

**EXECUTIVE
BOARD
MEETING**

SM/18/84
Correction 1

April 26, 2018

To: Members of the Executive Board

From: The Secretary

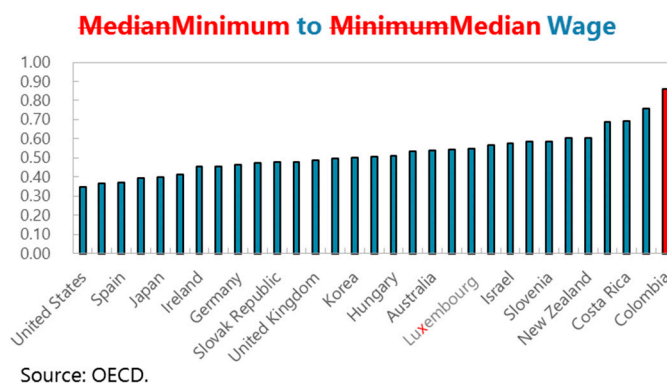
Subject: **Colombia—Selected Issues**

Board Action: The attached corrections to SM/18/84 (4/16/18) have been provided by the staff:

Typographical Errors **Page 24**

Questions: Mr. Roldos, WHD (ext. 37670)
Mr. Rodriguez Delgado, WHD (ext. 39689)
Mr. Toscani, WHD (ext. 35856)

30. Minimum wages are highly binding in regions where labor productivity is lower. According to OECD data, at close to 90 percent of the median wage in 2015, Colombia had the highest ratio of minimum wage to median wage of full-time employees in the OECD sample and the wage distribution is compressed just above the minimum wage.¹⁷ It is particularly binding in regions with lower labor productivity, with negative impacts on the labor market outcomes in those regions (Arango and Florez, 2017). Reform suggestions include making the minimum wage vary by groups of regions (Arango and Florez, 2017).



31. Non-wage labor costs remain relatively high, even after the 2012 reform. According to detailed calculations by Anif (2015), total non-wage labor costs, including pensions, health, holidays, *parafiscales*, and others, add up to 39-52 percent of the wage of a worker. While many of these costs have direct benefits for the worker, and are a desirable element of a formal work relationship, 4 percentage points of the 16 percentage points payroll tax are used to pay for so called *Cajas de Compensacion Familiar* which provide a wide range of bundled benefits. Recent reform suggestions propose finding alternative sources of financing for the funds to further lower payroll taxes in the spirit of the 2012 tax reform (CPC, 2017).¹⁸

Other Factors

32. Distortions related to social security programs might be incentivizing informality. Among other distortions, a part of formal workers' health care contributions is used to finance the subsidized system, and thus acts as a tax. Moreover, the subsidized system offers nearly the same services as the contributory one. A clearer link between contributions and benefits could make formality more attractive.

33. Stronger enforcement would help protect vulnerable groups of workers and increase the costs of informality. Enforcement has been a concern in the past, but the authorities have taken steps to increase available resources (OECD, 2016). The Ministry of Labor is working on streamlining IT systems and interactions with other agencies to guarantee improved enforcement of labor laws.

¹⁷ Trade union density is very low in Colombia as is the coverage of collective bargaining. The minimum wage negotiations thus gain an outsized importance by being one of the few instances in which worker bargaining power is high. Any minimum wage reform would thus have to be accompanied by adequate offsets.

¹⁸ Cuesta and Olivera (2014) caution against how big an impact a reform of the *parafiscales* would have given the multiple distortions in the labor market.