

***URBAN SELF-EMPLOYMENT IN MEXICO***  
***RECENT TRENDS AND POLICIES***

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# SELF-EMPLOYMENT IN MEXICO RECENT TRENDS AND POLICIES

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## *Introduction*

As in many other countries, self-employment in Mexico is attracting increasing attention. On the one hand, academic researchers are studying its recent growth in urban areas in a reversal of past trends. On the other, policy-makers are trying to adapt the institutional framework to respond to the needs of the self-employed and enhance their productive potential.

This has not always been the case. For nearly 3 decades, during its industrialisation process, (from the early 1950s to the end of the 1970s) Mexico's economy experienced a very fast growth, parallel to a rapid increase of wage and salary employment in the labour force. It was an implicit assumption that economic development in urban areas would bring traditional self-employment to its gradual disappearance.

This reasoning, however, was severely questioned during the 1980s. Mexico experienced a profound financial crisis in 1982 that particularly affected construction and the manufacturing sector, two of the pillars of economic development over the 1950 - 1970 period. Modern urban manufacturing and construction enterprises, which for a long time had been creating jobs at a relatively fast rate, stopped absorbing new entrants to the workforce and became, in the most severe months of the crisis, a new source of net expulsion of relatively more skilled urban workers.

Wage and salary employment's share in the overall working population stopped growing. This occurred at a time when labour supply still expanded at a rate of over 3.5% a year and in a context where no unemployment schemes were in place that could provide temporary income for the unemployed. A new phenomenon appeared, characterised by the rapid growth of self-employment in urban areas, at a faster pace than salaried employment.

Urban self-employment, which had formerly been neglected, ceased to be an aggregate defined merely as a residual category, which would eventually shrink with economic progress. It became a new focus of attention, with interest in its own. Urban self-employment had become a persistent and rapidly growing working group. It was critical to explore this new phenomenon and study its characteristics and its causes, in order to understand its potential as a source of employment creation and as an essential element to deal with issues of poverty and labour market efficiency.

This paper discusses some of the features that help describe the urban self-employed in Mexico, their social and demographic profile, working schemes, main occupations and the characteristics of their businesses. It also explores the reasons that motivate individuals to become self-employed or to exit from self-employment. A second line of study regards assessment of the institutional and policy framework, particularly instruments and institutions that address this segment of the working population and their economic activities.

# **1. RECENT TRENDS IN URBAN SELF-EMPLOYMENT AND PROFILE OF THE SELF-EMPLOYED**

## ***1.1 Recent trends in self-employment***

According to the *National Employment Survey* (1996) there were 10.1 million self-employed people in 1996. The great majority of them lived in rural areas and small and disperse communities performing traditional agricultural activities.

Over the last five decades part of the population working in agriculture underwent a progressive transformation of their rural conditions when they moved to urban areas. For some of them, job opportunities opened in modern manufacturing, trade and service enterprises. At the same time, the incidence of wage and salary workers in overall non-agricultural employment rose dramatically from 46.3% in 1950 to 62.2% in 1970. The self-employed made up 31.3% of the working population in non-agricultural sectors in 1970 and this percentage was gradually declining.

From 1970 to 1990, however, the progressive decline of self-employment's share in overall urban employment gradually came to a stop and in some areas showed a clear sign of reversal. The attention of academia and policy-makers shifted to a new social and economic trend: the unexpected growth of self-employment in urban areas.

It seems inevitable to associate this trend to the prolonged economic recession that the economy experienced over the 1980s, that was followed by a new and severe crisis in 1995, causing the most dramatic fall of GDP in the last fifty years and a persistent decline in average real wages. But self-employment has also been growing in other countries, where no severe or prolonged crisis had recently taken place. Hence, other factors, structural in nature, could also be influencing this trend, which seems to be a world-wide phenomenon.

To what extent does the recent surge of urban self-employment respond to survival strategies that are likely to be abandoned once this long recession episode is over? Does it respond to a new production scheme that is gradually moving away from rigid, large scale, production models based on massive salaried working patterns, uniform working rules and standards, to shape new and more flexible production schemes?

In order to respond to the former questions, a deeper understanding of self-employment is needed. This paper will address in particular the urban self-employed as the main aim of study.

## ***1.2 Profile of the urban self-employed and dynamics of urban self-employment***

In 1996 the urban self-employed were 3.5 million people and accounted for 22.9% of the working population in communities of over 100,000 inhabitants in Mexico. Wage and salary workers represented 71.8% and the rest were unpaid family workers.

The salient feature of urban self-employment is its great heterogeneity. Not only are there dismal differences between the categories of self-employment, mainly between people employing others and own-account workers, but also radical disparities among the self-employed, when men and women are taken separately. This reflects that the self-employed include totally different groups, whose elements belong to the two extremes of the earnings and human skill distributions.

Some of the main characteristics and differences among the urban self-employed in Mexico will be discussed next.

### *1.2.1 People employing others and own-account workers*

The first dividing line that must be made in studying the profile of the self-employed is that between own-account workers and people employing others. Those in the first category represented in 1996 four out of five self-employed in urban areas and accounted for 2.9 million people.

Own-account workers show a considerable degree of heterogeneity. They include on the one hand, people performing rudimentary productive activities, with minimal capital requirements and very precarious working conditions. On the other, they comprise workers with high skill levels and valuable work experience, who perform a varied number of very specialised activities.

People employing others are also a varied group with marked cultural and educational contrasts, but they had one thing in common: the vast majority of them (95.8%) owned businesses with 1 to 5 employees.

**TABLE 1**  
**WORKING POPULATION BY SEX AND EMPLOYMENT CLASS**  
**IN URBAN AREAS 1996**

	1996	Growth rate 1991-1996 (Per cent)		
		Total	Men	Women
<b>Urban employed</b>	<b>16,099,098</b>	<b>2.3</b>	<b>1.9</b>	<b>3.1</b>
Salaried	11,559,754	1.7	1.5	2.2
Self-employed	3,691,411	3.7	2.7	6.5
Employers	764,922	2.0	1.9	2.9
Own-account workers	2,926,489	4.2	2.9	7.0
Unpaid workers	842,600	5.2	5.6	4.9
Not specified	5,333	-19.6	-19.1	-25.1

Source: INEGI. National Employment Survey 1991 and 1996

Over recent years urban self-employment has expanded faster than overall urban employment. From 1991 to 1996 the urban self-employed increased at an average rate of 3.7% a year, over twice that of salaried workers. Within the self-employed, the growth rate

of own-account workers more than doubled that of employers and women own-account workers showed the fastest expansion, at a rate of 7% a year.

### 1.2.2 Sex

Almost 30% of the urban self-employed population are women. This proportion is only a little lower than women's participation in overall urban employment. The only category in which women's share exceeds that of men is unpaid work, which is particularly abundant in family based enterprises.

Women's incidence in own-account work is still lower than that in salaried employment but over the last five years it has been one of the working categories in which female participation has shown accelerated growth. From 1991 to 1996 it increased from 28.7% to 32.8%.

