Analysis of the behavior in the informal micro-entrepreneur sector in Colombia

Análisis del comportamiento en el sector informal de microempresarios en Colombia

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Abstract
Objective: The objective of this research is intended to raise awareness among micro-entrepreneurs, students and society in general about the importance of microentreprises in their economic activity. Method: In order to fulfill the general objective of the study, an exploratory research with data has been applied, with information gathered in a time span involving data collected in conjunction with the direct problems that this contract has with the Colombian society. The study was carried out with a sample of 100 microenterprises and the informal sector in the research located in Cali (Colombia); the instrument for collecting information on informal microenterprises was made through surveys, the study was performed in order to obtain real, measurable and attainable data, resulting in a descriptive analysis using the corresponding variables in the research. Results and Discussion: The study showed that a negative correlation was obtained given that there are a number of microenterprises not legally constituted and, therefore, it was found that these belong to the group of family businesses, which makes it clear that the salary variable is not defined by its business variability. Companies will have greater capacity for goods and services and will eradicate informal enterprises, thus the government will obtain higher taxes, but without abusing them, since if taxes are high, it will lead the companies to evade and are not formalized legally. The financial sector should be more competitive to the new micro-entrepreneurs, given that being new to the business system; they require greater support through financial resources and government entities. Conclusion: The environment variable of the informal sector concludes that the phenomenon of informality in the country is predisposed to education levels with the purpose of managing unproductive assets under a formal education managed from the management positions. It is necessary and of vital importance that the State takes measures and solutions relevant to the motivation to include the informal sector within the formal sector.

Keywords: Employment, Informal sector, Job, Small businesses, Tax evasion.
JEL Classification: H26, F38, G32

Resumen
Objetivo: El objetivo del estudio consistió en sensibilizar a los microempresarios, estudiantes y a la sociedad en general sobre la importancia de las microempresas en la actividad económica. Método: Se aplicó una investigación exploratoria con datos. En concreto, se recopiló información en el tiempo, involucrando datos recolectados en conjunto con los problemas directos de este sector en la sociedad colombiana. El estudio se llevó a cabo en Cali (Colombia) con una muestra de 100 microempresas del sector informal; el instrumento de recolección de información fue la encuesta, dado que resultó un análisis descriptivo a partir de las variables correspondientes en la investigación. Resultados y Discusiones: Se obtuvo una correlación negativa, pues hay una serie de microempresas que no están legalmente constituidas y, por lo tanto, pertenecen al grupo de empresas familiares. A su vez, esto deja en claro que la variable salario no está definida por su variabilidad empresarial. Con una mayor capacidad de bienes y servicios, además de erradicar las empresas informales, el gobierno obtendría mayores impuestos, pero sin abusar de los mismos, ya que si los impuestos son altos, ello conducirá a que las empresas evadan y a que no se formalicen legalmente. El sector financiero debería ser más competente para los nuevos microempresarios, dado que requieren un mayor apoyo a través de recursos financieros y entidades gubernamentales. Conclusión: Se concluye que el fenómeno de la informalidad en el país está predisposto a niveles de educación relacionados con la administración de activos improductivos en los puestos gerenciales. Es necesario que el Estado tome medidas relevantes para incluir al sector informal en el formal.
Palabras clave: Trabajo, Sector informal, Empleo, Micro-empresarios, Evasión de impuestos.
Clasificación JEL: H26, F38, G32.
Introduction

Given the lack of management to combat the informal or underground economy by the state, it can be said that these types of economies do not have a legislation at the national level that guarantees that this sector is totally abolished from the economy, which is worrisome since is a sector that in the last decade has had a significant growth.

Informal occupations are characterized by low quality products and therefore lower income, which leads to labor instability, since these people often do not receive a fair and constant wage to meet their basic needs, directly affecting the quality of life of people and generating poverty and social exclusion, as well as not guaranteeing with social security coverage that protects the employee’s rights to health. Thus, it is important that this population belongs to be formalized, through the implementation of public methodologies and strategies that manage a solution from the labor and taxation point of view versus the national collection.

Different studies mention that some of the variables that determine informality in society (Lozano, Romero & Hirsh, 2017), and that affect the structural social aspect is unemployment, a situation that is not far from the Latin American present, which has caused the unemployed to enter the informal sector as a way of subsistence, with different variables such as age, gender, educational level, labor reforms and economic opening among others that impose more barriers to the legal formalization of these micro-entrepreneurs.

