

POLICIES TO BOOST THE PRODUCTIVITY OF MICRO-ENTERPRISES IN THE INFORMAL SECTOR: WHERE IS MEXICO?

René Rivera-Huerta, Nidia López, and Alejandra Mendoza¹

Date received: April 13, 2015. Date accepted: October 20, 2015.

Abstract

Micro-enterprises have traditionally been considered a burden for development, from both the theoretical perspective of social sciences as well as policy praxis. However, for some years now, some of the specialized literature has presented evidence that despite their low productivity, the contribution of the informal economy² to job creation and income in less-developed economies is significant. Given that other countries have begun to develop policies to encourage productivity in the informal sector, the main purpose of this paper is to understand, through a review of the regulations that support micro-enterprises, as well as new decrees and regulations, the current position of Mexico in this debate.

Keywords: productivity, micro-enterprises in the informal sector, regulations, legal framework, public policy.

INTRODUCTION

The principal theoretical schools of thought that, in pioneering fashion, first studied the informal sector,³ generally viewed it as a burden on development; this was a burden that—it was maintained—could be eased depending on the degree to which economies were able to sustain adequate growth rates (Tokman, 1995). Along the same lines of thinking, these theories dismissed informal agents as passive figures with practically no productive potential. In the most extreme cases, they subscribed to the notion that informal workers were merely waiting for the chance to move to the formal sector of the economy.

However, in relatively recent years, and in light of the tenacious persistence of the informal sector, some scholars have described a scenario in which, despite their low productivity, informal activities—especially micro-enterprises—are still recognized for their contribution as a source of employment and income for the economies of the least developed countries. Optimistically, this economic persuasion holds that informal micro-enterprises should be supported, so as to facilitate their social and economic integration (Adams *et al.*, 2013; Cozzens and Sutz, 2014; Kumar and Badhuri, 2014).

Emboldened by this new approach, bodies charged with researching the social and economic ailments of developing countries, as well as planning and implementing programs to solve these problems,⁴ are promoting analyses and policies whose objective is to boost productivity among informal enterprises (including support for innovation), while at the same time reducing the marginalization and poverty of the workers in this sector. Along the same lines, various countries—notably, India—have begun to enact policies and form support institutions to strengthen productive activities in the informal economy.

At this point in time, when the attitudes of a portion of the academic community and the international policy praxis are shifting with respect to informal micro-enterprises, it is both natural and useful to examine the position of the Mexican government in this new context. As such, the objective of this research paper is as follows: to observe and analyze the policies and mechanisms that have been implemented in Mexico to increase the competitiveness and productivity of micro-enterprises in the so-called unstructured sector in the country, aiming to understand its role in this academic-political dilemma. Moreover, this study will attempt to elucidate the existence of additional incentives to move into the formal economy (such as the ease/difficulty of registering a company) and provide a preliminary prospective analysis of the outcomes of the policies undertaken by the Mexican government.

The object of study consists of informal micro-enterprises nationwide, outside of activities related to the agriculture or livestock sectors. Both documentary and field research methods were used, including a review and analysis of the programs whose rules were in effect during 2013-2014, aiming to understand programs targeting micro-enterprises, as well as the ease/difficulty to formalize a company, and interviews with expert tax consultants on the topic. It is essential to note that, due to the nature of this work, the essence of the research is necessarily exploratory and that research along these lines will continue.

Besides this introduction, the paper is divided into five other sections. The second section introduces the definition of informality and the pioneering theories that have studied this sector. The third presents what has come to be called the “new view” of informality and the precepts upon which it rests. The fourth section provides an overview of the Mexican federal programs to support micro-enterprises and examines how inclusive these programs are of enterprises whose status is informal. The fifth section looks at the procedure for the formalization of companies in Mexico and measures its relative difficulty, and the sixth section offers some conclusions.

A BRIEF INTRODUCTION TO THE TRADITIONAL THEORIES THAT STUDY THE NATURE OF THE INFORMAL SECTOR

Traditionally, the so-called informal sector, due to its low productivity, incapacity to provide social protections to its workers, more or less open defiance of the State, and proximity to certain illicit activities, has been rather unwelcome and tolerated as a minor evil, only preferable to open unemployment (Tokman, 2004).

Succinctly, there are four theoretical schools of thought—they could be called traditional—that have set out to study the origins and drivers of the informal sector. The first, known as the dual economy theory or the exclusion model, postulates that this sector arises in response to the incapacity of the formal economy to absorb a growing supply of labor, which, aiming to survive, must accept low-quality jobs even when the conditions of these jobs are not desirable (Fields, 2004; Tokman, 1995, 2004; Ros, 2000; Cimoli, 2006).

A second school of thought (known as the escape theory) believes that the informal sector is composed primarily of workers who freely and rationally choose this status (Maloney, 1999, 2004), pursuant to their personal preferences or a hypothetical economic stimulus.

There is a third route, which sees informality as the outcome of a series of irrational and unenforceable bureaucratic rules which, in addition to discouraging an entrepreneurial spirit in the poorest workers, marginalizes them through formal institutional mechanisms (de Soto, 1986).

Finally, the fourth perspective (Portes and Benton, 1987) considers informal workers to be the “disguised wage workers” of capitalist enterprises, which want to subcontract them in order to make their own production process more flexible and therefore improve their competitiveness. The theoretical and empirical evidence in favor of or against one or another school of thought continues to be proffered up today, with as of yet inconclusive results (Esquivel and Ordaz, 2008; Levy, 2010; Chen *et al.*, 2002).