The category of people employing others has traditionally been a field where men predominate numerically. In 1996, the ratio was 6 to 1. This is a result of cultural trends, and traditional barriers which in many urban areas still hamper women from performing managerial occupations, from access to institutional credit and from dedicating long hours to their businesses and combine their working schedule with traditional family chores.

**TABLE 2**  
**WOMEN'S SHARE IN URBAN EMPLOYMENT**  
**Percentages**

	1991	1996
<b>Urban employment</b>	<b>34.5</b>	<b>35.8</b>
Salaried	35.7	36.5
Self-employed	25.3	29.0
Employers	13.6	14.3
Own-account workers	28.7	32.8
Unpaid workers	57.8	57.0
Not specified	9.3	6.5

Source: INEGI. National Survey of Micro-enterprises 1996

### 1.2.3 Age

The self-employed tend to start working not so young as salaried workers. There is also a relatively high proportion of people over 60 years of age that continue to be self-employed or become self-employed. The share of people in the old age range (over 60) exceeds that of 24 and less, both for employers and own-account workers. This behaviour contrasts markedly with that of the overall labor force, where the ratio of old workers (60 and over) to those in the range of 24 and less is only 0.2 in the case of men and 0.1 in women.

**TABLE 3**  
**SELF-EMPLOYMENT BY AGE AND EMPLOYMENT POSITION**  
**1996**

	Employers		Own-account		Labour force	
	Men	Women	Men	Women	Men	Women
<b>Median</b>	41.2	37.3	41.0	41.1	32.7	31.6
Less than 24	5.4	9.9	9.3	7.9	26.2	28.9
60 and over	8.3	12.4	12.6	10.9	5.3	3.7
60 + / 24 -	1.5	1.3	1.4	1.4	0.2	0.1

Sources: INEGI. National Survey of Micro-enterprises 1996  
INEGI. National Employment Survey 1966

The characteristic age distribution of the self-employed varies significantly between men and women. Women's distribution is more abrupt and angled than that of men. Another distinctive characteristic is that in the case of women, several peaks are present, while in men the traditional (inverted) U-shaped, smooth graph is displayed.



The three-peaked distribution in self-employed women reflects the characteristic behaviour of one or more episodes of entry to and exit from the workforce, when working time of women creates a conflict with other family needs. Traditionally, family chores continue to be considered mainly a woman's responsibility. The reasons for the temporary or definitive retirement from the workforce in women tend to be related to maternity, the presence of young children and increasing domestic chores. Men have, by contrast, a relatively more stable behaviour within the work force and the slope of the curve is more smooth, coinciding with retirement from productive activities in old age.

#### ***1.2.4 Marital status***

**TABLE 4**  
**WOMEN'S EMPLOYMENT BY MARITAL STATUS**  
**1996 percentages**

	Employers	Self-employed	Employed
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Single	20.7	17.5	41.8
Married	57.7	58.8	43.3
Divorced, widowed, separated	21.5	23.6	14.8
Not specified	0.1	0.1	0.1

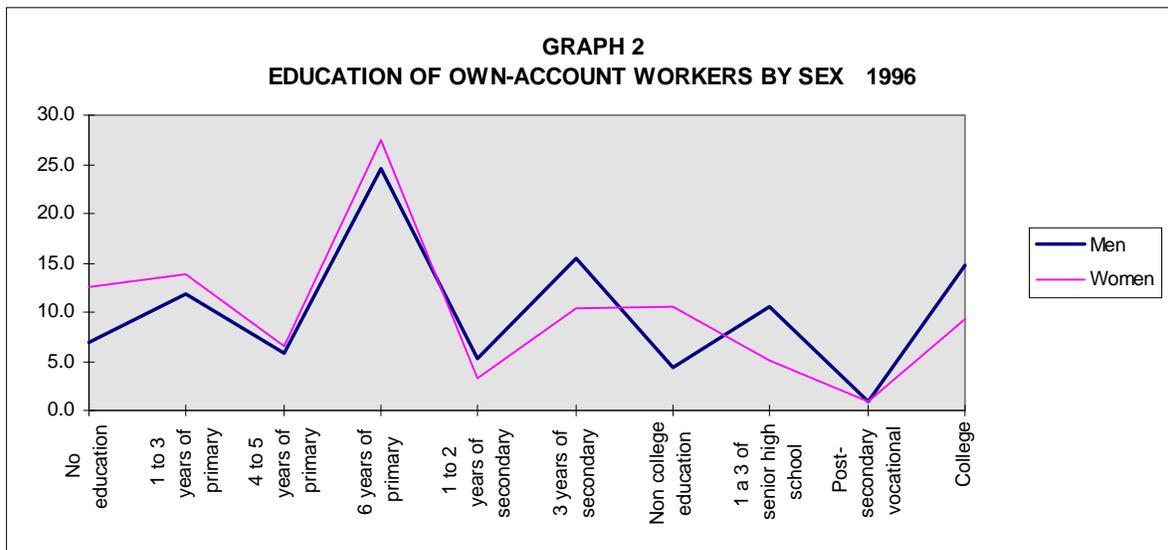
Source: INEGI. National Survey of Microenterprises 1996  
INEGI. National Survey on Urban Employment 1996

The self-employed show a relatively small percentage of single workers compared with the overall labour force. As regards women, the proportion of divorced, widowed or separated is very high. This may indicate that for women, self-employment offers more work opportunities than salaried employment when they re-enter the labour force and are no longer married.

#### **1.2.4 *Schooling***

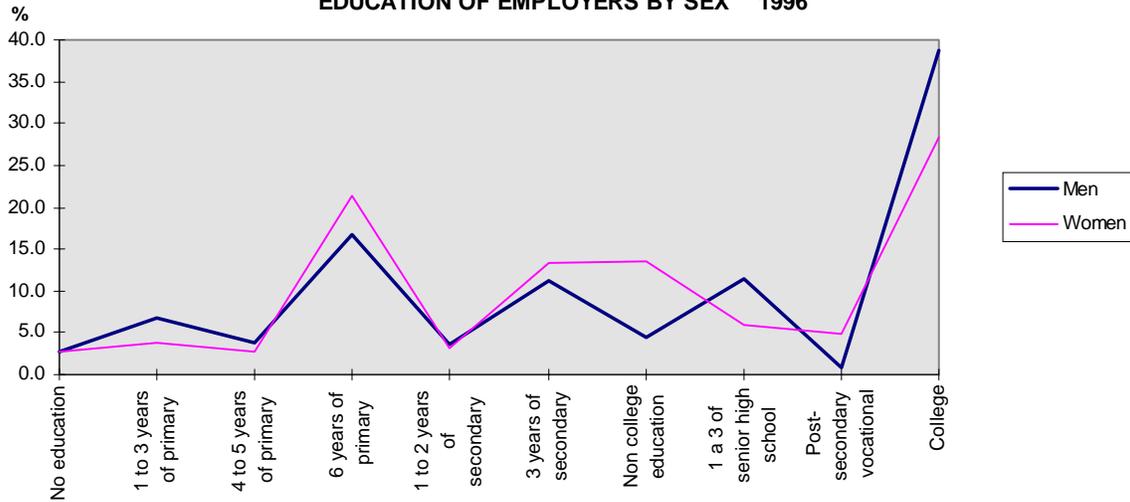
As far as schooling is concerned, a clear difference should be made between people with employees and own-account workers. Among the urban self-employed with employees, noticeably in men, the salient feature is their very high proportion of college educated persons. Almost 40% of all urban self-employed with employees have attained this educational level. The less educated in this group, at the other extreme, those with no schooling or with incomplete primary school, make up 12.7%.