This article includes 3 sessions, the first one corresponds to the contextualization of the social environment in front of the micro enterprises and how from the point of view of the population about the formalization of the companies in the country; in the second one it is detailed in what state of informality are the micro-enterprises based on research carried out by the DANE (National Administrative Department of Statistics) and finally it describes in depth the situation that causes each one of the objectives developed.

Currently, in Colombia, the informal sector has gained momentum, penetrating different sectors of the economy, such as the industrial, commercial and services sectors. This problem presents high indicators, about 74% of the personnel employed in informal microenterprises, reflecting that the current legislation has not provided solutions to address this problem caused by legally constituted companies, which are those that comply with the respective tax contributions, by directly reducing their income and staff recruitment capacity, being the main affected.
Micro-enterprises that are not legally constituted affect the social environment, impacting on public revenues at the territorial and national levels, as well as have a social impact on the population since these physically invade the legal sectors causing an overload of supply and unfair competition with large companies. In addition, many of the causes of tax evasion are timely in that this population is not aware of the payment of taxes due to the complexity of the tax and fiscal system.

The main causes for which this problem is being triggered is the educational level in which a high percentage of the population is found, is among the young graduates that have a basic educational level, faced with a social environment that forces them to be used in informal micro-enterprises.

Another variable besides education is unemployment, a vital factor that fuels this problem, because somehow it can end up leading to informal microenterprises, such as street vendors in illegal places invading the public space.

Informal microenterprises constituted in the country represent a high rate of evasion of taxes at territorial and national level; which leads to a decrease in resources to face unemployment, another variable that affects not only the economy but also a large part of this problem, which provokes negative factors in society towards equitable growth and distribution of wealth.

At the moment micro-enterprises have been presenting a growth in which it presents/displays an average of ten (10) people occupied, of the different sectors of commerce, presenting/displaying a pact before the not so positive society since many of these present a duration at least of a more than one (1) year; in turn occupying the same physical space.

In the present decade, the unemployment rate among young people has increased, increasing the rate of underemployment since it has been classified in one of the groups with the largest population (Sánchez, T, R., 2013).

This situation presents social problems, since it diminishes the productivity and the economic growth of the different sectors, causing that this relatively low, consequently the increase of the informality. Not only grows socially, if not sectorally, since single or independent microenterprises are physically located in different sectors of trade, benefiting from all the economic contributions made by large companies currently incorporated ((Sánchez, R., 2013); (Levy, 2007)).
Unemployment is an important and relative factor to the economy, since according to studies and analysis mentioned by Rodriguez & Calderón (2015), indicate that, in different countries of the world, the average number of employed persons is generated by informal companies, thus presenting an occupancy rate of 43%.

The formal occupation sector is made up of professionals and independent technicians, while the informal sector is made up of people with basic professional education; which has made it necessary to determine that the different informal economies become security meshes, since they are made up of hundreds and thousands of people who currently do not have a formal job and do it in order to meet their basic needs, which causes a progressive decrease in companies legally constituted (García, 2011).

This situation presents a great saturation of the different external sectors, where the capital occupied in a non-sectorized informal way, such as find out, which create a forced conflict with the different authorities, pedestrians, and vehicles of all kinds, presenting despair of the population (Gómez, 2011).

**Literature review**

*Campaigns of inclusion of micro-entrepreneurs to legal formality*

The informality of companies is not a new issue in Latin America and the world comes from before the 60's, when the first studies on the subject, which were primary attempts, and from this begins to use the term of informality in different parts of the world by the International Labor Organization. (Ramírez, Zambrano, Mogrovejo, & Carreño, 2016)

When informality in the companies at the labor level began to arouse a series of interests, the issue generated two important variables of thought, which were mentioned as structuralism and institutional, these detail different views on informality. Where the structuralism perspective demonstrates two internal variables such as demand and labor supply, demand demonstrates the incapacity of the economy and labor supply argues that human capital does not have the necessary aspects to obtain a labor link to formal jobs.

