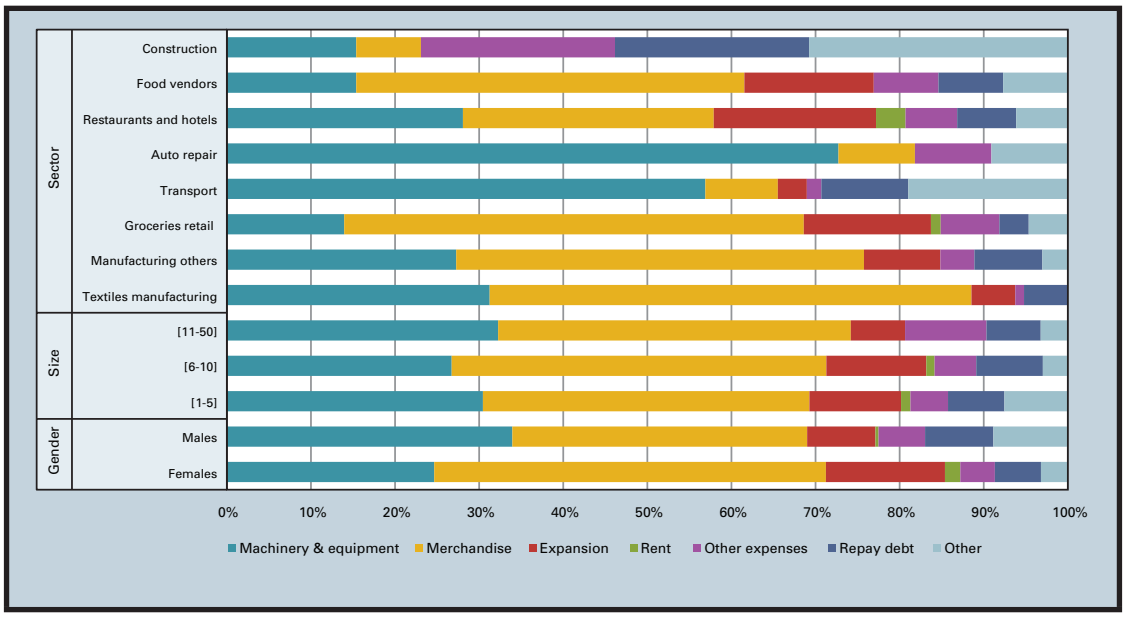


Source: EMES

[9] For instance in OECD countries the median loan maturity for firms of less than 50 employees is close to five years. See Hernández-Cánovas and Koëter-Kant (2011).

Most credit is used to finance operating expenses instead of investment. Except in transport and auto repair shops, where most of the credit is used to purchase machinery and vehicles, firms use credit mainly to purchase inventory (Figure 1.11). Likewise, expansions account for a small fraction of the use of credit in general, which is consistent with the fact that most loans are small and short-term. In construction, however, there seems to be a more diverse use of credit, including repaying debt.

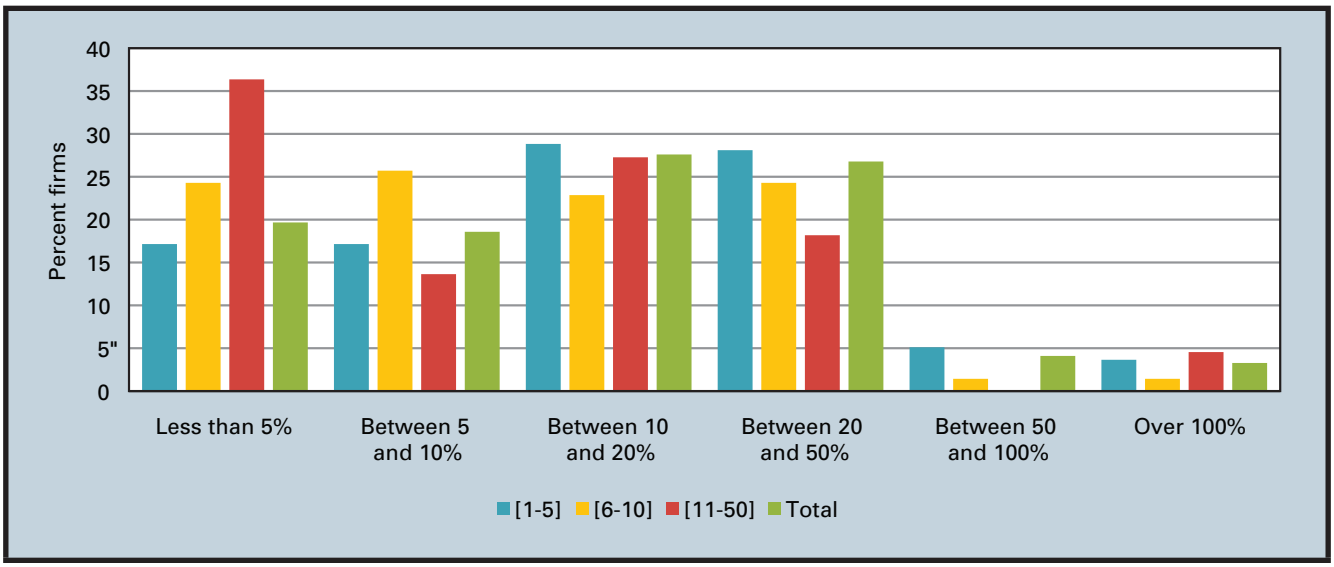
Figure 1.11: Uses of credit



Source: EMES

While most firms pay reasonable rates, a few firms pay extremely high interest. For the large majority interest rates vary from less than 5 percent per year and up to 50 percent per year, and the distribution of firms along this range is quite uniform. However around 8 percent of firms pay over 50 percent interest and about 4 percent pay over 100 percent. These rates are always charged by informal lenders (*prestamistas*), who typically charge daily interest rates. Not surprisingly, there is a negative relationship between firm size and the interest rate, so that typically larger firms pay lower interest (Figure 1.12). However, among the approximately 10 percent of firms in the EMES sample which pay interest rates in excess of 100 percent, the largest share corresponds to firms with 11-50 employees.

Figure 1.12: Interest rates by firm size (no. of employees)



Source: EMES

2. The nature of informality among firms

This chapter analyzes the extent of informality among firms, defining informality as lack of compliance with the regulatory framework. Consistent with international evidence, it finds that most firms operate along the "informality continuum", that is, they are neither completely formal nor completely informal. Nevertheless, overall compliance with existing regulations is generally low, in particular with regard to labor regulations. One explanation behind the low compliance with labor regulation is the high cost associated with laying off workers. Moreover, the chapter finds that the majority of firm owners see few benefits in complying with regulations, have little trust in how tax money is used, and believe the tax system is unfair.

This chapter develops the profile of informality at the firm level following the "exit" and "exclusion" taxonomy established by Perry et al. (2007). According to the traditional view of informality, self-employment (or running a micro-small business) is often the result of a lack of opportunities in the wage employment formal sector. In a country with limited safety nets, this forces most people to "create employment for themselves" as street vendors, small shopkeepers, etc. (that is, informality as the result of "exclusion" from formal employment). The traditional view of this type of employment is that it is "low quality", that is, wages are insufficient to lift people out of poverty, and self-employed workers and micro entrepreneurs would switch to wage employment if they had the opportunity to do so. However, in the last 20 years there has been growing evidence of a large share of formal sector workers who choose to quit their job to become self-employed or to run a small business. These voluntary informal workers typically earn equal or higher incomes than formal salaried workers, they have the satisfaction of "being their own boss," and they enjoy greater flexibility to balance their work and family responsibilities (that is, informality as the result of "exit" from the formal sector).

In order to reflect the multidimensional nature of informality, the chapter constructs a series of indicators which capture firms at various positions along the "informality continuum." Among the universe of workers and firms that fail to comply with the existing regulations, some of them face great barriers to become formal, but many also see no real benefit in being formal, and perceive compliance as a tax with no service in return. Therefore, the chapter defines informality as compliance with a range of regulatory requirements—some of which are more difficult and costly than others—and explicitly considers the reasons why firm owners choose to follow or not follow the rules.

The chapter is structured as follows: it begins by defining informality in the context of the study and examining compliance with each of the seven proposed informality indicators. The chapter continues with a detailed examination of informality in the area of labor regulations, and proceeds to consider whether the lack of compliance tends to be driven more strongly by "exit" or "exclusion." The chapter concludes by considering the impact of attitudes towards the fairness of the tax system and general confidence in the state on compliance.

2.1 What it means to be "informal"

This study proposes seven distinct—but related—dimensions of informality at the firm level. Rather than looking at only one aspect of compliance, the EMES survey measures formality along multiple dimensions. The definition of formality adopted for this study measures compliance with four sets of mandatory regulations: being registered with the tax authority and having a taxpayer number (RUC), having a municipal license, requesting formal receipts from their suppliers, and registering their employees with the Ecuadorian Institute of Social Security (IESS). The survey also measures the extent to which firms offer written contracts to employees. Although this is not a legal requirement as verbal contracts are recognized on an equal basis, the use of written contracts is more indicative of firms which comply with a broader set of regulations, offer more worker protections, and in particular is highly correlated with affiliating employees to IESS.[10] Furthermore, the EMES considers two additional dimensions which are also not mandatory for most firms in the survey but which capture whether they have reached a higher stage of development where they need to be incorporated through a public notary and registered in the official registry (*registro mercantil*).[11]

Box 4: Definitions of informality

The multiple dimensions and hidden nature of informal activity pose substantial challenges to defining and measuring informality with some precision. Informality takes many forms, from a street vendor to a small unregistered firm to a large registered "formal" firm that does not offer some of its workers written contracts or access to social security benefits. It is precisely due to these difficulties in defining informality that Perry et al (2007) devote an entire chapter to a discussion of what constitutes informal activity without arriving at an exact definition. However, despite the heterogeneity of the different phenomena which constitute informality, they share a common theme of some lack of compliance arising for a multitude of reasons which Perry et al (2007) group in two broad categories of "exit" (Hirschman, 1970) and "exclusion" (de Soto, 1989).

Commonly used definitions focus on "productivity" and/or "legalistic" views of informality. The "productivity" view focuses on the type of firm and its legal status. It includes small-scale production units with no legal separation from their owners (i.e., firms not legally registered as businesses), such as family-based businesses in which one or more family members participate, and micro-enterprises. The "social protection" or "legalistic" view focuses on employment, recognizing that in many cases larger, formally registered firms establish informal working contracts with their employees, thus avoiding payment of social security contributions, severance payments, and other penalties in case of dismissal. This second view allows for informal behavior to take place both in informal and formal production units and could be broadened to a general lack of compliance with regulations, not necessarily only those related to labor relations. The current definition used by the International Labour Organization (ILO) contemplates both types of informality, and it also includes households producing goods for their own use as well as households employing paid domestic workers as parts of the informal sector.

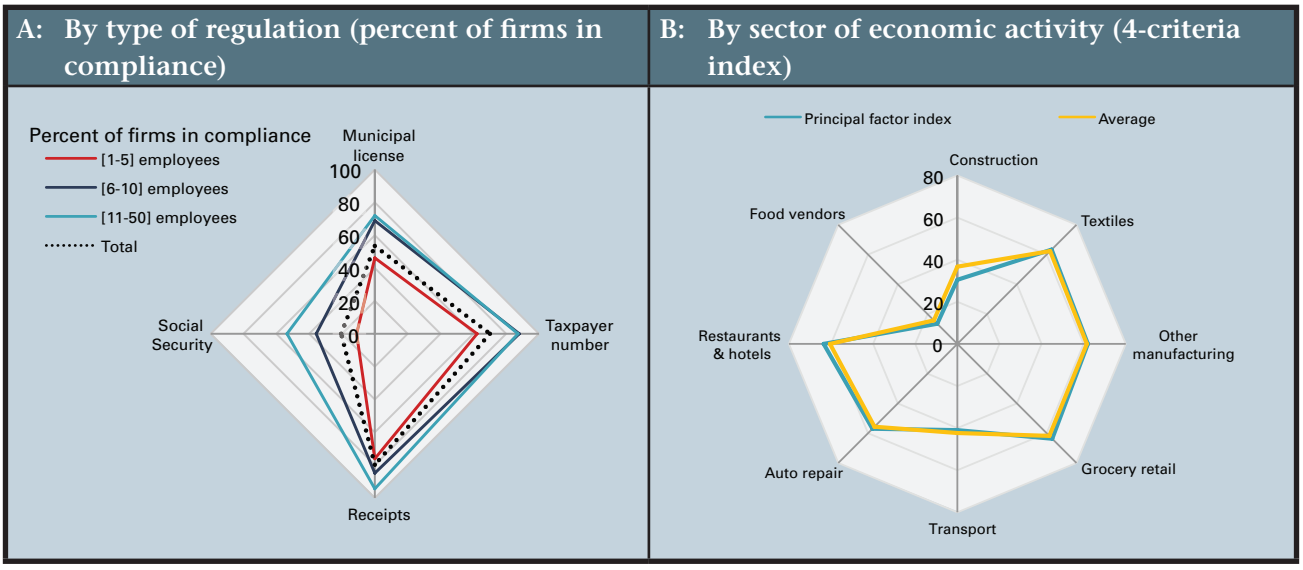
[10] According to the Article 11(a) of the Ecuadorian Labor Code, employment contracts can be "explicit or implicit, and, first and foremost, written or verbal." Furthermore, Article 12 specifies that "a contract is considered explicit when an employer and a worker agree on the conditions, whether in words or in writing."

[11] See Annex B for the regulatory framework that applies to different categories of firms.

This study defines informality as economic activity that does not fully comply with all regulatory, tax, or legal requirements, but which otherwise would have been legal. This definition therefore includes all businesses (and their workers) which operate in officially recognized sectors of economic activity, but excludes activities which would always be illegal (e.g., contraband). This definition also recognizes that economic actors tend to have a multi-faceted relationship with the state, complying with some regulations but not others, rather than operating in a dichotomous world of zero or full compliance. In this regard, the definition of informality used in this report is consistent with the methodology of Perry et al (2007), including both the exclusion (inability to comply) and exit (rational decision not to comply) dimensions of informal behavior.

The study considers each dimension individually, but also combines them to form a "formality index." There are five dichotomous variables that take the value of 1 if a firm has: a tax identification number (*RUC)*, a municipal license (*patente*), if it is registered (*registrada*), if it is incorporated (*incorporada*), and if it requests receipts on all their purchases (*facturas*); and two continuous variables that measure the percentage of employees that the firm reports to have issued written contracts to (*contratos*), and the percentage of employees at the firm registered with IESS (*IESS*). In addition to analyzing the performance of firms along each of these dimensions individually, the study also combines them in an index which captures the level of firm compliance along the entire spectrum of formality. We construct two indices: a "narrow" index which only includes the four mandatory regulations (*RUC, patente, facturas,* and *IESS*; see Figure 2.1) and the broader index using all seven variables. To compute the index we use alternatively the first principal factor of the informality variables and a simple average (we normalize both indices to take values between 0 and 100), with results being very similar across the two.

Figure 2.1: Formality profile of firms



Source: EMES

Compliance with the regulatory framework is highly uneven across firms and regulations. Consistent with evidence from the region and the world, most firms in Ecuador are neither completely informal nor

fully formal. Specifically, among the firms interviewed in the EMES sample, there is a relatively high level of compliance with tax-related regulations (i.e., having a RUC and requesting receipts) and, to a lesser extent, with municipal licenses. On average over 70 percent of firms report to have a RUC and to request receipts systematically, while 53.5 percent have a municipal license. On the other hand, labor regulation compliance is notably lower for all firms. On average, firms affiliate only 20.5 percent of their employees with social security, and the rate of compliance is substantially lower for smaller firms. Likewise, an average firm provides written contracts to just 13.1 percent of its employees. Although few firms in the EMES sample are incorporated by a public notary or appear in the official firm registry (9.7 percent and 8.3 percent, respectively), not all firms are required to do so either. Restricting the universe of firms to only those who must follow these regulations changes the compliance profile substantially: among those for whom these regulations are mandatory, 77 percent comply with incorporation and 63 percent with registration rules.

Box 5: Perceptions of compliance and informality

Firms acknowledge that there are different "levels of formality" according to which regulations the firm complies with. Entrepreneurs consider that informality is multidimensional, as it involves not only the companies but also workers, clients, products, etc. It is widely accepted that the most important requirements are the RUC and the municipal license. In Quito and Guayaquil the legal requirements of incorporation and the license from the fire marshal are also considered fundamental components of formality. Labor formality (contracts, affiliation, minimum wage, etc.) however, is not considered as important as these. Some entrepreneurs relate formality to productivity, guilds and other aspects that are not legal requirements.

Firm owners see informality as a negative consequence of running a small firm. Firm owners believe that, in general, informal businesses are mainly small enterprises that are not able to bear the necessary expenses to become formal. Entrepreneurs acknowledge that the Government is promoting a process to achieve formality through new regulations, but complain about the lack of information.

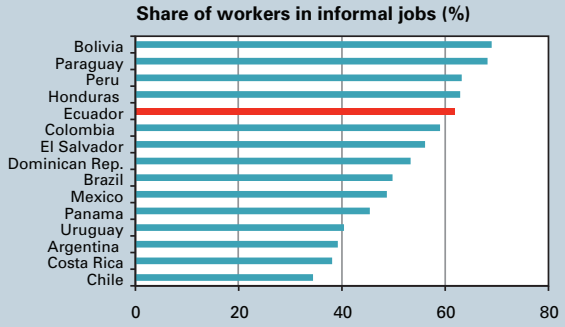
Box 6: Informality in Ecuador in international context

Compared to other countries in Latin America, Ecuador performs worse than average in labor categories of informality but better than average in others. According to Perry et al (2007), Ecuador performed worse than the average of 14-19 countries in Latin America and the Caribbean in the share of workers covered by pensions as well as the share of self-employed workers and informal workers.[12] While the data used in Perry et al (2007) were collected mainly in the early 2000s, the most recent labor market indicators available from SEDLAC paint virtually the same picture: Ecuador has the fifth-highest incidence of informality in the region according the "productive" definition and fourth-highest incidence according to the "legalistic" definition. On the other hand, according to Perry et al (2007), the percentage of sales that goes unreported for tax purposes in Ecuador is below the regional average. Moreover, estimates of the shadow economy as a share of GDP place

[12] For the purposes of this definition, informal workers were defined as unskilled self-employed or zero-income workers, as well as employees of small private firms. See Chapter 1 of Perry et al (2007) for additional details.

Ecuador, at around 34 percent in 1999/2000, significantly below the regional average of 42 percent (Schneider, 2005).

During the last decade, some indicators of informality in Ecuador have increased while others declined. Using the definition of informal workers adopted in the Ecuador labor force survey ENEMDU (*Encuesta de Empleo, Desempleo y Subempleo*), Oleas and Ricaurte (2010) show that informality has increased from 33 percent of the economically active population (labor force) in 2000 to nearly 49 percent in 2009.[13] More recently, the share of informal workers declined only marginally to 47.5-47.6 percent in 2010 and 2011—still substantially above the levels observed at the beginning of the 2000s. On the other hand, the share of workers without IESS social security coverage fell from 75 percent in 2000 to around 70 percent in 2009 (Oleas and Ricaurte, 2010) and continued declining to around 62 percent in 2011. Finally, the share of workers employed in firms without a tax identification number (RUC) started and ended the 2000s at around 42 percent with a small spike in 2004-06 (Oleas and Ricaurte, 2010), although in 2010-2011 this share declined somewhat to 37 percent.[14]



Note: A worker is considered informal if (s)he is a salaried worker in a firm with less than 5 employees, a non-professional self-employed, or a zero-income worker.



Note: A worker is considered informal if (s)he does not have the right to a pension when retired.

Source: SEDLAC, latest year available (2007-2010).

More than 80 percent of micro and small businesses operate somewhere on the "informality continuum," with the remainder split almost equally between fully formal and fully informal firms

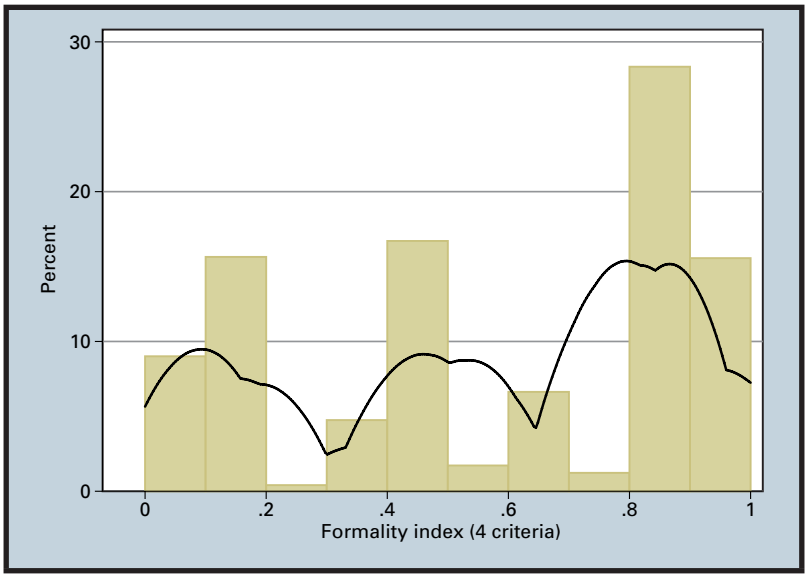
Figure 2.2 shows that compliance with the four mandatory regulations varies widely across firms. When looking at compliance with the four mandatory regulations, only 9 percent can be considered fully informal and 10 percent fully formal, while the rest comply with some but not others. The density function (black line in the figure) identifies three clusters of firms: those who demonstrate low, medium, and high rates of compliance, with the latter group being somewhat larger in size than the previous two. These results are consistent with the way entrepreneurs see informality, which is reported by focus group

[13] The ENEMDU defines informal workers as those employed in informal sector enterprises, which follows the definition used by the ILO and is based on the conclusions reached during the Fifteenth International Conference of Labour Statisticians (1993). For operational purposes, the ILO defines informal employment as self-employed or own-account workers (excluding administrative workers, professionals, and technicians), unpaid family workers, and employers and employees working in establishments with less than 5 or 10 persons employed, and excludes paid domestic workers.

[14] The universe of workers considered for calculating this ratio is limited to full-time employees (40 hours per week or more) of firms with more than one person on the payroll (i.e., excluding the self-employed).

results (see Box 7). As expected, the level of compliance varies systematically across sizes, with micro firms below average and small and medium firms above. For instance, 72 percent of medium firms have a municipal license, against 46.2 percent of micro firms. While the variance is not as large in the case of RUC and tax receipts (87.2 percent of large firms have a RUC, against 62.3 percent of micro firms; 94.4 percent of medium firms issue tax receipts, against 76.1 percent of micro firms), it is striking in the case of labor regulations. Namely, over half of employees at medium firms have either a written contract or are affiliated to IESS (52.5 percent and 53.5 percent respectively), but only 2.4 percent of employees in micro firms have a written contract and 11.1 percent are affiliated to IESS.[15]

Figure 2.2: Compliance with mandatory regulations

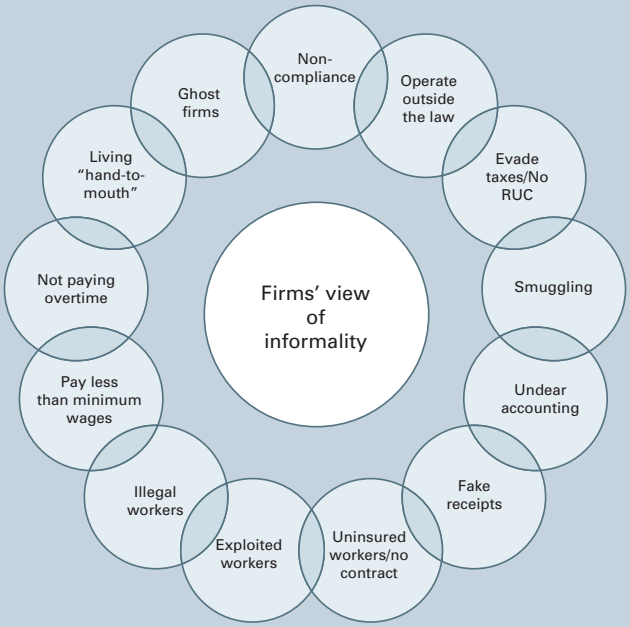


Source: EMES

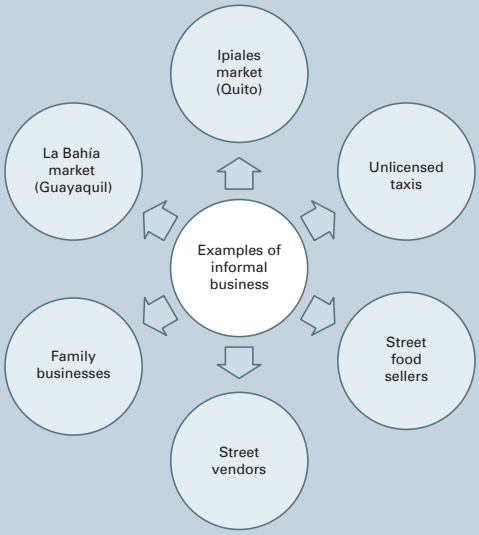
[15] Many workers in focus groups reported having "contratos de palabra" or oral agreements. However, in most cases oral agreements put the burden of proof on the employee, making litigation procedures more difficult, lengthy and costly for workers.

Box 7: Examples of informal activity

Consistent with the literature, informality among micro and small firms in Ecuador is a continuum – most firms comply with some level of regulation, but very few comply with all levels. Firm owners who participated in focus groups for this study clearly see themselves along this continuum in their "path towards formality". When asked what the terms "informality" means to them, they mention a large number of behaviors, some related to lack of compliance, some related to illegal activity, and other to lack of ethics in doing business. Interestingly, the term is also related to poverty and vulnerability (living hand-to-mouth).



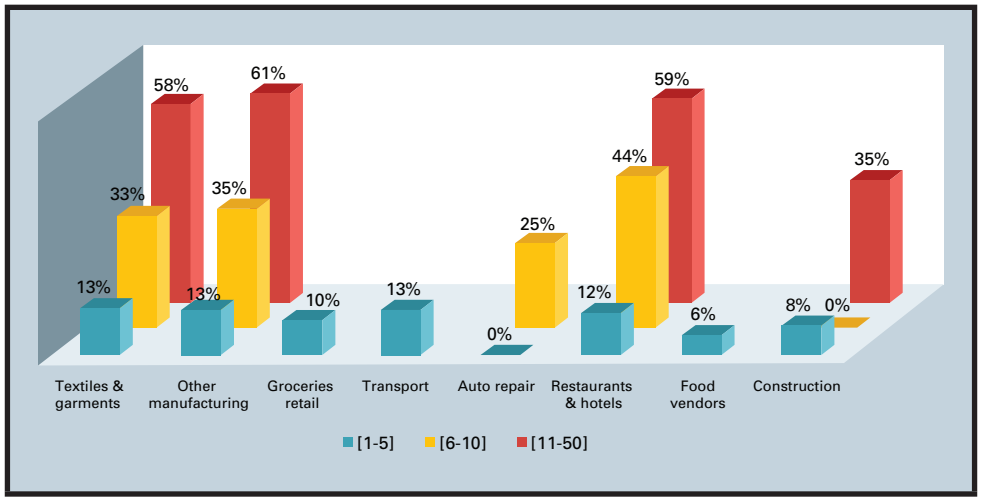
In addition, when asked about examples of businesses they considered to be informal, firm owners cited well-known business "types" that typically avoid paying taxes and practice unfair competition with formal businesses such as smuggled electronics, or unlicensed taxicabs.