Own-account workers, by contrast, have a very high concentration of people with very low schooling, particularly women. The peak among own-account workers corresponds to persons that only completed primary school. Those with no schooling account for 8.8%, and this proportion is almost double for women than for men. At the other extreme, there is also a group of professional, college educated own-account workers, that make up 12.9%.



Women own-account workers concentrate the highest proportions of people with low educational levels. Within this group of women, 12.6% did not receive any schooling; one fifth did not complete primary education and three fifths did not complete basic education, which recently became compulsory in Mexico. Basic school has gradually become a requirement by medium and large-sized enterprises that hire salaried labour force in the modern urban sector.

**GRAPH 3  
EDUCATION OF EMPLOYERS BY SEX 1996**



Women employers with college education make up 28.3%, that is, 10 percentage points below the corresponding share of college educated men employers. The schooling levels of the less educated women in this group are not significantly different from men, and although the peak corresponds to college educated women, this distribution displays relatively large shares of women with only primary or secondary school levels.

Basic school became obligatory for children under 15. Nevertheless, a large proportion of people, which have not attained that school level, can be found among the working population in urban areas. Most of them belong to older generations, in a time when obligatory school only reached primary level and some of them migrated from rural areas where educational attainment is lower.

### ***1.2.6 Previous employment***

More than three-fourths of overall employers were formerly salaried workers. Own-account workers also include a high share of workers who previously were salaried (70%). Half of the self-employed who previously worked as salaried have prior experience in a medium or large-sized enterprise.

**TABLE 5**  
**PREVIOUS EMPLOYMENT POSITION AMONG THE SELF-EMPLOYED**  
**1996**

Previous employment	Present employment	
	Employers	Own-account
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
Employer	2.3	0.5
Own-account	5.6	7.4
Salaried	75.3	71.0
Unpaid	1.5	3.9
Not in labour force	15.3	17.2

Source: INEGI. National Survey of Micro-enterprises 1996

The reasons why present self-employed with a salaried work experience left their previous jobs were different in the case of self-employed with employees than for own-account workers. The main motivation for former salaried workers to start businesses was related to insufficient remuneration, mentioned by almost 40% of those who set up in businesses as employers. The second main cause was linked to salaried employment termination due to dismissal, business closure, end of temporary or seasonal work, and pension. These explanations taken together were mentioned by over one fourth of the self-employed who left their former jobs as salaried workers. In third place appear the reasons linked to greater flexibility in non-subordinate work, shorter working time, proximity to their homes, and others.

For own-account workers previously employed as salaried, 1 out of 3 reported reasons linked to involuntary job termination. Insufficient remuneration was mentioned as the second main cause by one fourth of the self-employed, followed by the search for more work flexibility. It is likely that these causes vary significantly for men and women taken separately, but the survey does not present data by sex for this table.

**TABLE 6**  
**REASONS FOR PREVIOUSLY SALARIED WORKERS**  
**TO BECOME SELF-EMPLOYED 1996**

Previous employment	Present employment	
	Employers	Own-account
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
Employment reasons	<b>26.0</b>	<b>36.5</b>
Dismissal or job cuts	12.8	18.6
Business closed	5.5	8.4
End of contract	4.4	6.1
End of season	0.5	0.5
Retirement or pension	2.8	2.9
Income reasons	<b>37.5</b>	<b>25.4</b>
Insufficient wage	37.5	25.4
Flexibility reasons	<b>6.7</b>	<b>15.2</b>
Maternity, child care	5.0	12.9
Too many hours	1.0	1.3
Proximity to their home	0.7	1.0
Other	<b>29.8</b>	<b>22.9</b>

Source: INEGI. National Survey of Micro-enterprises 1996

The expectation of higher earnings is a good reason for quitting salaried work and setting up a small business, as an employer. But not many people have this possibility. Those who do not have that choice and enter own-account work with no employees, do not have a very clear perspective of higher earnings as self-employed. In this particular case, the reason for becoming self-employed is strongly linked to involuntary salaried work termination, and difficulty in finding another salaried job.

### ***1.2.7 Migration***

Considering labour migration, roughly 1 out of 5 self-employed formerly worked in another region, most of them in the agricultural sector. Approximately 3 out of 4 migrant workers with previous experience in agricultural activities now work in informal trade and services; 9.6% of them in the construction sector, and a slightly lower percentage in manufacturing activities.

## ***1.3 Sector of activity and occupational characteristics***

### ***1.3.1 Sector of activity***

#### ***Sector***

Trade, along with social and personal services, provide employment for more than two thirds of the urban self-employed. This share is considerably higher for women own-account workers, where it exceeds 80%. Trade alone, mainly retail trade, is the working field of 1 out of three self-employed and represents the predominant activity sector for urban employers and own-account workers.

The manufacturing industry, which has traditionally employed a high share of the urban salaried workers, especially in the case of men, shows a much lower proportion among the urban self-employed, where it only reaches 11.4%. The lower share of manufacturing *vis-à-vis* salaried workers, is not the only difference. Among the self-employed the manufacturing sector is made up of small scale productive units, with comparatively small capital requirements, mostly in the fields of food and beverages, apparel and small printing shops.

Extracting industries, electricity, gas, water and communications are sectors in which self-employment is absent. On the other hand, among people employing others, the branch of finance, insurance, real estate and professional services, which has an important employment share among the services, has shown accelerated growth over the past five years.

Some sectors involving traditional present considerably different shares for men and women. Transportation and transportation related services, create jobs for 7.4% of self-employed men, while employment in this sector is practically non-existent for women (0.4%). Restaurants and hotels, on the other hand, create jobs for 13.4% of the self-employed women, more than twice the proportion for men (4.8%).

### *Sub-sectors*

**TABLE 7**  
**URBAN SELF-EMPLOYMENT. SIX MAIN SUBSECTORS**  
**1996**

Industries	Self- employment	%
<b>Total</b>	<b>3,575,587</b>	<b>100.0</b>
<b>Six main subsectors</b>	<b>1,307,155</b>	<b>36.6</b>
1 Restaurants, hotels and lodging places	287,039	8.0
2 Financial services, rents, professional and technical services	235,257	6.6
3 Grocery stores	209,402	5.9
4 Apparel and footwear stores	208,055	5.8
5 Repair and maintenance services to dwellings	187,003	5.2
6 Automobile repair shops	180,399	5.0

Source: INEGI. National Employment Survey 1996

The table above shows the six main sub-sectors of activity among the self-employed. They account for more than one third of all urban employment.