While the institutionalism perspective mentions that there are positive variables regarding the cost-benefit of the agents that choose an informal method of employment, the state imposes to the formalization rules and regulations that increase the costs of the employer (El Kadi, Pelekais, Robles & Leal, 2015); (Fernandez, Castañeda, Polanco, Martinez & Baracaldo, 2017).
Of previous studies on the magnitude of the informality of the sector and time in which it is analyzed; Likewise, the entities in charge of measurement, such as DANE, are in charge of centralizing it based on criteria such as size of establishment, work activity, and type of occupations from the structural point of view; in the same way a narrow variable has been presented between poverty and informality, consequently the modernist structural approach (Sánchez, 2013). Nevertheless Roldán & Ospino (2010) found that informality establishes that these types of companies do not have higher incomes, since they are structurally small, therefore they do not have a significant amount of fixed assets, which presents a high vulnerability in the commercial sector, which allows the creation of regimes that guarantee the formality and payment of minor taxes that consolidate and confirm a company that grows structurally. How highlights Roldán & Ospino (2010) mention that the high indices of business in formalism is the determining cause of the low schooling of the population by the guild since about 70% - 80% only complies with primary education.

**Impact on the corporate financial sector**

The financial sector is a fundamental support in society, which is directly related to the world, and which manages to connect the economic projects with the normal growth and development projections of the countries, so, in the case of the microenterprises located in the country, this issue is not far removed from the needs of growth and capital injection to be achieved by these entrepreneurs, however, in the light of credits for micro-entrepreneurs, the financial sector tends to be a bit drastic, since these may not show the financial strength to gain the confidence of the banks, a situation that has been analyzed by several points of view such as the lords Rivas & Martínez (2013) where they expose the quality and the obstacles that can have the financial system from the economy.

Taking as reference the municipality of Yumbo, it has been especially a city that has been dedicated to the industry, gathering large national and multinational companies, which has generated a great mobility of the economy, creating direct and indirect jobs, and above all giving it the possibility for entrepreneurs to create micro-enterprises that revolve around those businesses, as well as offering solutions for goods and services to the community. Yumbo is a municipality characterized by very good fiscal solutions for this, and it has not been possible to move away from the national problems in the approach of the financial sector to micro enterprises, partially halting the evolution of these sectors, which ultimately move the micro-economy of the municipality, those commercial and service companies are taking much of the illegality in Colombia, since having barriers to growth with the sector, has been able to generate inequality and tax evasion, in short, a bit that slows down the development of innovation, as explained Gonzales & Hurtado (2014) in an investigation that took place in Colombia addressed to these micro-enterprises.
Little support for microenterprises

The current economic growth shows that there is little support from the government, which encourages micro-entrepreneurs to become formalized SMEs, because it focuses on the benefits that are given to large companies with tax deductions, except for taxes during a given period that favors them but is not considered equally for micro-entrepreneurs in cities or municipalities. At the national level in 2011, the government issued Law 1429 of 2010, which provided tax and fiscal benefits so that microenterprises that were formalized as of January 2011 have the same conditions in competitive environments in the country market (Lozano et al. 2018).

Micro-enterprises contribute to the generation of employment in a large percentage of the country, and this can be considered a favorable impact on economic growth, for which strategies should be designed to favor them, with which an accelerated and steady strengthening. (Mora, Vera & Melgarejo, 2015). it should be noted that micro-enterprises are increasingly growing in developing countries in recent years, requiring regulations to be favorable and incentives are needed (Hernandez, 2013).

It is important that support is given to microenterprises, which may also be formed by families that may not have a defined structure and contribute to the economy as previously mentioned but should not be limited, which has a space in the market and should leave the informality with which they were created. (Arenas & Rico, 2014), however, there are fears by the owners of the same with respect to the labor regulations that should have their employees or relatives (Hernandez, 2013).

Accounting application for micro-entrepreneurs

At the present time, it can be observed that micro-enterprises are created as family business ideas and are characterized by being highly employment generating, and these relatively are not structured and do not have strategic planning to follow (Arenas & Rico, 2014), for the above, it must be implemented in them the awareness of keeping an accounting, have business organization and have the necessary support for its implementation (Bravo, Azcárate, Rojas & Narváez, 2015); (Fernandez, Ochoa, Martínez, 2017) and more with the entry into force of international standards IFRS in accordance with Law 1314 of 2009 that indicates the standards of accounting and financial information to be used as well as the dates established for the convergence process; which can validate the impact of these standards on SMEs in Colombia and the disadvantages that are generated so that these can be converted into opportunities for improvement (García & Dueñas, 2016).
With the accounting implementation in the microenterprises will differentiate the expenses caused as a result of the normal business turnover of those included as personal expenses of the owners and their families; and with this to be able to know the real financial situation of the same so that they can be taken as a basis for the decision-making in the right moment, opportune and necessary (Arenas & Rico, 2014); (Fernández, Castañeda, Polanco, Cuellar, Martínez & Baracaldo, 2017), according to the above, it is possible to emphasize that when applying the accounting in the microenterprises or SMEs in Colombia, these will have financial effects in the main accounts like: accounts receivable and fixed assets, reason why it is necessary to be trained in the same, put this process in the hands of qualified personnel and carry out the review of processes advanced in other homogeneous microenterprises to have a broader view of the results obtained and not fall into unnecessary errors (Salazar, 2013).