The former two schools of thought designate a more passive or frankly negative role to the informal sector in the economic development process (Cimoli, 2006; Levy, 2010). Both schools would seem to suggest that the solution to the problem entailed by this sector must necessarily come from improving overall economic performance, which, accompanied by suitable institutional channels, would spur the formal sector to absorb the informal workers (Ros, 2000; Maloney, 2004).

It is in this sense that studies by Hernando de Soto (1986) constitute an exception. De Soto essentially believes that workers in the informal sector display strong entrepreneurial potential, and that once liberated from the bureaucratic and institutional shackles imposed by the State, and once their informal activities have been legalized, are capable of coming up with solutions to the chronic poverty that afflicts underdeveloped countries. Hernando de Soto’s studies have been favorably received by certain segments of the political spectrum, but harshly criticized by academics, both

due to methodological weaknesses, as well as their reductive reasoning, by exaggerating the economic potential that could be derived from legalizing informal activities, and therefore downplaying the importance of other social, economic, and/or cultural drivers (Bromley, 1990; Tokman, 2004).

The proposal sketched out by Portes and Benton (1987) occupies an intermediate place between Hernando de Soto's ideas and the dual economy approach: in their work, informal agents are passive (in the end, they depend on the companies that subcontract them and the features of the economic context); however, their interaction with the formal companies with which they maintain ties impacts the competitiveness of these companies and therefore elevates them to a not necessarily negative role in economic development.

THE “NEW VIEW” OF INFORMAL ENTERPRISES AND THE ROLE OF MICRO-ENTERPRISES IN ECONOMIC DEVELOPMENT

In recent decades and, perhaps in light of the persistence of the informal sector, some scholars have begun to assume a more optimistic stance—to some degree in line with de Soto—which suggests that this sector plays a not necessarily negative role in the economy, promoting the importance of enacting policies to incentivize the productivity of micro-enterprises and the welfare of their members so that, eventually, they will join the formal economy (Chen, 2007, 2012; Adams *et al.*, 2013; Cozzens and Sutz, 2014; Kumar and Bhaduri, 2014).

This perspective, sometimes referred to as the “new view” of the informal sector (Kumar and Bhaduri, 2014: 1), bases its proposal on empirical evidence that demonstrates the importance of this sector—in particular, micro-enterprises—for the economy. As such, the top way in which the informal sector contributes to development is by generating employment. According to Chen (2007: 5), as of 2002, informal employment accounted for between one-half and three-quarters of non-agricultural jobs in developing countries: 48% in North Africa, 51% in Latin America, 65% in Asia, and 72% in Sub-Saharan Africa. In countries with growing population rates and low economic growth, there is little reason to expect these percentages of informality to decline in the short term.

The second way the informal sector contributes to the economy is through income. Even though the literature does generally acknowledge informal enterprises, it tends to recognize them as unproductive (Tokman, 2011: 3). It is also known that the average income of self-employed persons and micro-entrepreneurs in the informal sector is certainly higher than the average subsistence farm worker, and that these agents have found in these activities a better income option (Orlando Pagnataro, 2001: 20; Mutungi and Ghaye, 2012: 250). It is for these reasons that some authors

argue that business activities in the informal sector have helped drive down poverty in some countries (Adams *et al.*, 2013: 5, 12).

From the above paragraph it emerges that informal workers, especially those classified as self-employed and/or micro-entrepreneurs, are not necessarily passive, or inevitably the poorest, in the economic structure. In fact, various statistical studies (Lehmann and Pignatti, 2007: 34; Maloney, 199: 282) have shown that individuals with similar characteristics earn, on average, similar incomes as either self-employed workers in the informal sector or wage workers in the formal sector. Finally, some empirical studies suggest that the income of informal micro-entrepreneurs may be significantly higher than wage workers in the formal sector (Orlando Pagnataro, 2001: 20; Tokman, 2011: 23).

Additionally, Chen *et al.* (2002) mentioned that the informal sector is tied to economic growth in two ways. The first way, in keeping with Castell and Portes (1989: 23-25), posits that the production of informal enterprises, based on poor wages, may be subsidizing the growth of formal companies, including those with a global reach (Chen *et al.*, 2002: 16). In the second way, the direct production of informal micro-enterprises also contributes to growth through its own production, driving the development of growth poles, in the best case scenario.⁵

Along these same lines and based on reported evidence, Martha Alter Chen, an academic at Harvard and coordinator of the Women in Informal Employment: Globalizing and Organizing Network (WIEGO), a body that works closely with the International Labor Organization (ILO), is one of the people who has most promoted policies to support productivity in the informal sector. In her work (Carr and Chen, 2002: 21; Chen, 2012: 19), she advocates for the creation of environments conducive to the emergence of socially-based organizations, and even cites some examples from around the globe. She also proposes, among other initiatives, action programs to empower informal entrepreneurs/workers to gain negotiating leverage in the markets and regulate their activities by adjusting them to the particular situations in which they find themselves.