### **1.3.2 Main occupations**

The occupations of the self-employed are directly linked to the activity sectors in which they work.

**TABLE 8**  
**MAIN OCCUPATIONS OF THE SELF-EMPLOYED**  
**1996**

Main occupations	Employers	Main occupations	Own-account workers
<b>Total</b>	<b>100.0</b>	<b>Total</b>	<b>100.0</b>
Executive, administrative and managerial	25.5	Machine operators and artisans	27.6
Machine operators and artisans	21.5	Sales occupations	21.8
Sales occupations	16.7	Street and door-to-door sales workers	15.9
Professional	11.2	Service occupations	9.8
Manufacturing supervisors	5.6	Professional	5.5
Service occupations	5.2	Household workers	5.3
Transport occupations	3.5	Transportation occupations	5.0
Street and door-to-door sales workers	2.5	Technical and skilled workers	2.7
Agricultural workers	2.0	Agricultural workers	2.4
Technical and skilled workers	1.9	Art workers	1.6

Source: INEGI. National Survey of Micro-enterprises 1996

Almost 40% of all own-account workers have an occupation related to sales. A considerable proportion corresponds to street vendors. Machine operators and artisans represent one fifth of all self-employed who work for themselves. Next come service occupations, professionals, household workers, transportation related occupations, and technical and skilled professions. These occupations make up over 90% of all own-account workers.

Women own-account workers display higher employment shares in occupations related to sales, household work and services than men do. Three out of four women independent workers perform these occupations.

Among the self-employed with employees, the main occupation is executive, administrative and managerial, which is performed by one-fourth of the owners of small businesses. The second one corresponds to machine operators and artisans, followed by sales occupations and professionals. Those four occupations amount to 75% of all employers.

### **1.3.3 Working hours**

The behaviour related to working hours is totally different for self-employed with employees and for self-employed without employees. Self employed with employees generally work longer hours. The median working week among employers is 47.5 hours, compared with 40.4 for own-account workers and 42.3 for salaried workers. Almost half of all employers work over 48 hours a week.

Own-account workers have shorter working time schedules, especially women. The median for women who work for themselves is 31.6 hours a week and 1 out of 4 women works less than 15 hours.

**TABLE 9**  
**WORKING HOURS OF EMPLOYERS, OWN-ACCOUNT AND SALARIED WORKERS**  
**1996 Percentages**

Weekly hours	Employers			Own-account workers			Wage and salary		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Didn't work in the reference period	3.2	3.5	2.0	6.7	7.0	5.9	4.1	3.6	5.0
Less than 15 hours	2.2	2.0	3.9	10.7	6.1	20.0	2.5	1.6	4.1
15 to 34 hours	11.3	9.3	23.5	21.3	17.4	29.5	15.3	11.8	21.4
35 to 48 hours	37.7	37.7	37.5	30.6	34.7	22.2	54.9	54.0	56.6
Over 48 hours	45.5	47.6	33.1	30.8	34.8	22.4	23.1	29.0	12.9
Median (Weekly hours)	47.5	48.3	42.9	40.4	43.1	31.6	42.3	43.7	39.9

Source: INEGI. National Employment Survey 1996

### 1.3.4 Income

The earnings of the self-employed present strong differentials between the self-employed with employees and own-account workers. Earnings are equally dissimilar when men and women are taken separately.

**TABLE 10**  
**EARNINGS OF THE SELF-EMPLOYED AND SALARIED BY SEX**  
**1996**

Earnings (minimum wages)	Men				Women			
	Salaried	Self-employed			Salaried	Self-employed		
		Total	Employers	Own account		Total	Employers	Own account
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Less than 1	9.9	13.3	1.6	17.2	17.0	42.5	3.7	46.9
1 to 2	40.3	29.8	12.8	35.5	40.3	29.5	22.9	30.2
2 to 3	22.1	19.1	17.7	19.6	19.8	10.5	18.9	9.6
3 to 5	12.8	15.3	19.5	13.8	12.1	7.0	17.9	5.8
5 to 10	7.6	9.8	20.0	6.4	6.0	4.5	17.7	3.0
Over 10	3.5	5.6	17.0	1.7	1.2	1.6	10.9	0.5
No earnings	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Not specified	3.8	7.1	11.2	5.7	3.7	4.5	8.2	4.0
Median	2.01	2.38	4.88	1.94	1.83	1.27	3.57	1.12
Ratio women/men					0.91	0.69	0.73	0.58
Ratio self-employed to salaried	1.00	1.19	2.43	0.96	1.00	0.69	1.95	0.61

Source: INEGI. National Employment Survey 1996

Employers' earnings are higher than those of own-account and salaried workers, both in the case of men and women. Median earnings for the self-employed with employees are almost three times those of own-account workers and almost 2.5 times those of salaried workers.

While employers have a median income equivalent to 4.71 daily minimum wages (for men and women taken together), own-account workers' median earnings are less than 2 minimum wages.

For the three categories (employers, own-account workers and salaried workers) women have significantly lower earnings than men. The ratio of median earnings for women relative to those of men is 91% for salaried workers, 73% for employers and 58% for own-account workers. This reflects that the earnings distribution is more polarised by sex among the self-employed than among salaried workers.

In the case of women own-account workers, their median earnings are the lowest (scarcely above-minimum wage). The difference in earnings between women and men in this kind of self-employment cannot be totally explained by the difference in working hours. Although women work fewer hours than men (the ratio of median hours worked for women is 78% compared with the median for men), their earnings ratio is much lower (58%).

Differences in earnings between own-account and salaried workers show a different behaviour in men and women. Median income of men own-account workers is very similar to that of their salaried counterparts. By contrast, median earnings of women own-account workers are 61% compared with those of salaried female employees. This could indicate that the earnings of many women own-account workers are only a complement of family income.

#### ***1.4 Characteristics of micro-enterprises***

The bulk of the businesses of the urban self-employed are micro-enterprises with 5 employees or less (95.6%). Some of their main characteristics will be outlined next.

##### ***1.4.1 Permanence of work site***

Most of the self-employed do not have a permanent and specific work site. This is particularly the case for urban own-account workers, 70% of which work usually at the worker's home, as street vendors, in vehicles, or in makeshift stands. In the case of employers, the opposite occurs. Over 70% of them have a work site, although some of them use their homes as their workplaces or perform their activities in vehicles.

##### ***1.4.2 Financing***

Four out of five micro-enterprises reported having received financing to start up in business. Most of it came from the owner's savings (64.4%) and loans from friends and relatives (16.4%). The banking system played a negligible role, since only 1.3% of all micro-enterprises benefited from this kind of financing.

Once they started operations, 38.4% of micro-enterprises never resorted to borrowing. The reasons argued by the owners reflect little culture in the use of financing among micro-

businesses. 38.4% said they had not needed it; 29.3% preferred to use their own resources; 8.7% mentioned the high cost associated to interest rates; 3.0% referred to complex procedures, and 2.0 recognised their ignorance on banking procedures

Of those micro-enterprises that have had access to loans to finance their operation, 43.0% received them from suppliers, 26.4% from friends and relatives, and 16.9% from the banking system. These credits were mainly used for buying raw materials.