**Methodology**

In order to fulfill the general objective, an exploratory research with data has been applied, with which information is gathered in the time of time, involving data collected in conjunction with the direct problems that this contract with the Colombian society.

In order to analyze the problem, it was necessary to integrate the information obtained from the different variables that are directly related to the different sectors of public information that helped to correlate the information with the micro enterprises, from which relevant information was taken and timely of the competitiveness and participation in the market by this informal sector.

The instrument for collecting information on informal micro-enterprises was through surveys, which were carried out in a sample of the population directly related to the research topic.

The study was carried out with a sample of 100 micro enterprises and the informal sector in the research located in Cali (Colombia), under different scenarios or variables of measurement, as formalization of business activity, level of sales, seniority in economic activity, access to bank credit, educational level and the interest to change to legal regime in the environment of business and economic activity.
Study procedure

A communication was developed with the companies participating in the research and the academic purpose of the research was announced, participation was reported to be voluntary and acceptance of the questionnaire was with multiple closed questions.

Data collection

Through the participant sample, the tabulation corresponding to the study was performed in order to obtain real, measurable and attainable data, resulting in a descriptive analysis using the corresponding variables in the research.

Results descriptive analysis

In terms of the socioeconomic characteristics of the population, there is stability over the number of people surveyed; which were micro-entrepreneurs who do not have a legally formalized company, a series of fundamental and closed questions were asked in order to know the specifics of the causes the population makes the decision to become informal traders.

Graph 1 ¿Why do you decide to have an unformalized company?

According to the information provided, it is shown (Graph 1) that 48% of the population makes the decision to have a source of income having informal companies, because they do not have a sufficient education with which they can compete in the labor field of the different sectors to which they belong, however, 33% of the sample mentioned that it belongs to this guild as a consequence of the lack of labor supply currently in the country; while 19% clarified that they prefer not to pay taxes for the work they perform.
¿What is the level of daily sales?

Sources: Data correspond to the results of the surveys carried out in the year 2017.

According to the occupational position, a portion of this population shows (Graph 2) that 54% have a daily average income of 0 to $30,000 (Colombian Pesos), which is equivalent to a little more than a minimum wage per month in the country, of the sector shows that 26% of this population has an average income between $50,000 and $100,000 (Colombian Pesos), which according to the surveys carried out correspond to the sector of repair and programming of technological devices.

¿How many years have you been in this activity?

Sources: Data correspond to the results of the surveys carried out in the year 2017.

The growth and labor stability of this sample population is shown in graph 3, which 50% of the population has been carrying out their work for more than 5 years, which leads to the conclusion that this informal sector has more and more positioning in the market, a situation that directly affects the legally constituted industrial and commercial sector.
As a consequence of this type of sector, it is notable that one of the reasons why they do not carry out a legal formalization is given that this population does not have access to business credits since they have no way of certifying their income and thus leverage their Business; while the people who had a type of access to them, is because they fulfilled a financial trajectory before becoming independent informal.

Sources: Data correspond to the results of the surveys carried out in the year 2017.
The results shown in graph 5 and graph 6 show that the constitution of the informal market is made up of 72% by people who only have a basic level of primary and secondary education, which has meant that they do not have access to participate in the different offers of employment that present/display today in the different industries manufacturing, commercial and among others.

![Graph 7: Would you change to a legally constituted regime?](image)

Sources: Data correspond to the results of the surveys carried out in the year 2017.

It is clear according to the accounts made that 53% of the population surveyed are in some way determined not to carry out a formalization of their companies, because this would lead to the payment of taxes that would significantly reduce their income and that in some cases could lead to the total closure of their businesses in extreme cases, however it is observed that 22% of the population does not present any interest since there are no solid and permanent benefits for those companies that perform this formalization (corresponding to graph 7).