Very much in line with Chen's proposal is the Swedish International Development Cooperation Agency (SIDA), a department of the Swedish Foreign Affairs Ministry. Through analysis of the social phenomenon of informality and more direct methods, it has become involved in the issue of informality in underdeveloped countries. SIDA's philosophy, much like Chen's, can be summarized as follows: "appropriate policy frameworks and strategies aimed at the informal economy must be developed, without hampering the potential of the informal economy for job creation and economic growth. The main challenge is thus to develop innovative and supportive policies that recognise the contributions of the informal economy and its workforce" (Becker, 2004: 3).

Some countries have acknowledged the potential significance of informal micro-enterprises in the struggle to reduce poverty and promote self-employment. The most notable case worldwide would be that of India. According to the National Labor Commission of India (Bcker, 2004: 28), since 1999, it has worked to develop legislation for the sector, deciding to recognize informal workers and formulate an “umbrella” legislation for the sector. The country has also launched programs to encourage innovation in the informal economy; such is the case of the Honey Bee Network, the Society for Research and Initiatives for Sustainable Technologies and Institutions, and Techpedia, which are essentially networks of innovative individuals, scholars, entrepreneurs, etc. who have formed links between their enterprises (whether formal or not), and other social sectors, through the exchange of information to boost socially-based innovation and provide resources for sustainable development (Honey Bee, 2014).

WHAT IS MEXICO'S STANCE TOWARDS SUPPORTING MICRO-ENTERPRISES IN THE UNSTRUCTURED SECTOR?

The preceding sections demonstrated that there are two perspectives of the informal sector; one is pessimistic about the productive capacity of informal agents and the other, more recent, is optimistic about the role of informal micro-enterprises in economic development. It is now time to situate Mexico in this debate from an academic and, especially, policy strategy, perspective.

Mexican scholars tend to be skeptical of the contributions of the informal sector to the economy, and generally reject the idea that this sector is an anchor for development, an opinion which is more than shared by other Latin American researchers (Cimoli, *et al.*, 2006; Ros, 2000; Tokman, 2011). However, the strategies proposed are rather disparate. For example, while Jaime Ros (2000) holds that employment problems are the consequence of low structural growth, Levy (2010) believes it is a matter of generating the right incentives and proposes simplifying the tax framework, an opinion which is not far off from OECD recommendations (OCDE, 2012: 10). More interesting, from a pragmatic point of view, is to understand the context the government creates for informal enterprises. This topic will be addressed in the following sections.

Are There Programs to Support Micro-Enterprises in the Unstructured Sector?

In order to understand the position of the Mexican government in this new geometry of development policy, it is first vital to understand the degree of inclusion in productive development policies. Thus,

drawing on a mixed research strategy (both documentary and field work), this paper aims to study this issue.

These programs are highly dynamic, so the research was conducted in three stages and, as mentioned earlier in this paper, may be continued in the future.

STAGE	1
-------	---

Methodology

This stage was entirely documentary research; it was conducted between December 2013 and May 2014 and involved identifying types of support (including training, advising, incubation, and funding) offered by the federal government to micro-enterprises. The analysis encompassed five agencies (see Table 1) that coordinate programs targeting the business sector.

Table 1. Government Institutions Coordinating Programs to Support Enterprises and Employment

<i>Institution</i>
National Institute for Entrepreneurs [Instituto Nacional del Emprendedor (INADEM) ^a]
National Foreign Trade Bank [Banco Nacional de Comercio Exterior (Bancomext) ^b]
Financial National [Nacional Financiera (NAFIN)]
National Science and Technology Council [Consejo Nacional de Ciencia y Tecnología (Conacyt)]
Ministry of Labor and Social Planning [Secretaría del Trabajo y Previsión Social (STPS)]

^a Belongs to the Ministry of Economy; ^b This entity mentions “services” more than programs.

Source: Websites of the entities (2013).

The analysis units during this stage were “funds” and “programs” under the responsibility of the five agencies mentioned. The source documents were the invitations to participate and/or the operating guidelines. For each program, three variables significant to the research purpose were examined: whether the call to participate was still open, the requirements to participate—focusing on programs that did not ask for tax formalization—, and the target population—looking for those programs oriented towards micro-enterprises.

Results

No programs were found that aimed to promote the productivity or competitiveness of informal micro-enterprises. However, this stage was still useful because it detected that the programs under the charge of the Ministry of Economy were very dynamic.⁶ By the end of this stage, 87 programs and two funds were identified. The summary of the results of this stage are displayed in Table 2.

From this first stage emerged the conclusion, moreover, that the programs that engaged micro-enterprises generally also included small and even medium-sized enterprises. These results revealed the need for a second stage, described below.

Table 2. Programs in Effect, Requirements, and Target Populations

<i>Programs in Effect</i>	<i>Requirements that Exclude the Informal Sector</i>	<i>Target Population (Not Exclusive to Micro-enterprises)</i>
87 programs 2 funds	Enrollment in the Federal Taxpayer's Registry (RFC). Oriented towards companies legally incorporated under Mexican laws.	Focused on micro, small, and medium-sized enterprises (MSMEs).

Source: Websites of the entities (2013).

STAGE 2

Methodology

This stage, conducted between June and October 2014, entailed a combination of documentary research and direct investigation with key informants. Specifically, officials of government offices in charge of responding to applications from the public to create new enterprises were sought out, aiming to obtain information directly from the source.

The documentary research revolved around a more refined search for information about the programs, in order to identify any initiatives exclusively targeting micro-enterprises among MSMEs.