2.2 Labor informality

Compliance with labor regulations is proportional to firm size. Although a full analysis of the labor market and its institutions is outside the scope of this study, the discussion in this section considers some of the main aspects of labor regulations compliance. First, we analyze affiliation to the social security institute IESS by type of firm as well as the nature of affiliation within firms. On average, firms with more than 10 employees affiliate between 35 percent of employees (in construction) to 61 percent (in other manufacturing), as seen in Figure 2.3. On the other hand, the percentage of workers affiliated is at most 13 percent among firms with 1-5 workers, and it varies widely across firms with 6-10 employees, from a minimum of near 0 percent in construction to a maximum of 44 percent in restaurants and hotels.

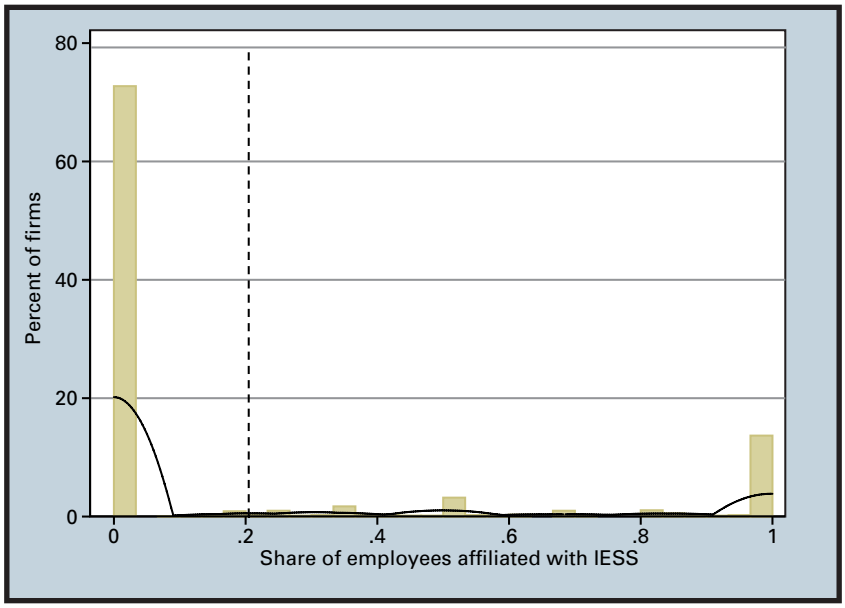
Figure 2.3: Affiliation to IESS, by sector and size (no. of employees)



Source: EMES

Firms tend to affiliate either all or none of their workers, with most firms choosing not to affiliate their employees. The heterogeneity in affiliation with IESS is actually larger when we look at the percentage of employees affiliated within firms, rather than the averages across firms. It turns out that most firms (over 70 percent) affiliate zero employees and a smaller percentage (less than 20 percent) affiliate all their employees, while very few firms affiliate only a portion of their personnel (Figure 2.4). This implies that there are likely very few cases where formal firms have some formal and some informal workers; rather, firms seem to make a decision on whether to affiliate all workers, or none, regardless of their formality status (in terms of tax registration, licensing, etc.).

Figure 2.4: Distribution of firms by percent of employees affiliated with IESS



Source: EMES

Workers with lower levels of education, working in smaller firms, and in Guayaquil and Machala, are more likely to not be affiliated with IESS. Using the quarterly urban labor force survey ENEMDU, we selected the subsample of workers in the same sectors and cities that were included in the EMES sample. We then estimated a simple regression model where the dependent variable is equal to one if a salaried employee is not affiliated with IESS and zero otherwise, with the results reported in Table 2.1.[16] Not surprisingly, workers' education and firm size are related to IESS affiliation, but it also appears that workers in Guayaquil and Machala have a higher probability of working without affiliation with IESS. On the other hand, workers with longer tenure at the firm and household heads are more likely to be affiliated. The latter result should be especially relevant because of the recent IESS reform that extends health benefit coverage to the spouse and dependent children of the affiliated worker.

[16] The affiliation question is asked to all employed workers, so that we limit the observations to those who work as salaried employees.

Table 2.1: Characteristics of informal employees

Dependent variable: not affiliated to IESS	
Education	
Secondary	-0.66
Tertiary	-1.44 ***
City	
Guayaquil	0.75 ***
Machala	1.10 ***
Sector	
Other manufacturing	-0.12
Groceries retail	-0.57 **
Transport and mechanics	-0.09
Restaurants and hotels	-0.41 **
Construction	0.28
Size	
[6-10]	-0.89 ***
[11-50]	-1.58 ***
[51+]	-2.49 ***
Years in the firm	-0.02 ***
Household head	-0.27 **
Constant	1.81 ***
Observations	790
Pseudo R^2	0.4512

* significant at 10 percent; ** significant at 5 percent; *** significant at 1 percent

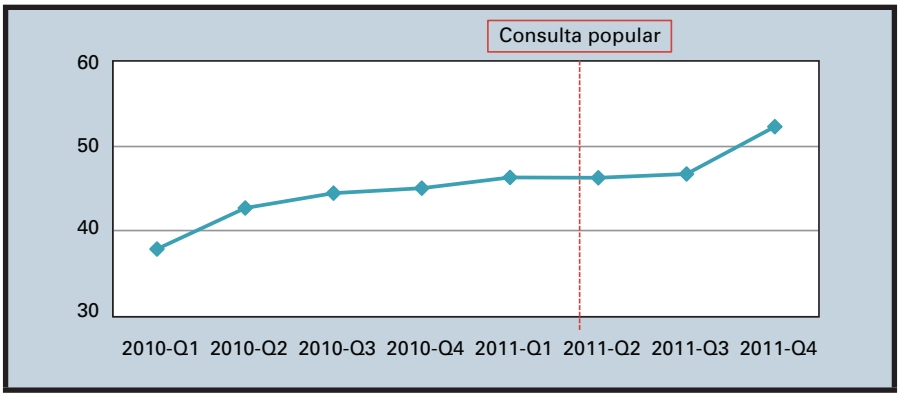
Source: authors' calculations using ENEMDU 2011.

Low perceived benefits of affiliation, coupled with weak enforcement, are likely behind the low historical affiliation rates. Affiliating a worker with IESS means that the employer and employee together must pay 20.35 percent of the gross wage as contributions (the employer's share is 9.35 percent and the employee's share is 11.15 percent). Clearly, unless the level of enforcement from IESS is high and the employee values being affiliated, the contribution cost could be perceived as a tax and there would be incentive on both sides to agree on an informal contract and avoid paying the contributions. It is possible that in the past many workers attributed little value to being affiliated, as IESS imposed strict rules to benefit from its service (6 months of continuous contributions to access health services, only full-time employees eligible, no dependents' coverage); likewise, enforcement levels were weak until recently, so that employers had high incentives to circumvent affiliation and bargain an informal contract where employer and employee could "split the difference" and avoid paying contributions.

Recent reforms to IESS rules and benefits, together with stricter enforcement, may have increased the affiliation rate and the perceptions about the value of social security. Since 2010 IESS has introduced deep reforms in access to services as well as in the level of enforcement. In particular, rules for

access to benefits have become more flexible and coverage has extended to dependents, not to mention that the quality of service (for instance the number of health centers and the access to treatment for complex illnesses in private hospitals) has considerably improved. In addition, following the 2011 referendum that converted non-affiliation with IESS into a criminal offense that could be penalized with prison, enforcement has increased significantly, all of which has led to an improvement in the coverage of IESS among the employed population, from 37.8 percent at the beginning of 2010 to 52.3 percent at the end of 2011 (Figure 2.5).

Figure 2.5: Evolution of affiliation with IESS (all employed)



Source: ENEMDU

Box 8: Perceptions of labor informality

Workers participating in focus groups believe that labor formality means adequate labor contracts and affiliation with IESS. Workers understand that written contracts provide stability (wages, hours), legal protection and security but they reduce flexibility (leave, working hours, possibility of having another job, etc.). In addition, they believe contracts empower the employer to be demand more of them. Workers are also aware that having health insurance for them and their families, a retirement pension, and access to credit are the main advantages of affiliation with IESS. However, they also think that the requirements to access these benefits (months of affiliation), the quality of public hospitals (despite the improvement) and the fear of losing their jobs (due to the employer's obligation to pay IESS contributions) are factors that discourage affiliation.

Employers participating in the focus groups admit that labor formality is a right of employees and something positive, but do not believe their businesses are profitable enough to issue contracts and affiliate workers. The main factors that discourage affiliation among employers are the requirement of paying the minimum wage, the IESS contributions, and the costs of dismissals. Moreover, some of them declared that employees prefer receiving a higher salary rather than be affiliated. Employers also believe that the affiliation process is complex.

Severance pay is particularly high in Ecuador, which could also be a significant obstacle to labor formality. As the Doing Business "employing workers" indicator shows, the Ecuadorian labor code imposes a substantially higher severance pay to employers compared to neighbor countries, countries

in the rest of LAC and in the OECD (Table 2.2). Namely, a worker that has been employed for one year and is laid off is entitled to a severance pay of 14 weeks (3.5 months), which is equivalent to 30 percent of the time that the worker was employed at the firm. The same worker would receive 5.2 weeks' salary in Uruguay, 4.3 in Colombia, and 2.9 weeks' salary in Peru (on average, 3.2 weeks' salary in LAC and 2 weeks' in OECD). Similar differences are observed as tenure time increases. Even if other costs associated to formal hiring are not particularly high (such as minimum wages, annual leave, etc.), high severance pay has a strong deterrent effect on formal hiring, particularly when litigation procedures are time consuming and costly. This relationship between labor regulations and formality has been shown to be statistically significant in previous studies of Latin America and the rest of the world, as reported by Oviedo et al. (2008).

Table 2.2: Severance pay and other labor costs

Labor regulation flexibility	Ecuador	Bolivia	Colombia	Peru	Uruguay	LAC	OECD
Severance pay for redundancy layoff (1 year of tenure, in salary weeks)	14.1	Not allowed	4.3	2.9	5.2	3.2	2.0
Severance pay for redundancy layoff (average 1, 5 and 10 years of tenure, in salary weeks)	31.8	Not allowed	16.7	11.4	20.8	13.9	5.7
Minimum wage/value added per worker	0.4	0.4	0.4	0.3	0.2	0.4	0.2
Annual leave (1 year of tenure, in work days)	11.0	15.0	15.0	13.0	20.0	14.2	20.6
Labor taxes and contributions (percent of salaries)	35.3	80.0	74.8	40.7	42.0	47.7	42.7

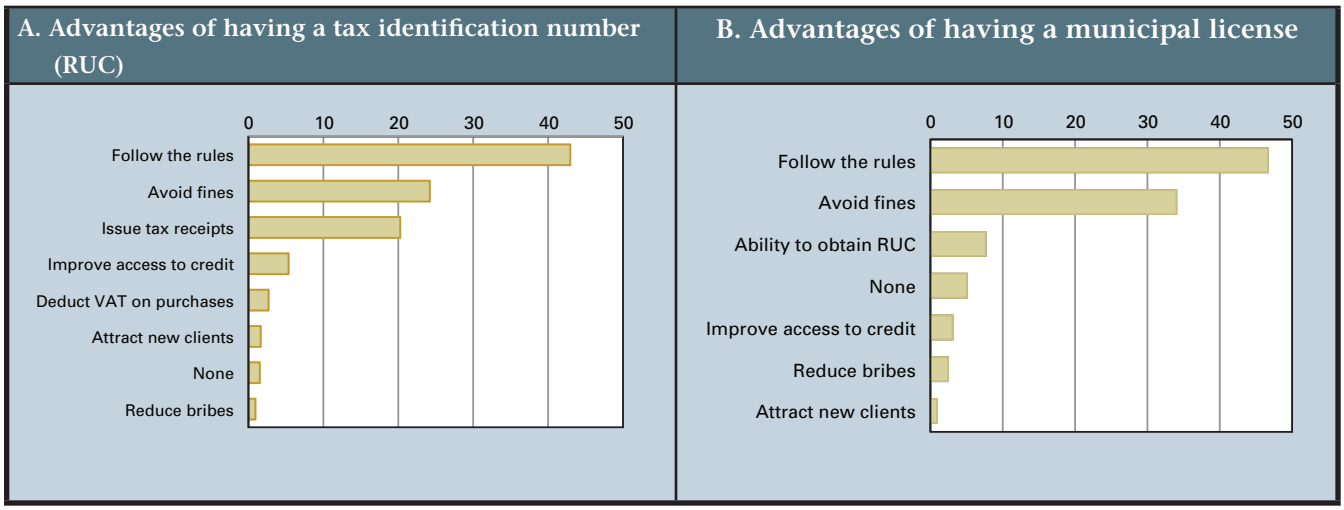
Source: Doing Business (2012)

2.3 Exit or exclusion?

According to firm owners, the main benefit of formalizing is to "follow the rules." The survey asks firm owners who report to be in compliance with firm-level regulations (RUC, license, and receipts) what, in their view, is the main benefit of doing so. Among the possible responses are to "follow the rules," to avoid fines, to be able to issue receipts (in the case of the RUC), to be able to obtain a RUC (in the case of having the municipal license), to attract new clients, to have more access to credit, etc. As shown in Figure 2.6, more than 40 percent of respondents mention "following the rules" ("*estar en regla*") as the main motivation for complying with regulatory requirements. Similar sentiments were also expressed during focus group discussions, especially with owners of larger businesses (more than 10

employees) who indicated that they could not imagine operating their firms without having taken some steps towards formality. More generally, firm owners of all sizes felt that in order to grow and compete successfully for larger contracts, "having everything in order" and "following the rules" is a necessity.

Figure 2.6: Benefits of registering with tax authorities and the municipality



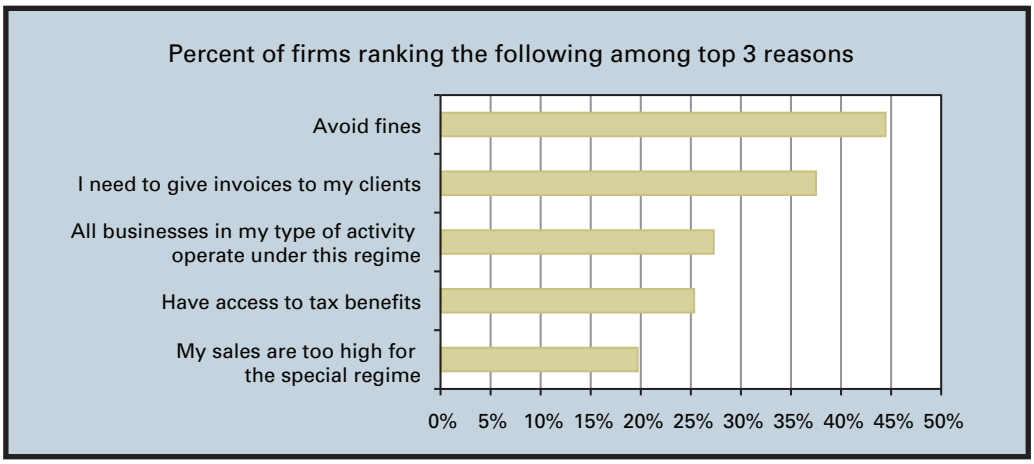
Source: EMES

The next most commonly mentioned benefit of formality is to avoid costly fines. This reason was named by 24 to 34 percent of respondents, and was also brought up during the focus group discussions. Unfortunately, although EMES asks firm owners about the incidence and amount of fines, the data are not sufficient to establish a causal relationship between formality and fines and therefore cannot empirically verify this hypothesis. In fact, among the 141 firms who reported paying a fine last year (out of total 1,221 surveyed), more formal firms are actually more likely to have paid a fine—but this most likely reflects the fact that more formal firms are more visible and therefore more likely to be visited by the authorities. In order to identify whether formalizing helps avoid fines, the EMES data would need to be collected at regular intervals over time (i.e., constructing a panel) in order to tell whether firms which have taken further steps towards formalization during this time have been able to significantly lower the incidence of fines.[17]

The third most mentioned benefit is the ability to issue tax receipts to customers. This reason was cited by more than 20 percent of firms with a tax identification number (RUC); in addition, almost 8 percent of firms with a municipal license indicated that being able to obtain a RUC—which is prerequisite for issuing receipts for tax purposes—was the main benefit of obtaining the license. Avoiding fines and the ability to issue receipts are also the main reasons cited by owners who file taxes under the general regime (which allows deduction of the VAT), as opposed to the simplified regime RISE which offers the benefit of a flat payment but no possibility to deduct VAT (Figure 2.7).

[17] For those who did pay a fine, there is no relationship between formality and the amount of fine paid, either in absolute value or as a share of revenues or profits.

Figure 2.7: Reasons for adopting general tax regime



Source: EMES

Box 9: The Ecuadorian Simplified Tax Regime (RISE)

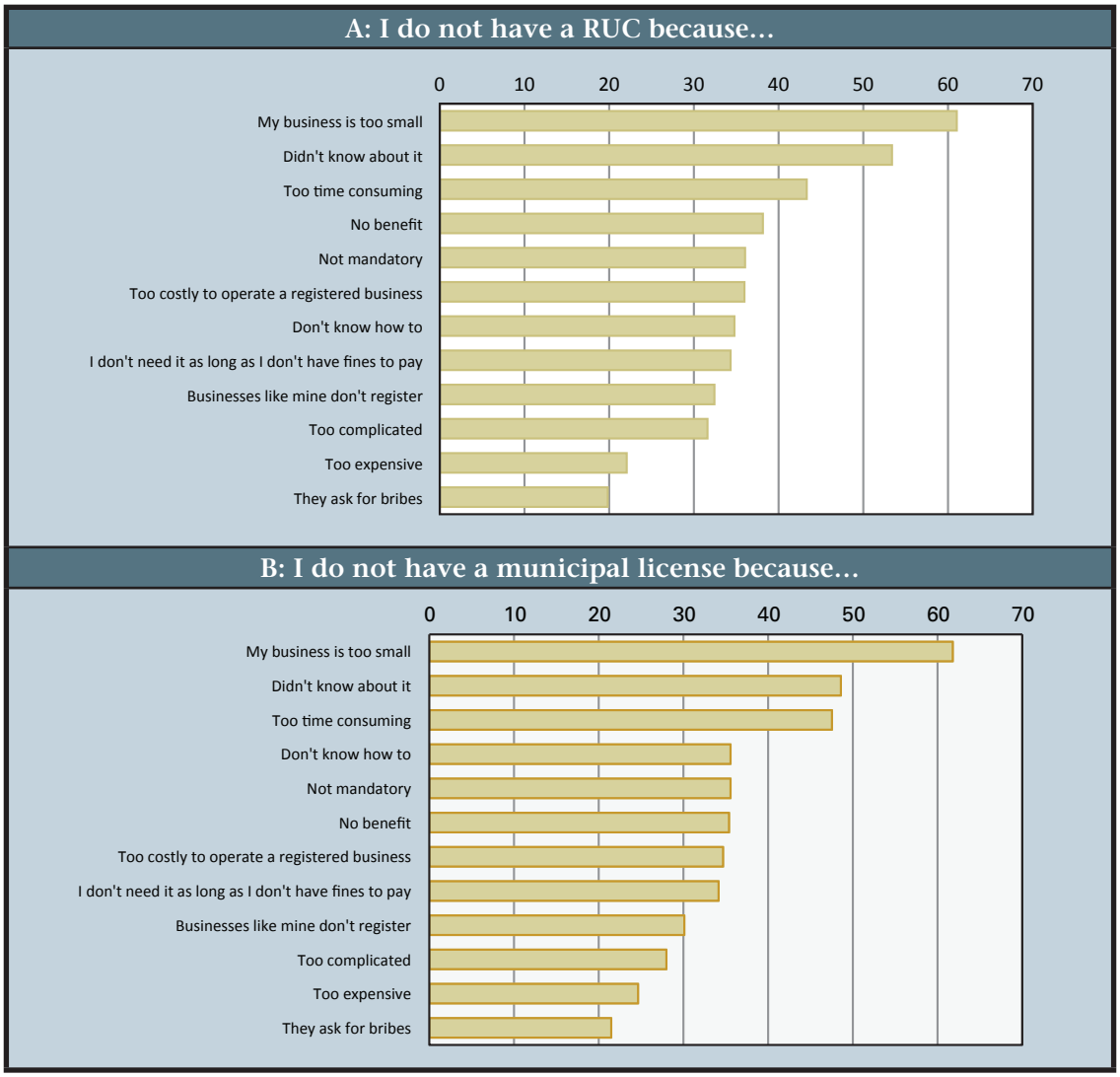
In August 2008, Ecuador's Internal Revenue Service (SRI) introduced a simplified regime for small taxpayers: RISE (Régimen Impositivo Simplificado Ecuatoriano). RISE replaces the standard VAT and income tax with fixed monthly payments which are determined on the basis of the taxpayer's sector of economic activity and annual/monthly income. RISE is only available to natural persons with incomes below US$60,000, and certain activities—such as financial and professional (white-collar) services—are excluded. The implied tax rates vary from 0.2 percent (entrepreneurs in commerce, manufacturing, transport, or agriculture with annual income below US$5,000) to 4.4 percent (entrepreneurs in hotels and restaurants with annual income between US$50,000 and US$60,000), whereas the standard VAT rate alone is 12 percent. In addition to the lower tax liability, RISE offers additional advantages vis-à-vis the general regime: simpler documentation (no requirement to keep accounting ledgers or file tax declarations) and a 5 percent discount in the monthly payment for each new worker that is affiliated to IESS.

Upon introduction, RISE was very popular. 97,000 people joined the new regime between August and October 2008, although the pace slowed until February 2009. Since then, registrations have averaged around 12,400 new taxpayers a month. Although the overall take-up has been substantial—between 2008 and 2011, 379,131 people joined RISE—revenues from RISE amount to just 0.1 percent of total direct tax collection. On the other hand, there is some evidence that RISE has helped encourage formalization: most of the registrations were from new affiliates, although about 25 percent of RISE taxpayers switched from the general to the simplified regime. In addition, according to the RISE taxpayers' survey (2010), 77 percent of those surveyed did not register their business prior to joining RISE, supporting the hypothesis that RISE encouraged registration with tax authorities. On the other hand, despite the low monthly payments, compliance is not very high: in 2010, about 50 percent of RISE taxpayers were 6 months or more delayed in their payments.

Among owners who do not have a RUC or a municipal license, the main reasons for non-compliance are related to the small size of the business, lack of information, and perceived lack of benefits from compliance. Small scale is the most commonly cited reason, with over 60 percent of

non-compliant firms reporting that they don't have a RUC (Figure 2.8: A) or municipal license (Figure 2.8: B) because "my business is too small." This could refer to the belief that their business will not be detected by inspectors or that the scale of operations is so small that it is not worth being formal. About half of firm owners (53 percent for RUC and 47 percent for license) cite that they "did not know about it," which likely refers to the knowledge of rules and procedures rather than the existence of the rules themselves since the latter is unlikely in dense urban areas like the cities covered in the survey.[18] A more reasonable argument many firms offered is that such transactions are costly and time consuming, which, given the small scale of many of these businesses, also results in a negative cost-benefit ratio of complying with such regulations. Finally, a number of firms simply stated that they saw no benefits in applying for a RUC or a municipal license.

Figure 2.8: Reasons for non-compliance

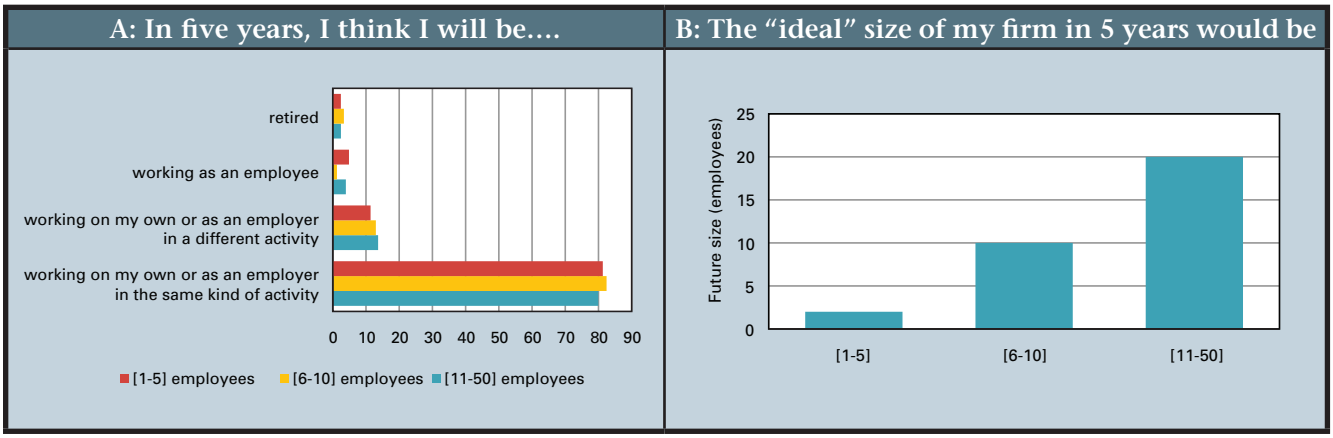


Source: EMES

[18] Moreover, 60 percent of respondents who reported not knowing about the RUC or municipal license requirements did know the location of the closest tax and municipal offices.

Firm owners do not appear to be overly optimistic about the future, offering some support to the "exclusion" hypothesis. In order to evaluate whether informality may be due to "exit" or "exclusion," the EMES asks firm owners about their perceptions of the future. About 80 percent of firm owners say that in five years they are likely to be working on their own in the same type of activity; less than 14 percent say they will be working on their own in a different activity, and the remaining few say they would be working as employees or retired (Figure 2.9:A). When asked about the ideal size of their business five years from now, most firm owners report a size very close to their current size (Figure 2.9:B). This suggests that although firm owners plan to continue with their activity, they don't think it could be significantly different from what it is today (even in an "ideal" situation). One way to interpret this result is that perhaps the intrinsic difficulties of running a small business, coupled with the owners' perception of their inability to grow their business, limit the future expectations and aspirations of firm owners.

