

# An Exploratory Analysis of the Effects of the Formalisation Policy for Individual Micro-entrepreneurs

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**Most businesses in Brazil** are informal: about 75 per cent of entrepreneurs are not registered with the federal tax authorities (do not hold a *Cadastro Nacional de Pessoa Jurídica*—CNPJ) and do not contribute to the social security system. This feature is even more pronounced among micro-entrepreneurs who employ up to one employee, who account for about a quarter of the total working population and 89 per cent of entrepreneurs in Brazil.

In 2009, the federal government introduced a new policy directed exclusively at micro-entrepreneurs who employ up to one employee, henceforth referred to as *microempreendedores individuais* (MEIs) or individual micro-entrepreneurs. This policy, enacted with full national coverage, significantly reduced the costs of formalising businesses by obtaining a CNPJ and by contributing to the social security system. As such, the policy encourages micro-entrepreneurs to formalise their businesses in both senses, and generates a link between them for this group of entrepreneurs.

Corseuil et al. present evidence that helps clarify, albeit only partially, whether the MEI policy was successful in promoting: i) micro-entrepreneurship in Brazil; and ii) the formalisation of entrepreneurs. To achieve this goal, they proceed in two alternative ways. First, evidence is gathered for each of these two issues, using specific methodologies for each one. Second, an integrated analysis of these two issues is performed, by tracking the transitions of individuals through different labour market situations, including their occupations and formalisation status.

This integrated analysis can also contribute to raise a third inquiry, namely: can employers use the MEI policy to avoid paying labour taxes, by replacing labour contracts with service contracts signed by alleged individual entrepreneurs?

The results about the specific investigation around the promotion of entrepreneurship suggest that the MEI policy may have had a reduction-of-scale effect on those who were already entrepreneurs, but there is no evidence of changes in the pattern of occupational choice—between being a small entrepreneur and holding other positions. Regarding the analysis of the decision to formalise, results suggest that the policy may have had a positive impact on the decision by individual entrepreneurs to contribute to the social security system.

Finally, an integrated analysis of labour market flows based on data from the Monthly Employment Survey (PME) of the Brazilian Institute of Geography and Statistics (IBGE) reveals that all occupations became less-absorbing states when compared to the option of being formally self-employed. This includes both the formalisation of workers who were already self-employed as well as effects on the reduction of the scale of businesses. Furthermore, a relative reduction in the wages paid to the labour force is noted, particularly in the likelihood of being in formal employment. This latter result is consistent with the hypothesis that certain companies, particularly smaller ones, are using MEIs to change the employment status of their employees from wage-earning work to services rendered. The authors have no way of proving this, since the PME/IBGE data do not provide a way to verify whether the transition from employee to self-employed was also accompanied by a change in that individual's workplace.

## References:

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