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Formalization: The Case of Chile



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Formalization: The Case of Chile

Lysette Henriquez Amestoy

Foreword

Efforts to support the formalization of the informal economy have accelerated across the globe after the historic adoption of International Labour Organization (ILO) Recommendation 204 Concerning the Transition from the Informal to the Formal Economy in 2015. With the launch of the Sustainable Development Goals (SDG), there is growing interest world-wide to support more than 60 per cent of the world's workforce operating in the informal economy through the transition to formality. The notion that economic growth, while a necessary condition, is insufficient to reduce informality is widespread in the debates of post-global financial crisis, and most recently in the context of the fourth industrial revolution. The notion that economic growth, while a necessary condition, is insufficient to reduce informality is widespread in the debates of post-global financial crisis, and most recently in the context of the fourth industrial revolution.

Several countries, especially in Latin America, have made significant progress in reducing informality among small enterprises and their workers through a multi-faceted

policy mix, providing incentives and information, whilst reducing administrative red tape. In 2014, the ILO's Programme for the Promotion of Formalization in Latin America and the Caribbean (FORLAC) issued a paper on *Policies for the Formalization of Micro and Small Enterprises in Chile*, which outlines legislative efforts to create a more favourable business environment and to reduce enterprises' regulatory burden, as well as the government's active promotion of private sector development, enterprise start-up and growth, offering a wide range of financial and non-financial business development services and instruments.

With a view to inform the policy debate in a wider group of countries, the ILO started to collect additional information on trends, achievements and lessons learned since 2014. This was done in the context of the ILO's mandate to gather and disseminate knowledge to inform policy makers on promising practices that may be worth replicating in other parts of the world. This is particularly timely as many countries are currently testing new approaches to foster a transition to formality for informal operators and enterprises, in line with the guidance as provided by Recommendation 204

concerning the Transition from the Informal to the Formal Economy.

The purpose of this paper is to share information with policy makers and other stakeholders across the world on promising practices and lessons learned on the Chilean experience with respect to the formalization of enterprises and the workers they employ. It has been prepared in the context of a *South-South Expert Knowledge Sharing Forum on Policy Innovations and Lessons Learned on Enterprise Formalization*, which took place in the Philippines in July 2018. The event was organised by the ILO Country Office for the Philippines in partnership

with the ILO Enterprises Department, the Work Quality Branch and the International Training Centre of the ILO. It enabled experts and representatives from governments, social partners and other stakeholders from the Philippines to engage with experts of the Global South on good practices and lessons learned, while exploring opportunities to replicate or adapt effective initiatives. The workshop was technically supported by the ILO Country Office for Brazil and the Decent Work Team for the Southern Cone in Santiago, Chile, whereas the ILO Partnerships and Field Support Department contributed with South-South and Triangular Cooperation funds.



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List of Acronyms

AFP	Pension Fund Administration <i>Administradora de Fondo de Pensiones</i>
API	Application Programming Interface
BCI	Credit and Investment Bank <i>Banco de Crédito e Inversiones</i>
BEME	State Bank Filial for Micro-enterprises <i>BancoEstado Microempresas</i>
CASEN	National Socio-economic Characteristics Survey <i>Encuesta de Caracterización Socioeconómica Nacional</i>
CONADECUS	National Corporation of Consumers and Users of Chile <i>Corporación Nacional de Consumidores y Usuarios de Chile</i>
CONAPYME	National Confederation of Micro-, Small and Medium-sized Enterprises of Chile <i>Confederación Nacional de la Micro, Pequeña y Mediana Empresa de Chile</i>
CONUPIA	United National Confederation of Medium-sized, Small and Micro-industries and Artisanal Services of Chile <i>Confederación Nacional Unida de la Mediana, Pequeña y Microindustria y Servicios de Artesanado de Chile</i>
CORFO	Economic Development Agency <i>Corporación de Fomento de la Producción</i>
EME	Survey of Micro-enterprises <i>Encuesta de Microemprendimientos</i>
ENE	National Employment Survey <i>Encuesta Nacional de Empleo</i>
ESI	Supplementary Income Survey <i>Encuesta de Suplemento de Ingresos</i>
FONASA	National Health Fund <i>Fondo Nacional de Salud</i>
FOSIS	Social Solidarity and Investment Fund <i>Fondo de Solidaridad e Inversión Social</i>
INDAP	Agricultural Development Institute <i>Instituto de Desarrollo Agropecuario</i>
MSEs	Micro- and Small Enterprises
MSMEs	Micro-, Small and Medium-sized enterprises

OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing power parity
RUT	Single fiscal identification number <i>Rol Único Tributario</i>
SBA	Small Business Administration, USA
SENCE	National Training and Employment Service <i>Servicio Nacional de Capacitación y Empleo</i>
SERCOTEC	Technical Cooperation Service, the agency responsible for MSEs in Chile <i>Servicio de Cooperación Técnica</i>
SERNATUR	National Tourism Service <i>Servicio Nacional de Turismo</i>
SII	Inland Revenue Service <i>Servicio de Impuestos Internos</i>
SMEs	Small and Medium-sized enterprises
SUBTEL	Subsecretariat for Telecommunications <i>Subsecretaría de Telecomunicaciones</i>
UF	Development Unit, an accounting unit that can be adjusted for inflation <i>Unidad de Fomento</i>
UTM	Monthly Tax Unit, used for taxation purposes and fines, adjusted for inflation <i>Unidad Tributaria Mensual</i>

I. BACKGROUND

Background

29%

of active people in Chile are in a situation of informality

“ There has not been a specific and concerted objective in public policies to reduce informality, although various sectors of the public administration have taken action to achieve this goal. ”

This paper has been prepared in the context of the meeting “*Global South Expert Forum on Enterprise Formalization*” organized by the ILO to facilitate the exchange of experience and good practice on the formalization of enterprises, held in Manila, Philippines, from 16 to 18 July 2018, which brought together representatives of public and private institutions from the Philippines and experts on the subject from the countries of Latin America and India. Although the experiences described need to be set in their national contexts, which differ greatly in terms of size, heterogeneity and levels of development, common features can also be seen in relation to informality and the transition to formality.

Chile has experienced a substantial reduction in its labour informality rate since 2010, with a fall from around 40 % to 29 % of all active persons by June 2018¹. There have been various contributory factors, both contextual and in the form of specific programmes and instruments, and the present paper therefore refers to both aspects.

This section provides some information on the situation in Chile based on certain relevant indicators. Chile is a country of approximately 18 million inhabitants with an average per capita income of USD 24,537 ppp and a Gini coefficient of around 0.50, which has varied little over the past 12 years. According to the Gini coefficient, Chile is the country with the greatest income inequality among OECD countries. It has an active population of 8.38 million, with an unemployment rate that fluctuates between 6.9 and 7.3%. Its poverty rate at the national poverty line is 8.6 % and its Human Development Index is 0.84, which puts it in the “very high” category in the international classification, placing it in 44th position in the world ranking². Reference should also be made to certain contextual factors related to the issue of formalization, which will be addressed below. In recent years, Chile

has experimented with various structural reforms, including a tax reform in 2014. The country has also seen a strong increase in immigration from other Latin American and Caribbean countries, such as Haiti, Peru, Bolivarian Republic of Venezuela and Colombia. Finally, it has introduced widespread technological changes, with a significant increase in national connectivity. Some 74 % of urban households and 55 % of rural households are connected to the internet, and there are 16 million smartphones, with an annual rate of increase of 20 %.

The present paper is structured as follows: Chapter I, “Background”, places the situation of the formalization of enterprises and labour in Chile in context. Chapter II, “Factors and instruments affecting formalization”, as suggested by the title, describes the principal elements that have had an impact on formalization in the case of Chile. Chapter III, “Selected good practices”, describes and comments on 12 cases of instruments or programmes selected for their current or potential effect on formalization. In Chapter IV, “Final considerations”, certain issues and conclusions are put forward on the case of Chile, based on the information provided and from the viewpoint of the exchange of experience between countries. It should be noted that the present paper does not claim to offer solutions to the issues of formalization in Chile. That would be a subject for another study, which could take the content of the present paper as an input.

To select and examine good practices in relation to formalization in Chile that could be included in this paper, a series of expert resource persons (17) were interviewed in June and July 2018, representing key organisations that are either directly or indirectly involved in issues related to formalization, the promotion of production and employment in MSMEs, statistics, programmes and related instruments, amongst others. The organisations from which representatives have been interviewed, are indicated on page 47.

¹ Source: ENE April-May-June quarter 2018: labour informality rate 28.7%.

² Sources for figures: World Bank; National Institute of Statistics (INE) Census; the INE National Employment Survey (ENE); the National Socio-economic Characteristics (CASEN) Survey, Subsecretariat for Telecommunications (Subtel) and INDH of UNDP, 2017 and 2018.

They showed great willingness to provide their views on success factors, the problems encountered and the remaining challenges in relation to the various instruments and programmes implemented.

The statistics used in this paper are from two main sources. These include the quarterly National Employment Survey (*Encuesta Nacional de Empleo*, ENE) of the National Institute of Statistics (INE) which, since 2017, has included specific questions on labour informality, with a regular bulletin being published on this subject³. The other is the Biannual Survey of Micro-enterprises (EME) of the INE undertaken with the Ministry of the Economy, which has included a specific bulletin on informality since 2013. Both instruments, and particularly the ENE, have contributed to increasing the visibility of the issue of informality in the country, and therefore constitute in themselves a good practice. As a supplement to the ENE, the Supplementary Income Survey of the INE has been used for certain specific aspects. The concepts of informality used in the surveys are aligned with those adopted by the ILO. *Labour formality* takes into consideration simultaneously the existence of health and pension contributions. For a *formal enterprise or operation*, the initiation of *activities* in the Inland Revenue Service (SII) is taken into account, either as an own-account worker, an individual or any type of enterprise.

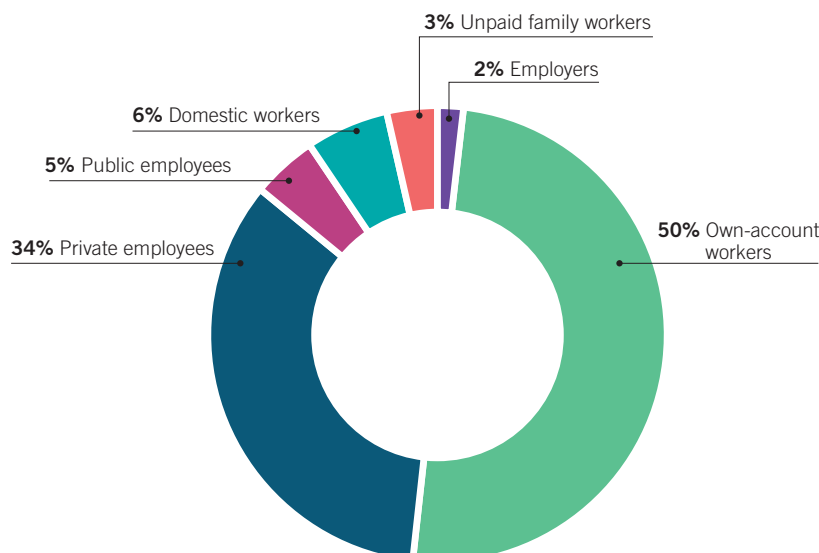
There has not been a specific and concerted objective in public policies in Chile to reduce informality, although various parts or sectors of the public administration have taken action to achieve this goal within the context of their own sectoral objectives. For example, in relation to labour sector, reducing informality is of importance for the protection of workers' rights and social security coverage. In relation to the economy sector, the challenge lies in the coverage of the large number of informal operations, which are similar in number to formal operations, with a view to contributing to their economic inclusion for increased development and economic growth, as formal enterprises create more employment and growth than informal enterprises. In terms of national finances, it is important to look beyond increasing the tax base, as it is unlikely that these operators will contribute much to the tax revenues, and it would also be difficult to inspect them. It is therefore important to close the circle of tax avoidance and evasion, by obtaining a full overview of their relations, which is the major area of interest of the tax authorities. In this respect, various objectives have converged on greater formalization, which has been positive in this regard.

8.6%

Of **Chileans** live below the national poverty line

³ To do so, the INE benefited from ILO technical advice on the methodological aspects relating to informality with a view to producing internationally comparable information and using best practices.

FIG 1 Chile: Labour informality by category



10.2%
of informal workers are
in the **formal sector**

I A. Characteristics of informality

Table 1 shows the Hussmans Matrix, which synthesizes the situation of informality in a country. The horizontal axis shows the situation by type of occupational category, while the vertical axis offers an overview by economic sector: formal, informal and household. It shows that, in Chile, **28.7 %** of active persons are in a situation of informality, corresponding to around **2.4 million active persons**. Of these, only 16.6 % of the total number of active persons are in the *informal sector*, while 10.2 % of informal workers are in the *formal sector*. The latter figure is surprising, and the situation is not always similar in other countries. Of informal active persons in the informal sector, most, corresponding to almost 1.2 million of the 1.4 million, are

own-account or self-employed workers, and very few are employees. Of the informal active persons in the formal sector (10.2 % in total), 8.2 % are informal employed persons, who number almost 700,000.

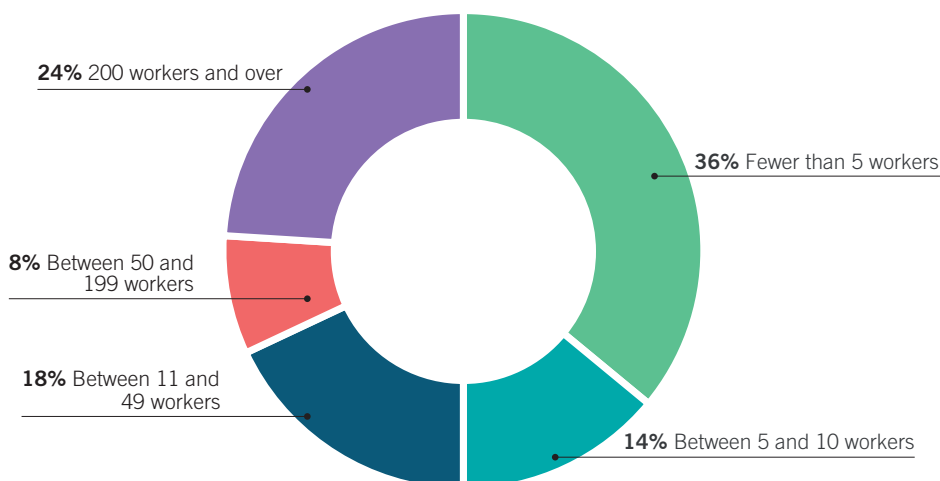
Labour informality is higher in the regions outside the Metropolitan Region (Santiago and surrounding areas). Of the total number of informal active persons, 64 % are in remote regions, where the activity rate is 59 %. In the remote regions, the rates are significantly higher than in Santiago, with the difference being 31 %, compared with 25 % in Santiago. Informality rates are particularly high in the regions of Tarapacá (41 %), La Araucanía (40 %) and Los Ríos (38 %), leading to the conclusion that informality is

TABLE 1 Chile: Informal Labour. Haussmans Matrix

Second quarter 2018 (in thousands of persons)													
	Self-employed					Employees						Sub-total	
	Own account workers		Employers		Contributing family workers	Private sector employees		Public sector employees		Domestic workers			
	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal
Formal sector	635	0	306	0	51	3,927	691	899	111	0	0	5,812	853
Informal sector	0	1,202	0	44	35	6	107	0	0	0	0	6	1,387
Households	0	0	0	0	0	11	26	0	0	145	141	157	167
Total	635	1,202	306	44	86	3,989	824	899	111	145	141	5,975	2407

Percentage of total employed persons National Total													
	Self-employed					Employees						Sub-total	
	Own account workers		Employers		Contributing family workers	Private sector employees		Public sector employees		Domestic workers			
	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal
Formal sector	7.6	0.0	3.6	0.0	0.6	47.4	8.2	10.7	1.3	0.0	0.0	69.3	10.2
Informal sector	0.0	14.3	0.0	0.5	0.4	0.1	1.3	0.0	0.0	0.0	0.0	0.1	16.6
Households	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.0	0.0	1.7	1.7	1.9	2.0
Total	7.6	14.3	3.6	0.5	1.0	47.6	9.8	10.7	1.3	1.7	1.7	71.3	28.7

Source: INE

FIG 2 Informal employed persons by enterprise size


Source: ENE (2018)

distributed very unequally throughout the territory

Informal employed persons in the private sector, who amount to almost 700,000, are found in various sizes of enterprises, as shown in Figure 2. Some 24 % are in enterprises with over 200 workers, 18 % in enterprises with between 11 and 49 workers, 14 % in enterprises with between five and ten workers, and 8 % in enterprises with between 50 and 199 workers. The remaining 36 % are in micro-enterprises with fewer than five workers. Although the proportion of informal employed persons has fallen significantly over time, due to the growth of the workforce and its formalization, the total number of informal employed persons remained fairly constant between 2011 and 2018, which may suggest that the issue is structural and requires greater in-depth analysis. They present certain characteristics: they are not engaged in subcontracting; the majority work full time; they do not receive payslips or are on a lower scale of fees; the majority have only oral agreements, not contracts in writing; they are unskilled workers, although there are also technicians and middle-level professionals, operators and sales persons. Finally, they predominate in activities related to agriculture, transport, trade, accommodation and catering. Informal employed persons in the public sector, who amount to around 111,000 (1.3 %), mainly work on a fee basis, a situation that the Government is currently addressing, but which has existed for a long time.