Figure 2.9: Perceptions of the future

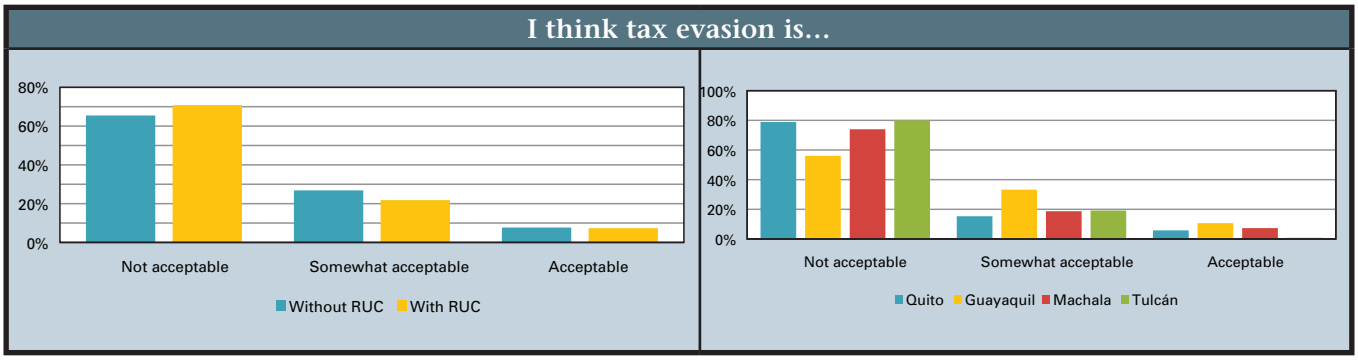


Source: EMES

2.4 Do attitudes matter?

Perceptions of how well taxation is used to provide public services can be an important factor behind the incentives to comply with regulations. Torgler and Schneider (2007) look at how institutions affect individuals' decisions to stay informal or to join the formal economy by constructing a measure of tax morale based on perceptions on the value and importance of paying taxes. They find that tax morale is significantly associated with the size of the informal sector, both across and within countries. Following standard opinion surveys in Latin America, the EMES survey asks firm owners several questions related to their views on tax evasion, on the fairness of the overall tax regime, and the perceived benefits of paying taxes.

Figure 2.10: Firms' views on tax evasion

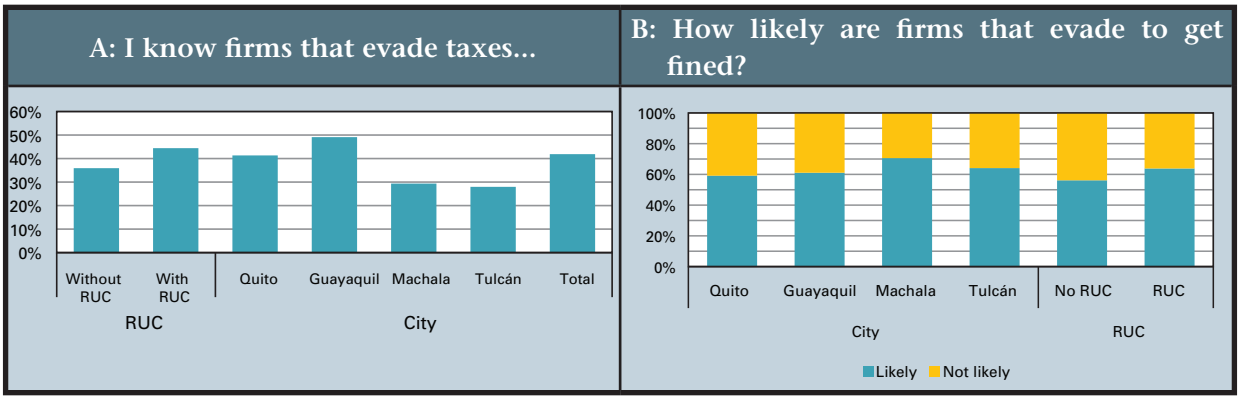


Source: EMES

The vast majority of firm owners think that tax evasion is not acceptable. Close to 70 percent of firm owners report that it is not acceptable to evade taxes, and interestingly, these views are similar whether or not the firm has a RUC. Moreover, this share is substantially higher than the 60 percent average for all Ecuadorians and the 63 percent average for all of Latin America, as reported in the 2009 *Latinobarometro* survey. Less than 30 percent think that evading taxes is "somewhat acceptable" and less than 10 percent think it is acceptable. These percentages are similar across cities, except for Guayaquil, where there seems to be a higher tolerance for tax evasion (only slightly more than half of firm owners think evading taxes is not acceptable).

Despite the general negative attitude towards tax evasion, about 40 percent of firm owners report knowing at least one firm that evades taxes (Figure 2.11:A). Unlike the previous question, this share is somewhat higher than the 19 percent average for all Ecuadorians and the 25 percent average for all of Latin America (*Latinobarometro*, 2009). The percentage is highest in Guayaquil (49 percent) and lowest in Tulcán (28 percent), and firm owners who have a RUC are apparently more likely to know a firm that evades taxes. This suggests that tax evasion is not necessarily limited to firms that don't have a RUC, or at least that there is a high level of interaction between compliant and incompliant firms (assuming that evasion is only limited to those that don't have a RUC). In addition, about 40 percent of firms think that firms that evade taxes are not very likely to get caught (Figure 2.11:B).

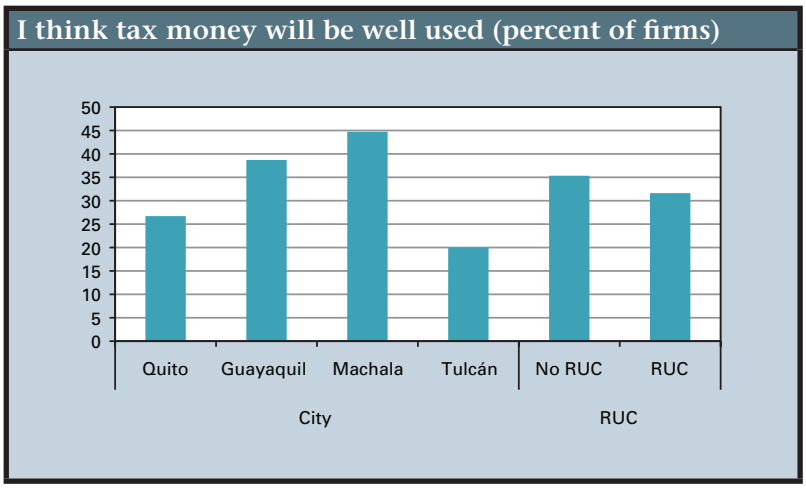
Figure 2.11: Firms' perceptions of tax evasion



Source: EMES

Firm owners are less positive about the likelihood that the tax money will be well-used and about the fairness of the tax regime. This question, which reveals the trust of firms in the ability of the public sector to use resources efficiently, reveals that a large majority (over 60 percent) of firms does not think tax money is well-used (Figure 2.12). Perhaps even more importantly, the contributions of registered and unregistered firms to this ratio are nearly equal. The high ratio is worrisome because evidence from other countries (Breceda et al., 2009) shows that attitudes towards taxes are highly related with the trust that people have in the ability of governments to spend the resources for the benefit of the majority. Moreover, recent evidence in Latin America shows that there is a growing share of people who are "opting out" of the social contract by eschewing publicly provided services (e.g. education, health, electricity) in favor of private services, but at the same time refusing to pay higher taxes and therefore decreasing further the quality of public services (Ferreira et al., forthcoming). In this context, the fact that firms see no benefit of complying with regulations, as shown before, and no benefit of paying taxes, suggests that the "exit" factor is also present, and many firms just opt out of the formal sector because they perceive formality as a tax with little benefit in the form of better services or better growth prospects. On the other hand, the attitudes of firm owners are more positive than a 2005 cross-cutting sample of all Ecuadorians (among whom just 11.5 percent believed that the tax revenues would be well-used) and all of Latin America (where 20.6 percent of respondents believed that the revenues would be well-used).

Figure 2.12: Firms' perceptions on tax enforcement and benefits



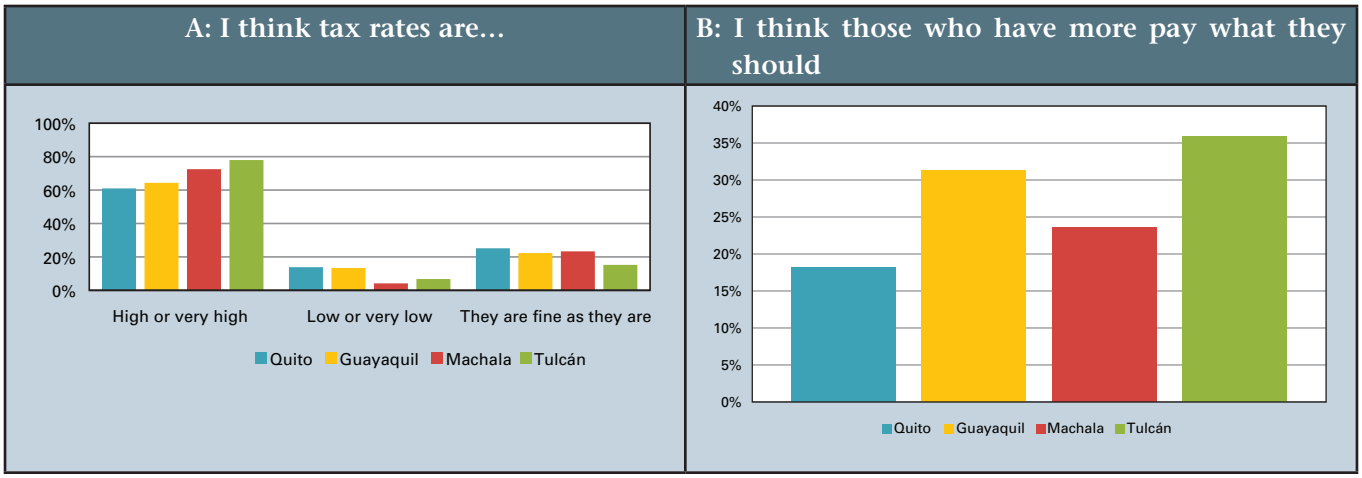
Source: EMES

A majority of firm owners report that taxes in Ecuador are too high, despite tax rates being in line with other countries in the region. Figure 2.13:A shows that 60 percent of firm owners in Quito think that taxes are "high or very high", and the percentage is even higher in the other cities. In contrast, only about 20 percent of firms believe that taxes are "fine as they are" and less than 10 percent consider that they are low. On the one hand, this is a more positive assessment than the 2007 average for the country as a whole (75 percent) or all of Latin America (76 percent). On the other hand, international comparisons of tax rates and total tax contributions show that Ecuador is far from being a "high-tax" country. Its profit tax rate of 18.4 percent is similar to Colombia, and significantly lower than those of Germany, Denmark, Israel, or the U.K. Likewise the estimated total tax once all mandatory contributions are taken into account is equal to 35.3 percent, which is modest in comparison to most European countries, and

closer to taxes in "investor friendly" countries such as Taiwan.[19] Therefore, the opinion that taxes are too high is more likely to reflect the perception that they are too high for what firms get in return. These findings are consistent with previous studies for other Latin American countries. For instance Lledo et al. (2004) argue that despite comprehensive tax reforms in many countries in the region, most still suffer from a weak social contract between the government and taxpayers.

Firm owners also feel that those who have more do not pay their fair share. Over 70 percent of firms consider that those who have more are not paying what they should, and this is a strong signal that micro and small entrepreneurs feel that the social contract may be "broken" and that they should not have to pay when the rules are applied unevenly across firms (Figure 2.13:B). This feeling of unequal enforcement and difference in the treatment of privileged individuals is likely to further erode the social contract and any incentives to formalize, if the benefits are not clear to those who pay, and the consequences are equal for all.

Figure 2.13: Firms' views on tax fairness



Source: EMES

[19] Doing Business (2012).

3. How does informality affect firm performance?

This chapter presents an empirical analysis of the impact of informality on firm profits and labor productivity using the survey of small businesses described in Chapter 1. The chapter's results confirm that the extent of firms' compliance with a set of regulatory requirements is linked to the perceived costs and benefits of informality, such as the probability of detection by the authorities and the likelihood of being fined. Nonetheless, taking into account the non-random placement of firms along the formality-informality spectrum and controlling for a large set of firm, owner, and location characteristics, the chapter finds that formality is associated with higher profitability and output per worker. This impact operates, inter alia, through more formal firms' ability to obtain improved access to credit and to achieve higher sales by issuing receipts to clients.

Most studies of informality identify a productivity/profitability gap between formal and informal enterprises. The literature on the relationship between formality and firm productivity is vast and, with few exceptions, finds a positive relationship between the two. For example, Perry et al (2007), using data from the World Bank's Enterprise Survey Database, find a positive correlation between output per worker and various indicators of formality in Argentina, Bolivia, Mexico, Panama, and Peru. Although their analysis controls for a series of firm and location characteristics, it does not take into account the potential endogeneity of formality indicators.[20] In fact, in a study specific to Peru—a country for which Perry et al (2007) find the largest gap in productivity between formal and informal firms—World Bank (2008) finds no statistically significant effect of formality on firm profitability once selection (endogeneity) controls are added to the equation. On the other hand, country-specific studies in Bolivia (McKenzie and Sakho, 2010; World Bank, 2009) and Mexico (Fajnzylber et al, 2006a) do find a positive relationship between formality and firm profitability even after controlling for the potential endogeneity bias. World Bank (2010) reports similar findings for the relationship between formality and firm productivity in Turkey and Fajnzylber et al (2006b) identify a positive impact of formality on firm revenues in Brazil.

The objective of this chapter is to estimate a relationship between informality and firm profitability in Ecuador. The analysis is carried out with the EMES survey, which enables us to introduce a large set of controls and to reduce the endogeneity bias. The chapter finds that formality is significantly and positively related to profitability and productivity for otherwise comparable firms, and this finding is robust to different measures of informality and profitability. The chapter also provides some evidence on the determinants of this relationship, such as the ability to avoid fines, issue receipts, and obtain improved access to credit for more formal firms.

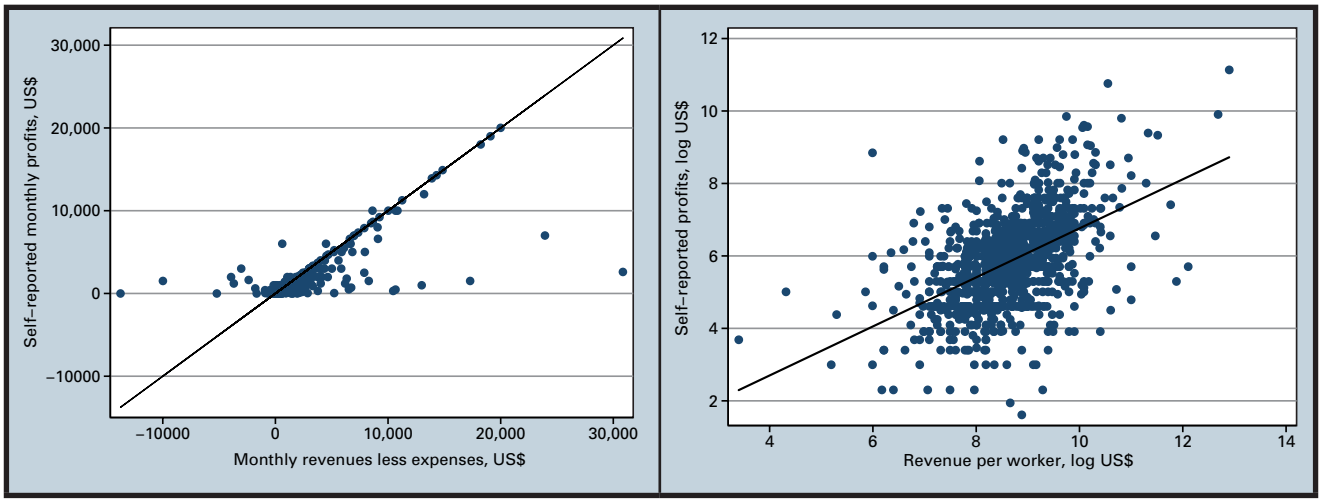
The remainder of the chapter is structured as follows: We begin with the profile of the surveyed firms, focusing on those characteristics which are particularly relevant to this chapter's analysis and then proceed to develop a model of profitability and formality and discuss estimation issues. The sections that follow present the estimation results and discuss the channels through which formality affects profitability.

[20] I.e., firms choosing to become formal or remain informal based on observable or unobservable characteristics.

3.1 Profile of firm profitability in Ecuador

In order to assess the impact of informality on firm performance, this chapter uses firm profits as reported by the entrepreneurs themselves. The definition of profits includes the value of the owner's labor, but excludes all other costs borne by the firm such as inputs or raw materials, utilities, and salaries paid to employees. The use of self-reported profitability as the main variable of interest follows the critique of revenue-based productivity measures by Katayama et al (2009) and the arguments of De Mel et al (2008) for using profits measured through a direct question.[21] In particular, De Mel et al (2008) find that direct reports of profits tend to be less noisy and at least as reliable as asking firms for revenue and expenditure details; moreover, even if the true level of profits is likely to be understated, the ranking across firms is likely to be reasonable.

Figure 3.1: Self-reported profits vs. calculated profits and labor productivity



Source: Authors' calculations with EMES data.

Correlation between reported profits and revenue less expenditure is high; moreover, higher profits correspond to higher labor productivity. Following the suggestions of De Mel et al (2008), the EMES did not contain very detailed questions on the structure of firms' costs. However, we did ask firms about their revenues as well as their expenditures on salaries, inputs or raw materials, and electricity.[22] The correlation between reported profits and the difference between revenues and expenditure on all of the above categories is very high: 87 percent for monthly data and 97 percent for annual data. Moreover,

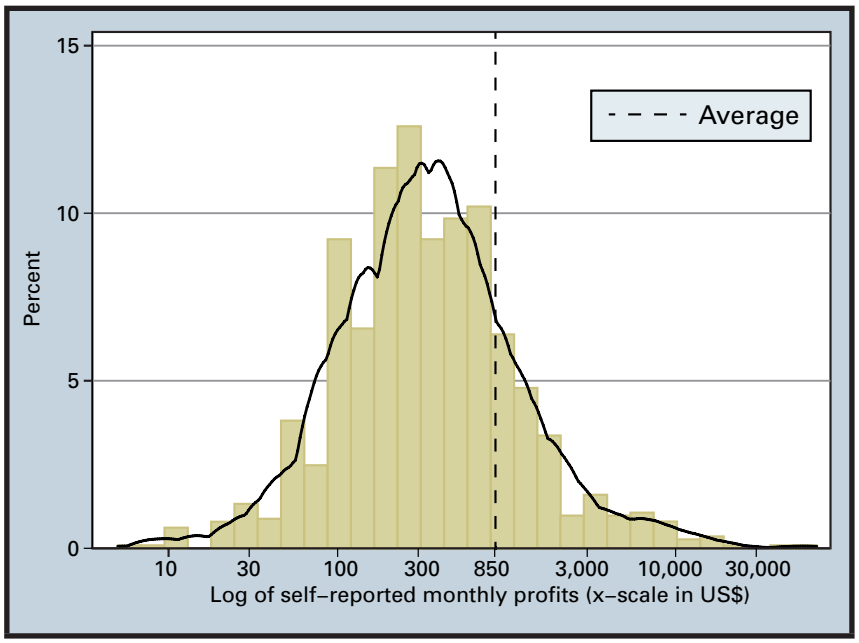
[21] Katayama et al (2009) argue that most firm-level productivity measures (i.e., output per a specific unit of input) have little to do with measuring technical efficiency or the likelihood of firm survival, unless data on physical quantities are available and the firms are relatively homogeneous in their input and output characteristics. The authors show that commonly-used revenue-based proxies to productivity indices (e.g., firm revenue deflated by an appropriate price index less the cost of inputs) are contaminated by variation in factor prices and demand elasticities and are therefore likely to give rise to spurious results regarding firm efficiency or performance.

[22] For each of these questions, the respondents were asked to provide numbers for the last month, the last full year (2010), and expected outturn for the current year (2011). The length of recall period did not seem to affect the responses very much: for profits and revenues, respectively, their annualized values (12*the monthly outturn of May/June) were quite close to the values reported for 2010 and the values expected for 2011 (around 80 percent for profits and 90 percent for revenues).

in the majority of cases the reported profits are higher than revenue less expenses on the above categories, as expected (see the left panel of Figure 3.1, where most observations lie below the 45 degree line). Additionally, there is a significant positive relationship between firms with higher reported profits and firms with greater output per worker (right panel of Figure 3.1). These results, therefore, give us additional confidence in using self-reported profits as a measure of profitability and firm performance.

The distribution of profits among the sampled firms is quite wide, ranging from zero to over US$10,000 a month. The distribution of profits is approximately log-normal with half of the firms reporting profits of US$300/month or less, but with a long right tail stretching into monthly profits that number in the thousands (Figure 3.2). The average monthly profit reported by the surveyed firms is US$860, which amounts to 30 percent of total monthly revenue. This figure lines up reasonably well with the average reported annual (2010) profit of US$12,396 which works out to just over US$1,000 per month. It is also consistent with the entrepreneurs' expected profits for the entire 2011 (approximately US$1,090), a somewhat curious result given the general lack of optimism about enterprise growth prospects expressed by entrepreneurs during the focus group sessions (most entrepreneurs complained about growing costs, higher taxes, and increased levels of competition).

Figure 3.2: Distribution of monthly profits

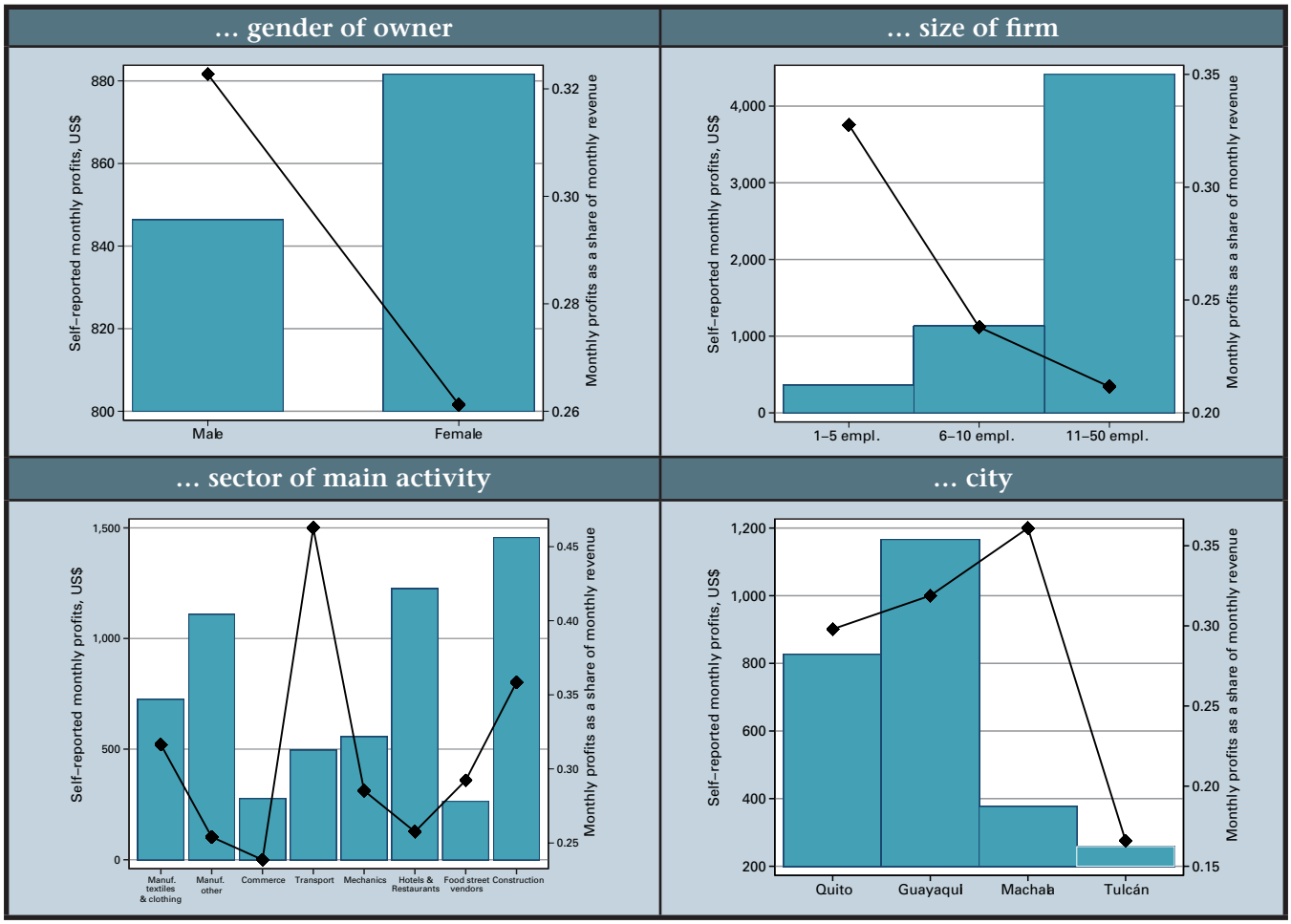


Source: Authors' calculations with EMES data.

Profitability varies by the size of the firm, its sector of activity, geographic location, and gender of the owner. Figure 3.3 presents the profile of monthly profits by each of the above categories and the gender of the owner. In absolute value, profits of female-owned firms are actually higher than male-owned firms (by US$35), but the difference is not statistically significant. Moreover, the revenues of male-owned firms are 77 percent higher than revenues of female-owned firms, and therefore as a percentage of revenue male-owned firms tend to be more profitable. Larger firms earn profits that are several times those of the smaller firms; however, as before, smaller firms are actually earning more profits

per dollar of revenue.[23] Substantial differences exist when firms are differentiated by the sector of their primary economic activity: construction, hotels & restaurants, and manufacturing of products other than textiles & wearing apparel earn the largest profits, but relative to revenue the three most profitable sectors are transport (taxi drivers), construction, and manufacture of textiles & clothing. Finally, geographic location also makes a difference to profitability: firms in Quito and Guayaquil earn several times the profits of firms in smaller cities, and profits in Guayaquil are more than 40 percent higher than Quito in value terms. However, as a share of revenue profits in the two largest cities are insignificantly different from each other, while in Machala profits are somewhat higher and in Tulcán profits are quite low both in an absolute and in a relative sense.

Figure 3.3: Profits by …



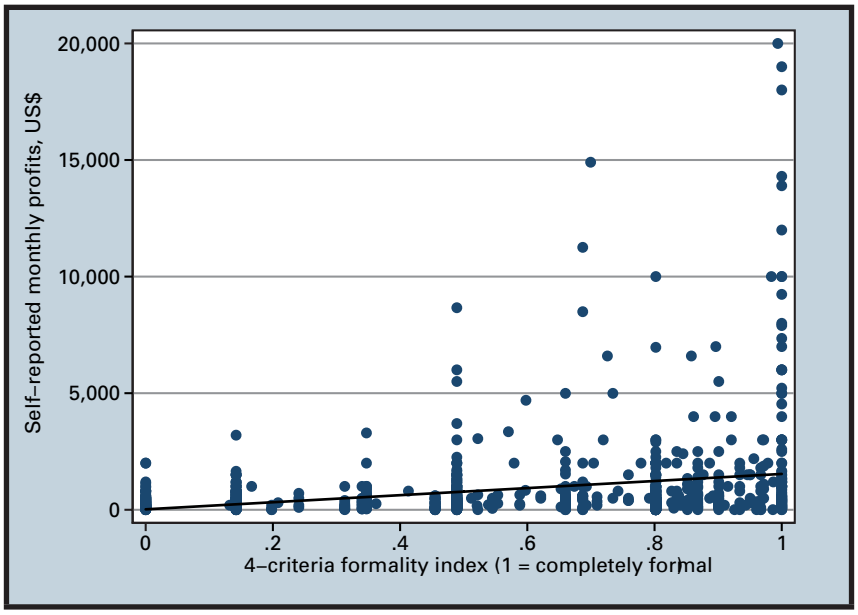
Source: Authors' calculations with EMES data.

