

# Informality & Social Inclusion in the Times of COVID-19

## SESSION 1

### INFORMALITY AND EMPLOYMENT PROTECTION DURING AND BEYOND COVID-19: GOOD PRACTICES AND THE IMPERATIVE OF UNIVERSAL SAFETY NETS

Informality has been one of the most significant and persistent challenges in Latin American economies for decades. It negatively affects the well-being of Latin Americans and impedes inclusive growth. There is a high heterogeneity in the incidence of informality across countries, ranging from less than 30% in Chile or Uruguay to more than 70% in countries such as Bolivia, Honduras, Nicaragua and Peru. The COVID-19 crisis amplifies pre-existing structural weaknesses of the region, characterised by several factors, including informality.

***High informality increases vulnerabilities and has been hampering the consolidation of the middle class in Latin America and the Caribbean (LAC).***

People in a condition of economic vulnerability are frequently informal, have low-quality jobs associated with low social protection, and face higher volatility in their income. Informal employment plays a crucial role for workers excluded from the formal sector to survive, as it often remains the only way for low-skilled workers to escape from poverty. High rotation between precarious jobs makes people vulnerable to the effects of individual, household or macro shocks such as the ongoing COVID-19 pandemic. These conditions constitute what is referred to as the **social vulnerability trap**. Currently, economically vulnerable people represent around 37% of the total population of the LAC region, and their economic and labour conditions place them at a latent risk of falling back into poverty<sup>1</sup>.

***Low productivity, insufficient skills, weak incentives and weak institutional frameworks are some of the drivers of the persistent informality in Latin America and the Caribbean.***

Informality is a complex and multi-dimensional phenomenon, both the cause and consequence of low levels of development. Potential factors behind informality include weak and inefficient institutional frameworks, the low levels of skills among the population, and low levels of productivity, in particular, in the most labour-intensive sectors. Additionally, high tax wedges, cumbersome business registration processes, the failure of institutions to disseminate the advantages of formalisation, and limited enforcement of the labour market regulations matter as well in some countries of the region.

***Informality is one of the main obstacles to consolidate a more inclusive labour market.***

Vulnerable and informal workers can be trapped in a vicious cycle, where they not only have lower or inadequate access to social protection but also their unstable income prevents them from investing in human capital and moving to higher productivity jobs, which traps them in a vulnerable state<sup>2</sup>. Most of those who work informally are insufficiently protected from the various risks to which they are exposed: job loss, health problems, unsafe working conditions, less protection of their labour rights, associated for instance with working hours or safety regulations.

High levels of informality also diminish public revenues and the capacity of the State to finance sustainable social security systems through taxes and contributions. On average, 58% of workers in the region are in informal employment, defined as workers operating in the informal sector, not covered by social security or any employment benefits<sup>3</sup>.

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<sup>1</sup> OECD et al. (2019), Latin American Economic Outlook 2019: Development in Transition, OECD Publishing. >>

<sup>2</sup> OECD et al. (2019), Latin American Economic Outlook 2019: Development in Transition, OECD Publishing. >>

<sup>3</sup> Own calculations using household surveys. For an extensive definition see ILO (2018), Women and Men in the Informal Economy: A Statistical Picture. >>

**The economic crisis caused by the pandemic is affecting the well-being of citizens, with a much more detrimental impact on vulnerable and informal workers. Protecting them is critical.**

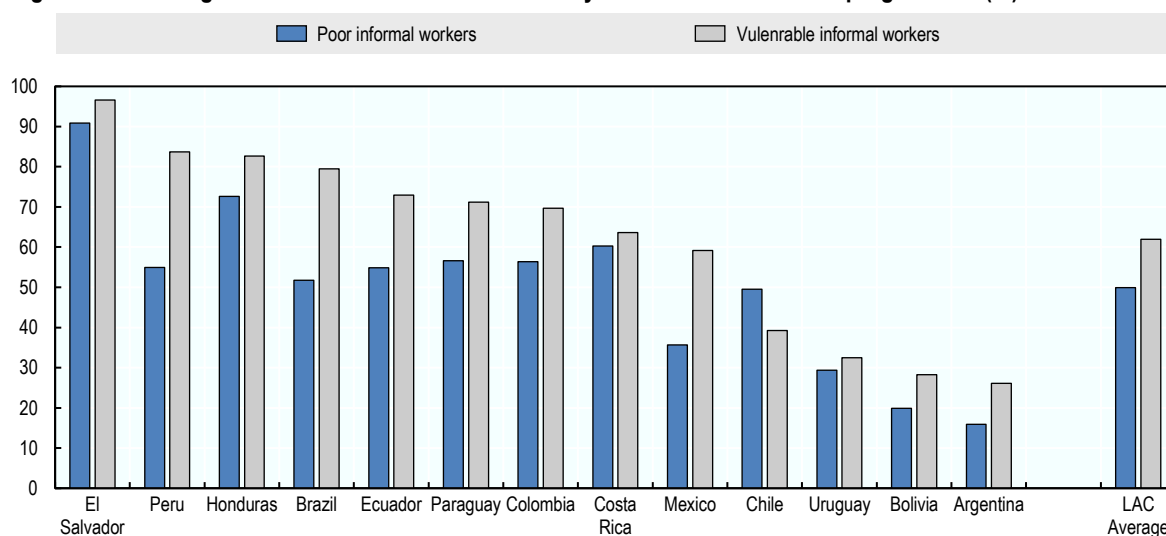
Global job losses due to the sanitary crisis are enormous. According to some preliminary estimations, the LAC region could lose 17 million formal jobs<sup>4</sup>. The closure of non-essential businesses, stores and massive events has had a highly negative impact on both formal and informal workers in LAC.