Results

The results from stage one were confirmed, in the sense that there is no real support for informal micro-enterprises, with the exception of a few nuances described below.

In INADEM, the six programs that engaged with micro-enterprises (see Table 3) were not exclusive to them, and an RFC (taxpayer's registration number) was requested as a requirement to access these programs or, failing that, the participants would be required to enroll in the intermediate future or by the end of the program.⁷

Table 3. INADEM Programs Involving Micro-Enterprises (2014)

Business Development Programs, Aiming to Create, Track, and Support Traditional Companies, Incubators, and High-Impact Companies

Economic revival

Economic revival for the National Program for the Social Prevention of Violence and Crime and the National Crusade Against Hunger

Support for innovation initiatives

Empowering high-impact entrepreneurs and enterprises

Training and strengthening of business skills

Group together Mexican MSMEs in export consortiums or form some other type of business association for the purposes of export and/or consolidation of those already formed.

Source: INADEM, 2014.

Social programs housed under the National Institute for the Social Economy (INAES, formerly FONAES), which belongs to the Ministry of Economy, were identified, divided into four programs: *ESCALA* (scale), *INTEGRA* (integrate), *CRECER*(grow), and Social Banking. These programs focus on supporting vulnerable social groups: young people, the elderly and the general public living in poverty and extreme poverty (see Table 4).

The *ESCALA* program (targeting youth) notably does not impose the requirement of having a taxpayer identification number (RFC) to access its benefits; the other unique feature is that all of these programs allowed informal groups to join.⁸

This stage served to reinforce the conclusion that there is no support for informal micro-enterprises in Mexico, but there is some differentiation when the beneficiaries are members of “vulnerable” social groups, such as the elderly, women, youth, etc.

As has already been noted, these support programs are highly dynamic; by the end of 2014, there was a new tax framework in place, which aimed to offer further support to entrepreneurs in the informal sector, making way for the beginning of Stage 3 of this study.

Table 4. INAES Programs Involving Micro-Enterprises (2014)

<i>Program</i>	<i>Objective</i>
INAES (formerly FONAES)	The primary objective of this institute is to support the social sector to promote economic development through “training, research, dissemination, and support to groups in this sector.”
ESCALA	The goal of this program is to provide initiatives that generate jobs so that youth can move towards “productive inclusion.”
INTEGRA	This program grants support for creating productive projects, targeting Bodies of the Social Sector of the Economy (known as OSSE), whether they are formally or informally constituted.
CRECE	Offers support for investment, the development of organizations and companies, and incubation.
Social Banking	This is a credit and savings OSSE group, which “includes the bodies that belong to these OSSE pursuant to the Law to Regulate Activities for Savings and Loans Associations (LRASCAP), or those entities regulated pursuant to the People’s Credit and Savings Act (LACP) and the General Auxiliary Credit Activities and Organizations Act (LGOAAC)...”

Source: Ministry of Economy, 2013.

STAGE 3

Methodology

This stage combined documentary and field work in the same fashion as during Stage 2, but a third strategy was added: key informants. Tax experts were interviewed about benefits precisely oriented towards the informal sector, but which are part of the new tax regime.

This stage took place between November and December 2014, and the following programs were analyzed: *Crezcamos Juntos* (Let’s Grow Together)⁹ and The Tax Incorporation Regime (RIF).¹⁰

Results

The 2014 reforms did not contain any mechanisms to foster productivity in informal micro-enterprises, and new programs are focused on promoting (and getting tougher on) formalization for tax purposes, including the emergence of a new tax regime, known as the RIF.

To encourage participation in the RIF, the program *Crezcamos Juntos* was launched, which stipulates a series of incentives for formalization before the treasury. Unlike the other programs analyzed, this program involves multiple governmental agencies (because it is a program that impacts various realms of employment and credit), and therefore requires the engagement of tax, labor, social security, and credit bodies.

The principal benefits of this program basically consist of reducing the tax burden and the portion of social contributions made for a period of 10 years,¹¹ as well as access to the *Crezcamos Juntos* program. However, beneficiaries must meet a series of requirements during this time period; otherwise, they will lose the benefits granted by the program and their right to participate in it, and shall have to make automatic tax payments as stipulated by the General Regime (RGL).¹²

How Burdensome is the Formalization Process?

The previous section showed how, unlike in other countries, Mexico does not have specific targeted programs to incentivize productivity among informal enterprises. Moreover, until it launched the *Crezcamos Juntos* and RIF programs, the government explicitly avoided (and therefore made it difficult to learn about the problem) the term “informal enterprise.” There are, as was seen in the fourth section, programs that support activities that are not necessarily formal; however, they target marginalized individuals, such as youth, women, and the elderly.

Even so, there do exist programs to support formal micro-enterprises. To understand the potential of these programs as an incentive to legalize an enterprise, it is necessary to clarify two points: a) How burdensome is it for micro-enterprises to formalize their endeavors, bureaucratically speaking? b) How clear is the information provided on government websites about the programs to support micro-enterprises?

In terms of the formalization process, the Mexican government has made an effort to simplify registration processes. This effort has been reflected in the ease, unlike in the past, of enrolling for

a taxpayer identification number (RFC), which can be done through a website online (www.tuempresa.gob).