Firms that are more formal also tend to be more profitable. Given that the profile of formality differs across sectors, cities, and firm sizes, we may expect that the differences shown in Figure 3.3 give rise to

[23] The difference in profits-to-revenue is not statistically significant between small (6-10 employee) and medium (11-50 employee) firms.

(or are underpinned by) differences in the profitability of formal vs. informal firms. As shown in Figure 3.4, there is indeed a positive relationship between the formality index (developed in Chapter 1) and firm profits. Although the variance of profits increases for firms that are more formal (i.e., those who comply with a larger number of regulatory requirements) and our sample includes a number of "fully formal" firms which exhibit low profitability, on average profits tend to rise with the movement towards the top of the formality index. Clearly, this correlation does not control for other determinants of profitability and it does not take into account that more formal firms may be a non-random sub-sample of firms in the EMES data. Therefore, in order to establish a more empirically robust relationship between formality and profitability, the following sections develop a formal model of profitability—which explicitly takes into account both of the above qualifications—and estimate this model on the EMES sample.

Figure 3.4: Formality and profitability



Source: Authors' calculations with EMES data.

3.2 Model of firm profitability

The emphasis of this chapter is on modeling profitability rather than productivity because the former is the main determinant of firm survival. From the firm owner's perspective, decisions are normally made based on their impact on (expected) profitability rather than productivity, which most small firm owners do not observe directly. Moreover, while profitability and productivity are obviously linked, more productive firms are not necessarily more profitable, and vice versa. Katayama et al (2009) note that "success ultimately depends upon profits rather than efficiency or product quality," a view echoed by Foster et al (2008) who show that "selection [for survival] is on profitability, not productivity … productivity is only one of several possible idiosyncratic factors that determine profits." Finally, as mentioned in the previous section, measuring productivity without detailed information on quantities and prices at the firm level is fraught with difficulties while profits present a direct and robust alternative.

We model profitability as a function of observable firm, owner, and location/sector characteristics. Similar to other studies, profits of firm i depend on a set of owner characteristics X_i such as age, gender, education, and a measure of entrepreneurial ability described below; firm characteristics Z_i such as weekly hours spent on the business by the owner, access to formal sources of financing, whether the location is owned or rented, and the number of employees; and location and sector dummies S_i:

$$\ln(\pi_i) = \alpha + \boldsymbol{\beta} X_i + \boldsymbol{\gamma} Z_i + \boldsymbol{\theta} S_i + \varepsilon_i \tag{3.1}$$

We construct a direct measure of entrepreneurial ability, rather than instrument for it. We follow McKenzie and Sakho (2010) and create an index of "entrepreneurial self-efficacy" by extracting the first principal component of the questions measuring entrepreneurs' self-assessed ability to perform standard tasks in running their business. McKenzie and Sakho (2010) and World Bank (2008) find that this index performs well in Bolivia and Peru in explaining the variation in profits of firms similar to those surveyed in Ecuador.

The extent of a firm's compliance with regulatory requirements depends on whether the benefits of complying outweigh the costs. The focus group discussions reveal that, despite the wide variation in defining what constitutes "formality" or a "formal firm," all entrepreneurs are aware of at least some of the basic regulatory requirements. In other words, all firm owners are aware of the fact that there are certain steps they must take before their firm becomes formal, even if they may not know exactly what those steps may be. Therefore, the decision of whether or not the entrepreneur may take some or all of these steps is a function of the benefits of complying with regulatory requirements weighed against the costs of doing so, in terms of money, time, and (acquiring) information. Following McKenzie and Sakho (2010), we can formally represent the condition under which the firm owner will formalize as follows:

$$\sum_{t=1}^{T} \delta^t E\left(\pi_{F,t} - \pi_{I,t}\right) + \xi_F > C_{money} + C_{time} + C_{information} \tag{3.2}$$

where $E(\pi_{s,t})$ is the expected profit in period t from choosing a state s which lies on the continuum between fully formal and fully informal, i.e., $s \in [F \ldots I]$; the summation over all time periods t gives us the net present value of the entire profit stream discounted in each period by δ; ξ represents the non-monetary value of complying with the regulatory requirements (corresponding to the "estar en regla" motivation mentioned in survey responses and focus group interviews); and the C elements correspond to the monetary, time, and information costs of compliance.[24] It is important to note that condition (3.2) is not limited to the "exit" dimension of informality but also captures firms which are "excluded" from operating formally: those for whom the expected benefits of formalizing are positive but who are not able to bear the up-front costs C due to low productivity, lack of scale, etc.

[24] These are the up-front costs of formalizing; any recurring costs from operating formally (renewing licenses, remaining up-to-date on changes in tax law, etc.) are part of the expected future profit stream in state F.

In order to identify the impact of formality on profitability, we focus on otherwise comparable firms on different sides of the formality spectrum. If there were no up-front costs of formalizing and no penalties for non-compliance, then firms would select into a state $s \in [F \ldots I]$ based on the net present value of their profit stream.[25] Therefore, in the presence of unobserved firm heterogeneity, we could not distinguish whether differences in profits between more and less formal firms arise due to this heterogeneity or to differences in the formality status; in other words, formal and informal firms may simply not be comparable. However, if there are firms who would like to be formal, i.e. for whom $E(\pi_F) > E(\pi_I)$, but are unable to overcome the initial fixed cost, then the differences between these firms and other similar firms who do operate formally can be attributed to a "formality premium." Similarly, there may also be firms who would prefer to operate as informal but who formalize due to enforcement; in this case, identification arises from the likelihood of being detected and fined. Therefore, our strategy is to evaluate the impact of formality on profitability by modifying equation (3.1) to include an estimate of the coefficient φ:

$$ln(\pi_i) = \alpha + \boldsymbol{\beta} X_i + \boldsymbol{\gamma} Z_i + \boldsymbol{\theta} S_i + \phi \widehat{F}_i + \varepsilon_i \qquad (3.3)$$

where $\widehat{F}_i$ is an index of formality and identification comes from the between-firm variance in time and information costs of formalizing and in the likelihood of detection by the authorities.

3.3 Does formality matter for profitability?

The model developed in the previous section fits the EMES sample data well. The set of independent variables in equation (3.1)—gender, age, education, entrepreneurial ability, and family business history of the owner, hours worked in the business, membership in a guild, ownership of the place of business, density of firms in the parish, average distance of firms in the parish from the municipal office and the nearest tax office, the incidence of inspections in the parish, and size, sector, and city dummies—explain more than 41 percent of the variation in the log of monthly profits (column 1 of Table 3.1). Consistent with Figure 3.3, larger firms earn greater profits even when controlling for all other determinants of profitability; moreover, profits are highest in restaurants and hotels and lowest for street food vendors. However, unlike Figure 3.3, Quito turns out to be the most profitable city once other factors are considered.

Higher owner education, ability, more time invested in the business, ownership of the business location, and membership in a guild are associated with higher profits. The coefficient estimates on most variables are as expected: firms earn higher profits when the owner spends more time working in the firm, when the owner is more educated and more entrepreneurial, when the owner takes advantage of networking and other opportunities offered by guild membership, and when firms own their place of business rather than renting it. Neither owner age nor gender significantly affects firm profits; this is explained by the fact that they do not offer additional explanatory power in the presence of other

[25] This assumes there are no quantitative restrictions on the number of firms which are allowed to operate formally.

variables.[26] More specifically, owner's gender loses significance once controls for the sector of main activity are added to the equation; in other words, businesses owned by men and women earn similar profits once the "traditional" gender biases in the composition of sectors are taken into account. Similarly, once owner's education is taken into account, the age becomes less statistically significant.

The addition of formality indicators improves the fit of the model. Adding a set of four variables which reflect the regulatory requirements of operating formally—having a RUC, issuing and requesting receipts, affiliating employees with IESS, and having a municipal license—to equation (3.1), which already takes into account all of the profit determinants discussed above, increases the predictive power of the model by more than two percentage points (column 2 of Table 3.1). In addition, the results show that several aspects of formality are associated with significantly higher profits.

Firms which have a tax identification number and affiliate their employees with social security tend to be more profitable. Firms with a RUC earn 21.5 percent higher monthly profits than unregistered firms, while a 1 percent increase in the share of workers with social security affiliation is associated with 0.4 percent higher profits. Neither having a municipal license nor using receipts has a significant impact on profits, although coefficient estimates are positive in both instances. In the case of receipts, this result is explained by inter-dependency between having a RUC and issuing receipts: a firm must have a tax identification number before it is able to give receipts. In fact, if the RUC variable is removed from the estimation equation, the receipts variable becomes statistically significant with a semi-elasticity of 13.7 percent. Broadening the definition of formality to seven aspects previously discussed in Chapter 1 does not qualitatively change any of the results; in addition, we find that issuing written contracts to employees and inclusion in the commercial registry have a further significant impact on profits with an elasticity of 0.5 and a semi-elasticity of 0.3, respectively (column 3 of Table 3.1).

Overall, there is a positive association between formality and profitability. Columns 4 and 5 of Table 3.1 aggregate the narrow and wide definitions of formality, respectively, into a single variable F_i by extracting the first principal factor of the combination of these variables.[27] The results show that higher values of the formality index are positively and highly significantly associated with increased profitability.[28] The estimated magnitude of the φ coefficient suggests than a one standard deviation increase in the value of the formality index raises enterprise profits by 22-36 percent, depending on whether the narrow or the wide definition of formality is used.[29] However, as mentioned in the preceding section, these estimates may not reflect the true extent of the relationship between formality and profitability because they do not explicitly control for the determinants of formality. If there is a selection mechanism in place, i.e., if the distribution of firms along the formality continuum is not random, the OLS results presented so far could be biased. In order to assess the extent of the potential bias, we re-estimate the rela-

[26] The signs on the gender and age coefficients and their lack of statistical significance are similar to results obtained from similar studies in Bolivia (McKenzie and Sakho, 2010) and Peru (World Bank, 2008).

[27] This amounts to estimating equation (3.3) by OLS, without explicitly addressing the identification issue.

[28] The results in this paragraph are robust to using the alternative, equal-weighted index of formality developed in Chapter 2.

[29] The (principal factor) formality index is distributed with a zero mean and a standard deviation of 0.84-0.86 (for the narrow and wide definitions, respectively).

tionship between formality and profitability using instrumental variables (two-stage least squares, 2SLS).

The positive relationship between formality and profitability does not change once we attempt to control for endogeneity. Columns 6-9 of Table 3.1 show the results of estimating equation (3.3) with selection controls for formality. In columns 6, 7, and 9, identification comes from the variation in time and information costs of formalizing, proxied by the self-reported distance to the municipal office, the nearest tax office, and whether the firm has had an inspection in the past year.[30] Because the profit equation (3.1) already controls for the parish-level averages of these variables—which should capture the distance to markets and major clients as well as the likelihood that a firm is located in an inspection-prone area—the firm-level variables should determine a firm's formality status without having a direct impact on its profitability. However, because the instruments come from information reported by the firm itself, there is still a possibility that they are correlated with the unobservable determinants of profitability. In order to limit this possibility, column 8 of Table 3.1 shows the results of estimating a specification where parish-level average distances and whether or not a firm has had an inspection are used as instruments to limit a potential bias where less formal firms would tend to report the distances less accurately. The results show that the relationship between formality and profitability remains robust, although the standard error of the formality coefficient is larger—and, consequently, the significance level lower—because the parish-level variables do not capture each firm's individual circumstances as accurately. Overall, however, none of the instruments are fully satisfactory—unlike the Bolivia (World Bank, 2009) and Peru (World Bank, 2008) studies, GPS equipment was not available to independently measure the distances to the municipal and tax offices—and therefore the IV estimates should not be interpreted as conclusive proof of a causal relationship between formality and profitability.

Instrumental variable estimates reveal that several variables, such as education and guild membership, affect profitability mainly through their impact on formality. A curious result from the 2SLS estimates in columns 6-9 of Table 3.1 is that, unlike OLS estimates, only the highest level of education has a significant impact on profits. However, results from the first stage of analysis reveal that each level of education, beginning with complete secondary, is a statistically significant determinant of formality and the probability of formalizing rises with higher levels of education. Therefore, it appears that education affects profits mostly indirectly, through its effect on increasing the likelihood of formalizing. Similarly, guild membership does not significantly affect profits once its impact on formality—i.e., firms who are members of a guild are significantly more likely to be formal—is taken into account.

Formality is also positively associated with higher labor productivity. Column 10 of Table 3.1

[30] The distance to the municipal office and the nearest tax (SRI) office was reported by the respondents themselves in hours and minutes of travel time, which is more comparable across the four surveyed cities (or even within cities) than geographic distance. In cases when respondents did not know the location of the nearest office or the travel time to reach it, they were assigned the maximum reported travel distance for their particular city. However, the results do not change substantially—i.e., the formality variable remains significant with a similar coefficient—if instead firms who reported not knowing the location or the distance are assigned the average distance to the municipal and SRI offices reported by other firms in the parish (see column 7 of Table 3.1).

provides the final robustness check on the results presented so far by regressing the log of revenue per worker—a crude measure of labor productivity—on the same set of independent variables as in the previous profitability regressions. Although the explanatory power of this model is much lower than the model of profitability, the significant positive relationship between formality and firm performance (in this case measured by output per worker) remains robust.[31]

[31] Although Table 3.1 only shows the 2SLS results, the positive relationship between formality and output per worker also holds in OLS regressions.

Table 3.1: Impact of formality on monthly profits and output per worker

	OLS	OLS	OLS	OLS	OLS	2SLS	2SLS	2SLS	2SLS	2SLS‡
Formality index (broad)					0.351***		0.453***	0.356*	0.342*	0.334**
Formality index (narrow)				0.255***		0.332***				
Has a tax identification number		0.195***	0.187**							
Requests receipts		0.111	0.099							
Workers affiliated with Social Security		0.421***	0.192*							
Issues written contracts to employees		0.089	0.043							
Issues written contracts to employees			0.513***							
Listed in the commercial registry			0.309**							
Established via a public notary			0.104							
Location characteristics										
Number of firms in the parish	0.000	0.001	0.001	0.000	0.001	0.001	0.001	0.001	0.001	0.000
Average (parish-level) distance from tax office†	-0.263*	-0.278**	-0.257*	-0.284**	-0.254*	-0.291**	-0.251*	-0.254*		-0.155
Average (parish-level) distance from municipal office†	0.060	0.079	0.119	0.099	0.122	0.110	0.140	0.123		0.319**
Average (parish-level) incidence of inspections†	-0.320	-0.451*	-0.447*	-0.447*	-0.451**	-0.485**	-0.489**	-0.452*	-0.339	-0.104
Firm/owner characteristics										
Member of guild or union	0.262***	0.146*	0.097	0.171**	0.102	0.144	0.056	0.100	0.113	0.047
Parents had a business	0.009	0.024	0.021	0.016	0.023	0.018	0.026	0.023	0.018	0.005
Hours worked in this business/ week (log)	0.204***	0.208***	0.215***	0.199***	0.205***	0.198***	0.206***	0.205***	0.204***	0.163***
Owns place of business	0.158**	0.135**	0.105	0.155**	0.115*	0.154**	0.102	0.114*	0.111*	-0.021
Age	-0.003	-0.005**	-0.004	-0.005*	-0.005*	-0.005**	-0.005**	-0.005*	-0.004*	-0.003
Gender (male = 1)	0.039	0.043	0.036	0.038	0.037	0.037	0.037	0.037	0.035	0.103*
Index of entrepreneurial ability	0.058	0.065*	0.066*	0.061*	0.061*	0.062*	0.062*	0.061*	0.065*	0.051*
Owner education										
Incomplete primary	-0.166	-0.136	-0.174	-0.153	-0.169	-0.148	-0.170	-0.169	-0.186	0.032
Complete secondary	0.172**	0.100	0.106	0.118	0.108	0.102	0.089	0.107	0.113	0.096

Incomplete tertiary	0.334***	0.220**	0.188**	0.259***	0.201**	0.236**	0.162	0.199*	0.200*	0.142
Complete tertiary	0.638***	0.472***	0.403***	0.526***	0.426***	0.493***	0.365**	0.423**	0.453***	0.414***
Firm size										
6-10 employees	0.870***	0.739***	0.695***	0.773***	0.726***	0.744***	0.684***	0.724***	0.739***	0.010
11-50 employees	1.739***	1.556***	1.378***	1.619***	1.438***	1.582***	1.351***	1.434***	1.462***	0.026
Observations	1,112	1,112	1,112	1,112	1,112	1,112	1,112	1,112	1,112	1,113
R^2	0.412	0.434	0.449	0.428	0.446	0.427	0.443	0.446	0.444	0.194
Identifying variables										
Distance to nearest tax office						-0.117***	-0.076***			-0.076***
Distance to municipal office						-0.186***	-0.133***			-0.133***
Firm had an inspection during the past year						0.349***	0.288***	0.331***	0.339***	0.288***
Average (parish-level) distance from tax office†								0.106		
Average (parish-level) distance from municipal office†								-0.178*		
First stage F statistic						81.480	38.210	18.730	18.290	36.460
First stage partial R^2						0.199	0.093	0.050	0.051	0.093
Over-identifying restrictions: Prob > $\chi 2$						0.613	0.470	0.260	0.127	0.207

*** p<0.01, ** p<0.05, * p<0.1.

Note: Dependent variable is log of monthly profits. Distances are in logarithms. Confidence intervals calculated with robust standard errors. City and sector dummy variables are included in all specifications, but are not shown.

† Location (parish-level) variables are calculated as excluded means.

‡Dependent variable: log of monthly revenue per worker.

3.4 Why does formality matter?

There are a number of potential reasons why formality has a positive impact on firm profits. The literature highlights several possible channels, including improved access to credit (Straub, 2005); ability to attract more customers by issuing receipts and lowering the costs of corruption (McKenzie and Sakho, 2010); ability to attract/retain qualified workers, opportunities to participate in government SME support programs, and access to contract enforcement mechanisms (Perry et al, 2007). In this section, we consider the role of some of these channels in enhancing firm profitability in Ecuador using the EMES data as well as the outcomes of the focus group discussions.

The ability to issue receipts can attract new customers or facilitate additional sales to existing customers, in either case increasing firm revenue. As discussed in Chapter 2, most firms report that the benefits of complying with regulations are mainly to follow the rules and to avoid fines. However, there are also real benefits to formality beyond pure compliance with regulation, such as the ability to grow the customer base by issuing tax receipts (*facturas*). Regression results, using the same set of independent variables as in Table 3.1, confirm that more formal firms tend to have higher sales (columns 2-3 of Table 3.2), therefore lending support to the above hypothesis. This is also confirmed by the fact that more formal firms are significantly more likely to sell their products to larger clients (firms with more than 10 employees) and the government (including states and municipalities).[32]

[32] This result is a simple two-tailed test of the means of the formality index for groups which sell to large clients and the government, respectively, and groups which do not. However, the latter represent an overwhelming majority of the EMES sample (92 and 97 percent of the total, respectively). Therefore, although the differences are significant at the 1 percent level, these results are only indicative and should be interpreted with caution.

Table 3.2: Impact of formality on sales and access to finance

	ln(Sales)		P(Formal finance)	
Formality index (broad)		0.735***		0.512**
Formality index (narrow)	0.526***		0.366**	
Observations	1,110	1,110	1,112	1,112
R^2	0.580	0.560		
Number of firms with access to finance			265	265
Wald $\chi 2$			150.2***	158.2***
Identifying variables				
Distance to nearest tax office	-0.124***	-0.075**	-0.124***	-0.075**
Distance to municipal office	-0.184***	-0.131***	-0.184***	-0.131***
Firm had an inspection during the past year	0.343***	0.268***		

*** p<0.01, ** p<0.05, * p<0.1.

Note: All specifications are estimated with a full set of control variables listed in Table 3.1. Confidence intervals calculated with robust standard errors.

Log of sales is estimated using 2SLS, while the probability of access to formal sources of finance is estimated with IV probit.

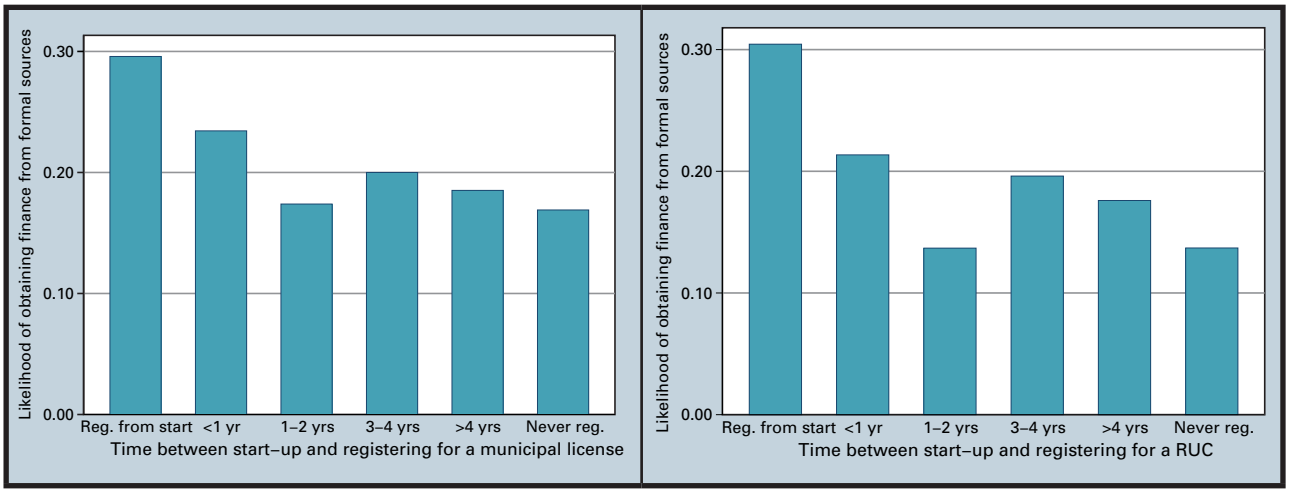
There are also additional spillover benefits of having a tax identification number. In addition to issuing receipts, a related but less commonly mentioned benefit of having a RUC is the ability to take advantage of the VAT credit on purchased inputs. Focus group participants also mentioned than a further advantage of operating with a RUC is an improvement in their accounting practices; in other words, issuing receipts and keeping track of input purchases encourages better overall book-keeping which has a positive impact on firm performance. Finally—and this point applies more broadly to other dimensions of formality—focus group participants mentioned that after having taken the steps to formalize they no longer have to hide from authorities and can advertise their business openly. This could be an additional explanation for the positive impact of formality on profits shown in Table 3.1.

Last but not least, formality is positively associated with better access to formal sources of financing at start-up. Columns 3-4 of Table 3.2 show that, controlling for other factors, more formal firms are more likely to have received some portion of their initial capital from formal sources, which are defined as private and public banks and micro-finance organizations.[33] As shown in Chapter 1, formal sources of financing tend to offer credit on better terms, which in turn positively affects the profitability of firms who are able to access these sources. Clearly, these results fall short of establishing causality between formality and access to finance due to the previously-discussed issues with the instruments

[33] Public banks include Banco Nacional de Fomento and Corporación Financiera Nacional. The micro-finance category also includes financing received through *Crédito de Desarrollo Humano* (CDH).

and, more importantly, because we do not observe the formality status of firms at start-up.[34] However, as shown in Figure 3.5, firms who complied with regulatory requirements from the start do have a higher likelihood of having benefitted from formal sources of financing; on the other hand, due to a relatively small number of firms who actually obtained credit from formal sources, the standard errors are too large for the differences to be statistically significant. Therefore, although the results do provide support for a positive link between formality and improved access to credit, the evidence is not unequivocal.

Figure 3.5: Formal financing and time of registration



Source: Authors' calculations with EMES data.

[34] Knowing whether a firm received a loan from a formal source in the last year does not resolve the issue because, for example, more formal firms could have a lower demand for loans due to their higher profitability which could allow them to use retained earnings instead of credit.

4. Policy options to reduce informality

This chapter discusses the role of the state in formulating and implementing policies which can help reduce informality. International experience suggests that best results are obtained when reforms are implemented as part of a holistic package encompassing reduced costs of formalization, simplified procedures, stepped-up enforcement, widening of social protection, and good communication of the reform. In the case of Ecuador, enforcement already plays a substantial role in encouraging formalization. Nevertheless, further efforts could be directed towards increasing the benefits of formalization, especially on the credit side, and facilitating the formal hiring of workers. Providing clear communication of these policies is also crucial to ensure compliance.

The objective of this chapter is to provide a menu of policy options, based on international experience, that could help reduce informality in Ecuador by increasing the gains from formality and the costs of informality. The chapter reviews a number of policies to reduce informality implemented in Latin America and other countries, focusing mainly on policies for stimulating business creation and growth, improving compliance through positive incentives and stricter enforcement, and addressing social protection issues—with the most successful policies covering each of these areas within a clearly communicated reform package. The chapter then proceeds to analyze the same areas in the Ecuadorean case, based on survey results, focus group discussions, and secondary sources. The chapter concludes by proposing several areas for policy attention by the authorities.

4.1 Experiences of other countries: lessons learned[35]

International experience in policies to reduce informal activity has widened in the last decade. From the compliance perspective, high-income OECD countries have combated informality most aggressively, with policies that have mostly targeted tax evasion on the part of formal businesses, as well as the use of undocumented or undeclared workers. Nonetheless, a growing number of emerging economies have also recently implemented policies to reduce informality. In particular, there have been extensive labor regulation reforms, as well as simplification of registration procedures and tax breaks for small businesses, especially in Latin America. Some of the more successful policies to reduce informality, reviewed in more detail in the sub-sections below, include one or more of the following elements: [36]

- Simplifying taxation schemes and reducing taxes on micro- and small firms;
- Reducing barriers to entry (costs, time, procedures);
- Allowing for more flexible hiring and firing of workers (e.g., temporary contracts);
- Offering flexibility to make payments (e.g., via financial institutions, one-stop shops);
- Partnering with business associations to offer information and counseling;

[35] This section draws heavily on Oviedo et al (2009).

[36] See Annex D for a summary of policies by category.

- Informing firms about the benefits of formalization, and about regulatory reforms;
- Strengthening enforcement and raising penalties;
- Fighting public corruption and improving customer service in public administration; and
- Improving and expanding the coverage of social programs through cash transfers and universal health systems.

Successful policies to encourage formalization should go beyond regulatory reforms and aim to build a culture of compliance. Because informality takes so many forms, policies that succeed in one aspect may not do so in others. Hence, policy packages are better adapted to tackle the problem, and they should comprise a series of "carrots" and "sticks". Moreover, given the costs and benefits of increased enforcement, optimal policies do not necessarily imply reaching full compliance; instead, the target should be to make formality the most desirable (and accessible) outcome by encouraging a "voluntary accommodation between private enterprise and the state" (Kenyon, 2007). In any event, policies need to take into account the level of trust of informal actors in public institutions and ensure that the voices of these actors are heard and their opinions included in the policy design.