Own-account workers represent around 21 % of the total number of active persons and

number almost 1.8 million. Around 1.2 million of them are informal. Although own-account workers are the occupational category that has grown the most in recent years, by 26 % between 2011 and 2018, compared with a growth of salaried employees of 13 % over the same period, the pace of the growth of informal own-account workers has been lower (17 %). A significant proportion of them are women (46 %) who, in addition to their work in enterprises, are also engaged in family care work. Some of the characteristics of own-account workers include: many of them work part time, with 49 % working fewer than 30 hours a week; they are characterized by low pay; they essentially work in the streets or public places (22 %), although also in their client's home or in other clients' facilities (almost 27 %). The latter may be in a situation of some type of disguised employment relationship. Around 19 % work in their own home. Men mainly work in trade, construction and transport. Women

46%

Of **own-account workers** are **women**

“Although the proportion of informal employed persons has fallen significantly over time, the total number remained fairly constant between 2011 and 2018.”



“ The level of contributions is the same for employees, self-employed or own-account workers, and amounts to around 22 % of earnings.”

are basically engaged in trade, industry and services, with average income levels well below the minimum wage. Around 32 % of formal own-account workers pay contributions to a pension or health system, although only 8 % of informal own-account workers do so⁴. This leads to the conclusion that the low level of social security coverage of this occupational category is a source of concern.

In Chile, the level of contributions is the same for employees, self-employed or own-account workers, and amounts to around 22 % of earnings (old-age and in-

validity pensions, employment injury, termination of employment and health insurance). In addition, around 10 % of monthly earnings are earmarked for income tax. For employees, it should be noted that in Chile only around 5 % of contributions are paid by the employer, with the other 17 % being paid by the worker, which is a major difference in relation to most social security systems throughout the world. Nevertheless, in the present case, whether contributions are paid by one or the other, the cost of compliance must be generated by the enterprise, which is a major challenge.



I B. Micro-enterprises and informality

The main differences between formal and informal micro-enterprises are summarized in Figures 3 to 14, which are based on the EME4 and EME5 surveys of the Ministry of the Economy and the INE carried out in 2015 and 2017 covering micro-enterprises with less than ten workers. According to the EME5 survey, there are 1 million *informal micro-enterprises* and 952.000 *formal micro-enterprises*, considering the high level of own-account workers among them. There are relevant differences between the two types of enterprises, as indicated below:

- **Educational levels.** In the informal sector, the proportion of entrepreneurs with full or incomplete basic education is 39 %, compared with 12 % in the formal sector. At the other end of the scale, 13 % of entrepreneurs in the informal sector have completed higher education, compared with 45 % in the formal sector. This draws attention to the channels that are required
- **Use of internet for business.** It is also noteworthy that, despite the high levels of connectivity in the country, the internet is used to a very limited extent by enterprises in the informal sector, where 70 % of entrepreneurs say that they do not use it, compared with 36 % in the formal sector. As many of the procedures and instruments to facilitate formalization are digital, it becomes very important to overcome this gap.
- **Types of employment.** The *quantity of employment* generated by the informal and formal sectors is different, with 1.2 and 2.0 jobs per micro-enterprise, respectively. In the formal sector, 47 % of micro-enterprises employ two or three workers, whereas the rate is only 20 % in the informal sector. This is very consistent with the high level of own-account workers. Regarding

to reach out to them and those used by the various types of programmes.

42%

of informal enterprises operate on a **part-time** basis

⁴ ESI (2016)

hours of work, almost 42 % of enterprises in the informal sector operate part-time, and only 20 % operate full time, while the remaining enterprises working other combinations of hours. In contrast, only 24 % of enterprises in the formal sector operate part-time. There is also a difference in the *type of contract or agreement* concluded with the workers. In the informal sector, 97 % of labour relations is based on an oral agreement, without a written contract. The rate is 52 % in the formal sector.

- **Place of work.** There are also significant differences in this regard. A much higher proportion of micro-entrepreneurs in the informal sector works in the street or in public places, in the client's house or home, or in their own home without any special equipment. In contrast, in the formal sector, entrepreneurs tend to operate with special facilities either outside or in the home.
- **Financing to start up or operate micro-enterprises.** This is a more structural factor, which affects both formal and informal micro-enterprises, although at a different level of intensity. Figures 9 and 10 show that in both cases, micro-entrepreneurs make use of their own resources, or those of family or friends, to start up the activity. Very few, under 10 %, have recourse to bank loans. Subsequently, the operation of the micro-enterprise with a bank loan only occurs in 33 % of cases, followed by financing from non-profit-making institutions, and then family and friends. This issue has still not been properly resolved.
- **Factors limiting growth.** These also appear to be structural issues related to the size of the micro-enterprise, as micro-entrepreneurs in both, the formal and informal sectors, mention the same constraints in a similar order, although with a different level of intensity: *lack of clients (mar-*

ket) and lack of financing. They refer to the high cost of taking on new employees, regulations and taxes in fewer than 5 % of cases.

- **Level of profit.** In this respect, the difference is very marked between the informal and the formal sector, including when the data contained in Figure 12 is supplemented with other EME data on hourly earnings to make it comparable, taking into account part-time work. According to this figure, some 65 % of enterprises in the informal sector had earnings in 2017 that were lower than the minimum wage, which was CLP\$ 257,000 a month, while this was the case in slightly over 25 % of micro-enterprises in the formal sector. This indicates that issues relating to economic and financial inclusion must be addressed from the perspective of formalization.

Considering the elements highlighted in the analysis, informality in Chile is concentrated among own-account workers in the informal sector, and among private employed persons in the formal economy. The latter are present in enterprises of various sizes, and their distribution throughout the country is not homogenous, with rates of informal employment being higher outside the Metropolitan Region. The challenges in relation to access to markets and to financing limit growth and are structural issues related to the size of the enterprise, which naturally become more significant with informality. Levels of education and the digital literacy of micro-entrepreneurs also need to be taken into consideration in the design of formalization programmes and measures. Any formalization effort needs to be accompanied by financial and economic inclusion programmes with a view to addressing the costs of compliance.



“Any formalization effort must be accompanied by financial and economic inclusion programmes.”

FIG 3 - 14

Main differences between formal and informal micro-enterprises

Figure 3: Education level of entrepreneurs

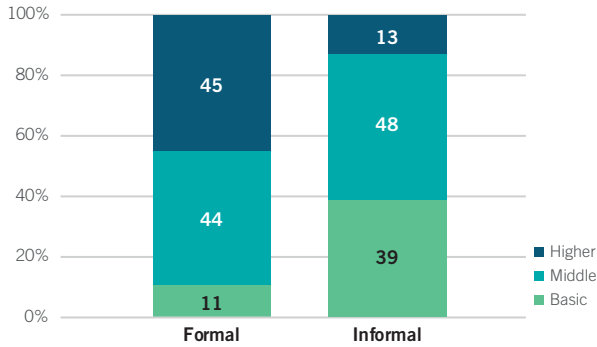


Figure 4: Number of workers (% of entrepreneurs by formality status)

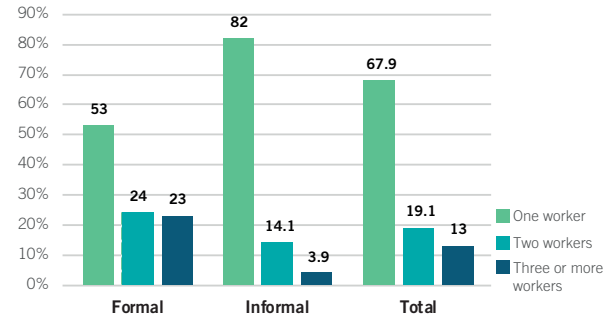


Figure 5: Working hours by level of formality

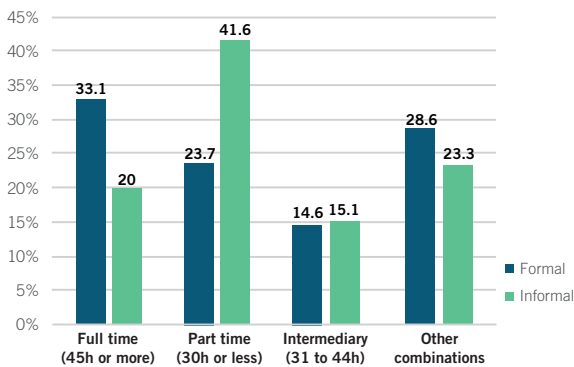


Figure 6: Type of contract by formality status

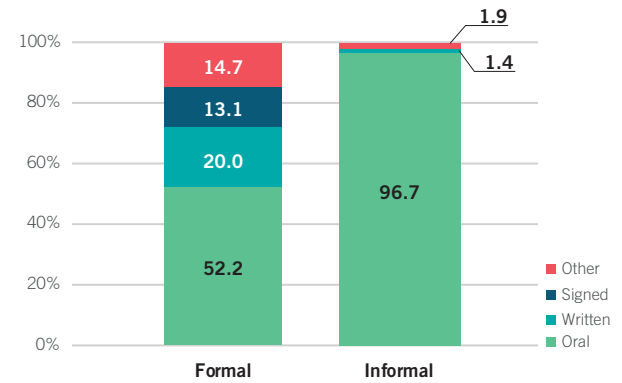


Figure 7: Social security contributions paid by entrepreneurs (percentage of entrepreneurs)

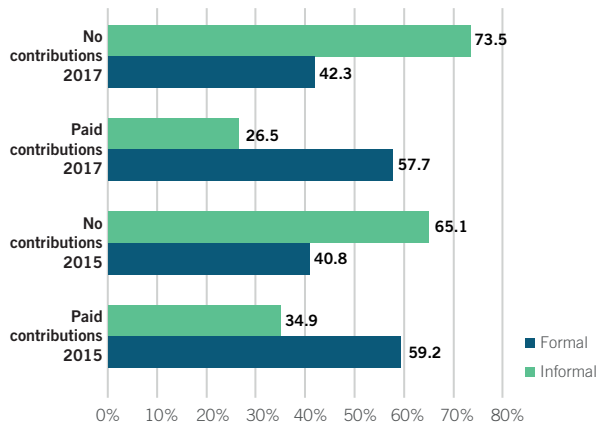
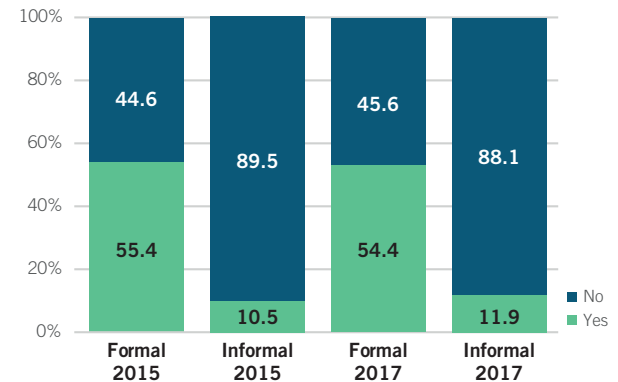


Figure 8: Municipal license or authorization (percentage of entrepreneurs)



Source: EME4 (2015) and EME5 (2017)

Figure 9: Workplace (% of total entrepreneurs)

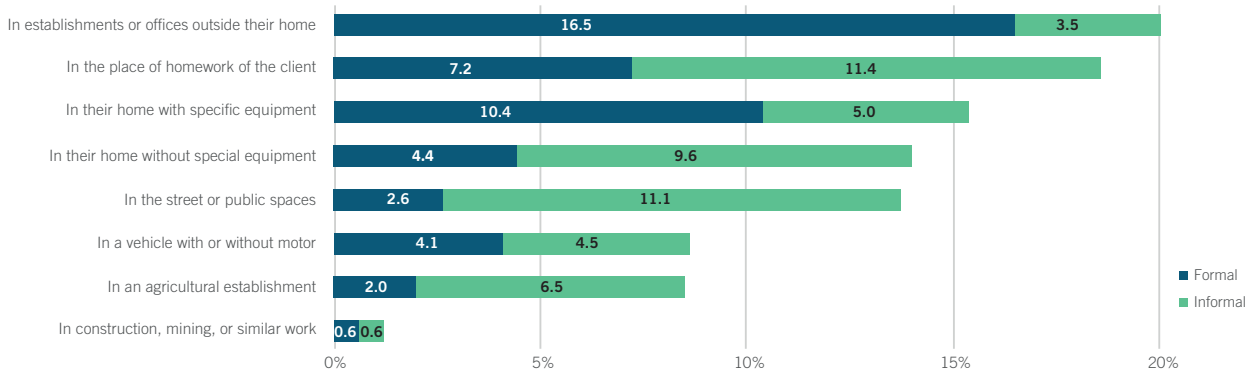


Figure 10: Type of start-up financing (2017, percentage of entrepreneurs by formality status)

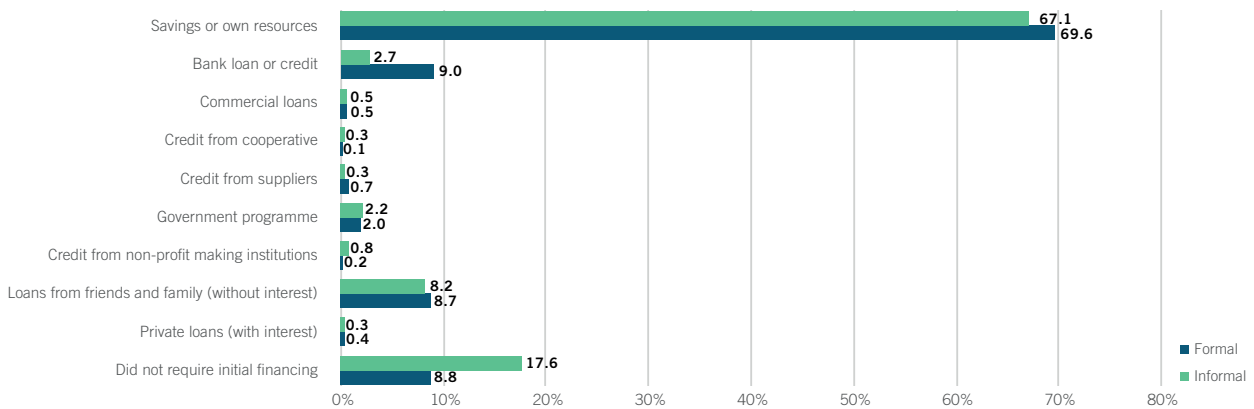
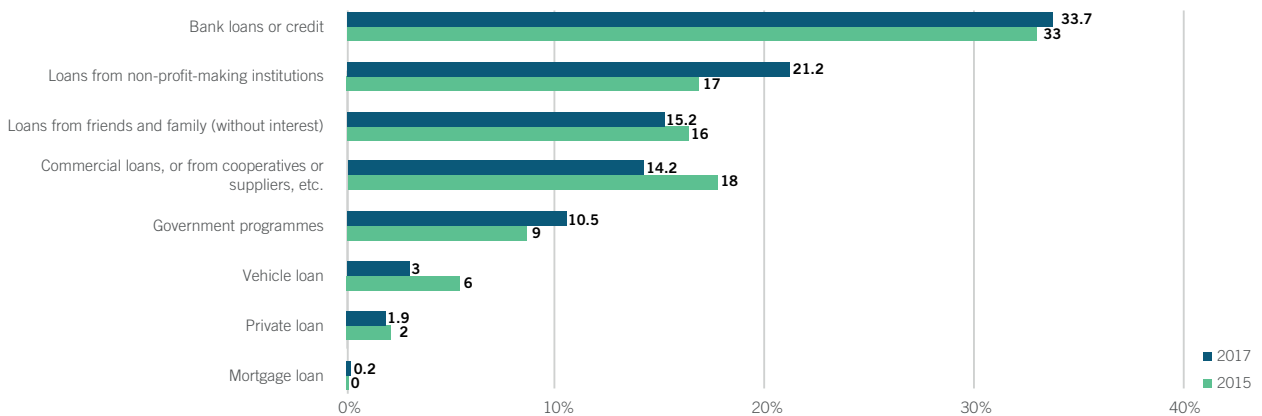