However, as a mechanism of formalization, with the goal of preventing potential tax evasion, a new tax regime was officially decreed, known as the RIF,¹³ which supplants the Small Taxpayers' Regime (REPEC).¹⁴ According to tax experts, the main issue with the new regime, given that the vast majority of micro-entrepreneurs have limited skills in using computer resources,¹⁵ is that it is quite complex compared with the relative simplicity of REPEC.¹⁶ As such, the effort to simplify the process to register micro-enterprises with the new tax regime is somewhat ambiguous; on the one hand, it makes registration easier by moving it online, but on the other, it makes the tax payment process more complex within the new regime.

It should also be noted that the full formalization process entails more than just registering with the treasury. In order to be entirely formal, a micro-enterprise must fulfill obligations that go beyond paying taxes, for example: land use, registering employees with the Mexican Social Security Institute (IMSS), paying employee-employer contributions, complying with environmental regulations, and more. If all of these requirements are not met, micro-enterprises may be vulnerable to extortion from representatives of corrupt officials. As such, the implementation of tools to make it easier for micro-enterprises to register with the revenue service only partially eases the way for them to fully regularize their situation.

To illustrate how complex it can be to formalize a company, we researched the number of procedures to complete, payments to make, and response times. Table 5 compares the list of requirements to set up two companies with different levels of complexity; the first is a plastics manufacturing company, and the second a convenience store (see Table 5).

Field research shows that, tax obligations notwithstanding, the procedure to formally start a company continues to be as complicated as it was before the tax reforms. Of course, the number of procedures required and the degree of complexity involved may vary by administrative district.

The information in the table was taken from the general guidelines for the steps¹⁷ required to start a business, according to a chart from the Mexican Business Information System (SIEM), part of the Ministry of Economy. Each general step is divided into secondary formalities, which in some cases number as many as 16, and may be subdivided into further steps. It should be noted that in many cases, these procedures are quite complex and require more information to clearly understand to what they are referring, if they are still in effect, and the amount to be paid for permits, contributions, and fees. It is therefore evidently difficult to completely formalize a micro-enterprise. The process is even more cumbersome if the micro-enterprise has complex production processes.

Table 5. Procedures to Create a Company

	<i>Plastic Manufacturing</i>	<i>Convenience Store</i>
Overall number of steps	15	9
Sub-steps	65	22
Fees, licenses, permits, etc. to be paid (approximate)	\$8 000 – 12 000	\$1 500 – 3 000
Average response time per step	8 – 10 business days	3 – 5 business days

Source: Created by the authors based on the online government websites for procedures.

In terms of information clarity, the research indicated, in keeping with the assessment conducted by ITESM (2012), that there is plenty of information, but that it is spread throughout many websites in a disorderly fashion, and may even be obsolete, which makes it necessary to check the operating rules published by the DOF to determine if the guidelines are up to date. This issue in and of itself could be a hurdle to accessing these programs for the average entrepreneur or micro-entrepreneur.

It is interesting to note that the ITESM (2012) underscores, furthermore, that one of the most important limiting factors for MSMEs to collect information is their inability to identify the agencies that could provide it to them. In the majority of cases, the entrepreneurs were only able to identify the Federal Institute for Access to Public Information (IFAI).

The cited study evaluated the transparency of the web portals and reported that the website of the Ministry of Labor and Social Planning (STPS) was below the national average of 60.06 points, with a mere 50.79 points, while the Secretary of Economy and Bancomext barely surpassed the average with 63.81 and 67.92 points, respectively. Conacyt and NAFIN were among the highest scoring entities, with 70.34 and 86.72 points, respectively (ITESM, 2012).

FINAL DISCUSSION

Unlike the traditionally dominant theories, and motivated by the fact that informality has scarcely fallen or remained the same, a segment of academia, along with a few international organizations, has set out to recognize the social importance of the informal sector as an alternative strategy for innovation and development, aiming to promote its economic potential. As a result, some governments, like in India and a few others to a lesser extent, have begun to implement specific

targeted programs to strengthen the productivity of the informal sector, especially for those at the heart of the group: informal micro-enterprises.

In this sense, the objective of this paper is to examine the stance of the Mexican government in this new debate. To achieve this goal, it is necessary to understand the level of support given to informal micro-enterprises by the Mexican government, as well as the relative ease of formalizing these enterprises. This research was done by searching for support programs, reviewing their requirements and the steps necessary to formalize an enterprise, and conducting interviews with officials from these programs and their governmental agencies, either in person or through online forums, as well as taking into account the opinion of tax experts.

The outcome of this research shows that productive support for informal micro-enterprises, as posited by the so-called “new view,” is not part of the Mexican government’s recent strategy, whose efforts have rather been channeled towards formalization through three methods: *a*) the creation of positive incentives to formalization through making access to programs only possible for those with the status of formality, whether at the beginning or in some subsequent stage of the program (for example, to gain access to loans through *Crezcamos Juntos* or NAFIN); *b*) the generation of negative incentives to formality through tax restrictions; and *c*) administrative simplification to facilitate the registration of new enterprises and tax mechanisms.

The results permit us to conclude that the Mexican government’s stance towards informality is very much in line with orthodox theories, in which informal micro-enterprises constitute an anchor for development and policies on the whole make an effort to promote formalization. It is interesting to highlight that these lines of thinking have been reinforced with the recent financial and treasury reforms and that they are, on the whole, fairly similar to the standard OECD proposals (OCDE, 2012: 11).