Table 4.1: Policies to reduce informality in selected countries

Policies	Actions	Selected programs and countries*
Facilitating the process of registering a new business	Collect information on procedures and costs	Doing Business (global), Tramifácil (Ecuador, Peru)
	Creation of one-stop-shops for business registration	SARE (Mexico), CAE(Colombia)
Lowering the tax burden on small firms	Consolidation of multiple taxes into one payment	RISE (Ecuador), SIMPLES (Brazil), Monotributo (Argentina)
Improving access to credit	Credit guarantees	Fondo Nacional de Garantías (Colombia), Fondo de Garantía para Pequeñas Empresas (Chile)
	Factoring (selling of receivables)	Nacional Financiera (Mexico)
More flexible labor regulations	Extension of benefits to part-time workers (up to a limit)	Czech Republic
	Temporary employment contracts	Spain, Argentina, Bolivia, Brazil, Chile, Colombia, Peru
	Reduction of severance benefits	Chile, Colombia, Argentina, Brazil, Panama, Peru
	Redefinition of "just cause" for dismissal	Colombia
Enhanced enforcement	Targeted actions in industries where undeclared work is abundant	Ecuador, Netherlands, Austria, Spain, Sweden, Denmark
	Information exchange between agencies: e.g., automatic database linking and updates	Most EU15 countries

*See Annex D for a detailed list of policies and countries which have implemented them.

4.1.1 Facilitating the process of registering a new business

There are numerous national and international initiatives to lower the costs and simplify the procedures of registering a new business. Since de Soto (1989) highlighted the importance of the costly and burdensome registration procedures as a key barrier to accessing the formal sector, policymakers have given great attention to the matter. The Doing Business project at the World Bank has carefully documented the nature of regulations around the world, and has been influential in advocating regulatory reforms in a large number of countries. The Bank has also helped implement reforms in specific countries. For example, in Lima, Perú, the *Tramifácil* project – with support from the IFC – reduced the time to obtain a license from a month to a week and cut the number of procedures from 33 to 5. A similar *Tramifácil* project in seven municipalities in Ecuador has been successful in streamlining the procedures to obtain municipal permits.

Mexico has successfully encouraged formalization of certain firms through its *Sistema de Apertura Rápida de Empresas* (SARE) program. The SARE, operated by local governments since 2002, reduced the time of opening a small or micro formal business to a guaranteed two days by reducing the number of procedures from eight to two and creating a one-stop-shop for firm registration. Bruhn (2007), Kaplan et al. (2007), Fajnzylber et al. (2009), and COMEFER (2011) have all concluded that the impact of the program on the number of new firm registrations has been positive, ranging from 4-8 percent (Kaplan et al, 2007) to 12-30 percent (COMEFER, 2011). More recent research by Bruhn (2012) points to a heterogeneous effect of the reform, depending on the nature of the firm owner. The paper analyzes the effects of the reform by separating informal business owners into two groups: those with personal characteristics similar to wage workers, and those with traits similar to formal-business owners, finding that informal-business owners from the second group were more likely to register their business after the reform. By contrast, informal-business owners from the first group were less likely to register but more likely to become wage workers.

In Colombia, Business Service Centers (*Centros de Atención Empresarial*, CAE) have also contributed to an increase in firm registrations. The CAEs were created within the premises of the local chamber of commerce with the goal of ensuring business registration in "one step, one day, one place, with one interaction, one prerequisite, and at a minimum cost." The first phase of the project (comprising six municipalities) was carried out between 2001 and 2004 and a second phase is underway to extend the CAEs to an additional 15 municipalities. According to an evaluation conducted by Cárdenas and Rozo (2007) the introduction of the CAEs increased registrations by 5.2 percent.

There are also relevant experiences from outside Latin America, both at the national and sub-national levels. In Egypt, a one-stop-shop for registering new businesses, created by General Authority on Investment and Free Zones (GAFI) in 2005, reduced the average amount of time to register a company from 34 days to three (Stone, 2006). In Montenegro, the reformed registration process increased the number of registered firms from 6,001 in 1999 to 21,724 in 2003 (USAID 2005). And in Indonesia, after introducing a similar one-stop-shop concept in the late 1990s, the Government is extending the practice to all districts by decree. At the sub-national level, the municipality of Entebbe, Uganda, implemented a new system which required entrepreneurs to provide only basic information and pay a fee, after which

they immediately received their license. This reduced average registration time from two days to 30 minutes and cut the registration cost by 75 percent. Furthermore, administrative costs fell by 10 percent and staff time used in registration also fell by 25 percent (USAID, 2005). This last example suggests that important gains can be realized from reducing the red tape at sub-national levels, without the often slow and difficult process of amending national legislation.

4.1.2 Lowering the tax burden on small firms

Most governments in Latin America have introduced simplified small taxpayer regimes to improve compliance and reduce the tax burden on small firms. A 2006 IDB study (González, 2006) identified at least 14 countries in Latin America (out of 17 analyzed) with a simplified taxpayer regime. Approximately half of these regimes only lower the tax liability, while the other half lower the overall liability while also combining several tax payments into one. In Chile, Costa Rica, the Dominican Republic, Guatemala, Honduras, Mexico, Nicaragua, and Paraguay, taxes levied on gross corporate revenues have replaced either VAT or income taxes. In Argentina, Bolivia, Brazil, and Peru, a single tax has replaced VAT, income tax, and social security contributions.

Brazil is a case study in successful streamlining of tax payments for small enterprises. The *Sistema Integrado de Pago de Impuestos y Contribuciones* (SIMPLES) in Brazil, which began in 1997, combines six types of federal taxes as well as social security contributions into a single payment for firms with annual sales up to US$1,000,000. An important feature of this program is that it has de-linked social security contributions from the number of (declared) workers; as a result, it has had a positive impact on employment and has substantially reduced the costs of collecting social security contributions. The program has also been successful in increasing the registration rate of firms by an estimated 10 to 30 percent (de Paula and Scheinkman, 2007; Fajnzylber et al. 2006). In 2006, three-quarters of all registered firms in Brazil were participating in the SIMPLES program and the participants' tax payments accounted for 7 percent of total tax income collected, substantially above the 1 percent average for similar programs in Latin America (González, 2006; Santa María and Rozo, 2008; Kenyon and Kapaz, 2005).

Argentina offers another example of combining multiple payments. Here, the simplified tax regime for small taxpayers (*Monotributo*) was implemented in 1998. The system applies to services firms with maximum revenues of US$24,000, and retail firms with maximum revenues of US$48,000. This regime substitutes federal income taxes, VAT, presumptive minimum taxes, taxes on assets, and social security contributions. In exchange, firms must pay a flat fee of 33 percent of the equivalent tax due by a firm outside the system. This new system has successfully created tax incentives for small firms (Santa María and Rozo, 2008).

Simplification programs tend to be most effective when the number of regimes is kept to a minimum. For example, Bolivia and Chile also have introduced simplified tax systems for small taxpayers but their systems are much more complex. In particular, each country has introduced parallel taxation schemes for firms in different areas of activity (as in Bolivia), or to substitute for different taxes (as in Chile). Some argue that although the goal of these reforms is to facilitate compliance, introducing too

many different schemes and complexities is likely to diminish the positive impact of these reforms, particularly where the access to information and the level of education of entrepreneurs is limited. In addition, having specific incentive and regulation regimes for SMEs poses the risk of "trapping" SMEs in a low productivity equilibrium, instead of pushing those with good potential to grow and those with no potential to exit. As Pagés (2010) argues, SME policies that focus on reducing the barriers that hurt SME productivity (access to credit, training, and quality certification, for example) might help reduce the productivity gap between SMEs and large firms, but they need to be carefully designed to avoid generating perverse incentives and reducing overall productivity.

4.1.3 Improving access to credit

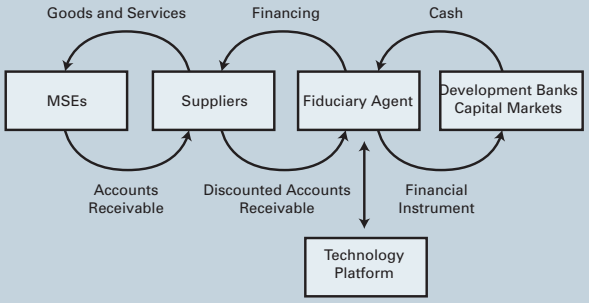
Credit guarantees have been a popular tool to help start-ups and encourage firm growth. For example, in Colombia loan guarantees to SMEs are provided via *Fondo Nacional de Garantías* (FNG), created in 1982, which covers up to 70 percent of losses from non-performing loans and offers a flexible pricing structure according to the level of assumed risk (i.e., extent of coverage provision). Altogether, public SME support programs—primarily the FNG and discount lines of credit provided by *Banco de Comercio Exterior de Colombia* (Bancóldex)—facilitate approximately one quarter of total credit extended to SMEs in Colombia. In Chile, the *Fondo de Garantía para Pequeñas Empresas* (FOGAPE) program, created in 1980 to provide loan guarantees for small entrepreneurs, has grown substantially over time with the number of loans guaranteed increasing from 200 in 1998 to over 62,000 in 2011. An impact evaluation of FOGAPE in large cities concluded that small firms had a 14 percent higher likelihood of obtaining a loan from financial institutions who participated in FOGAPE than those who did not participate in the program (Larraín and Quiroz, 2006).

Factoring, a form of supplier finance whereby firms sell their creditworthy accounts receivable at a discount (interest plus service fees) and receive immediate cash, also offers opportunities of financing for micro and small firms that lack collateral or credit histories. The "factor" assesses the risk of the accounts receivable (or conversely, the creditworthiness of the buyer) and determines the discount fee. During the 2000s factoring has seen impressive growth, especially in Latin America. One of the best examples of government-supported factoring is the Mexican *Nacional Financiera* (NAFIN), a state-owned development bank with 32 branch offices nationwide. NAFIN established a program to link large, public and private creditworthy buyer firms with small supplier firms unable to access formal finance. Private domestic banks and finance companies act as the factors. With the efficiency of its Internet platform, suppliers typically have money within one business day. This program is able to provide the cheapest form of financing available for small suppliers in Mexico, and it has also been an important source of revenue for NAFIN. Another example of the use of factoring comes from Peru, where the World Bank is collaborating with local development institutions to extend receivables financing to approximately 10,000 micro and small firms (see Box 10).

Box 10: A factoring scheme for micro and small enterprises in Peru

Access to finance is a pressing need for micro and small enterprises (MSEs) in Latin America. The World Bank is implementing a scheme to help solve that problem in Peru. The scheme, known as 'factoring,' uses a financial structure and a technology platform to purchase accounts receivable from the large companies that supply many MSEs. Doing so frees up working capital that the suppliers can use to extend more credit to MSEs, helping to solve the access to finance problem. It also benefits the suppliers and other stakeholders.

Due to the close relationships between large suppliers and their MSE customers, the suppliers can provide a lot of credit to MSEs at relatively low risk and cost. The accounts receivable portfolios of these large suppliers are diversified and carry low risk. These qualities are the building blocks for the financing scheme.



Invoice factoring has several benefits for the MSE customers. First, participating MSEs receive more financing from suppliers, which they can use to increase sales. In addition, the scheme helps MSEs get better credit terms elsewhere, because they build credit histories that are valuable when they approach other financial intermediaries. Specifically, the operational platform generates payment reports—similar to those provided by a credit bureau, with proof of historical fulfillment of payments—for the MSEs that participate in the scheme. The MSEs can then use these independent payment reports when they approach banks, improving their chances of receiving bank credit.

Large suppliers benefit from transferring a portion of their accounts receivable portfolio to a third party, improving their financial ratios. That is, factoring improves the liquidity of suppliers by substituting cash for accounts receivable. The suppliers can use this additional (off balance sheet) financing to increase sales of their products and services by providing additional credit to their MSE customers without negatively affecting working capital. In addition, due to the guarantee structure, the financing cost implicit in the factoring scheme will usually be lower than traditional bank financing. Moreover, reducing the cost of funding will improve suppliers' rate of return on assets. Finally, the system will help suppliers achieve better risk management of their client MSEs.

In Peru, the World Bank, COFIDE (La Corporación Financiera de Desarrollo), and Capital Tool Corporation, working directly with structuring, legal and tax advisors, are working on a scheme to create a fiduciary agent (e.g., a trust), to purchase accounts receivable from corporate suppliers on a revolving basis. During the initial implementation, the local development bank COFIDE will fund the trust; later, the fiduciary agent can raise funds in the capital markets. In the first transaction, COFIDE and the supplier through a Fiduciary agent create a special purpose vehicle (SPV). The SPV will then issue a term note that COFIDE will purchase, providing a US$5.0 million capacity for f inancing MSEs. The SPV will use the proceeds to purchase pre-selected accounts receivable from suppliers on a revolving basis, extending financing to approximately 10,000 MSEs, discounting invoices of US$500 average size and 21 days maturity. In subsequent transactions, the rating agencies will determine the risk of the financial instrument to be issued by the SPV.

This rating will allow the SPV to sell participations in the financing to local institutional investors. At that time, it could cover 100,000 client MSEs for a total funding amount of US$30–40 million.

This factoring scheme was one of 14 winners of the challenge launched by the Group of 20 (G-20) countries to find new forms of financing for MSEs. This recognition came with a grant to cover the cost of expanding the scheme in Peru. The solution also attracted interest from other multilateral lending agencies. The Inter-American Development Bank has indicated strong interst in providing additional financing to expand the scheme. Other countries in Latin America (Colombia and Paraguay) have indicated their interest in the scheme.

4.1.4 More flexible labor regulations

Together with costly and cumbersome entry regulations, excessive worker protection limits firm expansion and has adverse effects on employment overall. The literature argues that overly strict employment protection legislation only benefits a minority of workers at the expense of the majority: for example, high firing costs significantly reduce firms' incentives to hire, hurting mainly women and young people (see Kugler, 2007, for an extensive review of this subject). Moreover, strict worker protection can also encourage exit from the formal sector for small entrepreneurs who cannot afford to offer such protection to their employees (Perry et al., 2007). Finally, there is also evidence that when the interaction of labor and entry regulations is strong enough, reform in only one area may not produce the desired effects.

4.1.5 Enhanced enforcement

Enhanced enforcement is an important element of any successful policy package to reduce informality. OECD countries have traditionally placed a high emphasis on enforcement, given the relatively low levels of informality in most member nations. The enforcement strategies in use include telephone hotlines to enable the public to report people working undeclared (UK, Australia); data matching to target specific sectors and informal activities, particularly where there is a high incidence of non-compliance (Canada, Sweden); and wider use of external data in data matching to increase the rate of detection (Australia, Canada, United States). In addition, sanctions are being used more systematically, and countries are now adjusting penalties for inflation to increase deterrence.

Evidence from Latin America shows that increased enforcement, particularly in the area of labor regulations, helps to reduce informality. The evidence of regulations enforcement as a deterrent on informal behavior found in Panama by Perry et al. (2007) is also documented for Brazil by Almeida and Carneiro (2006) and for Argentina by Ronconi (2007). For example, a one percentage point increase in labor inspections at the city level in Brazil leads to a 1.5 percent reduction in informal employment (Almeida and Carneiro, 2006). In Argentina, Ronconi (2007) finds that an additional labor inspector per 100,000 people increases the share of formal private-sector workers by about 1.4 percentage points. Moreover, the same study finds that increased enforcement has a net positive effect on formal jobs – that is, more formal jobs are created than informal jobs destroyed – without a significant

decrease in average wages in the formal sector. These results suggest that stepped-up labor inspections can yield substantial dividends—and many countries in Latin America could benefit from increasing the number of inspectors. For example, Argentina, Brazil, and Chile all have ratios of 1 inspector per 20,000 to 25,000 workers against the ILO benchmark of 1 inspector per 15,000 workers for industrializing countries (ILO, 2006).

On the other hand, the same experiences also highlight some undesirable side effects. In countries with high costs of hiring and firing workers, informal employment might be a way for firms to adjust their employment level cheaply according to the business cycle; similarly for workers, self-employment is always preferable to unemployment in the absence of unemployment benefits. Thus, preventing firms from using the informal adjustment margin could reduce informal employment at the expense of firm performance. For example, Almeida and Carneiro (2006) calculate that in Brazil, each additional inspection per 100 firms reduces output per employee by about 2.5 percent and capital per employee by about 4 percent, concluding that "stricter enforcement of regulation reduces the access of firms to informal employment, thereby increasing their employment tax costs, their employment adjustment costs, and adversely affecting their output and investment." Therefore, strengthening enforcement works best when small firms have access to incentives which create a viable transition path from informality into formality without adversely affecting their productivity.

An increase in formal employment does not always imply higher public revenue. Tax collection in Spain rose substantially through enhanced enforcement when certain tax offenses were criminalized in the 1970s. On the other hand, if the productivity and profitability of informal firms are low, their formalization, though desirable, does not necessarily imply automatic increases in tax collection. Flores et al. (2004) used Mexico's ENAMIN data to compute potential changes in tax collection if informal workers were taxed, finding that tax collection would not change and net spending would increase, as most informal salaried and self-employed workers in Mexico would then be eligible for transfers (negative taxation) as their income is below the threshold for taxable income. However, the analysis did not consider potential increases in income after formalization, making the study a "worst case" scenario.

4.1.6 Stronger social protection

While many countries have implemented tax reforms, governments still face challenges in equity and redistribution aspects. According to Lledo et al. (2004), most countries in Latin America still "lack an implicit social contract between governments and the general population of the kind that is embedded in taxation and fiscal principles and practices in politically more stable parts of the world." Suffering systematic exclusion from formal societal arrangements may have long-lasting negative effects on human capital and economic development (IDB, 2008). In countries where social protection is provided by social security agencies financed mainly through payroll taxes, informal salaried and self-employed individuals are automatically excluded from receiving any protection, while formal employees and firm owners are subject to costly contributions that often only result in mediocre services. Moreover, in many countries workers swing back and forth between formal and informal jobs, which often makes them ineligible to receive benefits since they have not contributed for enough time. Such systems not only

create a two-tier society where only a few benefit from protection, but their inherent inefficiencies often also discourage people from working formally because the costs are greater than the perceived benefits.

Providing universal social protection coverage can help mitigate the risks to informal workers. Recent policy recommendations advanced by the World Bank and other institutions emphasize de-linking social protection programs from labor contracts, especially health service provision. It is well known that health shocks can have severe consequences for the poor, as treatment costs are compounded by revenue losses for sick people and their family (Perry et al., 2007). There have been successful cases of reform in this direction, for example in Spain and other European countries that have reduced contributions for low-income workers and shifted the responsibility of contributions from employers to employees, effectively de-linking coverage from holding a contract.

At the same time, targeted social protection policies have to be carefully designed to avoid undermining incentives to participate in the formal sector. For example, there is an active debate today as to whether non-contributory pension and health systems discourage workers from participating in saving schemes before retirement[37]. On the other hand, conditional cash transfer programs such as Mexico's *Oportunidades*, Brazil's *Bolsa Família*, and the *Bono de Desarrollo Humano* in Ecuador are less likely to distort the incentives of poor people to take formal jobs while still offering basic protection against income shocks, and ensuring investments in human capital of the younger generations.

4.1.7 Best-practice: a holistic approach and clear communication

Single reforms often need to be followed by other regulative and administrative reforms to be effective. For instance, increased access to land titling for rural workers in Bolivia did not result in significant increases in the demand for credit from individuals, in part because of the still cumbersome business registration procedures and the lack of support for micro- and small entrepreneurs (Santa María and Rozo, 2008). Similarly in Peru, a study found that of the 512,000 families that received titles to their properties between 1996 and 2000, only about one percent subsequently obtained a mortgage from a bank (Winterberg, 2005).

Government communications efforts can complement administrative improvements. As part of the effort to build trust with the public, governments can improve their communications strategies to inform the public about reforms and their associated benefits. Failure to do this can translate into mediocre results even if the reforms are well designed. For example, the new simplified taxation scheme introduced in Tanzania in 2001 to encourage formalization was not properly disseminated. As a result, informal entrepreneurs did not know about this reform and it was left to tax administration officials' initiative to inform people about the program (USAID, 2005). On the other hand, in Ukraine, efforts to reform administrative procedures for business licensing have been accompanied by specific actions to increase civil society participation and to fight public sector corruption (USAID, 2005). These examples demonstrate the importance of delivering the messages regarding the benefits of formalization and the costs of informality to the general public in a systematic way.

[37] See for instance, Pagés (2010).

The reforms that Spain implemented in the 1980s and 1990s represent an interesting example of a tackling informality using a holistic approach. The reform package included five crucial elements: (1) it reduced the costs of being formal; (2) it improved its audit technology and increased enforcement; (3) it improved its communications strategy; (4) it modernized administrative processes and functions; (5) it provided basic social protection for all to reduce the exclusion effects of informality. The reforms included: the simplification of the tariff system; the introduction of new employment protection legislation allowing for temporary employment, especially targeting young people and the long-term unemployed; and the reduction of social security contributions for part-time employees. In order to improve tax compliance, databases containing taxpayer information were updated by crosschecking information with other public agencies, and all companies with government contracts were automatically audited. The government increased transparency by carrying out public media campaigns to encourage compliance and to inform the public of new legislation. Administrative agencies also underwent transformations to be made more effective in the audit and collection process. Finally, social protection policies were introduced to de-link certain benefits from labor contracts as the country shifted from a social insurance system financed by payroll taxes to a universal healthcare system financed by general taxation. All these reforms resulted in a dramatic increase in tax collection (the ratio of collection to GDP doubled) and a significant reduction in informal employment. However, as shown by recent developments in the Spanish labor markets, informality might rise during times of crisis even when the basic policy framework is in place, especially when unemployment benefits are no longer available for the long term unemployed.

4.2 Informality and public policy in Ecuador

As highlighted in the previous section, public policy can help reduce informality by lowering the costs of formalization, amplifying its benefits, and strengthening enforcement. All of these elements are present, to some extent, in the menu of options available to and utilized by policymakers in Ecuador. Enforcement has been particularly effective recently, with stepped-up collection efforts increasing VAT and income tax revenues by 0.1 percent of GDP in 2011, while legislative changes and stricter enforcement led to a 1.1 percent of GDP rise in social security contributions. Moreover, survey evidence in the following sub-section points to a positive link between inspections and formalization. On the other side, a number of programs offered within the portfolios of *Ministerio de Coordinación de Producción, Empleo, y Competitividad* (MCPEC), *Ministerio de Coordinación de Desarrollo Social* (MCDS), *Servicio de Rentas Internas* (SRI), and other agencies are available to provide support to small-scale entrepreneurs. Although the majority of entrepreneurs are aware of at least one support program sponsored by the state, their use is very limited among the firms surveyed for this study.

4.2.1 The role of enforcement in discouraging informal activity

Inspections are quite common in Ecuador, with almost two-thirds of sampled firms reporting to have had an inspection during the past year. The EMES survey asked respondents about visits from inspectors from the municipality, tax authorities (SRI), Ministry of Labor (MRL), social security authorities (IESS), the fire department, health authorities, and environmental authorities. The municipality and the fire department had the highest inspection rates at 47.6 and 34.0 percent of respondents, respectively. Labor inspections had the lowest incidence, with IESS and the Ministry of Labor inspections

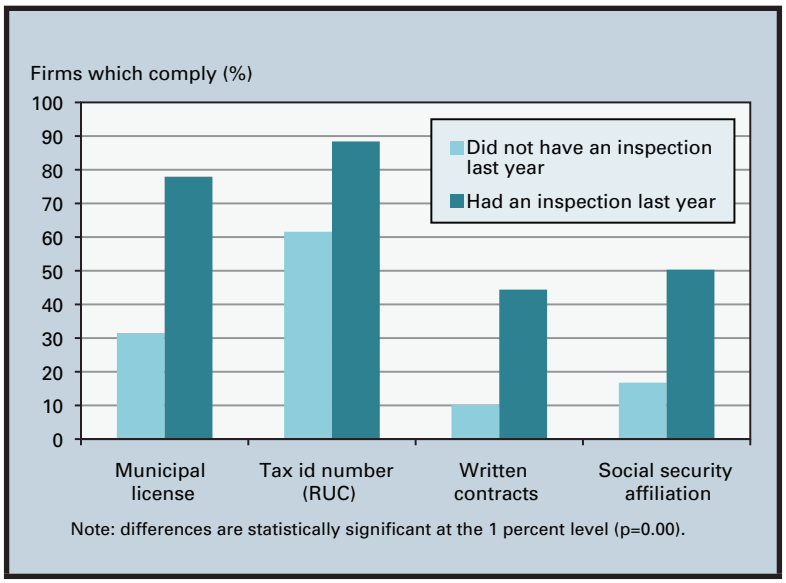
being reported by 11.1 and 8.5 percent of the sampled firms, respectively. However, once inspected by one institution, the probability that a firm receives a visit from other inspectors increases substantially. The correlation in inspections was highest for fire department and health authorities (0.53), fire department and the municipality (0.52) and the IESS and the Ministry of Labor (0.50). The incidence of tax inspections reported by EMES respondents (32 percent) is somewhat lower than the 38 percent rate for Ecuadorian formal firms of all sizes and substantially lower than the 44 percent average reported by formal firms with 1-50 employees in all of Latin America.

The frequency of inspections varies considerably by firm characteristics such as city, size, and sector of activity. Due to the greater geographic dispersion of firms in larger cities, firms in Quito and Guayaquil experience inspections more rarely than firms in Machala and Tulcán (58.2 percent vs. 82.7 percent, respectively). Moreover, firms in Tulcán were more likely to have had an inspection in every single category other than the fire department (where they trailed Machala by 0.5 percent), and the municipality alone inspected more than 84 percent of the sampled firms in the city. In all cities, the probability of inspections rises with the size of the firm: while 60.2 percent of firms with 1-5 workers had at least one inspection in the past year, the reported frequency increases to 68.2 percent for firms with 6-10 employees and 72.8 percent for firms with 11-50 employees. There are also large differences across sectors: while almost 80 percent of restaurants and food retailers in our sample received at least one inspection, only a quarter of construction firms were inspected during the past year. This pattern holds for most of the inspections types, with the exception of Ministry of Labor and IESS, where food retailers have one the lowest inspection rates.

Box 11: Firms' and workers' reactions to inspections

Firm owners see inspections as a part of doing business, while many workers, surprisingly, focus on the negative impacts of inspections. During the focus group discussions, firm owners mentioned that many times inspectors issue a warning and then allow for several months to correct the shortcomings. Once inspected, the entrepreneurs perceive that the likelihood of a return visit is high and are more likely to follow the rules. Others mention bribes as an alternative when the costs of compliance are perceived to be too high. On the other side, workers tend to have a surprisingly negative view of inspections due to the perceived risk of business closure and a following loss of employment. Additionally, in some cases where inspections resulted in improved compliance such as the issuance of written contracts, workers in the focus groups mentioned that the contracts were issued for the shortest possible duration and without discussion of terms with the workers; in addition, several participants suggested that those working without contracts could be simply fired.