Figure 11: Informal entrepreneurs by type of debt



Source: EME4 (2015) and EME5 (2017)

Figure 12: Monthly profits in CLP (2017)

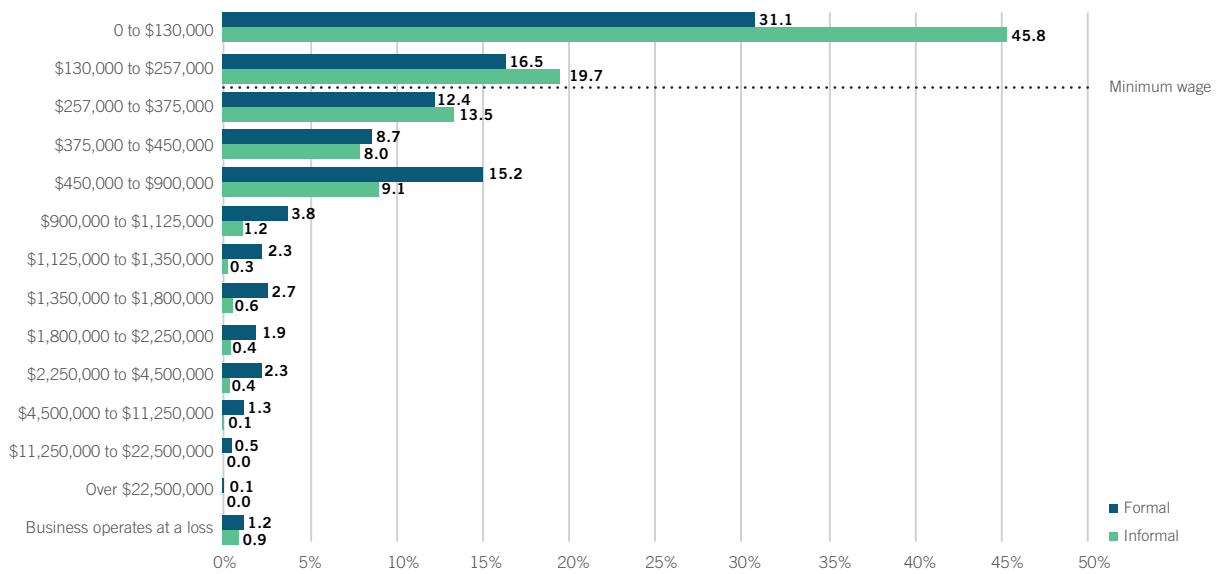


Figure 13: Limitations on growth (2017)

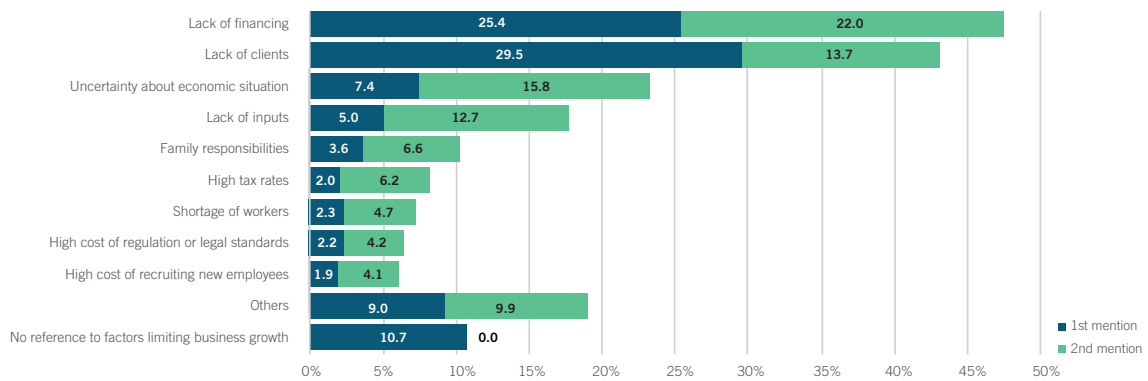
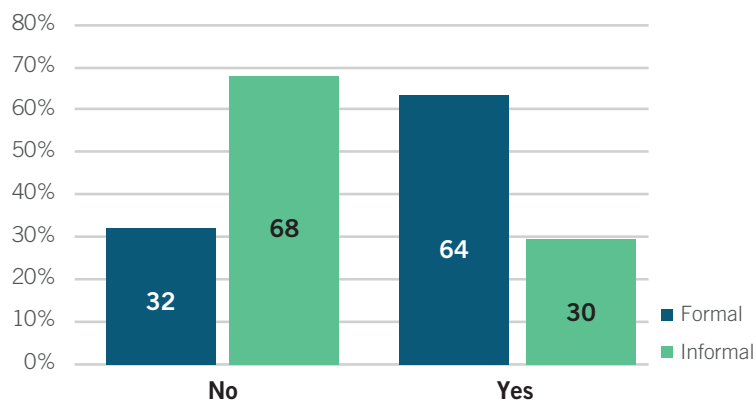


Figure 14: Use of internet by businesses



Source: EME4 (2015) and EME5 (2017)

II. FACTORS AND INSTRUMENTS AFFECTING FORMALIZATION

Factors and instruments affecting formalization

“ There are both direct and indirect factors which affect the formalization of enterprises and labour.”

This chapter provides a contextual framework of factors that affect formalization and describes some key initiatives that have had an impact on formalization in Chile.

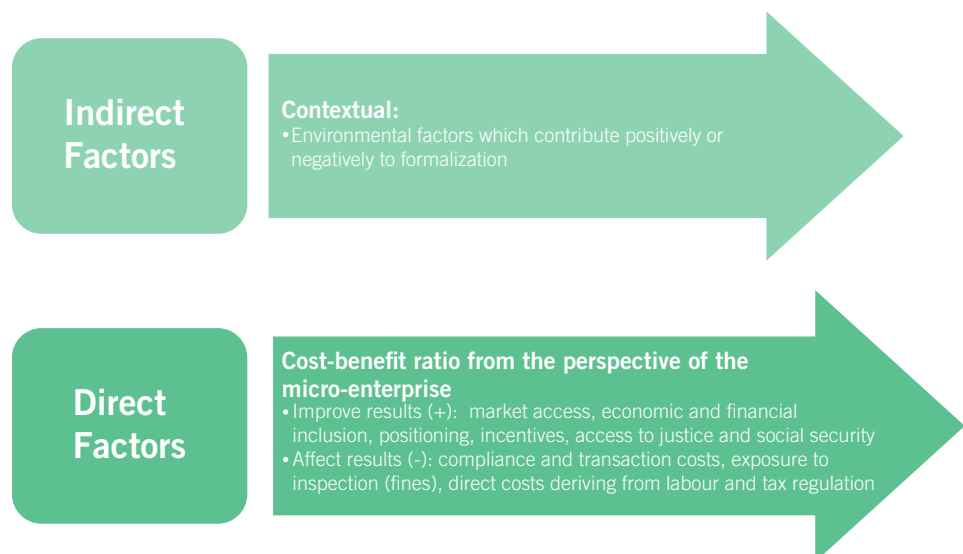
There are both *direct and indirect factors* which affect the formalization of enterprises and labour. The *indirect factors* include environmental or *contextual factors*, which may or may not facilitate enterprises starting up as formal entities or informal enterprises becoming formal. Figure 16 identifies eleven factors that appear to be relevant in the case of Chile.

Indirect and contextual factors. The levels of *environmental permissiveness and social control* that exists in a country in relation to informality are general aspects that are significant in one way or another. For example, in Chile, most *administrative acts* are related to formalization. Moreover, there is suffi-

cient traceability of persons due to the existence of a single fiscal identification number (*Rol Único Tributario*, or RUT), which is equivalent to a person’s identity number and is valid for all types of public and private transactions, from the birth to the death of individuals. There are also a series of factors related to the *financial and banking environment* which contribute to formalization. In the first place, a fair proportion of the population uses banks (see Chapter III G. “State Bank Filial for Micro-enterprises – RUT account”), and Chile is also a country with a high level of *electronic transactions* based on the use of debit and credit cards. This also contributes to formality, as the system of transactions plays an important role in reducing informality by increasing traceability.

Other factors which also have an influence in this respect include an appropriate and proactive attitude by the authorities in relation to *cyclical economic downturns*, and

FIG 15 Direct and indirect factors of formalization



natural and environmental disasters. In such circumstances, sectors which are formal but vulnerable will often cease to remain formal. In Chile, where natural disasters are very frequent, the authorities generally must take appropriate action to support small enterprises through the State Bank and the network for the promotion of production.

In addition, the level of *rigour and coverage of customs controls* is directly related to informal trading, particularly in public places and over the internet. This is an issue that still needs to be resolved in Chile and is related to a problem of the resources and equipment allocated to the customs services, as well as to trade flows, especially from Asia, which are not adequately monitored (under-declaration or significant omissions). The *territorial coverage of connectivity* (inter-

net) and the *digital literacy* of the population are other significant factors as procedures for the creation and operation of enterprises (whether related to taxation, social security, financing or market access) are being simplified by making them digital, which reduces the costs of formalization and increases the benefits. In comparison with other Latin American countries, there is good territorial coverage by internet and mobile telephone networks in Chile, although this is still expensive. Finally, the level of regularization of immigration and the coverage of immigrants by the social security network is another important issue. Immigration into the country has risen rapidly and substantially but is being addressed gradually.

Based on this summary analysis, the national context has in general been favourable to

“The national context has in general been favourable to formalization, with certain exceptions.”

FIG 16

Formalization: key contextual factors

- Traceability of citizens and contributors/ Relationship between administrative acts and formality (RUT)
- Level of use of banks by the population/ Financial information/ Financial inclusion
- Level of electronic transactions (availability and use of electronic cards)
- Use of cash in transactions and monitoring of transactions
- Migration policy
- Policy responses to economic downturns (appropriateness, coverage, inclusion)
- Policy responses to natural and environmental disasters (appropriateness, coverage, inclusion)
- Minimum wage fixing
- Level of digital literacy and territorial coverage of connectivity (internet)
- Level and rigour of customs checks
- Level of permissiveness and social control

“ Regulations, programmes and instruments have been developed which have contributed to formalization, both by increasing the benefits and reducing the costs of becoming formal. ”

formalization, with certain exceptions.

Direct factors. From the perspective of entrepreneurs and micro-entrepreneurs, the decision to become formal is related to the associated *cost-benefit* ratio. Accordingly, the *direct factors* are related to those which, on the one hand, *improve the results of the business* or the *quality of life* of the entrepreneur, for example by facilitating better market access, economic inclusion, access to financial services under better conditions, a better positioning and possibilities for development, the award of incentives, access to justice and social security. On the other hand, there are *direct factors* which, in their opinion, will *negatively affect the results of the business* or the *quality of life* of the entrepreneur and her or his team. These factors include the cost of compliance of becoming formal and the time required to do so, considering labour, tax, health, urban and environmental regulations, among others; and exposure to fiscal measures (fines). Both with respect to direct costs and transaction costs, the majority of enterprises suffer from a high level of ad-

ministrative and financial precariousness. If the balance is positive, the entrepreneur will probably be prepared to become formal. In this respect, work is required on both sides.

In Chile, *regulations, programmes and instruments* have been developed which have contributed to formalization, both by increasing the benefits and reducing the costs of becoming formal. Figure 17 provides a summary, grouping the measures taken into four main thematic areas, those related to:

- market access;
- economic and financial inclusion;
- the reduction of transaction costs and the simplification of procedures;
- social security and labour regulation.

In Figure 17, programmes, instruments and regulations that have up to now shown an interesting effect on formalization are *highlighted in red*; those that have demonstrated

FIG 17 Chile: instruments and programmes with an effect on formalization





potential despite the short period of their application are *highlighted in purple*; and those that have recently been introduced or are about to be adopted, and the effect of which is still unknown, are in *black*. Twelve of these programmes, regulations and instruments are selected in Chapter III and analysed in greater detail. It should be noted in this respect that, with honourable exceptions, it is not usual in Chile to undertake impact evaluations of programmes with counterfactual analysis. However, government programmes are subject to evaluations to assess their consistency with their objectives and the progress achieved.

Related to market access. The low and irregular demand is the main problem identified by micro-entrepreneurs in the informal sector and is related, to a certain extent, to their part-time work. The operation of *ChileCompra*, the institution which brings together public procurement, has had a major effect on small enterprises, including micro-enterprises, also at the regional level, with its purchasing power acting as an incentive for formalization. In terms of regulations, both the Act on Subcontracting and the rules on tax deductions for own-account workers working on the basis of fees give an important role to clients and purchasing enterprises in the compulsory formalization of contractors, subcontractors and own-account workers if they wish to participate in these markets. These are examined in greater detail in Chapter III. Similarly, the programmes of the Technical Cooperation Service (SERCOTEC) in Business Development Centres and Commercial Zones focus a fair amount of effort on formalization, increased sales and market extension. The Commercial Zones programme aims to increase public visits to the zones and therefore improve sales. The Bill on Appropriate Payment or payment within 30 days, which is currently being examined by the Congress,

offers a major incentive for small enterprises, as they are the most affected by payments made within 60, 90 or even 120 days by purchasing enterprises and State bodies.

Related to economic and financial inclusion. The starting point is that small-scale operators and micro-enterprises must develop economically to be able to afford the cost of formalization. In this context, in view of their characteristics and coverage, the financial services programmes specifically designed for micro-enterprises by the State Bank Filial for Micro-enterprises (*BancoEstado-Microempresas*, BEME) have been very important. In addition to the massive financial inclusion of this category of enterprises, BEME promotes their formalization. Along the same lines of financial inclusion, the programmes of the Production Development Corporation (CORFO) for the *strengthening of financial intermediaries* are intended for organizations which work for the financial inclusion of enterprises of this size. In addition to strengthening micro-credit, regulations have entered into force which place a *ceiling on interest rates* for small loans⁵, in view of the experience of the high interest rates to which clients of this type were exposed, which limited their growth potential in practice. SERCOTEC is the institution specialized in promoting the development of small and micro-enterprises, which includes formalization among its objectives. It has *programmes for the transfer of resources* (based on competitions) for the entrepreneurship and operational stages, as well as a gender component, including: *Capital Semilla* (“Seed Capital”), *Capital Abeja* (“Bee Capital”), *Abeja Emprende* (“Bee Entrepreneurship”) and *Crece and Fondo Mejora Negocios* (“Business Growth and Improvement Fund”). These are supported through the *development and strengthening* of entrepreneurial capacity through the SERCOTEC Business Development Centres located

“*ChileCompra, the institution which brings together public procurement, has had a major effect on small enterprises.*”

⁵ Loans of up to 5,000 Development Units (UF), or approximately USD 200-210,000.

“ The introduction of virtual single windows has contributed to a fair level of simplification of the start-up and operation of enterprises.”

throughout the country.

Related to the simplification of procedures and the reduction of transaction costs.

Smaller enterprises are characterized by a very precarious administrative structure, usually with the micro-entrepreneur carrying out personally the administrative procedures related to the enterprise, or possibly the accountant. The level of precariousness is even higher in the informal sector. The Inland Revenue Service (SII) has established specific tax regimes for small enterprises which substantially reduce compliance costs through: (i) a Simplified Taxation Regime for all economic sectors, based on real income with adjustments and simplifications to the general regime; and (ii) the Presumed Income Regime for certain economic sectors and smaller enterprises. Similarly, in terms of regulation, the Act on Family Micro-enterprises greatly facilitates the start-up and operation of non-polluting enterprises operating with a maximum of five persons in the home. The introduction of virtual single windows has contributed to a fair level of simplification of the start-up and operation of enterprises. Particular reference should be made to (a) *PreviRed*, the single social security window, which represents a significant time saving for enterprises; (b) the Enterprise in a Day (*Empresa en Un Día*), a virtual window for the establishment of enterprises, which is widely used for start-ups; and (c) the Enterprise Desk (*Escritorio Empresa*), a virtual window designed to cater for the needs of enterprises at the various stages of

their life cycles.