### 1.4.3 Registration

Contrary to what may be thought, the majority of micro-enterprises with employees are not completely outside of the legal framework. Those with one to six employees are likely to be registered with one or more authorities. And in those with a permanent work site the incidence of registration with the federal treasury is very high (over 90%).

According to the survey, 63.5% of all micro-enterprises in urban areas, were registered with one or more public authority or belonged to a guild or association. Micro-enterprises registered with the Federal Treasury represented 36.8%; those with the local treasury, 23.3%; 6.8% with the Ministry of Health, and 16.5% were members of a business guild or association. Of all micro-enterprises, 36.5% were not registered with any public authority.

Only 32.0% of salaried workers employed in micro-enterprises, for whom registration is obligatory, were registered with the Mexican Social Security Administration (IMSS).

Compliance of registration with federal authorities varies in a continuum. Micro-enterprises of own-account workers, with no permanent work site, are only registered with the Federal Treasury in a proportion of 15.4%, while enterprises with 3 to 6 employees in the transportation sector are likely to be registered in almost 100% of the cases. The probability of registration depends on the type of owner (employer or own-account worker), size, activity and permanence of work site.

**TABLE 11**  
**PROPORTION OF MICRO-ENTERPRISES REGISTERED WITH**  
**FEDERAL TREASURY**  
**1996 Percentages**

Micro-enterprises	Employers	Own-account workers
Total	71.7	30.1
Non-permanent work site or owner's home	37.5	15.4
Permanent work site	93.1	80.0

Source: INEGI. National Survey of Micro-enterprises 1996

The proportion of micro-enterprises registered with the Federal Treasury among employers and own-account workers, according to permanence of work site, is shown in the table above.

Differences in incidence of registration with the Federal Treasury according to sectors of activity, size of macro-enterprises and number of employees can be appreciated in the following table.

**TABLE 12**  
**MICRO-ENTERPRISES REGISTERED WITH FEDERAL TREASURY**  
**BY NUMBER OF EMPLOYEES AND SECTOR**  
**1996 Percentages**

Sector	Total	1	2	3	4	5	6	7 a 10
<b>Total</b>	<b>36.8</b>	<b>25.2</b>	<b>51.2</b>	<b>62.0</b>	<b>75.7</b>	<b>82.1</b>	<b>87.7</b>	<b>100.0</b>
Manufacturing	37.2	24.1	43.7	51.7	78.2	81.2	95.0	100.0
Construction	12.2	3.3	9.8	29.4	90.1	72.0	67.6	-
Trade	40.5	27.4	53.5	68.3	68.5	74.5	91.4	-
Services	33.2	22.4	50.7	61.0	79.1	89.7	80.4	-
Transportation	61.4	54.3	74.5	97.2	100.0	100.0	100.0	-

Source: INEGI. National Survey of Micro-enterprises 1996

By sectors, construction, especially in businesses with 1 to 3 employees, shows the highest lack of registry with the Federal Treasury, followed by small retail trade. By contrast, micro-enterprises with 5 employees or more are registered in 80% of the cases, and incidence is higher in businesses related to transportation and manufacturing.

Most of the businesses of employers are small family enterprises, but those under a more formal type of organisation are likely to be registered with the Federal Treasury.

#### ***1.4.4 Social security***

Micro-enterprises registered with the IMSS represent a very small proportion (7.4%), since this kind of registration is not obligatory for own-account workers, who are the majority of the self employed.

All enterprises with salaried employees are required to register their workers. However, according to the survey, only one out of three salaried workers in micro-enterprises are registered with the IMSS. This reflects the strong incidence of informality.

**TABLE 12**  
**SOCIAL SECURITY AMONG THE SELF-EMPLOYED AND THEIR EMPLOYEES**  
**1996 Percentages**

Employment class	With social security %
Total self-employed	<b>7.4</b>
Employers	8.9
Own account workers	0.8
Associates	<b>3.5</b>
Microenterprise employees	<b>17.6</b>
Salaried	32.0
Unpaid and other	0.7

Source: INEGI. National Survey of Micro-enterprises 1996

#### **1.4.5 Accounting**

Most of the micro-enterprises, almost 60% of them, do not have a formal accounting system; 17.3% only keep a very simple accounting book and only 22.9% of them have a formal accounting system.

**TABLE 14**  
**ACCOUNTING IN MICRO-ENTERPRISES**  
**1996**

Type of accounting	%
<b>Total</b>	<b>100.0</b>
Formal accounting	22.9
Balance sheet	3.1
Notes	14.2
No accounting	59.7
Other	0.1

Source: INEGI. National Survey of Micro-enterprises 1996

#### **1.4.6 Main suppliers**

Traders (wholesale and retail) are the vast majority of suppliers of raw materials to micro-enterprises; 45.5% of them buy their supplies in small retail stores and 41.2% in big stores. The link with manufacturing industries as their main suppliers is limited. Only 7.8% of all micro-enterprises have a manufacturing enterprise as their main supplier.

**TABLE 15**  
**MAIN SUPPLIERS OF MICRO-ENTERPRISES**  
**1996**

Suppliers	%
Large trade stores	41.2
Small trade stores	45.5
Large manufacturing firms	5.6
Small manufacturing firms	2.2
Other	5.5

Source: INEGI. National Survey of Micro-enterprises 1996

This reflects that small enterprises are an important supplier for micro-enterprises. Dependence on small retailers increases the cost of their inputs and reduces profits margins. This type of suppliers also plays an important role in financing.

#### **1.4.7 Main customers**

**TABLE 16**  
**MAIN CUSTOMERS OF MICRO-ENTERPRISES**  
**1996 Percentages**

Main customers	Total	Micro-enterprises by sector				
		Manufacturing	Construction	Trade	Services	Transportation
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Large trade stores	2.5	3.5	1.3	2.4	2.4	2.8
Small trade stores	4.9	9.7	0.6	6.0	3.1	5.5
Large manufacturing firms	1.5	2.1	1.2	0.5	1.7	6.0
Small manufacturing firms	1.6	4.7	0.8	0.8	1.4	1.5
Final consumer	41.9	36.5	6.6	71.8	25.9	19.8
Families	45.6	37.0	85.2	17.8	62.6	63.8
Other	1.9	1.8	4.3	0.8	2.8	0.6

Source: INEGI. National Survey of Micro-enterprises 1996

The vast majority of micro-enterprises (87.5%) are not part of productive networks with other enterprises. Their main relation is with the final consumer, who is their main

customer. Some 45.6% of all micro-enterprises have households as their main customers and 41.9% sell to individuals.

The proportion of micro-enterprises that provide goods or services to other firms is relatively small in every sector. When this kind of supply exists, it is with other small enterprises. Micro-enterprises that have large firms as their main customers range from 0.5% in trade, to 3.5% in manufacturing. This means that there is no evidence that the sector serves primarily as a way for reducing labour costs for large firms.