Before concluding this paper, it is useful to note that an initial prospective analysis might indicate that the strategy undertaken by the government could produce not necessarily positive effects. First, efforts to simplify the procedures for formalization and tax payments are as of yet incomplete; neither the recently implemented RIF nor the pre-existing RGL are truly simple, and their relative simplification is reflected, in the best of cases, only in the tax realm. Moreover, these tax regimes are oriented towards more educated and better informed entrepreneurs with access to the Internet, failing to take into account the level of schooling and access to Internet among the majority of micro-entrepreneurs, whether formal or informal. This complexity, along with the recently enacted tax restrictions, may bring as a consequence the persistence or, paradoxically, an increase, in the number of informal micro-businesses.

A second effect to bear in mind is related to the type of informal micro-businesses that these new policies would encourage. Essentially, this research found that in the informal sector, there are at least two main groups of micro-enterprises: the “curbside” (*de banqueta*, in Mexico) informal businesses (associated with the term “survival entrepreneurs”), which operate on public streets and have the support—either openly or less so—of power groups that obtain an economic or political advantage from them, do not generate added value, and for which it would be difficult to find ways to increase their productivity, and the informal micro-enterprise sector, consisting of production units (commerce, service, or industry), located in a fixed space or a store, and which operate entirely or partially in informality, many times tied to formal enterprises, and which are capable of generating finished products. For these latter, depending on the sector in which they are, it is relatively simple to find ways to improve their productivity. This type of micro-enterprise tends to receive the designation of “growth-associated.”

In this environment, it is precisely the “growth-associated” enterprises that—given the complexity of their activities and the more stringent requirements tied to these activities, because they are part of production chains, and which are in some sense captive to physical and labor limitations—will feel the greatest impact of the treasury reforms. Moreover, if they do not fully formalize their endeavors, these entrepreneurs could be exposed to extortion and corruption. This would not happen with the survival micro-businesses, because their activities are simpler, and it would be easier for them to evade tax requirements.

In summary, generally speaking, the recent reforms have made the tax system more complicated for companies with productive potential, by toughening the tax policies that govern them. If we add to this the lack of support for companies with the most productive potential, the result could prompt an increase in informal “curbside” businesses, destroying informal endeavors with growth potential, which might be inclined to innovate and able to generate ties to formal enterprises.

ACKNOWLEDGEMENTS

The participants in this project would like to thank Public Accountant Aída Ortiz Romero and Public Accountant Reynaldo Luna Escobar for their consulting on tax-related topics.

This work is part of a research project entitled, “Exploring Learning and Innovation Mechanisms in Informal Micro-Enterprises,” conducted at the UAM and financed by Conacyt (project number 33511067).

BIBLIOGRAPHY

Adams, A. V., S. J de Silva and S. Razmara (2013), *Improving Skills Development in the Informal Sector: Strategies for Sub-Saharan Africa*, World Bank Publications.

Becker, K. F. (2004), *The Informal Economy: Fact finding Study*, Sida.

Bromley, R. (1990), "A New Path to Development? The Significance and Impact of Hernando de Soto's Ideas on Underdevelopment, Production, and Reproduction", *Economic Geography*, vol. 66, no. 4, pp. 328-348

Capecchi Vittorio (1989), "The Informal Economy and the Development of Flexible Specialization in Emilia Romagna", in Portes Alejandro, Castells Manuel, and Benton Lauren, *The Informal Economy Studies in Advanced and Less Developed Countries*, The John Hopkins University Press.

Carr, Marilyn and Martha Alter Chen (2002), "Globalization and the Informal Economy: How Global Trade and Investment Impact on the Working Poor" (pp. 92-2). Geneva, International Labour Office, available at: <http://natlex.ilo.ch/wcmsp5/groups/public/-ed_emp/documents/publication/wcms_122053.pdf>

Castells Manuel and Alejandro Portes (1989), "World Underneath: The Origins, Dynamics and Effects of the Informal Economy", in Alejandro Portes, Manuel Castells and Lauren Benton, in *The Informal Economy. Studies in Advanced and Less Developed Countries*, The John Hopkins University Press.

Chen, Martha Alter (2007), *Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment*, Oxford University Press, New York, USA.

_____ (2012), "The Informal Economy: Definitions, Theories and Policies. Women in Informal Economy Globalizing and Organizing (WIEGO)", *Working Paper*, (1).

Chen, Martha Alter, Renana Jhabvala and Frances Lund (2002), "Supporting Workers in the Informal Economy: a Policy Framework", Geneva, Inter-national Labour Office, available at: <<http://citeseerx.ist.psu.edu/view-doc/download?doi=10.1.1.196.7111&rep=rep1&type=pdf>>

Cimoli, M., A., Primi and M. Pugno (2006), "Un modelo de bajo crecimiento: la informalidad", *Revista de la Cepal*, pp. 88, 89.

Cozzens, S. and J. Sutz (2014), "Innovation in Informal Settings: Reflections and Proposals for a Research Agenda", *Innovation and Development*, 4(1), pp. 5-31.

De Soto, Hernando (1986), *El otro sendero*, Lima, Peru, El Barranco, pp. 18- 24.