Related to social security and labour regulation.

The problems encountered by the informal sector in relation to social security are directly related to its cost (22%) and, to a certain extent, the doubts about the benefits of the Pension Fund Administration (AFP), system based on individual savings accounts. This has given rise to a fair amount of public controversy in recent years. The procedures related to these obligations have been broadly facilitated by the presence of *PreviRed*, the virtual window referred to in the previous paragraph. Moreover, the application of the regulations under the Act on subcontracting and the requirement for own-account workers to be gradually incorporated into social insurance based on a system of deductions from their earnings has also promoted formalization. The issue of labour regulation and micro-enterprises has been left rather pending. It is clear that there are problems in the informal sector, for example, with: working hours and their distribution, as a result of the great irregularity of demand and the need to combine work with other activities, especially in the case of women; unpaid family members; the absence of contracts; the great variation in the duration of the working relationship; and the payment of overtime. These are all pending issues which require further attention.

III. SELECTED GOOD PRACTICES

Selected good practices

This chapter outlines some selected good practices that have contributed to formalization in Chile. It covers topics such as (i) public procurement, (ii) online platforms related to business registration, pensions and other administrative requirements, (iii) declaration and payment of social security contributions, (iv) access to

business development services, (v) access to finance, (vi) measures to facilitate access for micro and small enterprises to public procurement opportunities, (vii) a special legal statute for family micro-enterprises (viii) a sub-contracting law to reduce informality in the production chain and (ix) tax reforms.

I A. ChileCompra (Public procurement)⁶

The Act on Public Procurement (No. 19,886) was adopted in 2003 and created *ChileCompra* with the objectives of: making savings and ensuring a better use of public resources; simplifying and reducing bureaucracy in public sector procurement; ensuring honesty and transparency; and offering access and business opportunities to a broad range of suppliers. This latter objective included promoting the participation of smaller enterprises, an objective which might appear to be in contradiction with the intent to save public resources. Nevertheless, *ChileCompra* has been successful in overcoming this challenge. In 2017, the public procurement by 850 institutions, (including the central Government, universities, municipal authorities, the health sector, the armed forces, public works and the police), amounted to some USD 12,200 million and consisted

for 59 % of purchases from MSMEs,⁷ and 43 % from MSEs, with this latter figure being higher in the outlying regions (55 %). The magnitude of these figures is significant when considering that the percentage of sales by MSEs at the national level is only 8.4 %. This achievement is significant at the national and international levels and should be highlighted as a good practice.

ChileCompra manages the system, but each public institution makes its own purchases through the platform in accordance with the existing regulations. The following may participate as *suppliers*: physical and legal persons, who have started up their activity, and who have not been involved in anti-union practices, violations of the fundamental rights of workers and offences punishable under the Penal Code.

“The high level of participation by small enterprises in *ChileCompra* is related to the constant concern to reduce the bias of size by putting in place a more even playing field.”

⁶ www.chilecompra.cl

⁷ MSMEs: micro-, small and medium-sized enterprises; MSEs: micro- and small enterprises.



The system is composed of three platforms and/or sites:

- **Public procurement** (*Mercado Publico*) www.mercadopublico.cl where procurement processes are notified and undertaken and suppliers offer their products and services. Participating suppliers must be registered, which is free of charge.
- **Chile suppliers** (*Chile Proveedores*) www.chileproveedores.cl. Advanced registration, which is paid (a low annual fee) but not compulsory. It is an electronic registration platform which gathers the validated and certified commercial, technical and financial information on the supplier. It is a virtual window for public procurement, and only for certain procedures is it necessary to be on the Register. It automatically updates the State requirements and it does not require suppliers to provide information each time that they participate in a procurement procedure. The management of the register of suppliers is subject to tender for several years and is currently being carried out by the Chamber of Commerce of Santiago. In 2017, there were 123,000 suppliers, of which 90% were MSEs (110,700) and 67,000 were registered with *Chile Proveedores*.
- **Chile procurement training** (*Capacitación ChileCompra*) <http://capacitacion.chilecompra.cl>. Participation in the system involves very intensive training, both for suppliers, particularly MSEs, and purchasers. As a result, on-line and class-

room courses are provided throughout the country during the year on such subjects as sales to the State, the preparation of winning offers, and good bidding rules for tendering and management issues. The focus is on building the capacities of the actors in the system.

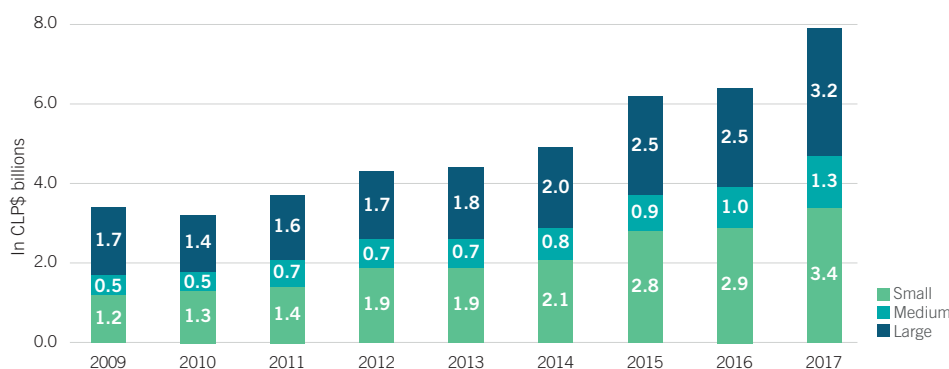
The high level of participation by small enterprises in the system is related to the constant concern of *ChileCompra* to reduce the *bias of size* by putting in place a more even playing field to flatten out the related problems. This differs markedly from the experience of other countries in relation to public procurement, where strategies have tended towards positive discrimination for this type of enterprise. In Chile, the main challenges faced by small enterprises in this respect were identified, with around 15 constraints being targeted which for the most part have gradually been resolved.⁸ Among them are: (i) *very large contracts*; (ii) *limited knowledge of procurement procedures*; (iii) *little experience and knowledge of the preparation of offers*; (iv) *little time for their preparation*; (v) *little dialogue and feedback from purchasers*; (vi) *excessive bureaucracy*; (vii) *delayed and long periods for payments*; (viii) *unclear requirements*; (ix) *burdensome requirements relating to standards and certification*; (x) *the disproportionate requirement for technical skills*; (xi) *disproportionate financial requirements*; (xii) *excessive emphasis on prices*; and (xiii) *the temporary closure of markets due to the presence of framework contracts*. These constraints have been overcome for all enterprises, and not only small enterprises. The way they have been addressed is indicated in the bibliographical

90%

Of suppliers registered in Chile Suppliers are MSEs

8 G. Burr et al., "Challenges in Chilean e-procurement system: A critical review", Chapter 8, in R.J. Shakya, *Digital governance and e-government principles applied to public procurement*, World Bank, Washington DC, 2016

FIG 18 ChileCompra: Size of transactions by supplier size



Source: ChileCompra

“A programme for a “Women’s Label” was established to promote the participation of women in public procurement through information dissemination, intensive training, mentoring.”

references.⁹

The most common forms of procurement through the platform are:

- public and private tenders;
- direct contracts;
- framework agreements, which were introduced between 2009 and 2012. The products of a catalogue are awarded for a period and a tender is not required for each purchase, but only procurement orders, which involve management savings (*ChileCompra Express*);
- micro-procurement, a new form of procurement introduced in 2017 for small purchases under USD 750 through government e-commerce or other platforms.

During 2018, new simplified arrangements and simplified tendering were introduced for values under around USD 7,500, which cover 60 % of processes. The intention is for them to be standardized and 100 % electronic.

Transparency is an essential objective of the system, and there is therefore plenty of relevant information. The stages of the procedure for the award of procurement can be looked up on the Web and are traceable; personalized notifications are sent by e-mail to all suppliers; reports and cubes for analysis (2009-2012); and innovative applica-

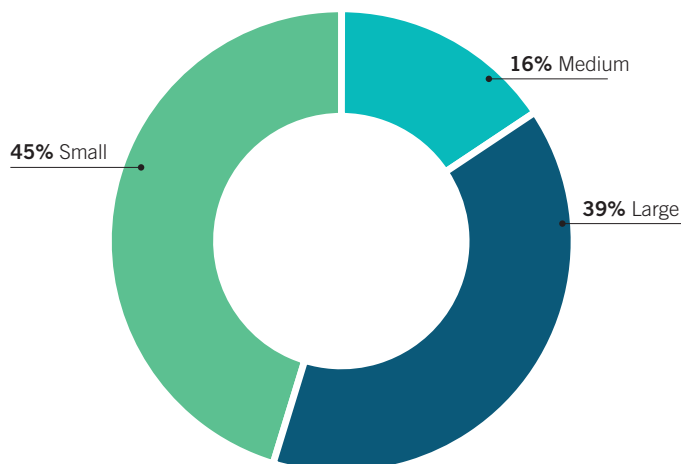
⁹ Ibid, Chapter 3

tions (APIs) and telephone applications to announce daily tenders and procurement orders (2015-2018). One contribution to transparency is the *Observatory*, set up between 2013 and 2014, which receives complaints relating to ethics and denunciations, and makes suggestions, carries out analysis and puts forward recommendations, sends alerts to purchasers, develops risk models and analyses attitudes. The *Observatory* is a source of the continuous improvement of the system and detects constraints related to size.

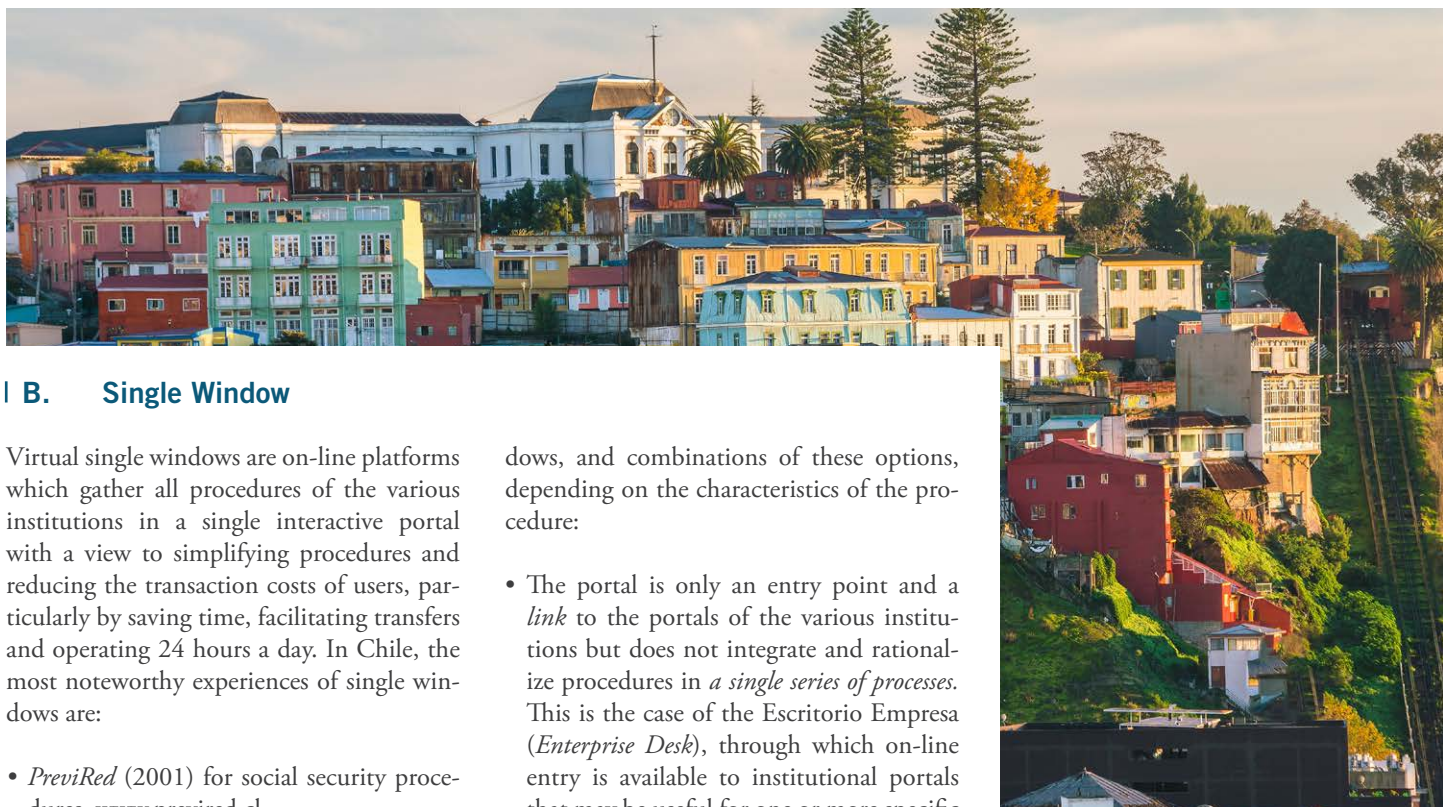
Gender: research indicated that the volume and average amounts agreed with enterprises managed by women were lower than in the case of men. Based on this finding, a programme for a “Women’s Label” was established to promote the participation of women in public procurement through information dissemination, intensive training, mentoring and articulation with the State Bank Filial for Micro-enterprises. The total volume of transactions rose from 21 % in 2013 to 27 % in 2017, and the average amount of each transaction rose by 11 % over the same period.

The basic principles for the development of the platform are transparency, savings and the participation of small enterprises. The figures suggest that this public market is now more democratic and accessible, including for enterprises run by women, than the private market, which is a significant incentive for formalization.

FIG 19 Participation in ChileCompra by enterprise size, 2016



Source: ChileCompra



I B. Single Window

Virtual single windows are on-line platforms which gather all procedures of the various institutions in a single interactive portal with a view to simplifying procedures and reducing the transaction costs of users, particularly by saving time, facilitating transfers and operating 24 hours a day. In Chile, the most noteworthy experiences of single windows are:

- *PreviRed* (2001) for social security procedures. www.previred.cl
- *Empresa en un Día* (*Enterprise in a Day* - 2013) to set up enterprises that are starting their activities and other procedures related to enterprises. www.tuempresae-nundia.cl
- *Escritorio-Empresa* (*Enterprise desk* - 2016) for all types of procedures and information related to the start-up and operation of enterprises. www.escriptorioempresas.cl

There are two options for virtual single win-

I B.1 PreviRed¹⁰

In 2001, five private pension fund administrators (AFPs) created an on-line platform for the purpose of electronically *declaring and/or paying* the social insurance contributions of enterprises, employers operating in their own homes and own-account workers through a *single or integrated payment*. It brings together contributions for pensions, health, employment injury, family allowances and unemployment insurance, and automatically calculates their amount for each worker and each payroll or workforce. It has been implemented gradually.

¹⁰ www.previred.cl

¹¹ Number of institutions in the system: pensions - 7; voluntary welfare savings - 40; health - 13; employment injury - 4; unemployment insurance - 1; family allowances - 5

dows, and combinations of these options, depending on the characteristics of the procedure:

- The portal is only an entry point and a *link* to the portals of the various institutions but does not integrate and rationalize procedures in a *single series of processes*. This is the case of the *Escritorio Empresa* (*Enterprise Desk*), through which on-line entry is available to institutional portals that may be useful for one or more specific purposes.
- The portal is the entry point to a single series of processes for a specific purpose, which integrates and rationalizes, or simplifies various procedures for different institutions into a single procedure to offer a simplified solution. This is the case of *PreviRed* and *Empresa en Un Día*.

Both options involve totally different technological and back office administrative and coordination challenges.

“**Previred is an online platform through which enterprises and own-account workers can electronically declare and/or pay social contributions through a single, integrated payment.**”

“With the creation of PreviRed, the complexity of the procedures and the transaction costs have been substantially reduced.”

ious participating institutions.