Lockdowns are preventing many people from working, either partially or fully. In addition, successful emergency lockdown measures implemented by developed countries do not necessarily have the same effect in the region as an important share of the population earn their income on a daily basis through informal activities.

Most poor and vulnerable workers usually perform manual tasks and work in sectors such as retail, restaurants, hotels, services, manufactures, transportation, and construction – which are notably more affected by the COVID-19 crisis<sup>5</sup>. In LAC, 42% of workers in social services and 62% of workers in retail commerce and sales, restaurants and hotels are informal<sup>6</sup>. While social protection systems or social assistance programmes cover around 61.8% of total workers, around 65.8% of informal workers do not have access to any form of these safety nets. In addition, approximately half of informal workers living in poverty do not benefit from traditional social assistance programmes, such as cash transfers and solidarity (non-contributory) pensions. This share increases to 61.9% among economically vulnerable informal workers<sup>7</sup>, which makes their probability of falling back into poverty, aggravated by the pandemic crisis, unusually high (Figure 1)<sup>8</sup>.

Furthermore, informality affects especially youth (62%) and elderly (78%)<sup>9</sup> populations. Currently, the elderly are even more vulnerable in the context of the COVID-19 crisis, due to its economic and labour instability, and to the high lethality of the virus in this population group.

**Figure 1. Percentage of informal workers not covered by main social assistance programmes (%)**



Source: OECD Development Centre calculations based on Household surveys 2018 or latest year available.  
 Note: Informality definition follows the methodology proposed in OECD/ILO (2019) *Tackling vulnerability in the informal economy*. Main social assistance programmes include cash transfer programs and solidary non-contributory pensions.

<sup>4</sup> Altamirano, A., Azuara, O., González, S. (2020). ¿Cómo impactará la COVID-19 al empleo?: Posibles escenarios para América Latina y el Caribe. IDB. >>

<sup>5</sup> OCDE et al. (2020), Latin American Economic Outlook 2020: Fostering Development in the Digital Age, OECD Publishing, Paris (forthcoming).

<sup>6</sup> Altamirano, A., Azuara, O., González, S. (2020). ¿Cómo impactará la COVID-19 al empleo?: Posibles escenarios para América Latina y el Caribe. IDB. >>

<sup>7</sup> Vulnerable individuals are those earning with a per capita income between USD 5.5 and USD 13 expressed in 2011 PPP per day.

<sup>8</sup> OCDE (2020), COVID-19 in Latin America and the Caribbean: Regional socio-economic implications and policy priorities. >>

<sup>9</sup> ILO (2018), Women and Men in the Informal Economy: A Statistical Picture. >>

### ***Digital transformation is both a tool and a challenge to reduce informality in LAC.***

Digital technologies allow individuals to overcome some traditional barriers to labour participation and can reduce some costs for both employers and employees. However, the emergence of new forms of work – such as teleworking and the platform economy – brings new challenges in terms of social protection. Well-being losses may emerge in systems that are not prepared to regulate and absorb non-standard ways of work.

The COVID-19 pandemic has made the digital divide an even greater concern, as poor and vulnerable workers without the infrastructure or skills to benefit from digital tools are being left behind. In LAC, only 15% of poor workers and 25% of vulnerable workers have access to an internet computer in their household, a proportion that is often lower for own-account workers. The gap widens when considering the necessary skills to succeed in a digitalised economy. Only around 10% of workers have medium and strong computer knowledge and problem-solving skills in technology-rich environments<sup>10</sup>, who are often the wealthier and better educated. Consolidating the quality of education and strengthening digital, cognitive and non-cognitive skills, is needed to have a smooth adaptation and promote a more inclusive labour market. Policies aimed at increasing formal employment should be accompanied by enhancing work-related skills, in order to promote equity and improve successful inclusion into the labour markets, especially among women, youth and other vulnerable groups<sup>11</sup> (See Session 2).

The current circumstances are making both employers and employees, as well as school children and university students, more aware of the critical success factors for mass teleworking, enabling greater resilience to be built into systems for the future<sup>12</sup>. Governments could also provide different types of support to small and medium-sized enterprises (SMEs), own-account workers and employees to help them quickly develop teleworking capacities where possible<sup>13</sup>.

### ***Governments have taken different policy actions to protect vulnerable households during the COVID-19 crisis.***

Several countries in the region have provided social support to vulnerable and informal groups not covered by any kind of traditional social assistance mechanisms. They are also extending coverage of cash transfers, increasing the amounts paid, delivering food baskets and exemptions of some social security contributions. In the context of limited fiscal space to face the crisis, some governments have also implemented other types of policies, including payments postponement of taxes or even utilities, or allowing people to withdraw funds from individual saving accounts (unemployment, pensions)<sup>14</sup>. In the short term, it is crucial to evaluate the implementation and impact of these new measures and adjust them based on the evidence collected, and being bold and innovative in policy action.