Domínguez, Priscila, Perla Rostro, and Mayra Valencia (2014), "Repeco la muerte anunciada", in M. Ramos, and V. Aguilera (eds.), *Ciencias Administrativas y Sociales*, Handbook TV: Congreso Interdisciplinario de Cuerpos Académicos (pp. 280-287), Mexico, ECORFAN.

El Economista (2015), "Crezcamos juntos: el camino para acceder a la formalidad", (consulted January 12, 2015), available at: <<http://eleconomista.com.mx/sistema-financiero/2014/10/22/crezcamos-juntos-camino-acceder-formalidad>>

Esquivel, Gerardo and Juan Luis Ordaz (2008), "¿Es correcto vincular la política social a la informalidad en México? Una prueba simple de las premisas de esta hipótesis", in Cepal, *Serie estudios y perspectivas*, no. 104, pp. 7-35.

Fields, Gary (2004), "Dualism in the Labor Market: a Perspective on the Lewis Model after half Century", *The Manchester School*, vol. 0 72, no. 6, pp. 724-735.

Heintz, J. (2012), "Informality, Inclusiveness, and Economic Growth: an Overview of Key Issues", SIG Working Paper 2012: 2, Supporting Inclusive Growth (SIG) Programme, International Development Research Centre (IDRC): Canada, www.idrc.ca/en/documents/sig-wp2-informality.pdf (accessed 11 May 2013).

Instituto Tecnológico y de Estudios Superiores de Monterrey (2012), "Índice de Transparencia focalizada para PyMES", (consulted September, 2012, available at: <http://sitios.itesm.mx/egap/aspirantes/Indice_de_trasparencia_focalizada_para_pymes.pdf>

Kerkhoff, Frans (2003), "Honduras: competitividad de las MIPyME", in René Hernández (coord.), Cepal, Chile, pp. 145-201.

Kumar, H. and S. Bhaduri (2014). "Jugaad to Grassroot Innovations: understanding the Landscape of the Informal Sector Innovations in India, *African Journal of Science, Technology, Innovation and Development*, 6(1), pp. 13-22.

Lehmann, Hartmut and Norberto Pignatti (2007), "Informal Employment Relationships and Labor Market Segmentation in Transition Economies: Evidence from Ukraine", IZA Discussion Paper No 3269. Institute for the Study of Labor, Bonn. Available at: <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1136431>

Levy, Santiago (2010), *Buenas intenciones, malos resultados: política social, informalidad y crecimiento económico en México*, Mexico, Editorial Océano.

Maloney, William F. (2004), "Informality Revisited", *World Development*, vol. 32, pp. 1159-1178.

_____ (1999), "Does Informality Imply Segmentation in Urban Labor Markets? Evidence from Sectoral Transitions in Mexico", *The World Bank Economic Review*, vol. 13, no. 12, pp. 275-302.

Mutungi, E. and T. Ghaye (2012), "Enhancing Well-Being at the Household Level", in M. T. T.Thai and E. Turkina (coord.), *Entrepreneurship in the Informal Economy: Models, Approaches and Prospects for Economic Development*, Routledge, p. 241.

Orlando Pagnataro, María Beatriz (2001), *The Informal Sector in Venezuela: Catalyst or Hindrance for Poverty Reduction*, Social Science Research Network Electronic Paper Collection (299776), vol. 47, available at: <<http://papers.ssrn.com/abstract=299776>>

Perspectivas, OCDE (2012), *México. Reformas para el cambio*, Paris, OCDE, January.

Portes, Alejandro and Lauren Benton (1987), "Desarrollo industrial y absorción laboral: una reinterpretación", in *Estudios Sociológicos*, El Colegio de México, January-April, pp. 111-137.

Ros, Bosch Jaime (2000), "Employment, Structural Adjustment and Sustainable Growth in Mexico", *The Journal of Development Studies*, 36(4), pp. 100-119.

Tokman, Víctor (1995). "Introducción: dos décadas del sector informal en América Latina", in V. Tokman (ed.), *El sector informal en América Latina. Dos décadas de análisis*, Mexico, Consejo Nacional para la Cultura y las Artes.

_____ (2004), *Una voz en el camino. Empleo y equidad en América Latina: 40 años de búsqueda*, Santiago de Chile, Chile, Fondo de Cultura Económica.

_____ (2011), "Informalidad en América Latina: balance y perspectivas de políticas", *Revista Internacional de Estadística y Geografía*, vol. 2, no. 3, September-December, pp. 16-31.

SOURCES OF INFORMATION AND PROGRAMS

Bancomext (2013), “Servicios Financieros 2013”, in Banco Nacional de Comercio Exterior (consulted June 31, 2013), available at: <<http://www.bancomext.com.mx/Bancomext/secciones>>

Conacyt (2013), “Fondos y Apoyos 2013”, Consejo Nacional de Ciencia y Tecnología (consulted May 20, 2013), available at: <[http://www.conacyt.gob.mx/index.php/fondos->](http://www.conacyt.gob.mx/index.php/fondos-)

Honey Bee (2014) (consulted June 20, 2014), available at: <<http://www.sristi.org/hbnew/>>

INAES (2014) “Proyecto ESCALA: Inclusión productiva para jóvenes”, Instituto Nacional de la Economía Social (consulted January 8, 2015), available at: <<http://inaes.gob.mx/doctos/pdf/Renglon%204/ESCALA/terminos%20de%20referencia/T%C3%A9rminos%20de%20referencia%20PROYECTO%20ESCALA%20I1%20y%20I2.pdf>>