Figure 4.1: Inspections and compliance



Source: EMES

Inspections significantly increase the probability that firms follow the rules, but do not guarantee full compliance. In Figure 4.1, we use EMES data to contrast firms' compliance with municipal, tax, labor, and social security regulations by whether or not a firm has had an inspection in the past year. The figure makes it clear that inspections significantly increase the probability that a firm complies with regulations, regardless of type. However, inspections cannot guarantee full compliance in any of the cases—even among firms who have had a visit from SRI during the past year, 12 percent of the firms continue to operate without having registered for a tax identification (RUC) number. Figure 4.1 also reveals that, with or without inspections, certain regulations are more just difficult and/or costly to comply with. Therefore, even though the marginal impact of an inspection on compliance is higher for the municipal license than for the tax identification number, the overall level of compliance is lower. Similarly, despite the significant impact of inspections on compliance with labor and social security regulations, even firms who have had an inspection follow the rules less than half of the time. Finally, while Figure 4.1 reports simple differences in mean without controlling for any other determinants of inspections, Table 4.2 confirms that these results are robust to controlling for firm- and owner-specific characteristics, including characteristics such as distance from the nearest tax office and membership in a guild which can increase a firm's visibility to authorities and hence the probability of inspection.

Table 4.2: Impact of inspections on compliance

	Probability (RUC)	Probability (Receipts)	Probability (Municipal license)	IESS affiliation (% of empl.)	Written contracts (% of empl.)
Inspections during the last year					
SRI	0.162***	0.080***			
Municipality			0.369***		
IESS				0.170***	
Ministry of Labor					0.150***
Owner characteristics					
Hours worked in this business/ week (log)	0.021	-0.017	-0.008	-0.021	-0.027**
Age	0.002	-0.001	0.001	0.003***	-0.001
Gender (male = 1)	-0.033	-0.011	0.015	-0.017	-0.007
Index of entrepreneurial ability	-0.017	0.012	-0.008	-0.013	-0.016*
Education					
Incomplete primary	0.008	0.053	0.090	-0.061*	0.009
Complete secondary	0.094***	0.040	0.134***	0.070***	0.023
Incomplete tertiary	0.176***	0.018	0.120**	0.146***	0.087***
Complete tertiary	0.165***	0.080*	0.219***	0.212***	0.195***
Firm characteristics					
Distance to nearest tax office (log)	-0.165***	-0.038**	-0.123***	-0.019	-0.013
Membership in guild or union	0.168***	0.046	0.128***	0.120***	0.103***
Owns place of business	0.027	0.022	-0.007	0.051**	0.035*
Years in business	0.001	-0.000	0.006***	-0.000	-0.001
Firm size					
6-10 employees	0.152***	0.065**	0.181***	0.164***	0.193***
11-50 employees	0.173***	0.153***	0.245***	0.285***	0.373***
Observations	1,211	1,211	1,211	1,211	1,211
R^2	0.322	0.124	0.350	0.294	0.384

*** p<0.01, ** p<0.05, * p<0.1.

Note: Probit results are reported as marginal probabilities. Confidence intervals calculated with robust standard errors. City and sector dummy variables are included in all specifications, but are not shown.

In addition to inspections, results of a recent referendum have made it more costly to operate informally. In May 2011, the Government of Ecuador held a referendum (*Consulta Popular*) on a wide range of issues, including whether failing to affiliate workers with social security (IESS) could be considered a criminal offense. This particular measure passed with the approval of more than 48 percent of Ecuadorians, although it has not yet been made effective pending required amendments to the Criminal Code. According to the proposed amendments, penalties could range from two months to a year and prison and fines from 2 to 40 times the minimum wage (i.e., US$528 – 26,400).

Social security affiliations rose sharply in 2011, although only a part of this rise could probably be attributed to the referendum outcome. The rate of social security affiliations of employees (as a share of the labor force) rose from 33.1 percent in December 2010 to 37.9 percent in December 2011, adding 380,000 new beneficiaries to the IESS register. Part of this increase was due to a decline in the unemployment rate during the same period; however, even taking this into account, the number of affiliated workers as a share of employed persons rose from 35.2 percent in 2010 to 39.8 percent in 2011. Therefore, while it would be difficult to attribute the entire increase to a legislative change that has yet to come into effect, the signal sent by the authorities regarding the seriousness of the issue has probably played a role in stimulating the uptick in affiliations. Other reasons for the increase likely include recent changes allowing for affiliation of part-time employees, some relaxation of the rules requiring a minimum period of continuous employment before benefits can be drawn, and the ability to use medical benefits in both public and private clinics.

4.2.2 Support programs for small businesses

A number of state-sponsored support programs for small businesses are available in Ecuador, but few enterprises surveyed for this study participate in them. Table 4.3 summarizes the knowledge and penetration of some of the larger state-sponsored support programs available to firms in the urban areas of Ecuador. Approximately 78 percent of firms are familiar with at least one of the 11 programs considered in Table 4.3, although awareness varies substantially by program, ranging from around 6 percent for *Fondepyme* and *Microfinanzas Juveniles* to more than 60 percent for *Créditos Productivos* through *Banco Nacional de Fomento*. However, among these businesses, just 11 percent participate in at least one program. Entrepreneurs in Machala and Tulcán are more likely (86 vs. 76 percent) to be aware of at least one support program than their counterparts in Quito and Guayaqui, and their probability of participating in at least one program, once aware of it, is also somewhat higher (11.9 percent vs. 10.3 percent). However, the overall rate of participation in the programs listed in Table 4.3 is still relatively low, with just 8 percent of the business in the EMES sample familiar with and participating in at least one state enterprise support program. Additionally, despite the fact that most businesses reported to have some knowledge of the support programs in Table 4.3, almost 89 percent of surveyed firms indicated they would be interested in learning more about these same programs.

In May 2011, the National Assembly passed the *Ley de la Economía Popular y Solidaria* (EPS), defining the EPS and providing a number of incentives to EPS members. The law and the subsequent regulations passed in February 2012 define the EPS as an economic environment where members, individually or collectively, organize and develop production, trade, marketing, financing, and consumption of goods and services based on solidarity, cooperation, and reciprocity, with these principles valued over and above ownership, profit, and/or capital accumulation. The EPS law follows other pieces of legislation which explicitly recognize EPS as an integral part of the economic system of the country—on par with *economía privada* and *economía pública*—such as the 2008 Constitution of Ecuador and the 2010 *Código de la Producción*. However, until the passage of the law and the regulations, the exact definition of the EPS, its membership, its relationship with the informal economy, and the benefits available to EPS members remained unclear (see Box 11 for a discussion of focus group participants' views on EPS).

Table 4.3: Knowledge of and participation in state support programs for entrepreneurs

	Aware of (% of firms)	Participate (% of firms)	Year joined (average)
Emprende Ecuador[a]	18.43	2.22	2009
Innova Ecuador[a]	12.2	0.67	2009
Fondepyme[b]	5.9	1.39	2010
Plan Ren-ova[b]	26.78	4.28	2009
Negocios Turísticos Productivos (Ministerio de Turismo)	17.44	6.57	2008
Crédito para Economía Social y Solidaria[c]	13.27	1.85	2002
Crédito Socio Panadero[c]	14.41	0.00	
Microfinanzas Juveniles[c]	6.06	1.35	2011
Crédito de Desarrollo Humano[c]	39.48	2.90	2007
Créditos Productivos (Banco Nacional de Fomento)	61.75	5.84	2005
Créditos Productivos (Corporación Financiera Nacional)	40.38	4.67	2009

Note: Participation rates are calculated only for those firms who are aware of the respective programs.

[a] Ministerio Coordinador de la Producción, Empleo y Competitividad

[b] Ministerio de Industrias y Competitividad

[c] Programa de Finanzas Populares, Emprendimiento y Economía Solidaria

The EPS seeks to reach small producers and entrepreneurs that could be informal, to provide a series of incentives to encourage formality and raise productivity and income. EPS regulations define its members as community or cooperative associations that conduct their business in accordance with the EPS law as well as individuals working in family businesses, craft workshops, care-takers of the elderly and disabled, and small retail owners, etc., under the principle of creating partnerships and fostering solidarity. The partnerships envisioned by the law could support formalization through an improved flow of information and positive peer pressure; in addition, to be recognized as members of EPS businesses must participate in the MCDS public registry which automatically makes these businesses visible to authorities. Formalization could also be encouraged through a number of benefits available to EPS members; while the respective Ministries, public agencies, universities, public financial institutions, etc. will be responsible for the ultimate design and implementation of measures, the EPS law stipulates that they could include the following:

- Preferential access to public contracts and procurement;
- Support of different forms of economic integration;
- Improved access to financing through credit lines, public financial institutions, etc.;
- Participation in infrastructure plans and projects;
- Education and training;
- Support and technical advice on intellectual property and trademark issues, etc.;
- Encourage the consumption of goods and services offered by EPS members through increased public awareness;
- Guaranteed access to Social Security for EPS members; and
- Simplified taxation and other tax incentives such as exemptions, etc.

Box 12: Perceptions of *Economía Popular y Solidaria*

Focus group participants—both employers and employees alike—have difficulties defining the concept of *Economía Popular y Solidaria* (EPS). They tend to agree on several things: that EPS is associated with policies of the Government and that the concept entails some form of support to those in the middle class and below. There is also a common perception of solidarity present in most participants' accounts of their understanding of EPS. Beyond these shared characteristics, however, the definitions of EPS vary widely.*

Workers associate EPS with the administration of President Rafael Correa, but cannot clearly describe it. They associate EPS with many different, and loosely related ideas. Some workers believe that EPS represents low cost products and services that are affordable to low-income population (the "people"). Others think EPS means that workers support each other with inputs, materials, and giving loans to each other at low rates and longer duration. Yet others identify EPS with trading in traditional markets rather than in big chain supermarkets, department stores, etc. Finally, a number of workers associate EPS with income transfers (*bonos*).

Firm owners believe that EPS is related to small businesses and that it implies some degree of association. In general, entrepreneurs have a more accurate idea of EPS than workers, but the details of the perceptions vary widely. In Quito and Guayaquil, entrepreneurs believe that EPS supports small businesses that are mainly family owned and family-run. Furthermore, they think EPS involves a certain degree of association, such as cooperatives or business partnerships. In Tulcán and Machala EPS is mainly associated with government assistance for those in need (such as the *BDH*), with government institutions (INFA, MIES, MIDUVI, etc.), and charities. Some firm owners in Tulcán and Machala also associate EPS with lower cost products and access to credit at low interest rates. There is also a wide-spread perception that EPS implies providing jobs to Ecuadorians rather than to immigrants.

The confusion around the concept of EPS underscores the need for more clear communication by the authorities. The focus group discussions reveal that both workers and firm owners do not have a clear understanding of EPS, although they do associate the concept with the policies of the current administration. There is therefore a clear distance between the importance of EPS for the authorities and the perception of EPS by the population—many of whom are most likely EPS members themselves. This underscores the need for an effective communication and information campaign to socialize the concept and educate the public about EPS.

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* It should be noted that the EPS law was approved only a few months before the focus groups took place. However, the new Constitution of Ecuador, enacted in 2008, already mentions the EPS as being a fundamental part of the economic system. (see Constitución del Ecuador, Art. 283).

5. Annexes

Annex A: Data description

The analysis in this report is based on a combination of quantitative and qualitative tools designed specifically for this study. The quantitative data were collected with the Ecuador Micro-Enterprise Survey (EMES), a 66-item questionnaire administered to more than 1,200 firms in urban areas of Ecuador in May-June 2011. The questionnaire, based on similar surveys recently carried out by the Bank in Bolivia and Peru, was designed by the authors to understand the costs and benefits of informality as well as the challenges in the overall business environment from the perspective of micro-entrepreneurs. To supplement the information obtained through the surveys, qualitative data was collected through focus group discussions and in-depth interviews with both micro-entrepreneurs and their employees. The objective of the qualitative component was to ask open-ended questions in the same subject areas covered by EMES, in order to allow for a greater variety of answers and a more in-depth discussion of reasons behind the observed behavior.

EMES data and sample design

The EMES data were gathered through face-to-face interviews with enterprise owners and managers. For each interview, the survey respondent was the "individual ultimately responsible for the operations of the company or business"; if this person was not available at the time of the interviewer's visit, an appointment for a follow-up visit was made to ensure that only the person most knowledgeable about the firm's operations answers the questions. The interview consisted of 66 closed-ended questions, many of them with several sub-questions, and lasted an average of 40 minutes (see Annex C for the survey questionnaire).[38] The questionnaire, based on similar questionnaires used by the World Bank in Bolivia and Peru (McKenzie and Sakho, 2010; World Bank, 2008), was adapted by the authors to the Ecuadorian case by limiting the number of questions and restructuring the remaining ones to refer to terminology and business/registration processes familiar to Ecuadorean entrepreneurs. The questionnaire was validated and adjusted through a pilot phase, which consisted of interviewing 39 firms in the four cities where the survey was carried out.[39] The questionnaire covered a range of subject areas: information about the owner/manager, including entrepreneurial ability and motives for having an own business; firm financials including sales, profits, and costs' access to and use of credit; attitudes regarding the minimum wage and payment of taxes; compliance with municipal, tax, and employment rules; reasons for compliance or non-compliance; inspections, fines, and bribes; and familiarity with the public SME assistance programs.

The questionnaire was administered to 1,222 micro and small firms in four cities and eight sectors of economic activity. Table 5.1 shows the distribution of sample observations across the three dimensions of firm size, sector of economic activity, and city. The sample was structured in such a way that

[38] Although the interviews were carried out throughout the day, most of them were completed in the afternoon.

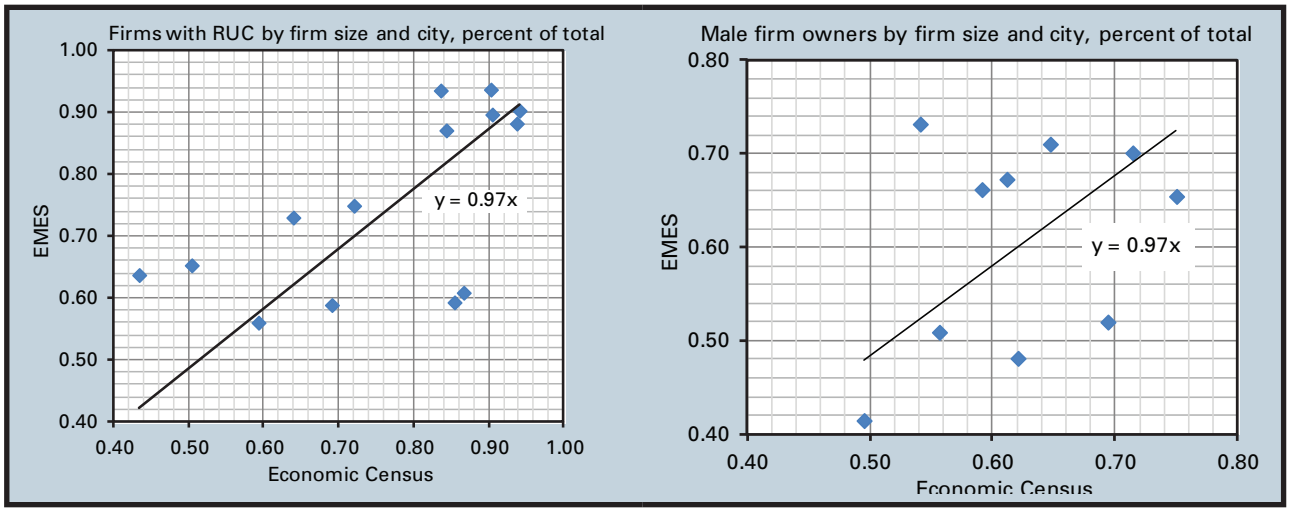
[39] The pilot firms are not included in the final EMES sample.

sufficient observations to permit statistical analysis and hypothesis testing would be available along any of these three dimensions. Firm size was defined according to the number of persons employed in the business (both part-time and full-time), and sector of economic activity was defined as the activity that is the main source of income for the business. Due to the difficulties of identifying and interviewing larger firms in the much smaller Machala and Tulcán, only firms with up to 10 employees were sampled in these cities.

The sampling framework of the EMES is based on the 2004 national survey of urban micro-enterprises. The 2004 survey, sponsored by USAID under the project "Proyecto SALTO," collected information on close to 18,000 micro-entrepreneurs in low- and middle-income urban areas of Ecuador.[40] These businesses, identified through interviews with more than 80,000 households between March and June 2004, were estimated to be representative of nearly 465,000 out of estimated 646,000 micro-enterprises in Ecuador. At the time of the EMES sample design, the 2004 survey provided the only available comprehensive sampling framework, which was therefore used to calculate the EMES sampling quotas by city, sector, and firm size. Because the 2004 survey only collected data on enterprises with up to 10 employees, the sampling design for the larger (11-50 employee firms) was based on the ENEMDU employment surveys collected and published by Instituto Nacional de Estadística y Censo (INEC).

The EMES data match closely with the recently completed economic census. Concurrently with the EMES project, INEC was carrying out an urban census of economic establishments, *Censo Economico*. Unfortunately, the census was not available at the time of the EMES sample design; moreover, there are several important methodological differences between the universe of firms that the EMES and *Censo Economico* attempt to capture. Most importantly, *Censo Economico* only surveyed businesses with a fixed place of establishment and therefore did not cover most street vendors, construction workers, or taxi drivers. Therefore, there is no easy way to reconcile the EMES results with those of *Censo Economico*, at least for the above-mentioned sectors. However, as shown in Figure 5.1, the correspondence between the EMES results and those of the economic census—for the same cities and firm sizes—is quite high for both firm and owner characteristics.

Figure 5.1: Tax identification number and owner gender in the EMES and the *Censo Economico*



Source: Authors' calculations with data from the EMES and the *Censo Economico*.

[40] Urban areas were defined as those with at least 5,000 inhabitants.

Table 5.1: Distribution of EMES sample observations by city, size, and sector of economic activity

City	Size / Sector	Manufacturing		Commerce			Transportation		Construction	Total
		Textiles, shoes, apparel, leather	Other	Grocery retailing	Street food vendors	Hotels and restaurants	Ground transport	Auto repair		
Quito	1-5 empl.	30	66	64	8	56	57	8	30	319
	6-10 empl.	30	33	-	1	29	-	5	5	103
	11-50 empl.	14	17	-	-	15	-	-	15	61
	Total	**74**	**116**	**64**	**9**	**100**	**57**	**13**	**50**	**483**
Guayaquil	1-5 empl.	30	65	65	10	54	57	8	29	318
	6-10 empl.	33	33	-	-	38		5	6	115
	11-50 empl.	14	17	-	-	17			15	63
	Total	**77**	**115**	**65**	**10**	**109**	**57**	**13**	**50**	**496**
Machala	1-5 empl.	21	8	30	-	20	15	7	5	106
	6-10 empl.	5	2	-	-	5	1	4	-	17
	11-50 empl.	-	-	-	-	-	-	-	-	-
	Total	**26**	**10**	**30**	-	**25**	**16**	**11**	**5**	**123**
Tulcán	1-5 empl.	20	8	30	-	20	19	1	5	103
	6-10 empl.	5	2		-	5	1	4		17
	11-50 empl.	-	-	-	-	-	-	-		-
Total	**Total**	**25**	**10**	**30**	-	**25**	**20**	**5**	**5**	**120**
	1-5 empl.	101	147	189	18	150	148	24	69	846
	6-10 empl.	73	70	-	1	76	2	18	11	251
	11-50 empl.	28	34	-	-	33	-	-	30	125
	Total	**202**	**251**	**189**	**19**	**259**	**150**	**42**	**110**	**1,222**

The EMES data were collected through random sampling by census tracts in each of the four cities. In order to fill the sampling quotas, as defined in the previous paragraph, the interviewers canvassed census tracts in each city. The interviewers' objective was to identify at least one firm fitting the sample criteria (in terms of size and sector of main activity) in each tract, and then proceed to interview that firm. The participant firms were always identified through a random search of a census tract; in no case were "official" sources, such as yellow pages or Chamber of Commerce lists, used to select firms so as not to bias the sample towards more formal or visible firms. If no firms were encountered or the firm owner refused to be interviewed, the interviewers would move on to the next census tract. The refusal rate was reasonably low for firms with 1-5 employees (3.5 percent in Machala/Tulcán and 9.0 percent in Quito/Guayaquil), but close to 50 percent for firms with 6 or more employees. The high refusal rates were due to a lot of concern among the entrepreneurs about the recent legislative changes and the stepped-up enforcement efforts by the authorities which made many entrepreneurs reluctant to disclose any information. For example, one of the items passed by popular referendum during the data collection phase was the introduction of criminal penalties for failing to affiliate workers (including part-time employees) with Social Security. Interestingly enough, the majority of firms in the EMES sample—even among the larger firms—reported that they did not affiliate their workers (see Chapter 2), suggesting that those who did respond may not have biased their answers and also that the respondents may not have been self-selecting into the sample based on their degree of compliance.

Focus groups and in-depth interviews

In order to add a qualitative dimension to the study, the survey data were complemented with focus group discussions and in-depth interviews with firm owners and their employees. The discussions, conducted separately for workers and entrepreneurs, followed an interview guide (see Annex C) designed specifically for each group. The entrepreneur interview guide contained 71 questions which focused on five main subject areas: understanding of the concepts of informality and *economia popular*; perceptions of the current business climate; compliance with tax, municipal, public registry, and labor regulations; inspections, fines, and bribes; and access to credit. The worker interview guide contained 52 questions, covering the following areas: worker qualifications and experience; employer's compliance with labor regulations in the current job; perceptions of costs and benefits of compliance from the workers' and employers' perspectives; the relationship between compliance and inspections/fines by the authorities; and understanding of the concepts of informality and *economia popular*.

There were 24 focus groups and 10 interviews conducted for the qualitative component. The participants were selected according to firm size, main sector of economic activity, and city of operations (Table 5.2). Each group session had 6-8 participants and the groups were mixed by sector of activity in order to enrich the dialogue and to bring in complementary perspectives from similar types of entrepreneurs/workers in different sectors.[41] The focus group discussions and interviews took place in May-June 2011 and were conducted by expert moderators/researchers in cognitive techniques. The groups lasted an average of two hours and were recorded on video. Lunch or dinner was provided to the participants,

[41] Mixed focus groups were also successfully used in the recent Bank informality study in Peru (World Bank, 2008) and were also recommended by the firm in charge of recruiting participants and undertaking the qualitative analysis.

as well as some token gifts for the participation. Due to the difficulties in recruiting the owners of larger firms (11-50 employees) for participation in the focus groups, these entrepreneurs were interviewed one-on-one in their offices using the same interview guide as the focus groups. These interviews lasted an average of 45 minutes and were recorded on audio.

The analysis of the focus group and interview results was carried out by the survey firm and was used as an input to this study. Both the report and the audio/video recordings of the groups and interviews were delivered to the Bank by the survey firm and became inputs to the current study.

Table 5.2: Focus group discussions and in-depth interviews by city, size, and sector of activity

Size	Sector	Quito	Guayaquil	Machala	Tulcán	Total
Entrepreneurs						
1-5 empl.	Manufacturing, grocery retail, restaurants and hotels, ground transport, auto repair, construction	4	3	1	1	9
6-10 empl.		3	4	1	1	9
11-50 empl.	Textile manufacturing	1	1	-		2
	Other manufacturing	1	1			2
	Transport	1	1			2
	Restaurants and hotels	1	1			2
	Construction	1	1			2
Total		12	12	2	2	28
Workers						
6-10 empl.	Manufacturing, grocery retail, restaurants and hotels, ground transport, auto repair, construction, other services*	1	1	1	1	4
11-50 empl.		1	1	-		2
Total		2	2	1	1	6

* Additional service sectors included in Machala and Tulcán.

Annex B: Regulatory framework regarding business registration in Ecuador

The formal obligations regarding the constitution of a company in a public instrument (or deed), and the public registration depend on the type of business. In Ecuador, legal obligations of businesses vary by type of business, as detailed below:

1. *"Mujeres productivas autónomas"* or Autonomous Productive Women: these women, who run a business, have to be the head of the household. **They are exempt of all formal obligations** and their regulatory body is the Ministry of Social and Economic Inclusion (MIES).

2. (Informal) micro entrepreneurs, de facto companies, families as productive units, etc.: an informal micro entrepreneur is a person that runs and owns a business; a de facto company is a similar unit, owned by two or more people; and a "family as a productive unit" is a business owned and operated by a family. In these cases, there is **no obligation of public deed or public registration**, but there is also no limited liability. These businesses need to have a RUC, a "*patente municipal*" and are included in the RISE (simplified taxation system). These businesses will be further regulated by the *Instituto de Economia Popular y Solidaria* (EPS –within MIES). Besides, there are also some non-written regulations regarding families as productive units that come from indigenous and ancestral peoples Law.

3. Communities and Local Government Businesses: They also need to have a RUC and a "*patente municipal*" and they *don't need a public deed or public registration*. Nevertheless, further regulation regarding community property is going to be implemented.

4. Indigenous and Afro-ecuadorian productive organizations: They also have special regulations and need to have a RUC and a "*patente municipal*" but they **don't need a public deed or public registration**.

5. Co-ops and mutual benefit societies (*mutualistas*): All these business involve a degree of association, that's why they are linked to the EPS and MIES. These businesses have to be created through a formal contract, but **not a deed**, and need MIES approval. Nowadays, they **don't have to be registered in a public registry**, but they will have to register in the Superintendence of entities of the Popular and Supportive Economy (*Superintendencia de Entidades de la Economía Popular y Solidaria*) once this body is created. They will be under MIES supervision.

6. Civil law partnerships (foundations, corporations, NGO's): They also have to be created through a formal contract, but not a deed, and need judicial approval. They **don't have to be registered in a public registry**, but they will also have to register in the Superintendence of organizations of the Popular and Supportive Economy and will be under MIES supervision.

7. Public companies: They are included in a totally different regime and **don't have any obligation related to deeds or public registration**.

8. *Cuentas en participación*: This is a temporary company that is created for a limited period of time.

It doesn't need a deed or public registration, although they need to have a RUC and a "*patente municipal*".

9. Associations, consortiums, alliances, productive chains, holdings and sole proprietorship: All these companies **are required to have a deed and to register in a public registry**. These companies are under Superintendence of Companies (*Superintendencia de Compañías*) supervision.

10. *Sociedades mercantiles* (commercial companies): There are five types of commercial companies: compañía en nombre colectivo, compañía en comandita simple, compañía en comandita dividida por acciones, limited company and public limited company. There are differences among them related to limited or not limited liabilities, capital, administration, etc. The incorporation process of these companies is:

    I. Deed before a public notary
    II. State approval (judicial for c*ompañías en nombre colectivo and compañías en comandita simple*; and in the Superintendence of Companies for the rest)
    III. Inscription in the Commercial Register (*Registro Mercantil*)
    IV. Publication

    It is expected that the second step will be soon eliminated. All these companies are also under Superintendence of Companies (Superintendencia de Compañías) supervision.

According to the Superintendence of Companies, in Ecuador the number of commercial companies is decreasing in favor of other kind of businesses from a legal point of view. This is mainly due to the differences in tax payment modalities. Unlike other businesses, commercial companies have to make advance payments of the income tax.