### ***The crisis can offer new opportunities to rethink the social pact, promote new reforms to address structural vulnerabilities, and propose solutions focused on a broader view of citizens' well-being.***

The COVID-19 crisis is creating new pressures to rebuild the social pact in the region where all actors need to be involved and should have a voice, and some crucial aspects should be taken into consideration (see High-level Session). They include (i) the social protection systems and their expansion to vulnerable workers not covered by any social mechanism; (ii) the adaptation of unemployment insurance' systems in Latin America; (iii) the development strategy to boost formal jobs in the region; and (iv) the fiscal pact to be adopted in the region. Therefore, this juncture may open an opportunity for the state to respond to the growing citizens' aspirations and demands for better public services. More than ever, it is imperative to expand equal opportunities across the region and promote formal jobs.

### ***Finally, improving the accuracy of informality measures and analysing the composition of the informal economy is crucial to inform public policy.***

Although countries are increasing the efforts to ensure international comparability, there is still a wide range of approaches across countries to measure informality. Broad definitions have prompted a long-lasting

<sup>10</sup> Own calculations based on OECD/PIAAC (2018), Survey of Adult Skills (database), OECD Publishing, Paris. >>

<sup>11</sup> OECD/ECLAC/CAF (2016), Latin American Economic Outlook 2017: Youth, Skills and Entrepreneurship, OECD Publishing, Paris. >>

<sup>12</sup> OCDE (2020), COVID-19 in Latin America and the Caribbean: Regional socio-economic implications and policy priorities. >>

<sup>13</sup> OECD (2020), Supporting people and companies to deal with the COVID-19 virus: Options for an immediate employment and social-policy response. >>

<sup>14</sup> OCDE (2020), COVID-19: Protecting people and societies. >>

debate about what informality is and how it should be measured. Informality can refer to informal economic activity and informal employment. Informal economic activity encompasses unrecognised activities by the state and, therefore, does not follow the registration, recording or taxation regulations it would include otherwise. While some countries measure the informal sector by non-registered enterprises, others use the numbers of workers in a firm or a combination of both. Similarly, measuring informal employment also varies by country and refers to those workers not covered by any social protection mechanism, labour regulation or social security regulation. The accuracy of the measures of informality is critical, since it affects what policies are chosen to tackle it, and therefore the effectiveness of any intervention beyond the COVID-19 crisis.

**Governments will have to play a decisive role to boost formal jobs.** Some dimensions to take into consideration to boost formal jobs in a scenario post COVID-19 crisis include:

- Consolidate the quality of education and strengthen digital, cognitive and non-cognitive skills.
- Support to small and medium-sized enterprises (SMEs), own-account workers and employees to help them quickly develop their activities remotely where possible and to improve their capacities to participate in production chains.
- Support those who may have fallen into poverty during the pandemic, as well as vulnerable groups and households that depend on informal employment. Thinking about how to finance a more robust social protection system is also a pending matter.
- Improve the accuracy and consistence of how informality is measured and tracked across the region.

These preliminary issues need to be discussed and agreed in a comprehensive agenda for development where all actors, including civil society, private sector and academics, should be involved across Latin American countries (See Session 3).

#### **Questions for discussion:**

- *How should institutions at the local, national and international levels promote formal jobs by taking into account the multidimensionality of this phenomenon?*
- *How to develop national development agendas with local institutions to promote a successful formal labour market in the sub-regions?*
- *What policies can be effective in promoting the creation of formal jobs and enhancing productivity?*
- *How can the countries support effectively informal and vulnerable workers to prevent them from falling behind during COVID-19 crisis?*
- *In the aftermath of the COVID-19 crisis, How to build a fiscal pact that contributes to boost formal jobs in the region?*
- *What is the future of social protection systems to protect economies and households from these economic shocks?*

**Additional reference material from the OECD:**

- OECD (2020), COVID-19 in Latin America and the Caribbean: Regional socio-economic implications and policy priorities, OECD, April 2020 - <http://www.oecd.org/coronavirus/policy-responses/covid-19-in-latin-america-and-the-caribbean-regional-socio-economic-implications-and-policy-priorities-93a64fde/>
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- Altamirano, A., Azuara, O., González, S. (2020). *¿Cómo impactará la COVID-19 al empleo?: Posibles escenarios para América Latina y el Caribe*. IDB. <http://dx.doi.org/10.18235/0002301>
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- Hernando de Soto (2020), *A plan to use COVID-19 as an opportunity to accumulate capital instead of debt*, [https://www.dropbox.com/s/xmhxfd3ptmrmzx2/OECD\\_DeSoto%20Doc1\\_English\\_2020-07-09.pdf?dl=0](https://www.dropbox.com/s/xmhxfd3ptmrmzx2/OECD_DeSoto%20Doc1_English_2020-07-09.pdf?dl=0)
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