**Description of the causes for which micro-enterprise does not make the decision to be legally established**

From the perspective of the study by the National Administrative Department of Statistics in relation to the informal microenterprises created in the main cities of Colombia (24) during the year 2015 and 2016, it was observed that out of a total of 33,013 establishments are divided into different sectors of the economy (Fernandez, 2013), and it is validated that the trade sector are those that contribute significant annual nominal revenues (graph 8).
When reviewing the microenterprises in the main cities of Colombia, it can be observed that there are 9,039 establishments that are not legally constituted and therefore are not registered in the Chamber of Commerce and 22,334 have registered as natural small business units, which are compelled to tax according to their income (graph 9).

The study analyzed whether these micro-enterprises have accepted accounting in Colombia, since taking the accounting will help them to have a better control of it and to make decisions in a timely manner, and according to actual balances, their share by sector (graph 10).
When reviewing the type of microenterprise constituted in the main cities of Colombia, it was identified that the personnel that is working in these places correspond especially to owners, partners, and relatives without remuneration (graph 11).

Graph 10 Accounting in microenterprises

Graph 11 Participation of employed persons by type of hiring according to economic sector

Sources: DANE 2017
Discussion

The corporate system must be increasingly integrated and have government cooperation, as Wu, Liu & Xu (2017) stresses, minimize barriers to the emergence of larger companies at the national level and greater competitiveness in the face of international markets, under the business cluster scheme, as expressed by Fernandez & Martinez (2018); Estrin, Nielsen & Nielsen (2015); Fernandez (2014); Hoskisson, Wright, Filatochev & Peng (2013); Gammeltoft, Barnard, Madhok (2010); Cuervo & Genc (2008), and this leading to the benefits of consumers, in addition, companies must expand their production, not manufacturing the same products of current competencies, this leads to the need to integrate and obtain a greater link entrepreneurs, so in the study of Blanco, Benayas, Pertierra & Lozano (2017) mentions it so that companies are increasingly sustainable in economic activity.

Due to the above, companies will have a greater capacity for goods and services and will eradicate informal enterprises, thus the government will obtain higher taxes, but without abusing them, since if taxes are high, it will lead to the companies evasion and are not formalized legally, so it is contemplated by Distinguin, Rugemintwari & Tacneng (2016) where these informal companies do not contribute to the economic growth of the country, therefore, emphasizes that SME companies must have a mutual integration with the goal of having an efficient economic activity in the markets. Therefore, the “quality of life” of the population increased and will have purchasing power, today as the economy is, there is a restriction on purchase, therefore, it requires decision mechanisms and amplitude in production, as well as a reduction in taxes levied to avoid evasion and seek to broaden the offer of employability, so it should be noted that Lehmann, Marical & Rioux (2013) says that tax reforms are mechanisms for companies in the productive sector to increase their investment capacity and promote social benefit (Fernandez, 2017).

Consequently, by reducing taxes (Value-added tax) from 19% to 15% (Lehmann et al. 2013), it will lead to the Colombian economy having mobility through the companies that are the organizations that promote the circulation of money, given that with 19% the economy presents a stagflation directly affecting the productive sector by the typical reaction of the consumers, that is to say, low demand.

On the other hand, informal enterprises come to this stage, since the government does not promote the development of new companies as well as is encouraged in other countries as mentioned by De Langen & Van der Lugt (2017) has generating policies in benefit of the new entrepreneurs that count on the dynamics of knowledge, observing that knowledge is a necessity for progress, and for that reason, the graduates of universities count on the capacities of management and business development.
The financial sector should be more competent to the new micro-entrepreneurs, given that being new to the business system; they require greater support through financial resources and government entities.

Conclusions

In the study, a negative correlation was obtained given that there are a number of microenterprises that are not legally constituted and, therefore, it was found that these belong to the group of family businesses, which makes it clear that the salary variable is not defined by its business variability, this because of the non-accounting application that is applied in the country, therefore the graphs show that it is not identified which are business expenses and which correspond to personal expenses of the entrepreneurs, additionally, it does not have a strategic plan to follow, so they do not have a future direction of what they intend to achieve with the microentrepreneur; in the same way, it was perceived that there is not enough support that takes them out of informality so that they tax and start generating income for the state.

The environment variable of the informal sector concludes that the phenomenon of informality in the country is predisposed to education levels with the purpose of managing unproductive assets under a formal education managed from the management positions. Likewise, it is necessary to mention the unfavorable acceptance of the sector to be formalized, presented by the few benefits and supports that are found by the government for its realization as shown in figure 8. For all the above, it is necessary and of vital importance that the State take measures and solutions relevant to the motivation to include the informal sector in the formal sector.

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