Prior to the creation of the portal, social security procedures appear to have taken up the most time for small enterprises in view of the multiplicity of institutions. With the creation of *PreviRed*, the complexity of the procedures and the transaction costs have been substantially reduced, saving time and providing a flexible 24-hour service which is free-of-charge, paperless and does not require the physical presence of users. This has had a major effect on the operation of small enterprises, which mostly have no or very few administrative personnel, which normally means that the entrepreneur must carry out these procedures. With *PreviRed*, the payroll or workforce is paid within 24 hours by the financial system, while statutory contributions are paid during the first 12 days of the month. There are two options in the system: (a) both the declaration and payment of contributions; and (b) only declaration for employers, who prefer to make payments directly through the bank. At present, 98 % of contributions payable to private pension fund administrators (AFPs), 99 % of those to the FONASA (public health system) and 88 % of those to the ISAPRES (private health care) are collected through the system.

PreviRed has developed many services, cur-

rently numbering around 50, related to (i) collecting contributions, (ii) issuing certificates, (iii) notifications and (iv) support for bank payments. In addition to the payment of contributions, the most relevant include: *the provision of free pay software to smaller enterprises (including all calculations of entitlements) and of certified software for others; model contracts for the various types of contracting; news on the world of work and social security and useful indicators; an option for the principal enterprise or the purchasing enterprise to check contractors in subcontracting relationships concerning their situation with regard to the payment of their obligations and on-line consultation regarding contributions; the issue of certificates attesting the up-to-date payment of insurance contributions by enterprises, duly certified and on line with the Directorate of Labour, which are valid for the various purposes required by labour regulations; the regularization of social insurance debts, the calculation of fines and arrears; on-line consultation by workers of the situation regarding the payment of their contributions by the employer; and the generation of Big Data for institutions in the system.* The use of *PreviRed* has increased significantly (see Table 2 below) by users of all sizes.

TABLE 2 PreviRed: Contributors 2010-17 (thousands)

Year	Workers	Employers	Own-account workers
2010	4,850	400	102
2017	8,276	662	149
Var. % 2017/2010	71%	66%	46%

Source: Calculated based on PreviRed data

I B.2 Empresa en Un Día (Enterprise in a Day)¹²

The platform was created in 2013 by the Ministry of the Economy for the electronic registration of enterprises and companies (*Registro Electrónico de Empresas y Sociedades, RES*), and is public, national and free of charge. It was established by Act No. 20,659, creating a simplified scheme for entities with legal status enabling them to establish, transform, divide, merge and dissolve companies

through the internet, without cost for the enterprise, except for the electronic signature (*firma electrónica, FEA*). Companies which are constituted in this way, in contrast with the traditional method, do not have to be published in the Official Bulletin (*Diario Oficial*) or recorded in the property register, and do not require the intervention of a lawyer, as the required forms can be com-

¹² www.tuempresaenundia.cl

pleted by the registered user. It currently coexists with the traditional system for the establishment of enterprises.¹³ It should be noted that the constitution of a company is part of the enterprise creation process, and that other stages of this process still must be simplified.

Between 2013 and 2016, various types of commercial companies were gradually incorporated into the system, including: limited liability companies (Ltd.); individual limited liability companies (*EIRL*); joint stock companies (*Spa*); commercial partnership companies; limited partnership companies; limited joint stock partnerships; closed joint stock companies; and mutual guarantee companies (*SGR*). The gradual nature of their incorporation is due to the need to reach agreement with the various regulators and to create the regulatory framework for the simplifications. When companies are constituted in this way, they are assigned a single tax number (*RUT*) as part of the procedure and from that moment on can engage in transactions and issue electronic documents (bills and other documents).

Following five years of implementation, the register shows positive aspects overall. Of the 534,080 companies constituted with legal status over this period, 62.2 % did so through the portal (332,000). In April 2018, some 74 % of enterprises was constituted in this manner at a rate of 215 enterprises each working day. From the viewpoint of entrepreneurs,¹⁴ procedures that previously took around three months have been reduced to five days and the cost of the process has fallen from around USD 790 to USD 27, for which the tool is well appreciated. However, there are also some limitations. For example, the financial authorities require new enter-

“The online Enterprise-in-a-Day platform simplifies registration procedures for enterprises and companies.”

prises to credit six months of transactions in their VAT declaration to open a current account, in contrast with the traditional system, under which it is done immediately. This tends to betray a certain lack of trust. Moreover, there have been abuses, such as the creation of several enterprises for the “same” purpose with a view to issuing a large number of bills, which is illegal and should be subject to investigation and the corresponding penalties. Another shortcoming is the lack of more personalized advice, especially for small enterprises, on key legal and tax-related issues for the determination of the most suitable type of company or legal form for the kind of enterprise. However, this shortcoming is mitigated to a certain extent by the existence of the Enterprise Desk portal (*Escritorio Empresa*), where each legal form and type of company is set out in a fair amount of detail.

The Enterprise in a Day platform helps to facilitate the simplified formal constitution of new enterprises by broadly simplifying the procedure for the constitution of a company, which is an important stage in enterprise creation. It is being widely used, but does not offer solutions for the whole process, nor does it guarantee that existing informal enterprises are offered incentives to become formal.



I B.3 Escritorio Empresa (Enterprise Desk)¹⁵

This platform is a joint initiative by the Production Development Agency (CORFO) with the Ministry of Economy, which started operating in the second half of 2016. It makes available a portal which gives entry to various useful institutions and thus facilitates and simplifies entrepreneurship, formalization and the creation and operation

of enterprises, and particularly MSMEs. The current catalogue includes on-line procedures; business incentives; enterprise creation; brand names; license applications (municipal authorities); free and purchased software applications that are useful for business; certificates; and financial services. The portal is not limited to enterprise creation,

¹³ The traditional system for the constitution of an enterprise is based on the use of notarial acts, commercial registers, publication in the Official Bulletin and an application to the Inland Revenue Service for a single tax number to commence operation.

¹⁴ *Asociación de Emprendedores de Chile* (Chile Entrepreneurs' Association, ASECH)

¹⁵ www.escriptorioempresa.cl

but also endeavours to facilitate their operation.

In 2018, participation in the platform included 23 State institutions, 200 municipal authorities and three banks, through which 70 types of procedures could be carried out. It offers tutorials on enterprise creation and it is possible to compete for public funds for enterprise start-ups, operation and particularly for innovation and development. It is also possible to apply for credit and to open a current account. In general, the portal fa-

ilitates the *on-line* payment of procedures and certificates where the respective institutions have approved the system for the transaction. The window has still not been sufficiently disseminated.¹⁶ The Sub-Secretariat for the Economy and Small Enterprises is currently revising the content of the platform with a view to making progress in simplifying certain procedures and promoting their integration, in cases where they involve several institutions, into a single procedure or a flow of procedures.

I B.4 Reflections on Experience of Single Windows

Single windows can be very useful for the creation of new formal enterprises and in simplifying the operation of new and existing enterprises. In general, their implementation is slower than expected, even where there is a good initial theoretical design, and they are established gradually, with the inclusion of more institutions and procedures. In particular, the integration of the various institutions for formalization and registration, both in the *front office* and the *back office*, is not without problems and challenges, especially including:

- difficulties in coordination between the various levels (local, regional and nation-

al) for the unification and simplification of procedures;

- problems related to the integration of the various technological platforms of the different institutions, for which solutions are being found through new information technology developments, such as “service integration buses” or common entry portals, although with direct access to the portal of each institution (for example, the Enterprise Desk). These are strategic definitions;
- the coordination and alignment of the various regulatory bodies involved in the development of new regulations adapted to the process to be carried out through the single window (requirements, deadlines, forms, etc.) and in general in relation to legislative changes. This has been noted as a success factor in the case of *PreviRed*;¹⁷
- the readiness of the various technical departments involved to delegate responsibilities to the single window for the integration and simplification of procedures and problems in obtaining flexible responses;
- the capacity for the effective control of the relevant aspects of administrative registers and for their future use, as well as the harmonization of data and common rules for interoperability. Examples of sensitive cases include social security;
- with a view to ensuring the widespread



“Single windows can be very useful, yet the integration of the various *front office* and *back office* institutions can be problematic.”

¹⁶ Up to now, it is estimated that there have been 10 million visits and that 2.2 million procedures have been carried out through the portal. Source: *Escritorio Empresa*.

¹⁷ Persons interviewed: Valentina Veloso (14)

use of virtual single windows and reaching out to informal operators, an aggressive programme for the digitalization of small enterprises is required which envisages the integration of information and communication technology (ICT) in all types of procedures and transactions in general.

It should be noted that the EME 2017¹⁸ found that in the informal sector only 30 % of micro-enterprises indicate that they make use of the internet in their business operations.

“The Act on Subcontracting requires companies to look into the effective compliance with labour and social security obligations by the contractor or subcontractor.”

I C. Act on Subcontracting (Act No. 20,133)

Subcontracting is a means of organizing production, through the externalization of certain functions, which often leads to more precarious employment, including informal labour in contracting and subcontracting enterprises. In Chile, with a view to mitigating these effects, the *Act on Subcontracting* (Act No. 20,133) was adopted in 2006. In conjunction with the *Act on the MultiRut* (Act No. 20,670), adopted in 2014, and the existence of *PreviRed*, Act No. 20,133 has made a positive contribution to mitigate this situation and to foster the formalization of employment in the production chain.

Obligations and duties. The Act requires the main enterprise or the enterprise issuing instructions to look into the effective compliance with *labour and social insurance obligations* by the contractor or subcontractor, and to protect the life and health of all workers engaged in the work that it controls. This

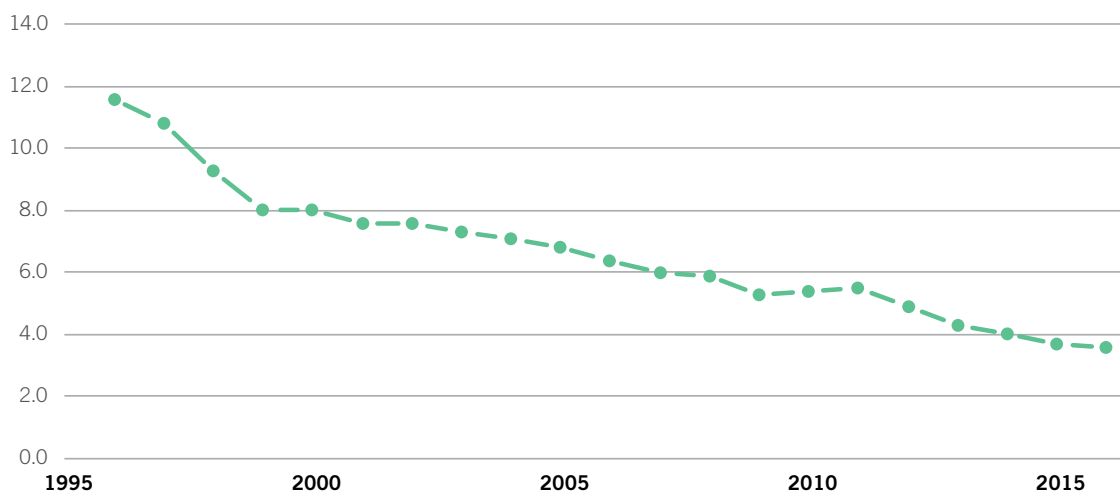
corresponds to a *solidarity and subsidiary responsibility* for the labour and social insurance obligations of the contracting enterprise in relation to its workers, both during the period covered by the contract and regarding the termination of the employment relationship, social security issues and labour benefits. It also has direct responsibility for health and safety issues, which is important in such sectors as construction.

Rights. The principal enterprise is entitled to *information* on compliance with the labour and social security obligations of contractors and subcontractors by means of a certificate validated by the Department of Labour and issued by *PreviRed*, as well as to retain payments or make payments by *subrogation* in the event of non-compliance by the contractor. Contractor or subcontractor enterprises pay their contributions *online* through the *PreviRed* portal to the various institutions during the first 12 days of each

¹⁸ EME survey of micro-enterprises

FIG 20

Employment injury rate 1996-2016 (% of protected workers)



Source: Superintendencia de Seguridad Social (SUSESO – Social Security Superintendence Authority)

month, and *PreviRed* issues certificates and records of the payroll with the duly completed payments, which are accepted as proof by the regulatory bodies. This information is maintained online with the Department of Labour, which keeps a public register of contractors and subcontractors and provides certificates on pending labour or other problems based on its own records. The provision and regular submission of certificates for the payment of the obligations of the contractor or subcontractor and the situation of labour compliance, as well as the flexibility of the process due to the existence of *PreviRed*, has facilitated the due application of the Act on Subcontracting. This in turn has been a key factor in the formalization of production chains in the areas of labour and social insurance and is a requirement in all public contracts and procurement and tender processes, as well as being a requirement for public subcontracting contracts.

The adoption in 2014 of the *Act on the MultiRut* No. 20,670 has supplemented the action outlined above, thereby limiting the artificial fragmentation of enterprises with a view to hiding the real employer of the workers and externalizing more than necessary, including for workers engaged in the same tasks in the enterprise. This Act has reduced certain problems relating to social insurance,

labour (trade union membership) and taxation, and it has also reduced the number of principal enterprises.

Although no impact assessments are available, certain outcomes show that the effect has been positive, and that the pace of formalization of salaried employment has changed when comparing the six years prior to the adoption of the Act and the six years since its implementation, especially in such sectors as construction and commerce. The number of contributors to individual pension accounts and to health insurance has increased substantially over the six years since the adoption of the Act and the number of employment injuries has fallen significantly (see Table 3 and Figure 20). For example, in the construction sector, the number of formalized employees in comparison with the six years prior to its application has increased from 19 to 105 %, in commerce it has increased from 4 to 24 % and in industry from 12 to 54 %. However, these increases have been more limited recently due to more structural economic problems, which are addressed in Chapters I and II, and issues arising in the various sectors (such as industry and construction).

TABLE 3 Pensions system: Contributors to individual accounts 2000-17 (in thousands in December each year)

Year	Total	Agriculture and fishing	Industry	Commerce	Construction
2000	2,747	263	329	459	202
2006	3,475	276	369	477	241
2012	4,871	328	568	605	494
2017	5,393	333	519	639	442

Source: AFP supervisory body

Year	Total	Agriculture and fishing	Industry	Commerce	Construction
Var % 2000-2006	27%	5%	12%	4%	19%
Var % 2006-2012	40%	19%	54%	27%	105%
Var % 2012-2017	11%	2%	-9%	6%	-11%

I D. Act on Family Micro-Enterprises (MEF) (Act No. 19,749)

The Act was adopted in 2002 with a view to be the first step in the formalization of enterprises which use the *home* as their operational base, by simplifying their start up and formal operation. Family micro-enterprises must fulfil the following *characteristics and conditions*:

- the economic activity is carried out in the family home and the entrepreneur has to be a legitimate occupier of the home, which is either owned, rented or subject to cession;
- the activity must be lawful and not hazardous, create disturbance or pollution, and not produce: liquid industrial waste, corrosive, explosive or inflammable residues; noise pollution; unpleasant smells, favourable conditions for the proliferation of vectors of infectious diseases, emissions of gas particles, and must not store over 50 litres or kilos of corrosive, reactive, inflammable or toxic substances, etc.;
- there must be a maximum of five persons that are not family members working in the enterprise;
- productive assets must be lower or equal to 1,000 Development Units (UF) (or approximately USD 46,000), excluding the value of the house;
- if the home is in a condominium, it must be authorized by the administrative committee.

The main *objectives and benefits* of the Act include obtaining a municipal licence with flexibility, with a minimum of requirements in terms of procedures and facilities, and the simplified and low-cost start-up procedure. The operators are exempt from *zoning* requirements imposed by regulatory industrial or commercial zone plans and may operate in the home, even if it is located in a residential area. They are also exempt from *health service procedures*, except for micro-enterprises in the food sector, which must comply with food safety regulations. The *municipal licence* is low-cost and is paid once or twice a year, depending on the municipal authority. Once they have been entered into the municipal register, they obtain their *licence* and may start to operate and notify the Inland

Revenue Services (SII)¹⁹ of their registration. When the family micro-enterprises are operational, they are taxed in the “first category”, which enables them to benefit from *special tax regimes*, depending on their activity, such as the *Special Regime for Artisanal Workshops*, which envisages a single annual lump-sum payment. They are also allowed to undertake work for third parties without paying VAT (“*maquila*”). If they *employ workers*, the respective labour regulations have to be implemented, without prejudice to the types of association that are frequently found in this type of enterprise, such as de facto societies or joint account associations, based on an agreement to carry out work of mutual benefit.²⁰

There is currently no consolidated information or impact assessments on family micro-enterprises. The form of a family micro-enterprise has been used widely, including for operators which commence the formalization process under this regime and then go on to other more complex forms of commercial companies and tax regimes. They are used by own-account workers. In general terms, being a family micro-enterprise offers some benefits, such as: facilitating access to the municipal licence and starting up activities; improved access to credit -in terms of opportunities, amounts and rates- as well as to the production incentives offered by the State. Moreover, integration in the formal economy and the financial market facilitates their market opportunities, extending their client base and enables them to contract services with larger enterprises. The aspects appreciated by family micro-enterprises include access to *ChileCompra* (public procurement) and the State Bank Filial for Micro-enterprises. The

“The form of a family micro-enterprise has been used by operators which commence the formalization process under this regime and then go on to other more complex regimes.”