Nafin (2013), “Programas Empresariales 2013”, Nacional Financiera (consulted June 20, 2013) available at: <<http://www.nafin.com/portalInf>>

Secretaría de Economía (2010), “Fondo para Pequeñas y Medianas Empresas 2010” (consulted June 22, 2010), available at: Secretaría de Economía website <<http://www.fondopyme.gob.mx>>

_____ (2013), “Reglas de Operación del Programa de Fomento a la Economía Social para el Ejercicio Fiscal 2014” (consulted December 20, 2013), available at: <<http://www.economia.gob.mx/files/transparencia/reglas/RO2014PFES.pdf>>

STPS (2013), Programas sociales 2013 en el sitio web de la Secretaría de Trabajo y Previsión Social (consulted April 9, 2013), available at: <http://www.stps.gob.mx/bp/secciones/transparencia/programas_sociales>

¹ Autonomous Metropolitan University, Xochimilco, Mexico. Autonomous University of the State of Mexico, Mexico, and Autonomous Metropolitan University, Xochimilco, Mexico, respectively. E-mail addresses: rivera.uam@gmail.com, nlopez1@uaemex.mx, andalejandra.mendoza.gonzalez@gmail.com

² For the purposes of this paper, the terms “informal sector,” “informal economy,” and “unstructured sector” shall be understood as synonyms.

³ The informal sector is understood to refer to the set of productive agents who evade the requirements and obligations imposed upon them by the State, in a legal environment in which similar activities are regulated. These activities are excluded (at least partially) from the benefits that the status of formality would bestow upon them (Portes and Benton, 1987: 12). As such, this definition may include those activities derived from commerce, services, construction, or manufacturing.

⁴ In this regard, see papers by Heinz (2014) and Becker (2004).

⁵ Perhaps the best example of a successful targeted policy to support informal activities can be found in the natural experiment of Emilia-Romagna (Capecchi, 1989). Emilia-Romagna is a region in the central-northern region of Italy, whose current development index is solidly grounded in an origin of informal enterprises and ties, among other factors.

⁶ Initially, 25 programs or funds targeting unemployed or underemployed persons or the business sector in Mexico (the former aiming to find better opportunities for employment or self-employment); by the end of this research stage, the supply, from INADEM alone, consisted of four blocks of generic programs from which 16 specific programs were isolated.

⁷ It is striking that companies (regardless of their size) already operating (that is, not start-ups) were asked to prove that they were up to date in tax payments.

⁸ In other words, the programs do not ask for the articles of incorporation of the group. However, it must be mentioned that the most recent terms of participation in the ESCALA program now do request the status of formality (INAES, 2014).

⁹ At the time this article went to publication, the Mexican government had not yet published the rules for how the program will operate. The information available was taken from a speech made by President Enrique Peña Nieto about the program (available at <http://www.presidencia.gob.mx/articulos-prensa/palabras-del-presidente-de-los-estados-unidos-mexicanos-licenciado-enrique-peña-nieto-durante-el-evento-reformas-en-accion-crezcamos-juntos/>) and from publications in newspapers and magazines. Based on this information, the objective of the program is to harmonize “the efforts made by various institutions, aiming to incentivize formality and settle the debt of the Mexican state, but offering the informal sector health services, social security, loans to access housing, and more” (El Economista, 2015).

¹⁰ This regime is part of the treasury reform approved in October 2013, and aims to increase the number of taxpayers by “facilitating” tax payments for a period of 10 years, with a sliding scale of discounts (El Economista, 2015). To better understand the scope and limitations of this regime, read Domínguez et al. (2014).

¹¹ This program is closely tied to the new tax regime, RIF, which is explained in greater detail in the fifth section.

¹² The publicity campaigns for the RIF do not disclose all of the information. One example is the subsidy for employee-employer contributions to the Mexican Social Security Institute (IMSS) promised by the program, which in reality is only applicable to one of the various items that comprise social security contributions, and only to the amount for which the employer is responsible. Nor does it state that the regime for small taxpayers (REPECO) is disappearing and that those who join the RIF will automatically be diverted to the regime that was previously meant only for large companies (RGI), at the end of the initial term of benefits.

¹³ It should be clarified here that as of the end of the third stage of research, the legal provisions that would shape this regime had still not trickled through to all of the laws that will be involved in its enforcement. The legal basis for this regime is contained in two articles of the ISR Act, and in some cases, the information was only available from the publicity displayed on websites online.

¹⁴ For those paying into REPECO, the change was not optional. REPECO was launched in 1998, with the principal goal of “incorporating into the tax system the majority of small-scale vendors, many of which were in the informal sector of the economy” (Domínguez, et al., 2014: 282). Some of the main features of this regime were that the companies taxed under it were not required to issue invoices, but rather notes of sale, and paid a fixed share of taxes.

¹⁵ These factors are key in the process of opening a company, because the Internet is main way to complete all of the procedures and formalities required.

¹⁶ This regime demands, moreover, digital tax receipts (CFDI) backing purchase and selling transactions, which were not mandatory under REPECO. For reasons of space, this note shall suffice to mention this significant change, but the topic is worthy of further analysis and reflection about the policies aiming to combat informality.

¹⁷ This refers to the main steps shown in the SIEM procedures guide, from which the secondary steps are derived.