Roughly ten percent of micro-enterprises owned by employers in the manufacturing sector report subcontracting for other enterprises. Among them, the largest proportion corresponds to woodwork shops. Only 6.0% of all own-account workers do subcontract work for other enterprises, mostly in apparel, footwear and wood products.

## **2. POLICY FRAMEWORK RELATED TO SELF-EMPLOYMENT**

To a great extent, self-employment has been a residual area of attention for public policy. This applies to both the workers and their business, most of them micro-enterprises.

### ***2.1 Labour law***

The Federal Labour Law, which is the main code regulating working conditions and labour relations, applies to subordinate work. It regulates wage and salary work and piecework and there are no firms exempted. Minimum wages, maximum working hours, maternity leave, overtime work, vacation, night work and other provisions are applicable by law to all wage and salary workers as a protection in a labour relation which is considered unequal.

There are few provisions in the labour law specific to micro-enterprises. One of them exempts firms under a certain amount of capital from the obligation to share 10% of their profits to employees. Other exemptions regard reporting on training programmes.

The Federal Labour Law has no jurisdiction over work performed under no subordination by the self-employed without employees or by family helpers.

### ***2.2 Social security***

The social security system in Mexico was specifically designed for the salaried worker, originally for the urban salaried worker. It has later been extended to rural salaried workers and to specific groups of non-salaried workers, under special provisions. Nevertheless, it continues to be mainly a social security system for those workers who are salaried.

The system is based on a tripartite financial system of quotas levied on the payroll and consists of three different insurance schemes. One of them covers health, the second, work

illnesses and accidents and the third, comprises incapacity, lay-off in old age, and life insurance. Later on, new institutional services were introduced, such as child care centres for young children of salaried female workers.

Employers are allowed to register with this security scheme when they are included in their business payroll. In this case, the employer pays the quotas corresponding to the worker and the enterprise, and the government covers the third part.

Contrary to the case of salaried workers, the self-employed do not have a social security system. Health care, retirement benefits, life, incapacity, and work accidents insurance have to be covered by the worker from his own resources. Social protection services in the area of health are only available to the poorest segment of the self-employed, through poverty alleviation programmes.

### ***2.2.1 Health care***

Few specific groups of workers, not remunerated by a wage or salary, have access to health care provided by the social security administration (IMSS). These groups have been registered on a case by case basis, mostly as a result of political negotiations with the organisations representing them. All of these groups were organised in associations of self-employed people, such as small farmers, taxi-drivers; owners of small lottery tickets stands. In most cases they were exceptions to the rule, in which a special quota was established, paid partly by the state and partly by the worker and it only covered the health insurance for the worker and his or her family. Other insurance schemes were not included.

Later on, a new health insurance scheme was introduced. It was optional for non-salaried workers or population not in the labour force, not covered (as dependants) by the health insurance for salaried workers. A lump sum yearly quota is charged and the worker can opt out at the end of the period covered by the quota. It is provided to individuals or groups and it has experienced a rather slow growth, as it is costlier compared with the insurance provided to salaried workers.

Most of the self-employed do not have access to health care and other benefits offered by the social security system. Some of them are entitled, however, to general health services offered to groups living in extreme poverty.

### ***2.2.2 Other social security schemes***

The other two insurance packages provided by the IMSS (which cover work hazards and incapacity; old age dismissal and life) have been an exclusive prerogative of the salaried worker. Every employer with salaried employees, regardless of firm size, has the obligation to register them with the IMSS and enter the quotas on a bimonthly basis.

Non-salaried working groups with special insurance regimes are only allowed to the health insurance package that covers maternity care and illnesses, but does not include other insurance schemes. The reason for this is that the insurance statistical basis was designed exclusively for salaried workers and did not envisage groups of self-employed, who have a

different behaviour within the workforce, characterised by more frequent entries and exits. Besides, quotas for these groups could not be established on a tripartite basis and their cost resulted higher both for the self-employed and the state.

There has been recent debate over the convenience of gradually moving to a system not financed by payroll charges but by overall taxes, particularly in the case of the health insurance scheme. This would make it easier to cover other population groups, different from salaried workers.

The insurance scheme covering life, incapacity and old age provides for pensions, indemnities and monetary benefits aimed at protecting the worker from these contingencies. This insurance also provides for monetary assistance in other events, such as the death of spouse or dependant, where funeral expenses are provided, marriage or the birth of a child. All these benefits established by law to salaried workers are not available for the self-employed, who have to provide for these kind of contingencies out of their personal savings.

### **2.3 Taxation**

The tax system for the self-employed is more complex than the one applicable to salaried workers. People employing others, as well as own account workers have to collect the VAT tax in addition to the price of their goods and services and turn it over to the state. They also have to pay local and federal direct taxes related to their activities.

In the case of people employing others, they are required to make deductions from the wage and salary of their employees to cover personal income taxes, social security charges and housing fund contributions, and to send both employee and employer contributions to public institutions. There are a number of deductions that employers and own-account workers are entitled to make from their income, hence their need for a more detailed and formal accounting system. In a number of micro-enterprises a fixed amount tax is levied by the state or by the local authority. Local authorities levy taxes different from income taxes, such as taxes on real estate, or payroll taxes in some states.

#### **2.2 4 Regulatory framework**

The institutional framework regulating micro-enterprises owned by the self-employed is highly dispersed among a vast group of federal and local public authorities. Regulations derive from the labour law, which covers labour rights and benefits for the salaried workers, social security, housing fund, work safety and health and training. Other regulations cover environmental provisions; sanitary and quality measures to protect the consumer; federal and local taxes, intellectual property rights and in some cases, price controls and site regulations.

Promotion strategies are conducted by the Ministry of Trade and Industrial Promotion, the Ministry of Tourism and the Ministry of Transportation and Communications, and other public authorities, according to their sector of activity. These authorities in some cases enforce price and tariff regulations. Up to the last decade, there existed a dense regulatory

framework, most of it focused on price and tariff controls that have been progressively abandoned. At present only two basic staples are still subject to price controls: tortillas and milk.

The relationship of the authorities with micro-enterprises historically derived mostly from regulatory policies, through instruments such as licenses, maximum tariffs and quotas and sporadic compliance inspections, but promotion activities were traditionally aimed at medium and large-sized enterprises. As far as promotion is concerned, micro-enterprises were for a long time neglected.

For many years individual employers, that is to say, the self-employed that own and manage small businesses with employees, did not represent any difference from medium and large-sized enterprises regarding registration requirements, although some of them were exempted from formal accounting and certain taxes up to a limit.

For own-account workers, which are classified by the Treasury as “*individuals with entrepreneurial activity*”, the panorama is more ambiguous yet. Deductions are not always clear and those who are registered must frequently recur to professional accounting services or spend a valuable part of their time preparing tax reports.

Even though in recent years the micro-enterprise has become a new policy area, it continues to be an environment where no authority takes full responsibility. Small firms are many times required to act under the same rules as large enterprises, regarding labour law, taxation, training, licences and standards.