¹⁹ Inland Revenue Service (SII).

²⁰ J.C. Scapini (2003), Library of the Congress of Chile.

constraints of family micro-enterprises include the fact that liability in this type of enterprise covers the whole of the assets of the micro-entrepreneur, which may not exceed 1,000 Development Units (UF) of initial capital (approximately USD 46,000), as well

as restrictions on holding a commercial or enterprise current bank account. Although there is not a uniform or common rate for the municipal licence for family micro-enterprises, it tends to be low.

I E. Tax Regimes for Smaller Enterprises

A *tax reform* was undertaken in Chile in 2014, the gradual implementation of which was completed in 2018. One of the legal initiatives of the reform was the creation of a *Simplified Tax Regime for SMEs* or 14 Ter A, which addresses the fairly recurrent problems faced by small enterprises in their integration and continuation in the tax system, as well as the limitations of the tax services in their regard. Most of the following description will focus on this aspect, which reflects a consistent effort to address a series of challenges encountered by this type of enterprise. New draft legislation to modernize the tax system, aims to revise certain aspects of the 2014 reform, including certain areas of the Simplified Tax Regime.

In general terms, the current Chilean tax system for small enterprises, unlike others, is an *integrated system*. This means that taxation on capital (enterprises) and labour (on persons) are integrated and consolidated as a single levy within the tax on revenue or earnings. For larger enterprises (open and closed limited liability companies, limited joint stock companies), the system is *semi-integrated*. Only four countries in the world have integrated systems.²¹ Normally, in *non-integrated systems*, on the one hand, enterprises pay taxes and, on the other, so does the entrepreneur, as two completely different taxes. In contrast, in *integrated systems*, the tax paid by the enterprise is deducted from what is owed by the entrepreneur, or the latter benefits from a tax credit (based on her or his share of the enterprise).

Enterprises are basically subject to two types of taxes: taxation on revenue (of the enterprise and the entrepreneur) and value added tax (VAT). Existing regimes for small enterprises are characterized by:

- whether taxation on revenue is calculated based on *real income (objective information)* or *presumed income (based on estimates)*;
- based on the above, whether full or simpli-

fied tax accounting is required, or no accounting, together with the corresponding accounting records;

- if VAT is paid, if there are simplifications in the payment of VAT, or exemption, and whether the payment of VAT may be deferred;
- *the periods when* taxes are paid, which may or may not include the requirement to make regular provision towards the annual amount of tax payable, and the periods frequency ;
- the forms in which the *depreciation* of investments is considered;
- Tax level on income, tax provision and VAT.

Regarding the first point, relating to real or presumed income, the essential issue is whether it is a *general simplified or adjusted regime* or a *special tax regime*.

The usual problems faced by small enterprises in relation to tax systems and the payment of taxation which limit their formalization include: (i) *the complexity and lack of knowledge of the system*; (ii) *the direct cost of taxes and other contributions related to formalization and the problems of liquidity faced by the enterprises, particularly in view of the irregularity of demand and the low level of working capital*; (iii) *limitations on the availability of capital, especially in their early years, when they need to invest*; (iv) *the administrative costs of keeping full accounts, accompanied by all the necessary books*; (v) *exposure to inspection*; and (vi) *problems of information, when household accounts are mixed with those of the business*. Taking these factors into account, it is important to identify the aspects of the tax system that amount to real obstacles for the formalization of this type of enterprise. The level of taxation payable by these enterprises is probably low and problems have other causes, which need to be addressed, such as

“The current Chilean tax system for small enterprises, unlike others, is an *integrated system*. Only four countries in the world have integrated systems.”

²¹ Australia, Canada, Mexico and New Zealand.

compliance costs. In certain respects, the new Simplified Tax Regime for SMEs is intended to go beyond tax rates.

There are currently three regimes in Chile designed for small enterprises at different levels of development:

- the *Simplified Tax Regime* or 14 Ter A, which is based on real income. This is an adjusted and simplified version of the General Regime, which is the most important for this type of enterprise;
- the *Presumed Income* scheme for agriculture, transport and mining, which is a special regime based on presumed income;
- the *Small Taxpayers* Regime for owners of small artisanal or manual workshops, traders in public places, street vendors, small-scale registered artisanal miners or fishers, which is a special regime based on a presumed level of income.

The intention of the 2014 tax reform was to bring together the greatest possible number of smaller enterprises towards paying taxes based on their *real income* through the Simplified Tax Regime in a view of the issues that arise in relation to special regimes based on presumed income (false SMEs).²²

The *Simplified Tax Regime*²³ for MSMEs is for enterprises which over the past three years have had an average annual income not exceeding 50,000 Development Units (UF, or approximately USD 2 million) in any economic sector and which have not exceeded 60,000 Development Units in any of those years.²⁴ The regime is essentially based on the following pillars:

(a) *Simplified tax accounting through the integration of information technology (IT)*. Although taxes (on income and VAT) are calculated based on objective accounting information, the requirements are simplified enormously, as full accounting is not required. All that is necessary is the cashbook

and the ledger of purchases and sales, if VAT is declared, and the auxiliary remuneration ledger.²⁵ There is no requirement to keep accounting balances or inventories, monetary corrections or the depreciation of assets, among other operations, which reduces the administrative burden. In this way, there is no need to keep a series of books and the cost of compliance is reduced considerably.

This is supplemented by the *introduction of information technology* in the process of the simplification of the tax system, which allows taxpayers to keep their accounts, for tax purposes, electronically through the *MSME portal* of the Inland Revenue Services (SII).²⁶ Smaller enterprises are required to use the *electronic billing* system of the MSME portal of the SII, through which the entrepreneur not only issues bills, but also receives electronic tax documents and automatically generates the *purchases and sales ledger*. Accordingly, the electronic documents that are received and issued, are recorded directly in the accounts. Other operations that do not have associated tax records (such as the payment of wages and interest) are entered directly into the portal, and the system automatically generates the *record of income and expenditure*. The system also generates a proposed *monthly VAT* declaration and an *annual declaration of income*, as well as *provisional monthly payments* for the latter. It should be noted that 98 % of contributing micro-enterprises were already integrated into the electronic billing system in 2018. In addition to the MSME portal, the electronic system of issuing bills, generating accounts and proposed tax payments, the incorporation of IT includes an *online* and personal component for tax education and assistance, as well as free software for MSMEs for electronic billing and VAT declarations, and financial records to complete the strategy. The digitalization of this category of taxpayers also helps the tax authorities to inspect massively a series of enterprises with a low impact on the taxes collected through ad hoc technological solutions. It is estimated that 85 % of enterprises only pay a total of 15 %



22 E. Agostini and V. Repetto (2018): *Using small business for individual tax planning: Evidence from special tax regimes in Chile*, Adolfo Ibañez University.

23 Section 14ter of the Act on income tax.

24 UF: Development Unit, approximately equivalent to USD 46.

25 In Chile, the requirements for full accountancy are: the cashbook, the daily ledger, the general ledger, inventories, balances and subledgers: records of daily sales, remuneration and taxes paid; and accounts of deferred and personal income, exempted revenue, revenue attributed to the global supplementary tax; accumulated credits; and capital allowances (the difference between accelerated and normal depreciation). MSMEs currently only need to keep two books: the cashbook and the ledger of purchases and sales, and the auxiliary remuneration subledger.

26 The Act establishing the compulsory use of electronic billing was adopted in 2014 and was at first implemented gradually, with its full application being completed in February 2018.

of income tax.

(b) *Improvement of liquidity*, which is one of the major problems faced by smaller enterprises. Several measures have been adopted in this respect:

- the tax base is calculated based on *cash flow*, taking into account the income received (and not the income expected to be received) and the expenses that have actually been paid. Any purchase is immediately deducted as a cost, without waiting until the product is sold, which facilitates the way in which inventories are kept;
- investments are *immediately depreciated*, and accordingly any assets acquired during the year are counted as costs;
- *provisional monthly payments* of income tax are reduced substantially (0.25% of monthly income), to reduce the amounts payable to the tax authorities and leave greater liquidity at source (they may previously have been around 4 % or more).

(c) *Treatment of investments*: in addition to allowing the immediate depreciation of assets, this is also possible for both used and new goods, those purchased within the country and from abroad. Moreover, a *tax credit* is granted equivalent to 6 % of the value of the asset.

(d) *Treatment of temporary fluctuations in income and losses*. Irregularity of income is also considered, with the possibility of postponing VAT payments for 60 days, without further procedures, as well as provisional tax payments. Moreover, in the event of any resulting tax losses during the year, neither the enterprise nor the owners pay taxes that year or the following year, and the loss can be deducted as expenditure.

(e) *Improvement of the tax rate through integration*. The tax rate under the *integrated* system of income tax for small enterprises is 25 %, compared with 27 % under the semi-integrated system applicable to larger enterprises. However, the real advantage is that entrepreneurs covered by the integrated system can deduct as a tax credit of 100 % of the taxation paid by the enterprise from their personal income tax declaration, and the tax actually paid, in most cases, is much lower than that level, as their personal income is not normally high, and they therefore receive a tax rebate.

(f) *Reduction of avoidance and evasion*. One of the objectives set by the tax administration with the reform is the reduction of *loopholes* in the system in relation to the abuse of tax regimes that favour small enterprises by other types of taxpayers with high incomes, which do not fulfil the necessary conditions and attempt to avoid or evade taxes through the subdivision of enterpris-

TABLE 4

Advantages of the 14 TER Regime

Advantage	Impact
Simplified accounting	Greater simplicity, lower costs
Lower rate of monthly personal payments	Greater liquidity
Immediate depreciation	Greater liquidity
Credit for purchase of capital assets	Greater liquidity
Taxation only on specified income	Greater liquidity
Deduction of all purchases as expenditure	Greater liquidity

Source: Ministry of Finance

es or other methods. From this perspective, the Simplified Tax Regime includes a series of protective measures that take the form of requirements for coverage by the regime,²⁷ such as: the types of partners that can be covered; requirements respecting related enterprises; types of activities that are excluded directly or indirectly; and the characteristics and sources of the other income of partners. In other words, the aim is to prevent false MSMEs from making use of the regime, based on the following questions: *Who is behind the enterprise? What other enterprises and sources of income does that person have?*

In addition, in order to close off possibilities for the avoidance of VAT and facilitate administrative procedures for small taxpayers, it is also possible for *VAT to be paid by another entity*, so that the purchasing enterprise can deduct, declare and pay VAT for the small enterprise. This role as a *withholding agent* must be authorized by the Inland Revenue Services and is limited to enterprises with turnover of over 100,000 Development Units (UF) a year.

The **Presumed Income Regime** is a special regime based on presumed income.²⁸ This means that taxpayers covered by the regime do not pay tax on the basis of their *real income* during the course of the year, but in accordance with parameters established by law

based on *estimates*. This regime applies to the *agricultural sector, transport and mining*, and is intended for micro-enterprises. There is a limit on annual sales for coverage by the regime. For the different sectors, revenue is presumed based on: (a) a fiscal assessment of agricultural and non-agricultural immovable assets; (b) the fiscal value of vehicles; (c) the annual value of the sale of mining products. Income tax is levied on the following basis:

- for the agricultural sector, 10 % of the fiscal assessment and the limit for coverage by the regime is sales of a value of 9,000 Development Units (UF) a year;
- for the transport sector, 10 % of the value of the vehicle and the limit for coverage by the regime is sales of a value of 5,000 Development Units (UF) a year;
- for the mining sector, the percentage varies depending on the average price of copper and the limit for coverage by the regime is sales of a value of 17,000 Development Units (UF) a year.

This is also a *100 % integrated system* that does not require the keeping of accounts, but only a ledger of purchases and sales if VAT is declared. However, a system for monitoring income is proposed by the Inland Revenue Services. In the agricultural sector, monthly

“Under the **Presumed Income Regime**, taxpayers do not pay tax on the basis of their *real income* during the course of the year, but in accordance with parameters established by law based on *estimates*.”

27 The following are excluded: enterprises engaged in obtaining revenue from movable or immovable property, as well as their associates; taxpayers who have income from other sources amounting to over 35% of their total gross income; taxpayers with income from shares and/or investment funds amounting to 20% of their total gross income; taxpayers for which over 30% of the paid share capital belongs to partners or shareholders paying taxes on the stock exchange or their subsidiaries.

28 Section 34 of the Act on Income Tax.

TABLE 5 Tax regimes currently covering MSMEs (number of taxpayers)

Tax regimes	2013	2014	2015	2016	2017
Section 14 Ter A Simplified Tax Regime	84,318	107,320	217,514	235,752	310,680*
Section 14 A Attributed income	Not applicable	Not applicable	No info	539,379	No info
Section 14 B Semi-integrated	Not applicable	Not applicable	No info	152,320	No info
Presumed Income Regime (section 34)	147,133	No info	No info	No info	145,414

* Preliminary

Source: SII



“ Various actors consider that the Simplified Tax Regime is a good system for most small enterprises and that the presumed revenue regime should disappear gradually over time.”

provisional tax payments are not required, although they are compulsory in the transport and mining sectors. Provisional payments can be declared and accumulated for up to two months.

The 2014 reform reduced the limits on annual sales for coverage by the regime and the characteristics of the persons and entities who can establish the respective enterprises, who are now limited to natural persons. Both modifications were intended to prevent the transfer of revenue from large enterprises to smaller enterprises, which has been a recurrent problem with this regime.

The *Small-scale Taxpayer Regime*²⁹ is a special regime based on presumed income for very small enterprises and is confined to certain activities: *street traders; small-scale traders operating on public thoroughfares or in fixed places (including travelling fairs); owners of small-scale artisanal workshops; small-scale fishers; and small-scale miners*. For example, in the case of artisanal workshops, they must be run by the owner, who must not have more than five workers, including family members; and in the case of artisanal fishers, they must not own more than two vessels of up to 15 gross registered tonnes each. In general, they must be individuals, sell goods or provide services directly to the public and have sales of no more than 20 Monthly Tax Units (UTM).³⁰ The regime has the following characteristics:

- the payment of *simplified VAT* by persons selling to the public at a *fixed rate* estab-

lished by the Inland Revenue Services, which is paid quarterly (between 0.6 and 4 Monthly Tax Units), and who do not issue receipts to the public;

- a *single substitute tax (IUS)*, paid once a year, equivalent to income tax, which is a fixed amount for traders and small-scale fishers, and is a percentage of their sales for artisanal workshops, street traders and miners;
- the existence of a *withholding agent* for taxes, or a *change of payment entity*, which is the purchasing mining company in the case of small-scale mining; the media enterprise in the case of street news vendors; and the municipal authorities in the case of traders. In other cases, payments are made directly to the Inland Revenue Services.

Various actors consider that the Simplified Tax Regime is a good system for most small enterprises and that the presumed revenue regime should disappear gradually over time, as it gives rise to a fair number of *horizontal inequities*³¹ in relation to those who pay taxes based on their *real income*, and indeed between those paying on the basis of *presumed income*. Moreover, the reasons for which it was originally established, such as it being impossible to *keep accounts*, are tending to disappear with the new procedures under the simplified regime. In contrast, it is considered that aspects such as the marked seasonal differences (such as income one year, and expenditure another), the existence of

²⁹ Section 22 of the Act on income tax.

³⁰ UTM: Monthly Tax Unit (1 UTM= CLP\$ 47.729 or USD 73 - August 2018)

³¹ Horizontal equity: equal taxation for equal income.

unpaid family workers and the mixing of the domestic economy with business make it even more complex to assess taxes on the basis of real income, which therefore justifies the continued existence of regimes based on presumed income.