Annex C: Interview guides and questionnaire

GUÍA DE INDAGACIÓN – FOCUS GROUP-

INTRODUCCIÓN

Gracias por venir. Mi nombre es... y trabajo acá en HÁBITUS. En esta empresa nos dedicamos a hacer encuestas y reuniones como esta para saber qué piensa la gente sobre diversos temas. Ahora los hemos invitado para conversar un poco sobre sus negocios. Acá no vamos a juzgarlos. Sólo queremos saber cómo funciona normalmente una empresa típica de sus sectores. Por eso quisiera que sus respuestas sean lo más sinceras posible.

IDEA DE INFORMALIDAD / ECONOMIA POPULAR

Definición de ser formal

1. Cuando en los periódicos suelen hablar de informalidad ¿A qué creen que se "refieren"? ¿Y a qué se refieren cuando hablan de "economía informal"?
2. ¿Y a qué se refieren con "empresas informales"?
3. ¿Cómo es una empresa informal? ¿Cómo funciona? ¿Qué características tiene una empresa informal que la diferencia de una formal? ¿Algo más? (**PROFUNDIZAR**)

4. Cuando en los periódicos suelen hablar de economía popular y "economía popular y solidaria" ¿A qué creen que se "refieren"? PROFUNDIZAR

5. ¿Creen que es difícil tener una empresa completamente formal en el Ecuador? ¿Por qué?
6. ¿Qué se podría hacerse para hacer que las empresas informales se vuelvan formales?

7. ¿Ustedes consideran que sus empresas son formales, o no?
8. (**SI RESPONDE SI**) ¿Por qué sí?
9. (**SI RESPONDE NO**) ¿Por qué no?

10. ¿Ustedes consideran que sus empresas son parte de economía popular o "economía popular y solidaria"?
11. (**SI RESPONDE SI**) ¿Por qué sí?
12. (**SI RESPONDE NO**) ¿Por qué no?

SITUACIÓN ACTUAL DEL NEGOCIO

Perfil del empresario

13. Cuéntenme un poco ¿De qué trata su negocio?
14. ¿Qué productos o servicios ofrecen?
15. ¿Cuántos años se dedican a esto?
16. ¿Cómo así decidieron dedicarse a esto? ¿cómo nació / por qué?
17. Y antes de tener este negocio, ¿A qué se dedicaban? ¿Tenían antes otro negocio similar?

18. ¿Y el negocio es sólo de ustedes o tienen algún socio? ¿Cuántos socios son? ¿Tienen algún tipo de relación familiar con su socio?

Situación actual del negocio

19. ¿Qué tal les va con su negocio actualmente?
20. ¿Cómo ha cambiado en relación a cuando empezaron?
21. ¿Sienten que les va mejor que en años anteriores? ¿A qué creen que se deba eso?

22. ¿Y cuáles creen que son principales problemas que tiene que enfrentar una empresa típica de su sector? HACER RANKING
    a. SI NO HAN MENCIONADO INDAGAR POR: ACCESO A MATERIAS PRIMAS, FALTA DE PERSONAL CALIFICADO, LOS IMPUESTOS, LA LEGISLACIÓN LABORAL, EL ACCESO A CRÉDITO, LA ECONOMÍA DEL PAÍS, LA INESTABILIDAD POLÍTICA DEL PAÍS, LOS ROBOS Y VIOLENCIA

NIVEL DE FORMALIDAD DEL NEGOCIO / TRAYECTORIA DEL NEGOCIO Y DEL NIVEL DE FORMALIDAD

23. Cuéntenme un poco, ¿Cómo empezaron con su negocio? ¿qué fue lo primero que hicieron para echarlo a andar? ¿y después? **(PROFUNDIZAR)**
24. Y, de acuerdo a las normativas locales y nacionales ¿conocen qué es lo que se debe hacer para abrir y hacer funcionar un negocio? ¿cuáles son los requisitos que hay que cumplir?
25. ¿Alguno de ustedes empezó su negocio sin tener alguno de estos requisitos? ¿cuál? ¿por qué?
26. Actualmente ¿Cuáles son requisitos que hay que cumplir sin falta? ¿cuáles podrían dejarse para después? ¿por qué?

Inscripción en registros públicos:

27. ¿Están inscritos en algún registro público? ¿en cuál?
28. ¿Por qué decidieron inscribirse? ¿Por qué no? **(INDAGAR SI FUE UNA DECISIÓN VOLUNTARIA O COERCITIVA)**
29. QUIENES ESTÁN INSTRITOS ¿Cómo lo hicieron? ¿Tuvieron algún problema o dificultad al momento de hacer el registro? ¿Cuál? **(INDAGAR POR TIEMPO Y COSTO**S)

30. ¿Necesitaron asesoría de alguien para poder inscribiese?
31. ¿Cuáles son los beneficios que una empresa de su sector obtiene al estar inscrita en registros públicos?
32. ¿Y cuáles son los inconvenientes que una empresa de su sector obtiene al estar inscrita en registros públicos?

Régimen tributario

33. Actualmente ¿Tienen RUC? ¿por qué?
34. ¿Qué hay que hacer para sacar RUC? ¿es un trámite complicado? ¿qué dificultades ofrece?
35. ¿Necesitaron ayuda para sacarlo?
36. ¿Y para qué les sirve tenerlo?
37. ¿Cuáles son los beneficios que una empresa de su sector obtiene al estar sujeta a un régimen tributario, como el RUC?
38. ¿Y cuáles son los inconvenientes que una empresa de su sector obtiene al estar sujeta a un régimen tributario, como el RUC?

Obtención del permiso municipal

39. ¿Sus empresas cuentan con permiso municipal? ¿por qué sí / por qué no?
40. ¿Qué hay que hacer para sacar este permiso? ¿es un trámite complicado? ¿qué dificultades ofrece?
41. ¿Necesitaron ayuda para sacarlo?
42. ¿Y para qué les sirve tenerlo?
43. ¿Cuáles son los beneficios que una empresa de su sector obtiene al tener un permiso municipal?
44. ¿Y cuáles son los inconvenientes que una empresa de su sector obtiene al tener un permiso municipal?

Compra y venta

45. De repente ¿algunos insumos o mercaderías que utiliza para su negocio los compra sin factura? PEDIR EJEMPLOS
46. ¿Qué cosas compra sin factura y qué cosas con factura? ¿Por qué?
47. ¿Cuáles son los pros y contras que tiene una empresa de su sector al comprar sin factura?

48. ¿Y alguna vez ha vendido un producto o servicio sin factura? PEDIR EJEMPLOS
49. ¿Cuáles son los pros y contras que tiene una empresa de su sector al vender sin factura?

Situación laboral

50. Cuéntenme ¿Cuántas personas trabajan actualmente en su empresa?
51. ¿Todos sus trabajadores firmaron un contrato por escrito? ¿Cuántos sí lo hicieron?
52. ¿Cuántos trabajan a tiempo completo y cuántos por horas?
53. ¿A la semana, aproximadamente, cuántas horas trabaja cada uno de ellos?
54. ¿Reciben algún tipo de pago o compensación por horas extra? ¿En qué consiste esta compensación?

55. Cuándo empezaron con su negocio ¿Cuántos trabajadores tenían?
56. ¿Tenían algunos trabajadores en planilla/nómina? ¿Cuántos estaban en planilla / nómina?
57. ¿Y ahora tienen trabajadores en planilla/tiene más trabajadores en planilla?
58. ¿Qué toman en cuenta para decidir que un trabajador entre en planilla? ¿de qué depende?
59. ¿Cuáles son los pros y contras de tener trabajadores en planilla?

60. ¿Sus trabajadores quieren estar afiliados?
61. ¿Qué tan difícil es despedir a un trabajador que tiene un contrato formal? ¿qué alternativas han escuchado que puedan existir para hacer este proceso más fácil?
62. ¿Qué tan factible es para su empresa tener a todos sus empleados bajo relación de dependencia? ¿qué alternativas han escuchado que puedan existir para no hacerlo?
63. (Si es que gana el Sí que obliga a afiliar a todos sus trabajadores ¿qué van a hacer?)

Inspecciones, multas, coimas

64. ¿En el último año han tenido alguna inspección? ¿Qué tipo de inspección? ¿En qué consistió?
65. Sinceramente, ¿Qué tal les fue en esa inspección?
66. ¿Alguna vez los multaron? ¿Cómo así?
67. ¿Cómo solucionaron esta multa? ¿Alguna vez tuvieron que pagar alguna coima?

Crédito y ahorro

68. Si ustedes quieren ampliar su negocio o comprar una cantidad importante de mercadería o materia prima ¿Qué hacen?
69. ¿Han solicitado algún tipo de préstamo en estos casos?
    a. (SI RESPONDE NO) ¿Por qué no? (DIFERENCIAR PORQUE NO TIENEN ACCESO A CREDITO O PORQUE PREFIEREN AUTOFINANCIARLO)
    b. ¿Creen que si hubieran tenido RUC o permiso municipal, la obtención de crédito hubiera sido más fácil?
    c. (SI RESPONDE QUE SI SUELEN PEDIR PRESTAMO) ¿Desde cuándo empiezan a solicitar préstamos para su negocio?
    d. ¿A quién suelen solicitar un crédito? ¿Por qué? INDAGAR POR ACCESO A CRÉDITOS INFORMALES CON PRESTAMISTAS Y CHULQUEROS
    e. ¿Cuéntenme un poco cómo es el proceso que tienen que seguir para pedir un préstamo? (INDAGAR POR DOCUMENTOS, DURACIÓN DEL PROCESO, INTERESES, PLAZOS, AVAL, ETC)
    f. ¿Cuáles son las ventajas y desventajas de solicitar un préstamo a una entidad financiera como un banco o una caja municipal?
    g. ¿Y cuáles son las ventajas y desventajas de solicitar un préstamo a un prestamista?

70. ¿Su empresa tiene alguna cuenta en un banco? ¿por qué?

Pago de impuestos

71. ¿Y cómo hacen con el pago de impuestos? ¿cómo se organizan en este pago?
72. ¿Pagan todos los meses o algunas veces se aguantan? ¿Qué pasa en esos casos?
73. ¿Suelen declarar todo o algunas veces sólo declaran alguna parte? ¿de qué depende?
74. ¿Alguien les ayuda con el tema del pago de impuestos o lo hacen ustedes mismos?

MUCHAS GRACIAS POR SU COLABORACIÓN!!!

GUÍA DE INDAGACIÓN – GRUPO FOCAL TRABAJADORES

INTRODUCCIÓN

Gracias por venir. Mi nombre es... y trabajo acá en HÁBITUS. En esta empresa nos dedicamos a hacer encuestas y reuniones como esta para saber qué piensa la gente sobre diversos temas. Ahora los hemos invitado para conversar un poco sobre su empleo. Acá no vamos a juzgarlos. Sólo queremos conocer más de cerca algunos aspectos de las condiciones de empleo en el país. Por eso quisiera que sus respuestas sean lo más sinceras posible.

SECCION 1 - OBJETIVO DE INFORMACION: PERFIL DEL TRABAJADOR

En esta sección nos interesa saber qué tipo de trabajadores se encuentran más frecuentemente en una relación de empleo informal. En particular, nos interesa saber si es un fenómeno que afecta más a personas con niños u otras personas bajo su cuidado, como también a personas con bajos niveles de educación o con poca experiencia laboral.

Perfil del trabajador y sector de actividad

1. ¿Qué edad tiene?
2. ¿Tiene hijos en edad pre-escolar o escolar? ¿Tiene que cuidar a algún familiar en la casa (anciano, discapacitado, etc.?
3. ¿Qué nivel de educación tiene?
4. ¿Cuántas personas en su hogar tienen un empleo fijo? ¿Es Usted jefe(a) de su hogar?
5. ¿Qué productos o servicios ofrece la empresa o negocio donde Usted trabaja?
6. ¿Cuál es su ocupación actual (título dentro de la empresa y actividades típicas)?
7. ¿Cuánto tiempo lleva en esta empresa?
8. ¿Cuántos años de experiencia tiene en el sector? / ¿Cuántos empleos similares a este ha tenido?

SECCION 2 - OBJETIVO DE INFORMACION: GRADO DE INFORMALIDAD

Es esta sección nos interesa conocer el grado de informalidad que tienen los trabajadores. Algunos tendrán contrato pero no gozarán de todos los derechos del trabajador formal, otros tal vez obtengan beneficios adicionales sin ser trabajadores formales. CONDICIONES DE CONTRATO QUE PUEDAN PONER LOS EMPLEADORES

9. ¿Usted ha firmado un contrato de trabajo con esta empresa o negocio? (Indagar si firmó al ser contratado o más adelante) ¿desde cuándo tiene contrato? / ¿por qué se hizo este cambio?
10. ¿Usted está afiliado al IESS?
    a. ¿Si lo está, su empleador aporta en algo a su afiliación o es financiado enteramente por cuenta propia?
11. ¿Su empleador le paga algún otro seguro, por ejemplo un seguro de salud privado (EcuaSanitas, etc.)?
12. ¿Usted cree que si su empleador quisiera despedirle, lo podría hacer fácilmente? ¿puede su empleador obligarlo a firmar su renuncia? ¿cómo? ¿han tenido alguna experiencia similar en alguno de sus trabajos?
    b. Específicamente, si Usted es despedido(a) ¿Tiene derecho a una liquidación?
    c. ¿Si Usted es despedido, sabe si puede entablar acciones legales en contra de su empleador? ¿cuáles? ¿en qué circunstancias podrían hacerlo? (Indagar si las acciones legales son posibles solo en caso de despido injustificado –intempestivo—o también en caso de dificultades económicas)

SECCION 3 - OBJETIVO DE INFORMACION: ENTENDER INCENTIVOS PARA LA INFORMALIDAD

En esta sección nos interesa conocer los incentivos de parte del empleador y del empleado para entrar en una situación de trabajo informal.

13. ¿Cuándo a Usted lo contrataron, le dieron a escoger entre tener contrato o no tenerlo, o le ofrecieron un empleo sin contrato o sin afiliación?
    a. ¿Si Usted pudo escoger, por qué escogió no tener contrato (afiliación)?
    b. ¿Si le ofrecieron trabajo sin contrato (afiliación), le ofrecieron un sueldo mejor que en otros empleos que si ofrecen contrato (afiliación)?
    c. ¿Si Usted pide tener un contrato o ser afiliado al IESS, su empleador aceptaría?
14. En general ¿Usted que preferiría: tener contrato o no tenerlo? ¿por qué? PROFUNDIZAR
15. ¿Cuáles son las ventajas y desventajas de estas dos alternativas?

Seguridad en el lugar de trabajo: (También nos interesa saber si los trabajadores en relación de informalidad tienen típicamente trabajos que representan más riesgos físicos, por lo cual los empleadores contratan informalmente para abaratar costos asociados con la seguridad.)

16. ¿Considera Usted que las actividades que realiza como parte de su trabajo presentan riesgos o peligros para su salud física? ¿cuáles?
    - Si su trabajo presenta riesgos o peligros, ¿Recibe Usted de su empleador suficientes medidas y equipamiento de protección para reducir estos riesgos?
    - ¿Sabe Usted si su empleador cumple con las leyes en cuanto a medidas de seguridad de su personal y de respeto del medioambiente?

Incentivos del empleado

Flexibilidad en las horas de trabajo

17. ¿Actualmente Usted trabaja a tiempo completo o parcial (por horas)? ¿Cuál de las dos opciones prefiere Usted?
    a. ¿Por qué prefiere trabajar a tiempo completo?
    b. ¿Por qué prefiere trabajar por horas?
18. ¿Usted trabaja con un horario fijo o tiene horas variables? ¿Cuál de las dos opciones prefiere Usted?
    c. ¿Por qué prefiere trabajar con horario fijo?
    d. ¿Por qué prefiere trabajar con horas variables?
19. ¿Considera que su horario de trabajo le da suficiente flexibilidad para realizar otras actividades de índole personal o profesional?
20. ¿Para Usted qué es preferible, un contrato más "formal" de tiempo completo y horas fijas, o un arreglo más "informal" en donde Usted decide cuándo y cuánto tiempo trabaja?

Modo y montos de remuneración

21. ¿Con qué frecuencia le pagan? (Mensual, bi-mensual, semanal, por obra/pieza, otro)
22. ¿De qué forma le pagan? (Efectivo, cheque, por transferencia a su cuenta, otro)
23. ¿Recibe Usted otros tipos de pago o compensación, como por ejemplo comida, transporte, ropa, alojamiento, u otros? (Indagar sobre la frecuencia de estos pagos en naturaleza)
24. ¿Reconocen las horas extras de trabajo? ¿cómo?
25. ¿Sabe si a Usted le retienen algún monto por contribuciones al SRI o al IESS antes de pagarle su sueldo?
    a. ¿Le retienen en cada pago o solo a veces? ¿de qué depende?
    b. En su situación personal, ¿quién decidió que le hagan retención o le den el equivalente en efectivo?
26. ¿Usted firma algún comprobante o recibo al momento de recibir sus pagos?
27. ¿Para Usted qué es preferible: un contrato más "formal" con garantías legales, pero con remuneración un poco menor, o un arreglo más "informal" pagado mejor pero menos seguro (estable)?

Pago de impuestos y beneficios de afiliación

28. ¿Usted hace una declaración de impuestos al SRI cada año?
29. SI NO LA HACE ¿alguna vez lo hizo? ¿cómo fue su experiencia?
    - ¿Por qué no lo hace actualmente?

- ¿En general qué opina sobre esta obligación del SRI?

30. SI LA HACE ¿por qué la hace?
    - ¿cómo la hace? ¿recibe ayuda?
    - ¿Cómo ha sido su experiencia con estas declaraciones? ¿qué opinión tiene sobre ellas?

31. ¿Conoce Usted los beneficios que reciben los afiliados al IESS? INDAGAR POR:
    - Jubilación
    - Salud
    - Préstamos
    - Seguros
32. ¿Le parece que son beneficios atractivos / necesarios? ¿Cuál de estos le resulta más atractivo?
33. ¿Si Usted no es afiliado al IESS, quisiera serlo?
34. SI NO LE INTERESA ¿Por qué no le interesa afiliarse al IESS?

Incentivos del empleador: (Nos interesa entender que beneficios tiene el empleador de contratar mano de obra informal)

35. ¿Qué tal le va actualmente al negocio en donde Usted trabaja?
36. ¿Siente que le va mejor que en años anteriores?
37. ¿El negocio ha contratado mucho personal en los últimos 2 años?
38. ¿Cuántas personas trabajan actualmente en su empresa?
39. ¿Cuántos trabajan a tiempo completo y cuántos por horas?
40. ¿El personal del negocio donde Usted trabaja es más bien "fijo" o cambia todo el tiempo? (Tener una idea de la rotación de personal)
41. ¿Sabe Usted cuántos tienen contrato "formal" y cuántos no? (¿Del total de empleados en su empresa o negocio, cuántos cree Usted que no tienen contrato, o no están afiliados al IESS?)
    - Los que generalmente no tienen contrato o afiliación, ¿qué tipo de trabajo hacen?
42. ¿Conoce si existen trabajadores a quien no se les paga (por ejemplo, familiares del dueño, etc.)?

Inspecciones, multas, coimas

43. ¿En el último año han tenido alguna visita de inspectores del IESS, del SRI, o de algún Ministerio (p. ej., Relaciones Laborales, Salud, etc.)?
44. Si hubieran más controles para que los trabajadores tengan contrato y sean afiliados, ¿cree Usted que habría más o menos puestos de trabajo?

SECCION 4 - OBJETIVO DE INFORMACION: PERCEPCION DE LA INFORMALIDAD / ECONOMIA POPULAR

En esta sección nos interesa entender las percepciones acerca de los términos “informalidad” o “economía informal” o “trabajador informal” y “economía popular y solidaria”. También queremos entender las percepciones sobre el grado de aplicación de las leyes que los trabajadores desearían y las consecuencias de “ser formal”.

45. Cuando en los medios de comunicación se habla de “informalidad” o de “economía informal” ¿A qué creen que se refieren?
46. ¿Y a qué se refieren con “empresas informales” o “trabajadores informales”?
47. ¿Han escuchado hablar de la “economía popular y solidaria”? ¿qué es?
48. ¿Ustedes cree que todos los trabajadores informales deberían tener un contrato escrito y afiliación al IESS, aún cuando esto implica que hay que pagar impuestos?
49. ¿Creen que sería posible que todos los trabajadores informales en el país obtengan un contrato escrito y afiliación al IESS? ¿de qué dependería?
50. ¿Qué dificultades existen para que esto suceda?
51. ¿Qué piensan Ustedes que el Estado podría o debería hacer para proteger a los trabajadores que quieren trabajar con contrato o ser afiliados y sus empleadores no aceptan?
52. ¿Usted piensa que el Estado debería obligar a todos los trabajadores a tener contrato, aunque ellos prefieran ser “informales”?

MUCHAS GRACIAS POR SU COLABORACIÓN!!!

IDENTIFICACIÓN

NÚMERO DE CASO

ENTREVISTADOR

Fecha - DIA

SUPERVISOR

CODIFICADOR

MES

Hora de inicio de la entrevista

Hora de término de la entrevista

DURACIÓN (minutos)

DÍA DE LA ENTREVISTA

○ Lun ○ Mar ○ Mie ○ Jue ○ Vie ○ Sab ○ Dom

[LEER] Buenos días / tardes. Mi nombre es… [MOSTRAR CREDENCIAL] y trabajo para HABITUS, empresa dedicada a los estudios de mercados. Para este estudio debo entrevistarme co n el directivo, propietario o responsable máximo. Sería tan gentil de pedirle que me atienda. Gracias!

ASEGÚRESE DE REALIZAR LA ENTREVIS TA CON EL RESPONSABLE MÁXIMO DE LA EMPRESA. CASO CONTRARIO AGENDE UNA NUEVA FECHA Y HORA PARA LA ENTREVISTA.

HABITUS es una empresa que está haciendo un estudio sobre las condiciones económicas de empresas como la suya. Este estudio ha de servir para reducir los problemas de las empresas privadas en el Ecuador. Este estudio podrá ser más útil a su sector cuanto más exacta sea la información que nos proporcione. Queremos asegurarle que sus respuestas serán confidenciales, ni su nombre ni el de su empresa serán usados en informe alguno.

A. ¿Cuál es la principal actividad de su empresa o negocio? [A QUE SE DEDICA, QUE PRODUCE, QUE VENDE, QUE SERVICIO PRESTA]

CÓDIGO CIIU

DATOS DE LA EMPRES A

NOMBRE DE LA EMPRESA O CÓMO SE LA CONOCE:

REGISTRE A QUIÉN ENTREVISTÓ

Sexo

○ NOMBRE DEL PROPIETARIO O ACCIONISTA MAYORITARIO ○ Hombre

○ NOMBRE DEL GERENTE O RESPONSABLE: ○ Mujer

NÚMERO DE PERSONAS QUE TRABAJAN Hombres Mu jeres TOTAL

PROVINCIA

CANTÓN

PARROQUIA

DIRECCIÓN DE LA EMPRESA

CALLE: No. DE CASA O LOTE

INTERSECCIÓN: No. DE PISO / DPTO.

OTRAS SEÑAS

TELEFONO ○ No tiene CELULAR ○ No tiene

3066082522

BM-Empresas
04/2011

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SECCIÓN 1. INFORMACIÓN GENERAL

1. ¿Cuántos años cumplidos tiene Ud? — [ ][ ] Años

2. ¿Cuál fue el último año de enseñanza que Ud. aprobó?

   [REGISTRE EL ÚLTIMO AÑO QUE APROBÓ EL ENTREVISTADO(A)]. [PARA LOS QUE HAN TENIDO ALGUNA EDUCACÍON TÉCNICA, PREGUNTE P.2A]

○ Ninguna :						
○ Primaria:	○ 1	○ 2	○ 3	○ 4	○ 5	○ 6
○ Ciclo Básico:	○ 1	○ 2	○ 3			
○ Ciclo diversificado:	○ 4	○ 5	○ 6			
○ Superior NO Universitario	○ 1	○ 2	○ 3	○ 4		
○ Universidad :	○ 1	○ 2	○ 3	○ 4	○ 5	○ 6
○ Posgrado:	○ 1	○ 2	○ 3	○ 4	○ 5	

2a. Ademas de la instrucción que usted recibio, ¿ha tenido capacitación técnica o artesanal adicional? — ○ Sí — CUANTOS AÑOS ○ 1 ○ 2 ○ 3 ○ 4 ; ○ No

3. Normalmente, ¿cuántas horas a la semana trabaja Ud. en este negocio o empresa? — [ ][ ][ ] horas/semana

4. Alguna vez su padre o madre tuvieron un negocio o empresa propia? — ○ Sí ○ No ○ NS/NR

5. ¿En qué año comenzó a operar esta empresa o negocio? — [ ][ ][ ][ ] Año

6. ¿Desde qué año se hizo cargo usted de esta empresa o negocio? — [ ][ ][ ][ ] Año

7. Sin incluirse Ud., ¿cuántos empleados de tiempo completo tenía esta empresa cuando comenzó? — [ ][ ][ ] Hombres [ ][ ][ ] Mu jeres [ ][ ][ ] TOTAL ; ○ NS/NR

TARJETA 1

8. Aproximadamente, ¿que porcentaje del dinero que se necesitó para comenzar este negocio provino de las siguientes fuentes?

   [MOSTRAR TARJETA, MARQUE TODAS LAS QUE CORRESPONDA]

	%
○ a. Ingresos propios, ahorros personales o venta de bienes personales del hogar	[ ][ ][ ]
○ b. Préstamo de la familia o amigos	[ ][ ][ ]
○ c. Préstamos del Banco	[ ][ ][ ]
○ d. Banco Nacional de Fomento	[ ][ ][ ]
○ e. Coorporación Financiera Nacional	[ ][ ][ ]
○ f. Crédito de Desarrollo Humano (CDH)	[ ][ ][ ]
○ g. Préstamos de microfinanciera	[ ][ ][ ]
○ h. Prestamistas	[ ][ ][ ]
○ i. Adelanto de los clientes	[ ][ ][ ]
○ j. Crédito de los proveedores	[ ][ ][ ]
○ k. Cooperativa	[ ][ ][ ]
○ l. Casa de empeño	[ ][ ][ ]
○ m. Otros [REGISTRE]	[ ][ ][ ]

TOTAL 100%

[indique el monto total: Apunte 0 si no necesitó de dinero de arranque] [ ][ ][ ][ ][ ][ ] USD. ; ○ NS/NR

9. Actualmente, ¿este negocio es una…? [MARQUE UNA SOLA]
- ○ Empresa individual
- ○ Empresa familiar
- ○ Sociedad

10. ¿Este negocio está …?
- a. Constituído a través de una escritura pública notarial: ○ Sí ○ No ○ NS ○ NR → PASE A P. 12
- b. Inscrito en el registro mercantil: ○ Sí ○ No ○ NS ○ NR → PASE A P. 12

11. ¿Cómo está constituida?
- ○ Compañía / Sociedad de responsabilidad limitada (SRL)
- ○ Compañía / Sociedad anónima
- ○ Otra [REGISTRE]

12. ¿El ingreso que genera este negocio mensualmente que porcentaje representa en el ingreso total de su hogar? [SI VACILA, LEA LAS ALTERNATIVAS]
- ○ Todo
- ○ La mayor parte
- ○ La mitad
- ○ Menos de la mitad
- ○ Nada

13. Aproximadamente, ¿cuánto ha sido o espera que sea:

	En el 2010?	En el mes pasado?	En el 2011 (durante el año completo)?
a. Total de sus ventas			
b. Total de sueldos y salarios de sus empleados			
c. Total del costo de sus insumos o materias primas			
d. Costo de electricidad			
e. Su utilidad o ganancia después de pagar todos los gastos incluyendo salarios de empleados, pero excluyendo salarios pagados a usted mismo			

TARJETA 2

14. Aproximadamente, ¿qué porcentaje de las ventas de su negocio son vendidos directamente en el último año a…

[MOSTRAR TARJETA]

	%
1. Consumidores individuales/finales en el Ecuador	
2.Negocios ecuatorianos de pequeño tamaño (10 o menos empleados)	
3. Negocios ecuatorianos de mediano tamaño (entre 11 y 50 empleados)	
4. Negocios ecuatorianos de gran tamaño (más de 50 empleados)	
5. Compradores del extranj ero o intermediarios que luego lo exportan al extranjero	
6. Al Estado/sector publico (central, provincial)	
7. Al municipio	
8. Otros [REGISTRE]	

15. ¿Durante el 2010 o 2011 obtuvo algún prestamo para el funcionamiento de su negocio o empresa?
- ○ Sí
- ○ No → IR A SECCIÓN 2

16. Si le dieron un préstamo =>Respecto del último préstamo que le dieron a su empresa o negocio

a. ¿Quién le dio el préstamo?