### **3. SUPPORT PROGRAMMES FOR THE SELF-EMPLOYED**

Over recent years several government agencies and NGOs have implemented programmes focused on the self-employed and their productive activities. Among these, micro-enterprises have become a recent field of attention. Some of the most important programmes in this area are discussed next.

#### **3.1 Training**

##### **3.1.1 Training for the self-employed**

This programme is operated by the Secretary of Labour and Social Prevision, through the National Employment Service (NES) and is aimed at unemployed population. The offices of the NES offer job orientation services and channel displaced or unemployed workers, who cannot be hired immediately, to training services.

Some of the unemployed, whose profile does not correspond to the occupations for which there is demand from enterprises are remitted to training courses, supported by monetary stipends, at the end of which the trainee is oriented and helped find a job. Originally all

training was focused mainly on displaced workers and oriented to wage and salary employment.

During the 1995 economic crisis, when the payroll of modern sector enterprises was cut by 1 million jobs over a 12-month period, many enterprises closed and new hiring stopped. The NES had to look for new options in order to respond to the growing number of job seekers that could not find a place in the modern sector of the economy. A national training project for the self-employed was introduced as part of an emergency employment programme. The project provided the trainees with basic skills and helped them set-up small businesses. These businesses were intended to respond to local demand for occupations such as carpenters, plumbers, electric appliances repair shops, preparation of dairy products, and other productive activities with low capital needs.

Courses were designed for 2 or 3 months. They were generally aimed at people with lower than secondary school, some of them with no work experience or older than the average age for new entrants to salaried work. An important proportion of the trainees were women re-entering the labour force or with family occupations.

During the course the trainee was entitled to a stipend equivalent to a minimum wage, transport expenses and a health insurance. A trainee was not allowed to take a second course financed by the same programme. The most distinguished trainees were provided with a basic tool-kit to set up their own businesses. In 1996 the programme financed training courses for 307 thousand self-employed.

### ***3.1.2 Training for self-employed women in non-conventional occupations***

As a result of the initiative of an NGO aimed at gender issues and women promotion, the NES supported, on an experimental basis, a training project for self-employed women in non-conventional occupations in urban areas. The project considered technical training on home electrical appliances repairing, woodwork and automobile repair. This training was promoted on the grounds that these new occupations could offer women opportunities for higher earnings than they would get in traditional women's occupations, such as sewing, which is already highly saturated and subject to great competition.

The trainees have also received support in administrative and managerial training, and in overcoming common gender barriers. The promoting NGO has facilitated contact with financial organisations for small businesses and is documenting these experiences, with the intention to improve and promote these programmes on a broader basis.

### ***3.2 Support programmes for micro-enterprises***

Coinciding with a world trend, public agencies in charge of economic promotion, development banks, and federal government agencies, have implemented over the last decade new programmes, offices and commissions aiming to promote micro-enterprises. Business organisations have also participated in some of these programmes.

### ***3.2.1 Training and productivity programme for small and micro-enterprises (CIMO)***

A programme operated by the Secretariat of Labour and Social Prevision, first on an experimental basis, and later on a larger scale, is the Training and Productivity Programme for Small and Micro-enterprises (CIMO is its acronym in Spanish).

This programme provides micro and small enterprises financial support to hire professional assistance, in order to help them diagnose and solve their main productivity problems. It also helps them implement in-site training programmes and modern work organisation schemes. CIMO also facilitates contact with other institutions that provide financial and technical support for technological development, commercial and export promotion, and access to credit institutions.

This programme is operated by local business organisations throughout the country. These organisations contact small and micro-enterprises and in certain cases organise groups of small productive units, with common problems, for training and productivity purposes. From 1995 to 1997 some 300 thousand small sized firms and micro-enterprises received support from CIMO.

Together with the two aforementioned programmes, CIMO has received financial support from the World Bank and is currently receiving some from the IADB.

### ***3.2.2 Promotion of business networks and commercial firms***

The Ministry of Trade and Industrial Promotion (SECOFI) has issued two specific decrees to promote micro-enterprises. One of them considers of public interest to set up networks, in order to articulate the productive efforts of small and micro-enterprises with other enterprises of larger dimension. Another decree provides for the creation of commercial enterprises to facilitate access to the micro-enterprises to broader national and international markets.

### ***3.2.3 Information and orientation counters***

Development banks and export banks, such as NAFIN and BANCOMEXT, have set up specific counters in which information and orientation for micro-enterprises are provided. These counters also facilitate contacts with other institutional agencies, such as CIMO in the area of training and productivity, or CONACYT, which provides technological support.

BANCOMEXT operates a promotion programme that offers concrete information for micro-enterprises on foreign demand for specific products; it provides support for micro-entrepreneurs to attend international fairs. But, to a great extent, export credit continues to

be out of reach for this type of firms, since they do not meet the specific criteria defined for credit policies.

### ***3.2.4 Simplified tax schemes***

The Treasury Secretariat has set up a simplified scheme for small and micro-enterprises, by which they are not required to carry a formal accounting system but only a simplified one and in some cases fixed quotas have been established. Although the system of fixed quotas has been sometimes criticised because of its regressive effects, it has proved to be one of the most effective in terms of simplicity and fiscal revenue results.

### ***3.2.5 Administrative simplification programmes***

Inter-institutional commitments aiming at administrative simplification, for gradually reducing the requirements for starting up small businesses have also been made, particularly when health, safety or environment hazards are not involved.

### ***3.2.6 Statistical data on self-employment and micro-enterprises***

Important efforts have been carried out to create a more adequate statistical database to provide policy-makers with better knowledge of who the self-employed are. Under this programme, new surveys on conditions, needs and problems of micro-enterprises have been conducted. With this aim, the INEGI, which is the main federal statistical agency, has carried out four detailed surveys aimed specifically at micro-enterprises in urban areas.

All these actions reflect a new vision on the part of the government to better understand the needs of micro-enterprises and their productive potential. However, many of these actions are still not articulated enough and the content seldom goes beyond the promotional or conceptual stage, where information and orientation are made available. Financial or technical support instruments are still very limited. One area where progress has been made is the availability of detailed statistical information on the micro-enterprise, which resulted from a joint effort by the STPS, INEGI, the World Bank and more recently the IADB.

## **4. ASSESSMENT OF CURRENT POLICY FRAMEWORK AND SUPPORT PROGRAMMES**

1. For a long time urban self-employment was not considered a specific area of attention within the social or economic policy framework. Traditionally economic promotion policies were oriented to large and medium-sized enterprises and social support policies aimed at two main population groups: wage and salary workers and groups in extreme poverty.