Under the simplified regime, the simplified accounting, electronic billing and proposed tax declarations are all appreciated, even though there has been a certain opposition from accountants. However, enough use is still not being made of the availability online of all the information on the enterprise (the financial reports generated by the system). There is also a very positive assessment of the aspects relating to greater liquidity and the treatment of investments by the system. The regime is still somewhat unknown among small enterprises and has been “captured” to a certain extent by accountants, and it therefore requires greater direct dissemination to entrepreneurs. Some of the problems that have arisen during the recent implementation of the Simplified Tax Regime are related to transitional processes, such as entry into

and exiting the regime, which must be further refined. There are also certain difficulties in the way some requirements related to coverage by the regime are treated, such as the application of triennial limits on income and the regulations respecting relationships between enterprises. As the regime has only entered into force recently, certain adjustments are probably necessary in these areas. Although the figures show a significant increase between 2014 and 2017 in the number of taxpayers covered by the regime, it still has much greater potential and as a result of lack of knowledge a large proportion of small enterprises are still covered by regimes that are not necessarily the most favourable for them.

The Bill on Appropriate Payment or Payment within 30 days for small enterprises is still under examination by the Congress. The system of monitoring proposed in this respect is based on the Inland Revenue Service electronic billing system, and it will therefore also contribute to promoting formalization.

I F. SERCOTEC Programmes³²

SERCOTEC is a private corporation established in 1952 under the Ministry of the Economy, Industry and Commerce which is dedicated to the productive development of micro- and small enterprises. Its objectives include the formalization of enterprises.³³ In 2017, its budget for programmes for micro- and small enterprises was USD 61 million and it covered around 150,000 beneficiaries. Another institution of this type is SEBRAE in Brazil. The existence of institutions of this kind facilitates the implementation of integrated programmes for the formalization of enterprises. Two types of programmes are implemented by SERCOTEC:

(a) *Programmes for the direct transfer of resources to enterprises*, among which, in accordance with their life cycle and type of activity, emphasis may be placed on: *Capital Semilla* (“Seed Capital”) and *Capital Abeja Emprende* (“Enterprise Bee Capital”); *Fondo Crece* (“Growth Fund”); *Fondo Mejora Negocios* (“Business Improvement Fund”) and *Fondo de Asesorías Empresariales* (“Entrepreneur Advisory Fund”); *Almacenes de Chile* (“Chile Stores”); *Fondo de Ferias Libres* (“Free Fairs Fund”); and *Apoyo a Fortaleci-*

miento de Gremios (“Branch Strengthening Support”). Several of these programmes support formalization processes.

(b) *Support service programmes intended to improve the knowledge of entrepreneurs and their collaborators*, among which emphasis may be placed on: Business Development Centres; strengthening of Commercial Zones; Virtual training and Legal advice; SME Support Services and Information Points. There has been a significant focus in these programmes on formalization and they assisted 137,540 entrepreneurs throughout the country in 2017.

Among support programmes to improve the knowledge of entrepreneurs, both in relation to management and in other areas required to improve their performance, SERCOTEC has issued certain special characteristics for activities of interest in this regard, and particularly for the transition to formality, which will be described in greater detail below in relation to each programme.

- *Local articulation* with public and private institutions. In general, individual enter-

150,000

MSEs were supported by SERCOTEC in 2017

³² www.sercotec.cl

³³ Interview with the former General Manager of SERCOTEC, Bernardo Troncoso.

prise development efforts are integrated into and related with the local ecosystem and stimulate its development.

- *Leveraging national and regional resources* and those from other sources. SERCOTEC resources for these programmes are used to leverage regional and municipal resources, support from universities and other sources, thereby offering greater potential.
- *Broad local presence* throughout the territory, as well as greater virtual operation. Informal enterprises are not characterized by extensive use of the internet in their business activities, and the intensive local presence of the development network is therefore important for this type of enterprise. In this regard, SERCOTEC makes available SME points and operational networks of Business Development Centres to cover all the communes in the country. In parallel, the operation of enterprises is digitalized.
- *Standardization of services* throughout the country. With a view to the provision of services of similar quality throughout the country, a constant standardization effort is made to establish homogenous require-

ments for intermediaries which provide services, training for intermediaries and the preparation of manuals setting out the procedures for the provision of services, gathering together the main experiences and collective learning.

- *Early indicators and evaluation.* Indicators are agreed for programmes and a persistent effort is made to make objective measurements at determined intervals. Programmes are also evaluated early, in terms of their outcomes or impact, so that the necessary changes can be made, and lessons drawn from the process.
- *Linkage of programmes* for the transfer or resources and support services with formalization. SERCOTEC generates a virtuous relationship between its various programme activities, for example through the linkage of the services provided by Business Development Centres with transfers of resources (such as through the Seed Capital and entrepreneurship funds) with the process of the formalization of enterprises, thereby achieving better results in terms of enterprise performance.

I F.1 Business Development Centres³⁴

In 2015, SERCOTEC started to establish *Business Development Centres* throughout the country, based on the *Small Business Development Center* (SBDC) model of the University of Texas at San Antonio in support of the productive development of small enterprises during their various stages, including: (a) entrepreneurship and formalization; (b) the development of a business plan; (c) obtaining financing; and (d) replication. The centres operate on a broadly proven model (38 years), as promoted by the Small Business Administration (SBA) of the United States in alliance with universities, the private sector and state and local governments. There are currently 1,100 centres in operation in the United States. In Latin America, they exist in 22 countries with varying levels of maturity in the transfer of the model and coverage (including Mexico, Brazil, Colombia, Peru, Costa Rica, Panama, Honduras, El Salvador, Dominican Republic and Jamai-

ca). There are currently 51 centres in Chile, which have had an interesting impact on enterprise formalization.³⁵

One of the characteristics of the model is the comprehensive technical advice provided at the individual level, with *long-term mentoring* (an aspect that distinguishes it from other interventions), combined with training, market research, linkages with the local productive ecosystem and no cost. It is also partnering with local financial entities, banks or organizations specializing in micro-finance. At the national level, SERCOTEC has developed alliances with, among others, *ChileCompra* for public procurement, *ProChile* for exports, the State Bank Filial for Micro-enterprises and the Bank of Credit and Investment (BCI) for financial services, and the postal service *CorreosChile* for logistics.

³⁴ www.centroschile.cl

³⁵ *Evaluación de impacto de los Centros de Desarrollo de Negocios* ("Evaluation of the impact of Business Development Centres"), Department of Industrial Engineering and Public Systems Centre, University of Chile, 2017.

51
Business Development
Centers are currently
active in Chile

Some of the basic principles of the system which have had a determining effect on its results include:

a) *The culture of measuring results and the centrality of economic impact:* all the professionals in the centres and the centres themselves are evaluated regularly on the results achieved by the enterprises that they are supporting. The model is based on the creation of economic impact by each centre through all the enterprises that are supported. In the case of Business Development Centres, the increase in sales, employment and formalization are constantly monitored. There is an online system which includes all clients, the centres and participating professionals with their information and main indicators.

b) *The long-term focus of the advice provided.* The aim is to improve the managerial capacity of the entrepreneur. In bigger enterprises, there are permanent professionals, but that is not possible with SMEs and the centre tries to cover this deficit for a period.

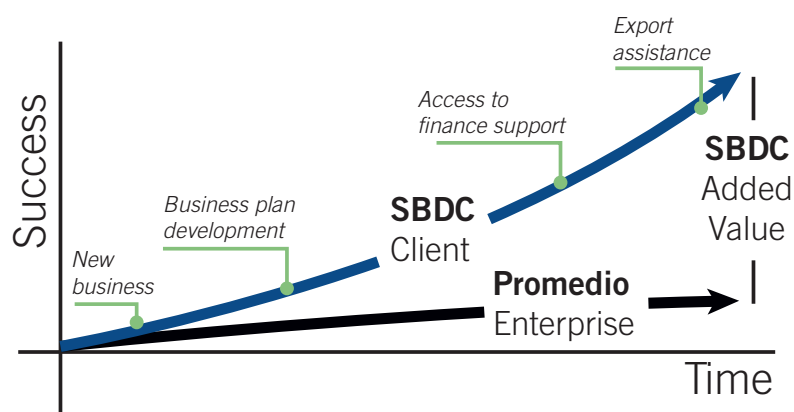
c) *The return on investment in the programme* must be positive. The starting point is that the enterprise that receives assistance will generate taxes and other benefits through improved performance and formalization that will be higher than the operational cost of the programme, which justifies the support from the public budget and its continuation. The support is monitored and evaluated, and the balance is generally positive, with the programme paying for itself through the growth achieved.

d) *Scaling up services* with multiple clients and greater coverage. One advisor on average works with 70 clients over the course of the year.

e) *Relations with the Government, higher education institutions and the private sector,* in a triple helix that guarantees the sustainability of the programme and optimizes its action and resources.

f) *Simplicity, flexibility and adaptation to local needs.* Each centre has the capacity to adapt to local needs and to provide services in accordance with the specific needs of the small enterprises in the community (rural, urban, tourist, etc.).

In Chile, SERCOTEC determines the standards and rules governing Business Develop-



Source: SBDC

ment Centres and their programmes, and it selects the external operators of the centres for five years through public competition. The selected institutions are mainly universities, which provide human resources and infrastructure and play an important role in the selection and quality of elements such as human resources and other contributions, as well as the quality of the institutions. Business Development Centres are governed by a council composed of the university, municipal authorities and local sectoral representatives, which guarantees their adaptation to the local area. SERCOTEC establishes the requirements and qualifications needed by operators and provides guidelines to ensure standardized operation at the national level with the same level of service for clients. It has also engaged in an intense process of training operators throughout the country for the replication of the model. A process of accreditation of the centres has been set up which makes it possible, through a first evaluation, to identify aspects that must be strengthened. In general terms, the support provided by the University of Texas is evaluated very positively.

The first early impact evaluation of Business Development Centres,³⁶ with a counterfactual assessment, was carried out in December 2017 with encouraging results, showing an increase in sales, an impact on formalization, employment generation and qualitative aspects, the self-confidence of micro-entrepreneurs, a better working environment, an improvement in their leadership and marketing capacity, and also in access to credit. New formal jobs were created with contracts, most of which were full time, and the number of unpaid family workers was reduced. A total of 91 % of the entrepreneurs initially indicated that the Business Development Centres had helped them to formalize, and 80 % of all the entrepreneurs

“**Business Development Centres are governed by a council composed of the university, municipal authorities and local sectoral representatives, which guarantees their adaptation to the local area.**”

³⁶ Ibid., p. 14.

supported considered that they had understood the benefits of formalization through the centre. For CLP\$ 1 of public resources invested, enterprise sales rose by CLP\$ 2.2. The manner in which the services are provided, through *satellite centres* or *service points* located in premises outside the centre (76 in

total), with the professionals travelling for a couple of days a week, has made it possible to increase the coverage of the centres to 96 % of the communes in Chile. It should be noted that local presence and the provision of on-the-spot advice is a very important aspect of enterprise formalization.

I F.2 Programme of Commercial Zones

The Commercial Zone programme began in 2015, inspired by the examples of *Open Commercial Centres* in Spain and Argentina, *Business Improvement Districts* in the United Kingdom and network design methodology. Associative projects are promoted among commercial tenants and between tenants and other local actors to: strengthen businesses; improve the identity of the zone; improve the quality of life of those living and working there; increase the flow of bypassers and customers, and therefore increase the sales of the businesses; and develop recurrent joint working practices between tenants. In 2018, action was taken in support of 63 Commercial Zones from Arica in the north, to Puerto Williams in the far south.

The programme is based on the work of a cooperation promoter trained in the methodology by SERCOTEC,³⁷ or a group of professionals with a range of specializations who provide support simultaneously to the various projects. There are various intervention schemes which generally aim to generate *associative action* between tenants, the *urban development* of the area and the *improvement of the commercial offer* of the businesses installed there. They prepare jointly a Commercial and Urban Development Plan (PDCU), which may envisage several initiatives, including corporate image, training, internships, special sales, merchandising, infrastructure work, improvement of the environment, cleanliness and security. They then turn their attention to implementation. Agreements are reached with the municipal authorities and regional governments, and resources are sought from various institutions. The formalization of informal tenants

is usually an aim of the process, as small traders tend to be common in the sector. The process is set out in a manual of tools for collaborative work. The various aspects of the SERCOTEC programme are used with the tenants, as well as others, to improve their performance.

Intermediary evaluations have been carried out of the programme,³⁸ with positive results. At the national level, the income of participants rose by 12 % in the first year. All the zones have developed in a participatory manner a Commercial and Urban Development Plan, in which 74 % of the tenants say they have participated and are aware of. Most of the tenants indicate that they have carried out activities to increase client loyalty, improve the visibility and diversification of their commercial offer and improve customer trust (84 %). Most clients indicate that they receive better services and are treated better, that the supply of services and products offered by commercial clients in the zone has been diversified, and that there is a better climate of trust and familiarity with commercial tenants. Programme challenges include improving the retention and loyalty of new customers brought in through the programme, the development of local capacities to ensure its sustainability over time, the gathering and dissemination of good practices, as well as the implementation phase of the development plans, which are mostly medium- and long-term.

37 SERCOTEC, based on its own and international experience, has prepared a methodological manual to provide guidance for programme interventions: *Barrios Comerciales: Herramientas para facilitar el trabajo colaborativo* ("Commercial zones: Tools to facilitate collaboration").

38 *Evaluación de resultados intermedios del programa de Fortalecimiento de Barrios Comerciales 2015-2017* ("Evaluation of the intermediary results of the programme for the strengthening of Commercial Zones 2015-17"), ClioDinamica Consulting, 2017. *Evaluación de resultados intermedios del programa de Fortalecimiento de Barrios Comerciales 2015-2017* ("Evaluation of the intermediary results of the programme for the strengthening of Commercial Zones 2015-17"), ClioDinamica Consulting, 2017.

I G. State Bank Filial for Micro-Enterprises³⁹

In 2004, a branch of the State Bank specializing in micro-enterprises started operating,⁴⁰ the State Bank Filial for Micro-enterprises, or BEME. It is currently serving 654,000 micro-enterprises at the national level with financial products for the various stages in the life cycle of the enterprise and its portfolio is worth USD 1,600 million. Its coverage has grown substantially since its creation (see Figure 21) and it has played a significant role in the increasing use of banks by this category of enterprises. The BEME is characterized by broad knowledge of the enterprise segment and very good risk management in its portfolio, resulting in rates for this size of enterprise that are not very high, in contrast with what is often the case for microfinance internationally. In Chile, the regulations set a maximum rate (TCM)⁴¹ for small loans, which is currently around 34 % annually, compared with an average interest rate set by the BEME of around 17 % a year, rising to 20 % in situations with the highest risk.⁴² This is fairly different from the actual rates for microfinance elsewhere in Latin America. With these rates, the BEME is able to finance its operation and not lose money.

Emphasis should be placed on various aspects of the working methodology adopted by the BEME with micro enterprises. Al-

though it has a fairly fine-tuned *specialized methodology for microfinance*, designed to reduce the risk and the operational cost of the intensive attention required in relation to small loans, which raises costs for this type of enterprises, it has also opted for a *broad sectoral specialization* of its account managers. This leads to the ad-hoc design of products, better risk management, more appropriate reactions in situations of sectoral catastrophes or crisis, better knowledge of business cycles and the possible impact of economic cycles on business activities. These specialized managers remain in contact throughout the country. Another aspect is its intense country-wide local presence, over and above virtual operations. In addition to branches of the bank, it has agreements with 22,147 local outlets (Cajas Vecinas), mostly stores which operate as subcontracted agencies, thereby greatly extending the network to cover remote areas and allowing a series of transactions, including:

withdrawing cash, receiving deposits, the repayment of loans and services, transfers and charging mobile phones, thereby offering broad local coverage.