○ Banco
○ Microfinanciera
○ Banco Nacional de Fomento
○ Crédito de Desarrollo Humano (CDH)
○ Prestamista
○ Coorporacion Financiera Nacional
○ Cooperativa
○ Amigo o familiar
○ Casa de empeño
○ Otro

b. ¿Año en el que recibió el préstamo? ☐☐☐☐ Año

c. Aproximadamente, ¿cuál fue el monto del préstamo? ☐☐☐☐☐☐ USD. ○ NS ○ NR

d. Por el prestamo que le dieron ¿le exigieron garantías, prendas o documentos (cheques/letras de cambio)? ○ Sí ○ No ○ NS/NR

e. ¿Cómo pagó o esta pagando el prestamo?
○ Diario
○ Semanal
○ Quincenal
○ Mensual
○ Pago único

f. ¿En cuántas cuotas pagó o esta pagando el prestamo? ☐☐☐ Cuotas

g. Aproximadamente, ¿cuánto pagó o esta pagando por cada cuota? ☐☐☐☐☐ USD.

17. ¿En qué invirtió el préstamo que le dieron?

[MARQUE TODAS LAS QUE CORRESPONDA]

○ Maquinaria o equipamiento para el negocio
○ Comprar mercaderías o materia prima
○ Ampliar el negocio
○ Alquiler del negocio
○ Gastos familiares
○ Pago de deudas
○ Otros

SECCIÓN 2: CLIMA DE NEGOCIOS

1. Ahora le quiero preguntar sobre algunos aspectos de empresas o negocios en su misma actividad, ¿qué porcentaje de trabajadores cree Ud. que gana menos ____ que el Salario Mínimo ($264 al mes)?

○ Todos
○ La mayoría
○ La mitad
○ Menos de la mitad
○ Ninguno

2. Dígame si cree que los siguientes factores son importantes a la hora de explicar por qué en su tipo de actividad hay trabajadores que ganan menos ____ que el Salario Mínimo ($264 al mes):

	Sí	No
1. A los familiares no hay que pagarles para que trabajen en el negocio familiar	○	○
2. Hay mucha gente dispuesta a hacer el trabajo por menos	○	○
3. El tipo de negocio o actividad no dá ganancias como para pagar el salario mínimo	○	○
4. Nadie en mi tipo de negocio o actividad paga el salario mínimo a empleados	○	○
5. No hay obligación de pagar el salario mínimo a los empleados que no están en planilla	○	○

3. En su tipo de negocio o actividad, ¿qué porcentaje de trabajadores cree Ud. que no está en planilla (es decir, que no figura como empleado de la empresa en el registro del IESS)? ___

○ Todos
○ La mayoría
○ La mitad
○ Menos de la mitad
○ Ninguno

4. Dígame si cree que los siguientes factores son importantes a la hora de explicar por qué en su tipo de negocio o actividad hay trabajadores que no están en planilla

	Sí	No
1. A los familiares no es necesario ponerles en planilla para que trabajen en el negocio familiar	○	○
2. Hay mucha gente dispuesta a trabaj ar sin tener que figurar en planilla	○	○
3. El tener a un empleado en planilla crea problemas de papeleos	○	○
4. Cuando uno tiene a un empleado en planilla hay que pagarle más salario	○	○
5. Cuando uno tiene a un empleado en planilla hay que pagarle vacaciones y otros beneficios	○	○
6. Una vez que un empleado está en planilla e hiciese falta despedirlo, sería muy caro	○	○
7. Una vez que un empleado está en planilla hay muchos papeleos para poder despedirlo	○	○
7. Nadie en mi tipo de negocio o actividad pone a sus empleados en planilla	○	○

5. ¿Conoce usted o ha oido de alguna empresa que haya evadido impuestos?	○ Sí ○ No ○ NS/NR
6. En una escala de 1 a 10, donde 1 es "para nada justificable" y 10 es "totalmente justificable", ¿cuán justificable cree Ud. que es evadir impuestos? [ESPERE RESPUESTA Y ANOTE UN NÚMERO DEL 1 AL 10]	NADA JUSTIFICABLE ○ 1 ○ 2 ○ 3 ○ 4 ○ 5 ○ 6 ○ 7 ○ 8 ○ 9 ○ 10 TOTALMENTE JUSTIFICABLE
7. Por lo que Ud. sabe o ha oído, ¿qué porcentaje son las empresas o negocios ecuatorianos que teniendo que pagar impuestos, los pagan debidamente?	○ Todos ○ La mayoría ○ La mitad ○ Menos de la mitad ○ Ninguno
8. ¿Qué tan probable cree usted que las empresas o negocios que evaden impuestos sean multadas?	○ Muy probable ○ Algo probable ○ Poco probable ○ Nada probable ○ NS [NO LEER] ○ NR
9. Considerando todo, ¿cree Ud. que los niveles de impuestos que se pagan en Ecuador son muy altos, altos, bajos o muy bajos, o están bien como están? [ESPERE RESPUESTA Y MARQUE UNA SOLA]	○ Muy altos ○ Altos ○ Bajos ○ Muy bajos ○ Están bien como están ○ NS [NO LEER] ○ NR
10. ¿Cree que los que más tienen, pagan lo que les corresponde?	○ Sí ○ No
11. En general respecto de los impuestos, ¿tiene Ud. confianza en que el dinero de los impuestos será bien gastado por el Estado? [ESPERE RESPUESTA Y MARQUE UNA SOLA]	○ Sí ○ No ○ NS/NR [NO LEER]

SECCIÓN 3: ORGANIZACIÓN EMPRESARIAL

TARJETA 3

1. Estamos interesados en saber por qué la gente prefiere un negocio por cuenta propia antes que ser asalariado. Según la siguiente lista [MOSTRAR TARJETA] dígame entre las siguientes razones cuales son más importante para preferir un negocio por cuenta propia antes que ser asalariado . [MARQUE EN ORDEN DE IMPORTANCIA]

	1	2	3	4	5	6	7
a. La posibilidad de cuidar a los niños o a los padres mientras uno trabaja	○	○	○	○	○	○	○
b. Es mejor ser el jefe de uno mismo y no depender de otros	○	○	○	○	○	○	○
c. La flexibilidad del horario de trabajo	○	○	○	○	○	○	○
d. El que no sea necesario pagar aportes al IESS	○	○	○	○	○	○	○
e. La dificultad de conseguir un trabajo asalariado	○	○	○	○	○	○	○
f. La posibilidad de que un negocio como el suyo crezca en el futuro	○	○	○	○	○	○	○
g. El que un negocio propio sea menos aburrido que un trabajo asalariado	○	○	○	○	○	○	○

2. Si pensamos de aquí a cinco años, ¿qué cree Ud que estará haciendo:	○ Trabajando como cuenta propia o patr ono en el mismo tipo de actividad ○ Trabajando como cuenta propia o pat rono en otro tipo de actividad ○ Trabajando como asalariado ○ Se habrá jubilado ○ Otro [REGISTRE] ○ NS ○ NR
3. Imaginemos que en cinco años Ud sigue trabajando en este negocio o empresa. Imaginemos que en cinco años su negocio es del tamaño que usted siempre hubiera querido. ¿Cuántos empleados tendría su negocio?	☐☐☐ No. empleados

TARJETA 4

4. De acuerdo a la siguiente tabla [MOSTRAR TARJETA] ¿Qué tan facil o dificil cree usted que podrían ser las siguientes tareas?

Qué tan facil piensa que será…..	Dificil	Algo dificil	Fácil	Muy fácil
a. Vender un producto o servicio nuevo a un cliente que compra por primera vez	①	②	③	④
b. Contratar buenos empleados para expandir su negocio	①	②	③	④
c. Conseguir proveedores que le vendan mercaderías o materia prima a buen precio	①	②	③	④
d. Persuadir al banco que le preste dinero para financiar un prometedor negocio	①	②	③	④
e. Estimar con precisión los costos de un nuevo proyecto	①	②	③	④
f. Controlar un empleado que no es miembro de su familia	①	②	③	④
g. Poner un precio adecuado a su negocio si quisiera venderlo	①	②	③	④
h. Resolver una difícil disputa con un cliente o proveedor que vive en otra ciudad	①	②	③	④
i. Reconocer que una idea es suficientemente buena para que su negocio crezca	①	②	③	④
j. Disponer de un local apropiado para su negocio	①	②	③	④
k. Adquirir nueva maquinaria, incluyendo vehiculos.	①	②	③	④

5. ¿Pertenece a algún gremio o asociación de empresarios?
○ Sí ○ No ○ NS/NR [NO LEER]

SECCION 4: FUNCIONAMIENTO DEL NEGOCIO

1. El local donde funciona su negocio (o el local donde realiza la mayor parte de sus actividades) es propio, alquilado, cedido o prestado?
○ Propio
○ Alquilado
○ Cedido
○ Prestado
○ No tiene local
○ Otro [REGISTRE]

2. Para comenzar el funcionamiento de su negocio, ¿debió pagar una coima o soborno?
○ Sí
○ No
○ NS [NO LEER]
○ NR
→ PASE A P. 4

3. Si pagó coima =>¿Cuánto tuvo que pagar?
[ ][ ][ ][ ] USD. ○ NS/NR

(4.) Durante el último año, ¿su negocio tuvo alguna inspección? [RESPUESTA MULTIPLE]
○ Sí, del municipio
○ Sí, del SRI
○ Sí, laboral (Ministerio de relaciones laborales)
○ Sí, del IESS
○ Sí, de Bomberos
○ Sí, de Salud
○ Sí, de Medio Ambiente
○ Sí, de otros [REGISTRE]
○ No

5. Durante el último año, ¿su negocio tuvo que pagar alguna multa? [RESPUESTA MULTIPLE]	MONTO MULTA ○ Sí, del municipio ○ Sí, del SRI ○ Sí, laboral (Ministerio de relaciones laborales) ○ Sí, del IESS ○ Sí, de Bomberos ○ Sí, de Salud ○ Sí, de Medio Ambiente ○ Sí, de otros [REGISTRE] ○ No
6. ¿Tiene patente municipal?	○ Sí ○ No → PASE A P.10
7. ¿Cuántos años funcionó este negocio antes de obtener la patente?	○ Tiene patente desde que comenzó el negocio ○ Menos de 1 año ○ 1-2 años ○ 3-4 años ○ 5 o más años
TARJETA 5 8. A su juicio, ¿cuál es el mayor beneficio de tener patente? [LEA LAS ALTERNATIVAS, MARQUE UNA SOLA]	○ Poder obtener el RUC ○ Evitar multas ○ Reducir coimas y sobornos ○ Tener nuevos clientes ○ Estar en regla ○ Tener mejor acceso a crédito ○ Ninguno ○ Otro [REGISTRE] ○ NS/NR
TARJETA 6 9. ¿Qué desventajas le ocasiona tener la patente? [LEA LAS ALTERNATIVAS , MARQUE TODAS LAS QUE MENCIONE]	○ Pagar impuestos ○ Más trámites administrativos ○ Más costos por contabilidad ○ Tener que cumplir regulaciones laborales → PASE A P.11 ○ Estar más expuesto a inspecciones ○ otro [REGISTRE]

PARA QUIENES NO TIENEN PATENTE

10. Entrando en un poco más de detalle, dígame si las siguientes razones fueron o no un motivo por el que no tiene patente

	Sí	No	NS
1. No sabe de la existencia de la patente	○	○	○
2. El proceso para obtener la patente es muy caro	○	○	○
3. Uno pierde mucho tiempo en sacar la patente	○	○	○
4. Los costos de operar un negocio con patente son muy altos	○	○	○
5. Su negocio es muy chico para tener patente	○	○	○
6. No ve los beneficios de registrarse	○	○	○
7. No sabe cómo sacar la patente	○	○	○
8. Los formularios para sacar la patente son muy complicados	○	○	○
9. Ningún negocio como éste tiene patente	○	○	○
10. Para qué me voy a sacar la patente si no hay multas que pagar	○	○	○
11. Cada que uno quiere sacar la patente piden coima	○	○	○
12. No tiene obligación de tener patente	○	○	○

11. ¿Sabe Ud dónde queda la oficina para obtener la patente municipal?	○ Sí ○ No ○ NS ○ NR — PASE A P.13
12. ¿A qué tiempo de aquí diría que está la oficina para obtener la patente?	☐☐ horas ☐☐ minutos ○ NS
13. ¿Tiene usted RUC?	○ Sí ○ No ○ NS ○ NR — PASE A P.21
TARJETA 7 14. A su juicio, ¿cuál es el mayor beneficio de tener número de RUC para su negocio? [LEA LAS ALTERNATIVA S, MARQUE UNA SOLA RESPUESTA, LA PRINCIPAL] ☐	○ Dar facturas o notas de venta para aumentar su base de clientes ○ Evitar multas ○ Reducir coimas y sobornos ○ Tener nuevos clientes ○ Estar en regla ○ Tener mejor acesso a credito ○ Acceder a beneficios tributarios ○ Ninguno ○ Otro [REGISTRE] ○ NS/NR
15. ¿Cuántos años funcionó este negocio antes de registrarse?	○ Está registrado desde que comenzó el negocio ○ Menos de 1 año ○ 1-2 años ○ 3-4 años ○ 5 o más años
16. ¿Quién le sugirió que obtuviera el RUC?	○ Nadie, fue la decisión mia ○ Mi contador ○ Alguien que trabaja en mi tipo de negocio o actividad ○ Entidad tributaria (SRI) ○ Otra persona ○ NS ○ NR
17. ¿A qué régimen tributario está acogido su negocio?	○ Al régimen general ○ Al Régimen Impositivo Si mplificado Ecuatoriano (RISE) — PASE A P.19

TARJETA 8

18. Dígame la importancia de los siguientes factores en su decisión de acoger su negocio al régimen general [MARQUE EN ORDEN DE IMPORTANCIA]

	1	2	3	4	5
a. Necesito dar facturas a mis clientes	○	○	○	○	○
b. Mis ventas son muy altas para acogerme a un régimen especial	○	○	○	○	○
c. Evitar multas	○	○	○	○	○
d. Todos los negocios de mi tipo de actividad están en este régimen	○	○	○	○	○
e. Acceder a beneficios tributarios	○	○	○	○	○

PASE A P.22

19. Si su negocio está acogido al RISE, Dígame si hay alguien que le sugirio acoger su negocio al RISE	○ Nadie, fue la decisión mia ○ Mi contador ○ Alguien que trabaje en mi rubro de actividad ○ Entidad tributaria (SRI) ○ Familiar o amigo ○ Otra persona ○ NS ○ NR

TARJETA 9

20. Dígame la importancia de los siguientes factores en su decisión de acoger su negocio al RISE [MARQUE EN ORDEN DE IMPORTANCIA]

	1	2	3	4	5
a. Mis ventas son bajas	○	○	○	○	○
b. Se pagan menos impuestos	○	○	○	○	○
c. No me hace falta dar facturas a mis clientes	○	○	○	○	○
d. Todos los negocios de mi tipo de actividad están en régimen especial	○	○	○	○	○
e. Es más sencillo	○	○	○	○	○

PASE A P.22

21. Entrando en un poco más de detalle, dígame si las siguientes razones fueron o no un motivo para que usted no se registre

	Sí	No	NS
1. No sabe de la existencia del registro	○	○	○
2. El proceso de registro es muy caro	○	○	○
3. Uno pierde mucho tiempo en el registro	○	○	○
4. Los costos de operar un negocio registrado son muy altos	○	○	○
5. Su negocio es muy chico para registrarlo	○	○	○
6. No ve los beneficios de registrarse	○	○	○
7. No sabe cómo registrarse	○	○	○
8. Los formularios de registro son muy complicados	○	○	○
9. Ningún negocio como éste está registrado	○	○	○
10. Para qué me voy a registrar si no hay multas que pagar	○	○	○
11. Cada que uno quiere registrarse piden coima	○	○	○
12. No tiene obligación de registrarse	○	○	○

22. Sabe Ud dónde queda la oficina más cercana para sacar el número de RUC?
○ Sí ○ No ○ NS ○ NR → PASE A P.24

23. ¿A que tiempo de aquí diría que está la oficina más cercana para sacar el número de RUC?
[ ][ ] horas [ ][ ] minutos ○ NS

24. Podría indicarme qué porcentaje de sus clientes le exigen factura?
○ Todos
○ La mayoría
○ La mitad
○ Menos de la mitad
○ Ninguno

25. Cuando Ud. compra materia prima, mercaderías o insumos para su negocio, ¿exige siempre factura?
○ Sí → PASE A P.27
○ No
○ Algunas veces
○ No compra materia prima ni mercaderías → PASE A P.27

26. ¿Cuál es el factor principal por el que realiza algunas compras sin factura? [UNA SOLA RESPUESTA]
[ ]
○ No existen proveedor es que den facturas
○ No pide facturas para obtener un precio más bajo
○ Usted no necesita facturas
○ Otra [REGISTRE]

27. En otros negocios como el suyo, ¿qué porcentaje de las ventas estima Ud. que se venden con factura?
○ Todos
○ La mayoría
○ La mitad
○ Menos de la mitad
○ Ninguno

28. Me gustaría preguntarle sobre el número de trabajadores calificados y no calificados.
* Calificados - Educación técnica o 1 año o más de educación Universitaria

Tipo de Empleados	Calificados		No calificados	
	Hombres	Mujeres	Hombres	Mujeres
○ Trabajadores pagados de tiempo parcial	[ ][ ][ ]	[ ][ ][ ]	[ ][ ][ ]	[ ][ ][ ]
○ Trabajadores pagados de tiempo completo	[ ][ ][ ]	[ ][ ][ ]	[ ][ ][ ]	[ ][ ][ ]
TOTAL [VERIFIQUE CON EL NUMERO DEL INICIO]	[ ][ ][ ][ ]	[ ][ ][ ][ ]	[ ][ ][ ][ ]	[ ][ ][ ][ ]

29. ¿Cuántos trabajadores de su empresa (incluyéndose a Usted) tienen afiliación a:?	IESS ☐☐☐ No. de trabajadores ○ NR ○ Ninguno Seguro de salud privado ☐☐☐ No. de trabajadores ○ NR ○ Ninguno Seguro de pensión privado ☐☐☐ No. de trabajadores ○ NR ○ Ninguno
30. En su empresa, ¿ustedes emiten contratos laborales por escrito a sus empleados?	○ Sí, a todos ○ Sí, a algunos [ESPECIFIQUE] ☐☐☐ No. de empleados ○ No, a ninguno ○ NR — PASE A P.32
31. Los contratos que emiten son…	○ Permanentes ○ Temporales ○ Ambos

32. De los siguientes programas de apoyo que ofrecen las instituciones públicas, indique cuáles conoce, si su empresa participa o participó así como el año en el que comenzó su participación

	Conoce		Participa o participó en algún momento		Año en el que comenzó su partici pación
	Sí	No	Sí	No	
Emprende Ecuador (Ministerio Coordinador de la Producción, Empleo y Competitividad)	○	○	○	○	☐☐☐☐
Innova Ecuador (Ministerio Coordinador de la Producción, Empleo y Competitividad)	○	○	○	○	☐☐☐☐
Fondepyme (Ministerio de Industrias y Competitividad)	○	○	○	○	☐☐☐☐
Plan Ren-ova (Ministerio de Industrias y Competitividad)	○	○	○	○	☐☐☐☐
Negocios Turísticos Productivos (Ministerio de Turismo)	○	○	○	○	☐☐☐☐
Crédito para Economía Social y Solidaria (Programa de Finanzas Populares, Emprendimiento y Economía Solidaria)	○	○	○	○	☐☐☐☐
Crédito Socio Panadero (Programa de Finanzas Populares, Emprendimiento y Economía Solidaria)	○	○	○	○	☐☐☐☐
Microfinanzas juveniles (Programa de Finanzas Populares, Emprendimiento y Economía Solidaria)	○	○	○	○	☐☐☐☐
Crédito de Desarrollo Humano (Programa de Finanzas Populares, Emprendimiento y Economía Solidaria)	○	○	○	○	☐☐☐☐
Créditos Productivos (Banco Nacional de Fomento)	○	○	○	○	☐☐☐☐
Créditos Productivos (Corporación Financiera Nacional)	○	○	○	○	☐☐☐☐

33. ¿Le interesaría recibir más información sobre estos programas?	○ Sí ○ No

MUCHAS GRACIAS POR SU TIEMPO

Annex D: International Menu of Policy Options

Area	Goal	Policy	Country
Taxation	Reducing tax burden	Reduction of corporate income tax	Hungary, Poland, Slovakia
		Tax exemptions for employing underprivileged workers	Hungary
		Tax concessions in industries with high percentage of undeclared workers (domestic work, home improvement, etc.)	Sweden, Belgium, France
		Tax relief for new employees	Montenegro
		Tax amnesty	Cyprus, Turkey
		Tax exemption on re-invested earnings	Estonia
		Reduction of personal income tax (PIT)/introduce flat PIT	Estonia, Slovakia
		Tax credits for jobs created	Netherlands, UK
		Reduction of VAT for labor intensive services	Netherlands, Bolivia
		Reduce aggregate tax burden (as a % GDP)	Most EU27 countries
		Increase non-taxable income threshold/introduce tax reductions for low-wage earners	Bulgaria, Belgium, Netherlands, France
	Encouraging compliance/ increasing tax base	Establish flat rate daily tax for non-residents	Montenegro
		Introduce on-line filing and payment	Estonia
		Harmonization of tax regulations/forms	Austria, Greece, Netherlands, France, Portugal, Denmark
		Simplified tax system for SMEs	Kenya, Tanzania, Uruguay
		Replace VAT/income tax/social security contributions of small businesses with presumptive tax/single tax	Argentina, Bolivia, Brazil, Chile, Costa Rica, Dominican Rep., Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru.
Social security	Encouraging worker enrollment	Contractor is liable for SS contributions of contracted firm (construction sector)	Germany, Netherlands, UK
		Reduce social security contributions	Bulgaria
		Social benefits proportional to personal contributions and income tax payments	Estonia, most EU27 countries
		Shift payments of contributions from employers to employees	Latvia, Poland, Slovenia
		Reduced contributions for underprivileged working people	Hungary
		Reduce contribution burden for newly self-employed	Poland

Area	Goal	Policy	Country
Labor regulation	Hiring flexibility	Registered unemployed workers allowed to work part-time occasionally while still receiving benefits (up to a limit)	Czech Republic
		Introduce part-time contracts for out-of-labor force people	Slovakia
		Introduce temporary contracts with renewal/increase flexibility of temporary contracts	Spain, Slovakia, Argentina, Bolivia, Brazil, Chile, Colombia, Peru
	Wage flexibility	Limit increases in minimum wage to CPI (instead of average wages), introduce differentiated minimum wages (by age, region, etc.)	Poland
	Firing flexibility	Reduction of severance benefits	Lithuania, Chile, Colombia, Argentina, Brazil, Panama, Peru
		Redefine "just causes" for dismissal	Colombia
		Eliminate union approval to dismiss a worker	Slovakia
		Eliminate requirement to re-train worker prior to dismissal	Slovakia
	Encouraging worker registration	Reduce dependency of unemployed/inactive people from social assistance, and assist them in job search	Bulgaria, Hungary, Lithuania, Slovakia, UK
		Introduce "transition jobs" for long-term unemployed	Germany
		Introduce legislation to legalize undocumented workers	USA (1986), Spain, Italy
		Simplification of wage regulations	Lithuania
	Enforcement of labor laws	Mandate/enforce obligation to register all new workers with a social security agency	Bulgaria, France
		Encourage denunciation of unfair competition (undeclared workers) by trade unions and employers	Most EU15 countries
		Increased ability to monitor undeclared workers by strengthening/creating new monitoring agencies	Most EU15 countries
		Increase communication between agencies	Most EU15 countries
		Targeted actions in specific industries (domestic work, agriculture, etc.) where undeclared work is abundant	Netherlands, Austria, Spain, Sweden, Denmark
		Monitor employers of undeclared workers by allowing workers to claim certain social benefits	Japan

Area	Goal	Policy	Country
Business regulations	Facilitate formal entry	Facilitate registration of property	Bolivia, Croatia, Peru
		Improve enforcement of property rights	Croatia
		Reduce days, procedures, and costs of business registration	Mexico, Portugal, Poland, UK
		Create on-line "one-stop-shop" registration	Australia, Belgium, Ukraine, Estonia, Lithuania, Colombia, Uganda.
		Introduce single common business ID	Finland
		Temporary amnesty for entrepreneurs who decide to formalize their business (no penalties)	Italy
		Establish time limits for courts to isse business registration approvals	Bosnia
	Encourage licensing	Simplify rules for licensing, introduce automatic licensing	Georgia
		Simplify trade licensing procedures/automatic renewals	Uganda, Tanzania
	Reduce exit costs	Simplify procedures to close a business, raise standards for public workers	FYR Macedonia
Strengthen enforcement		Information exchange between agencies and inspectorates (social security agencies, unemployment agencies, tax bureaus) - e.g., automatic database linking and updates	Most EU15 countries
		Unique ID numbers/worker SS ID that inspectors can check at all times	Most EU15 countries
		Frequency of inspections increased	Most EU15 countries
		Increase power of state inspections agencies	Lithuania, Germany
		Enact/strengthen legislation to punish informal employment	Austria, Belgium, Denmark, Germany, Ireland, Slovenia, Spain
		Reinforce staff at inspection agencies	Austria, Germany
		Create national-level firm/employee registers	Poland
		Enact anti-corruption laws and internal policies to curb corruption in public agencies; adopt codes of conduct/ ethic standards for public and private sector	Most EU15 countries
		Launch public awareness campaigns/improve communication strategy	Denmark, Sweden, France, UK, Lithuania, Estonia, Romania
		Hire private detectives to track informal workers	Germany
		Publish names of non-compliers	Ireland
		Compensate businesses for delays in procedures	India

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