2. From the standpoint of workers as individuals, the public policy framework during the last 50 years was primarily designed for wage and salary workers. It was with these workers in mind that the main social protection institutions were created. They covered family health care, work accidents and illnesses, life, incapacity, old age unemployment, retirement, a housing fund and child care centres, as well as monetary assistance in case of other contingencies.
3. Non-salaried workers have not been included in the social security systems. Only specific groups of organised self-employed workers have been admitted to the health care system, provided by the social security administration, under special agreements. They remain out of other social protection schemes that provide for pensions in case of retirement, incapacity, accidents or death.
4. As regards the policy framework, present labour and tax regulations, as well as financial institutions are ill-adapted to the situation of micro-enterprises. These institutional and regulatory frameworks were generally designed for medium and large-sized enterprises in the modern sector and they involve costs that generally are excessive to micro-enterprises.
5. The increasing share of urban self-employment over the last years, in a reversal of past trends, has called the attention of public authorities. Many of them have recently started new programmes specifically aimed at the self-employed or their productive activities. But generally, these have been isolated actions within a policy framework that was designed to address the needs, problems and working conditions of other workers and other type of enterprises.
6. Thus the need arises not merely for a new emphasis on the self-employed, but also for specific programmes, instruments and institutions that can effectively reach these groups of people. This applies to financing, training and technical assistance for micro-enterprises, where ad-hoc instruments and institutions are needed to provide these services. It also applies to taxing and regulatory policies.
7. As far as the self-employed individuals are concerned, one of the most important actions carried out so far has been oriented to building a new and more detailed information base. Recent employment and micro-enterprises surveys have produced rich information that can provide policy-makers with elements needed for a deeper understanding of this highly heterogeneous group, their specific needs, dynamics and economic potential.
8. Present support programmes for the self-employed as individuals are still scarce. One area where specific actions have been implemented recently is training for the unemployed in occupations related to self-employment. This programme was motivated by a pressing need during a particularly difficult period for salaried job creation, but did not obey to an articulate strategy nor was accompanied by complementary actions that could guarantee the creation and economic survival of micro-businesses of the trainees.
9. Other support programmes in this area are still in an experimental stage, such as those targeted at self-employed women in non-traditional occupations. A thorough evaluation

is needed to assess the effectiveness and efficiency of training programmes for the self-employed.

10. The self-employed need to be studied also as target groups of social security policies. It is now clear that this group of workers will continue to be an important proportion of the labour force. Presently the logic and financial structure of social security institutions is adapted to workers in stable paid employment, in firms where the organisation of production is totally different from the way in which micro-enterprises operate. It is also clear that many own-account workers are neither the very poor, who can be reached by poverty programmes, nor the more affluent, who have access to private health and prevision systems.
11. Interest in the micro-enterprise has been relatively recent, and there is not yet in place an integrated policy framework. Many public authorities have not gone beyond the conceptual stage, where the need has been stated for deeper studies and promotion instruments targeted at micro-enterprises.
12. Federal government promotion agencies and development banks have taken great interest in studying successful experiences in countries where small and micro-enterprises have achieved efficient integration schemes with large export firms, mutually beneficial. Through these productive associations, micro-enterprises have introduced greater flexibility to the manufacturing process and large enterprises have achieved commercial, technological and financial advantages in global markets.
13. Most of the recent programmes for the industrial, trade and services sectors have proposed a new conceptual framework. The macro-enterprise ceases to be considered as a sector likely to disappear in urban areas, and turns into a new object of vast development potential, modernisation and more efficient articulation to the medium and large-sized enterprise, in which both types of firms would benefit from.
14. However, most of the present programmes toward the micro-enterprise are still at a preliminary, or experimental status. Most of these actions lack adequate articulation and their content seldom goes beyond the conceptual stage where a new vision towards the micro-enterprise is stated. New promotion and orientation instruments are being implemented, but still very limited financial or technical support programmes are available.
15. As regards financing, the micro-enterprise has great difficulty to access the formal banking system. Private and public banking institutions have not developed yet the mechanisms or procedures to reach this numerically important market segment. Contrary to the trends in many European countries and Japan, the small savings market has not been a target of private banks.
16. The relation of micro-enterprises with banks is practically non-existent. Most of the financing needed to start up businesses comes from the owner's savings or from credit from friends and relatives. Recently some non-government organisations, to a very limited extent, started operations in what has been called micro financing, with the aim

to develop savings and financing culture among micro-enterprises. But they do not have a clear perspective of expansion, as donor funding is becoming increasingly limited.

17. In the present restructuring process, under a more competitive financial environment, the banking system in Mexico is looking for new market opportunities, one of which is in the area of micro-enterprises. Private banks are discovering this largely unexplored area. However, the problem of high costs involved in credits to these firms can only overcome by broadening the base, reducing risks and strengthening a savings and borrowing culture.
18. Contrary to what may be expected, another area of opportunity for micro-enterprises, that of subcontracting for medium and large-sized enterprises, has not been developed yet. According to the *National Survey of Micro-enterprises* (1996), only 4.0% of micro-enterprises mentioned having a large manufacturing or trade firm as their main customer and there is among them poor knowledge of modern distribution networks. Almost 90% of them sell their goods and services directly to the final consumer. Limited integration of micro-enterprises to the modern sector is one of the main characteristics of what is known as the informal sector.
19. Even though in recent years the micro-enterprise has become a new policy target, it continues to be an environment where no authority takes full responsibility. Micro-firms are most of the times required to act under the same rules as large enterprises, regarding labour law, taxation, training, licences and standards, under a highly dispersed institutional framework.
20. Recent interest in studying and implementing support programmes for the self-employed reflects a new vision on the part of the government to better understand the needs of this segment of the workforce and their productive potential. However, many of these actions lack adequate articulation and in other cases their content seldom goes beyond the promotional or conceptual stage.
21. All these reflections imply that there is still a long way to go. A deeper understanding of who the self-employed are, what are their occupational characteristics and productive activities and what are their present needs, problems and motivations is only the beginning. More study is needed, as well as re-thinking the institutional framework to reach this important segment of the labour force, both to enhance their productive potential and to improve their living conditions.

## ***ANEX I***

### ***DATA AND SOURCES***

Two categories of self-employed are considered: the self-employed with employees and own-account workers. Unpaid workers, who represent 5.2% of the urban labour force, are not included.

Most of the data and information on the profile of the self-employed come from the *National Employment Survey*, which is a household survey of the labour force. The paper refers to urban self-employment, which applies to localities of 100,000 inhabitants and over. The reason for this is that this information on the profile of the self-employed is linked with data on the characteristics of the micro-enterprises owned by the self-employed, which particularly refers to the same urban areas. The source for data and information on the productive activities of employers and own-account workers is the *National Survey of Micro-enterprises*.

Micro-enterprises are defined in the survey as enterprises with 6 workers or less, paid or unpaid, including the owner, in mining, trade, transportation and services. For the manufacturing industry firms of 16 workers or less are considered. Micro-businesses were identified from the *National Employment Survey* and the owners of these businesses were interviewed. The survey covered 12,243 micro-enterprises.

Both employment and micro-enterprises surveys reflect greater proportions of self-employment than census data. This is due to the fact that censuses generally underestimate precarious employment, most of it self-employment, as many of those interviewed do not consider jobs not performed under stable and subordinate status. Surveys include a deeper questionnaire on employment and thus are able to give a better profile of independent workers and those with no permanent work site or working in their own homes.

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