Another important factor in reducing risk is the massive process of extending the use of banks, or “*bancarization*”, initiated in 2012

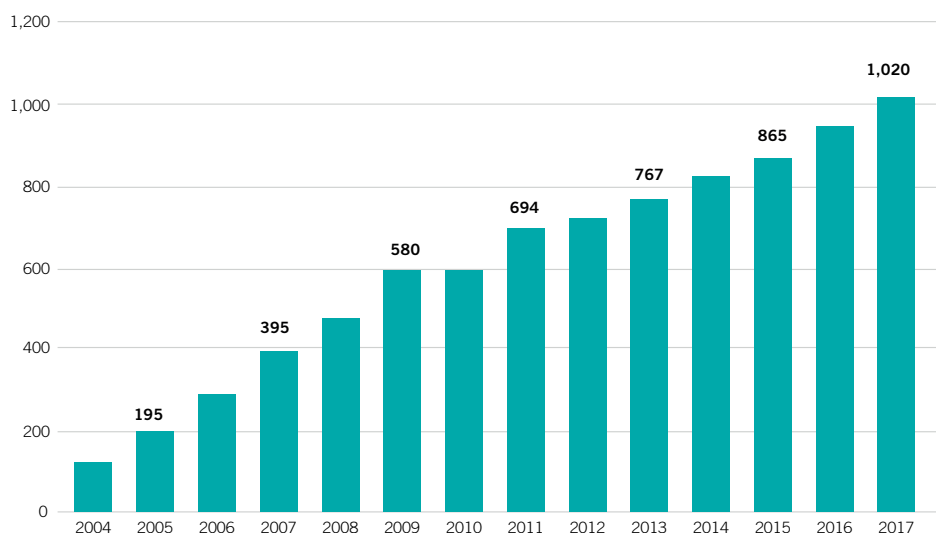
39 www.bancoestado.cl

40 The State Bank (*BancoEstado*) is a State commercial bank established in 1953 with 100% coverage of national communes in the country and is the third largest bank in Chile. It is covered by the existing regulations for private sector banks and has various branches, some of which are specialized in small enterprises (guarantees, loans, etc.).

41 A limit of approximately USD 200,000 (5,000 Development Units - UF)

42 Interview with Emilio Vélez, General Manager of the State Bank Filial for Micro-enterprises (7).

FIG 21 BEME Loans (in \$ CLP Billions)



by the State Bank with the introduction of *RUT accounts*. This has meant that every person over 14 years of age with a Chilean identity card is entitled to have an account in the State Bank with a debit card bearing the number of her or his identity card or *RUT*. There are currently 11 million *RUT accounts*, of which over 440,000 are held by immigrants. The *RUT accounts* have *made it possible to develop massively the financial background and traceability* of individuals, since 70 % have income under USD 640 and most of them did not previously have access to a bank. They receive wages, State benefits and other payments through their accounts, and many of them are clients of the BEME.

One of the concerns of the BEME is the economic and financial inclusion of those to whom loans are granted. There is a clear

trend in its objectives for the *formalization* of its clients. It accepts the provision of services to emerging informal enterprises, but access to a second loan, an increase in the loan and the provision of other financial products are conditional upon the formalization process. It accordingly provides a series of *on-line* training programmes to facilitate formalization. It also promotes the collaboration of its clients with the micro-enterprise support services provided by development, training and market access institutions such as SERCOTEC, FOSIS, *ChileCompra*, SGR, INDAP, SERNATUR and SENCE. Importance is placed on coordination with SERCOTEC Business Development Centres to improve enterprise performance. In addition, it concludes discount agreements with various commercial companies and enterprises of different types which can be useful for micro-enterprises.

I H. Regulation Of Own-Account Workers

In Chile, the number of self-employed and own-account workers has increased significantly, mainly in the informal sector. They do not therefore pay taxes or insurance contributions, particularly for their future pen-

sions, which in the long term is giving rise to a significant social problem in the country and which is also a source of tax evasion. The State has been addressing both problems in the following manner:

H.1 Deduction of Taxes by the Contracting Enterprise from the fees of Own-Account Workers (Subrogation)

The Act on Income Tax provides that if a self-employed worker, whether or not the worker is professional, provides services to first category entities that pay taxes and which are required to keep accounts (enterprises, State institutions and legal associations in general) , these entities are obliged to deduct a *provisional rate of 10 % from the fees* paid to go towards the future taxes to be declared annually by the own-account

worker. The contracting enterprise must forward the pay that is deducted within the first twelve days of the following month, under penalty of a fine. Self-employed workers who issue their own bills for services *without deduction* are required to make monthly provisional payments to the Inland Revenue Services equivalent to 10 % of the total amount of their fees. Both operations are carried out electronically, for which reason they are fluid. However, there is a higher level of compliance and control in the case of *subrogation* by the contracting enterprise, which normally has direct links with the supply chain of the purchasing enterprise, and which is required to justify its expenditure, thereby contributing to the formalization of own-account workers. Conversely, when services are provided to the final consumer, who is not required to provide justifications for expenditure, there is a greater level of informality.



H.2 Incorporation of Own-Account Workers in Compulsory Social Contributions and Deductions

As from 2012, the *Act on Compulsory Contributions for Self-employed Workers* who earn fees was applied gradually (Acts Nos 20,255 and 20,894) with a view to ensuring that they are entitled to the same benefits as dependent workers, including old-age and invalidity pensions, as well as coverage of health, employment injury and occupational diseases. If the contributions are not paid on a monthly basis, or a lower amount is paid than is due, the difference is automatically deducted from the worker the following year through the annual tax declaration, based on the tax rebate for the deduction of 10 % of the annual fees (see H.1). It has been compulsory to pay 100 % of contributions since 2018. However, between 2012 and 2018, it was possible to decide not to pay pension contributions, and some only paid contributions for health coverage. The following exemptions were established: (a) age: women who were aged 50 in 2012 and men who were 55; and (b) minimum wage: those whose annual income was equal to or lower than the minimum wage.

Although own-account workers have been formalizing since 2012, it will be possible to see the real recent impact in their 2019 incomes. Nevertheless, certain problems have already arisen. On the one hand, the total amount of social insurance contributions is normally higher than the tax payments deducted, and it is therefore necessary to make additional payments to prevent the debt from increasing. On the other hand, the payment of health contributions once a year together with income tax the following year based on the income deducted (the previous year) does not result in any health benefits the current year. Health is an important incentive, particularly in Chile where,

for example, women are provided with six months pre- and post-maternity allowances. Finally, the system of pensions based on individual savings has suffered from a major loss of prestige due to the extremely low replacement rates obtained by pensioners up to now through the AFP individual savings system.⁴³ This has led in recent years to a reduction in the rate of affiliation to this system by own-account workers. Considering these problems, a new Bill has been proposed recently (August 2018) which:

- raises the minimum income requirement;
- eliminates monthly provisional payments, leaving a single compulsory payment to be made with the annual tax declaration;
- provides that self-employed workers who pay contributions at the time of the tax declaration will benefit from annual coverage under the various social security schemes the following year in accordance with their taxable income;
- proposes two alternative forms of paying contributions: first, paying contributions on 100 % of taxable income, under which the compulsory contribution rates of the three insurance schemes would be paid for nine years and there would be an order of priority between the schemes; and, second, paying contributions on less than the taxable income for all the insurance schemes, with the rate rising gradually over nine years until the real rate is attained.

The adjustments to the system will be determined by the Congress, but they will be in line with the formalization of own-account workers

43 AFP: Association of Insurance Funds.

TABLE 6

Chile: Trends for self-employed workers paying contributions and affiliated to the pension system (thousands)

Year	2005	2010	2012	2013	2014	2015	2016	2017	2018
Affiliates	253	305	302	389	436	498	543	550	601
Contributors	64	91	107	117	127	140	142	136	144

Source: Superintendence of pensions

FINAL CONSIDERATIONS

Final considerations

The analysis in the previous chapters gives rise to a series of reflections and conclusions regarding the process of formalization in Chile, as well as more generally the transition from informality to formality. Without claiming to be exhaustive, certain aspects are highlighted below:

It is important, based on the quantitative and qualitative diagnosis of informality, to establish the focus of the formalization strategy, as policies, programmes and the type of efforts made tend to differ. In other words, it is necessary to decide whether the objective is basically *for a greater proportion of new operations to be created as formal and/or for current informal micro-enterprises to formalize*. Although these objectives are not mutually exclusive, the placing of greater emphasis on one or the other leads to the adoption of different approaches and tools.

One finding is the important role played in general in formalization processes by *tools and regulations relating to market access, financing and economic inclusion*. These include, for example, the effect of the following on formalization through the payment of taxes in the case of Chile: access to public procurement through *ChileCompra*, the formalities required for enterprises issuing instructions or contracts, as in the case of the Act on Subcontracting in production chains and the formalization of own-account workers working on a fee basis. A similar effect has been observed with access to financing through the State Bank and most recently the Bill on Appropriate Payment Times or 30 days for MSMEs using electronic billing. All of these appear to be more effective means of providing incentives for and promoting formalization, which would seem to be reasonable since, in surveys of micro-enterprises, the EME systematically finds that the greatest problems indicated by this type of enterprise include market access, limitations and irregularity of demand, and access to financing. It can be observed that a high proportion of work in the informal sector is part time.

Regarding the *environment*, an important factor in relation to the formalization of enterprises appears to be the *interconnection of administrative procedures and access to production development tools*. For example, it is not appropriate for such enterprises to have access to credit without any requirements for progress towards formalization in the short or medium term. Similarly, other relevant environmental aspects appear to be the level of *traceability* and “*bankarization*” of the population. If both aspects are developed in the country, there are fewer possibilities for informality. And finally, the level of the *minimum wage* must be acceptable for smaller enterprises, for which reason it is important for them to have organized representation that participates in this regard.

The virtuous articulation of public and private



“It is important to decide whether formalization strategies, policies and programmes should focus on the creation of new, formal businesses or on formalization of existing ones.”



institutions in the network for the promotion of production would appear to be important in the processes of formalization and the development of entrepreneurial capacities. A clear example is found in the forms in which networking is coordinated between SERCOTEC, the State Bank and *ChileCompra*, to mention the most significant institutions that have had an active impact on formalization. The SERCOTEC Business Development Centres are a particularly good illustration with their large local network and their intensive use of the productive ecosystem in this respect. It would also appear to be in interests of economic inclusion in the context of the transition from informality to formality for one institution in this network for the promotion of production to take the lead. In the case of Chile, this role appears to have been played by SERCOTEC. In the case of Brazil, it is SEBRAE.

The *dissemination of existing tools and procedures for formalization and their benefits*, including training for micro-entrepreneurs, should certainly be more intense and adapted to the actors concerned. The educational level in the informal sector is generally appreciably lower than in the formal sector, and entrepreneurs in the informal sector do not normally have much time in view of their multiple roles in the enterprise. Although much of the material for dissemination in relation to formalization is in digital form, entrepreneurs in the sector indicate that they make little use of the Internet for business purposes.⁴⁴ Dissemination of knowledge and direct training for entrepreneurs is particularly appropriate in relation to the tax system, which is more complex by nature and is normally largely managed by accountants. In this respect, the Business Development Centres, which cultivate a long-term relationship with entrepreneurs, have significant potential. From this perspective, *representative associations* of small enterprises can also play an important role. Finally, for this

category of enterprises, the question must be raised seriously of making up for the shortcomings in formal education as a necessary part of addressing the challenges of continuous learning. A not insignificant percentage of these informal entrepreneurs only have incomplete basic (primary) or middle school (secondary) education.⁴⁵

In relation to the above, the need can be seen to make progress with comprehensive programmes of *digital literacy and the computerization* of MSEs. The reduction of transaction costs for administrative procedures, by avoiding the need to be present, saving the entrepreneur's time, gaining access to markets and financial services is increasingly becoming digital and the informal sector, with its low rate of digital literacy, is increasingly marginalized in this respect. As noted in relation to the previous point, these programmes must be pertinent for the types of entrepreneurs to be covered by digitalization.

The subject of own-account workers is the major issue relating to informality in Chile and there is every indication that they are increasing in numbers. Their economic inclusion, connection to market access and social security coverage requires creative solutions. Incentives for their formalization must be clear, and it is not sufficient merely to adopt legislation. For example, the gender dimension of own-account workers is relevant, and the maternity entitlements obtained through the payment of health contributions can offer an interesting incentive for women in a certain age group.

With reference to tax regimes for small enterprises, based on the Chilean case, the following comments may be made:

- it is more appropriate for the main effort for this type of enterprise to focus on a *simplified regime based on real taxable in-*

44 EME 5

45 EME 5

“The participation of the actors in the formulation of policies and programmes, as well as in their evaluation, are aspects that need to be considered, as they undoubtedly improve their design and provide a basis for their reformulation.”

come (with adjustments to the general tax regime) rather than a special regime based on presumed taxable income (estimated). This clearly depends on the level of development of the country, its productive structure and the maturity of the entrepreneurs.

- in the case of Chile, the main problems that have arisen in *schemes based on presumed taxable income* are related to loopholes or “false small enterprises”. This has been addressed in both the regime based on presumed taxable income and the simplified regime by placing limitations on the enterprises and related persons (relational requirements), related activities and the origin of the capital.
- another problem that has arisen relates to *transfers from one regime to another*. This is a subject that requires a fair amount of care to prevent major difficulties arising.
- in relation to this size of enterprise, it is important to focus on such issues as: *liquidity; the fairly significant irregularity of income over the course of the year; vulnerability during the early years and the manner in which investment is treated; and the approach adopted to losses*. Almost all these subjects have been duly covered by the simplified regime for SMEs (14ter A).
- One relevant issue is the *simplicity* of the regime for taxpayers. In Chile, this is based on two aspects: a simplification of accounting and a high level of integration of electronic documents, thereby avoiding as much as possible the need to keep manual accounting books. In this respect, electronic billing, electronic VAT declarations and automatic proposals to the entrepreneur concerning the income tax to be paid and the VAT to be paid every month have been of great importance. Micro-enterprises and the agricultural sector completed their full incorporation into electronic billing in February 2018.
- Operating with a high volume of electronic documents and the automatic uploading of the basic accounting books of enterprises requires the development of robust electronic systems by the tax authorities. Moreover, while a significant proportion of the inspection of enterprises of this size can be carried out electronically, this is still a challenge for the Chilean Inland Revenue Services.
- In the context of the simplification of accounting procedures, it is necessary to consider the central role usually played by accountants for entrepreneurs and the influence of their decisions. If accountants see simplification as a threat to their jobs, they will probably not be in favour of it. Accordingly, it should be endeavoured to ensure that information on the tax system is disseminated directly to the entrepreneur or the micro-entrepreneur.
- Irrespective of the tax regime that it is planned to establish for smaller enterprises, the role played by dissemination throughout the country, both over the Internet and through physical presence, and constant *assistance with tax procedures*, are of great importance and need to be adequately budgeted. It is an effort that needs a certain intensity, as it is a very fragmented sector, for which reason it is important to seek multiple alliances with other institutions in the network for the promotion of production. Everything that is being done is *still too little*.
- In relation to the tax system, it is necessary for the national authority, in this case the Inland Revenue Services, to coordinate with the municipal authorities. In the case of Chile, there is only coordination with certain municipal authorities. In general, these authorities issue licences, which first must be approved by the Inland Revenue Services to be operational. Nevertheless, the continuity of the procedure is uncertain, as is the continuation of payment on time for small taxpayers who only must make their payments to the municipality, giving rise to an information gap.

The *early evaluation of formalization policies and programmes* allows them to be improved during implementation and results in collective knowledge. Long periods should not be allowed to pass without evaluation, as this leads to time being wasted before improvements are made. The participation of the actors in the formulation of policies and programmes, as well as in their evaluation, are aspects that need to be considered, as they undoubtedly improve their design and provide a basis for their reformulation.

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List of Interviews

With a view to the preparation of this paper, and to ensure up-to-date views, importance was attached to interviews and the opinions of a series of qualified persons involved directly or indirectly in issues related, for example, to formalization, the promotion of production and employment in MSMEs, statistics, programmes and the related instruments:

- (1) Subsecretary of the Economy and Smaller Enterprises
- (2) Advisor to the Subsecretary of the Economy
- (3) Head of the Research Department, Department of Labour
- (4) Subdirector of Tax Strategy and Economic Studies, Inland Revenue Service (SII)
- (5) Technical Under-Director, Statistics and Census Institute
- (6) Head of the Labour Studies Department, Statistics and Census Institute
- (7) General Manager, State Bank Filial for Micro-enterprises
- (8) President of CONAPYME
- (9) President of CONADECUS
- (10) Former President of CONUPIA, Municipal Councillor of La Reina
- (11) President, National Association of Internal Revenue Officials (ANEIICH)
- (12) Former Manager of Competitive Development of CORFO and former Director of SERCOTEC
- (13) Former General Manager of SERCOTEC
- (14) Former Manager of Operations and Technology, PreviRed
- (15) Former Coordinator of Tax Reform, Ministry of Finance
- (16) Adolfo Ibáñez University and former Director of the State Bank (*BancoEstado*)
- (17) Head of the Department of Business Studies and Intelligence of *ChileCompra*

