

Formalisation policies in Brazil

Introduction:

A large informal sector and low coverage of social security is one of the key labour market challenges in India. The government of Brazil adopted business friendly policies for micro and small enterprises in 2000s to promote formalization.

Intervention:

1. **Simples Nacional Regime:** Brazil introduced a Monotax (a single tax payment or a Monotax), which replaces tax and social security declarations at federal, state and municipal levels. It allows small enterprises to file a single and simplified annual tax declaration. It replaces multiple taxes and contributions with different payment schedules and calculation methods, with a single monthly payment which varies as per the gross revenue in the previous 12 months and type of economic activity. Thus, it reduced the administrative burden on micro and small enterprises, while the employees of these enterprises enjoying the same rights as formal wage earners.

2. Law on individual micro-entrepreneurs: Under this policy, simplification of registration processes for individual entrepreneurs was done through a micro-business portal, where own account workers and entrepreneurs could register, and get access to bank accounts, loans, etc. The micro-entrepreneurs are exempted from taxes and other contributions, instead pay a fixed monthly amount. Registration enables them to have access to social security benefits (pension, healthcare and maternity benefits.)

3. REDESIM: The government created a national network for the simplification of business registration processes known as 'REDESIM' which integrates registration processes for start-ups.

Impact/Learnings:

The Monotax regime facilitated formalization of employment in Brazil. About 10.6 million employed workers registered under this regime in 2017. The law on individual microentrepreneurs improved women's participation in formal sector. In 2012, 60% of the micro-entrepreneurs reported that their revenue had increased post formalization. Overall, between 2009 and 2018 the number of registered MSMEs in Brazil increased from 3 to 5 million.

Source: Informal Economy in India: Setting the framework for formalization, FICCI and Konrad-Adenauer- Stiftung (2017); Tackling vulnerability in the Informal Economy, OECD Development Centre (2019); Extending social security to workers in the informal economy : Lessons from international experience, ILO (2019)