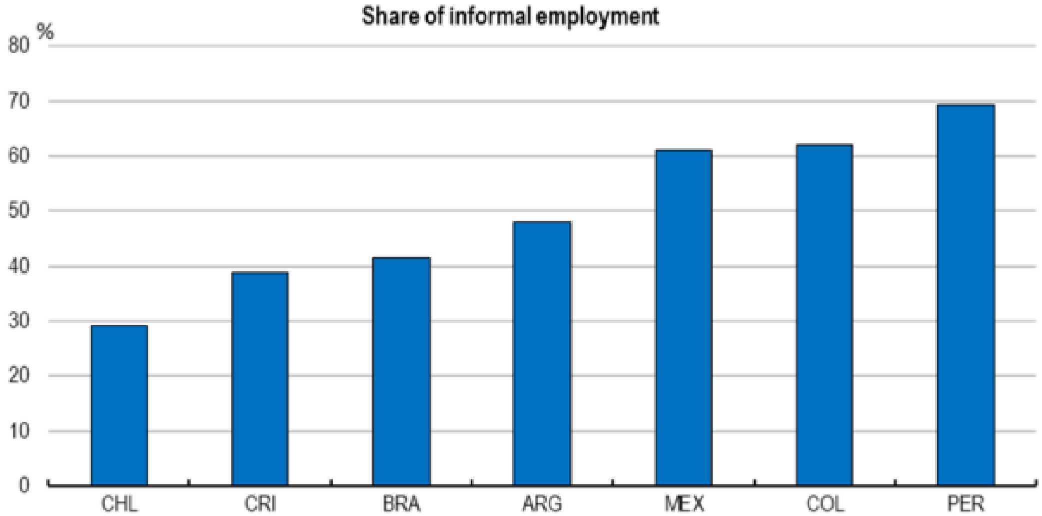
Reaching out to informal workers in Latin America: Lessons from COVID-19

By Jens Arnold, Paula Garda, Alberto Gonzalez-Pandiella, OECD Economics Department

Social distancing has led to sharp declines in mobility and activity across Latin America. Widespread informality creates particular challenges for the livelihoods of many workers. As their activities are shut down to contain the spread of COVID-19, informal workers or small entrepreneurs are usually not covered by social protection. Largely out of reach of the public sector, they easily fall through the cracks of emergency income support measures. This has highlighted a major need to rethink and strengthen social protection mechanisms in Latin America. Providing more complete social safety nets that are not tied to formal employment and that can react rapidly to income losses would be one solution. In many countries in the region, such safety nets could be built on the basis of existing conditional cash transfer programmes.

Informal workers and small entrepreneurs account for a significant share of the workforce across Latin America (Figure 1). Most of them have no access to social protection, and almost no savings to carry them through the trough. Informal employees were the first to lose their jobs, while self-employed entrepreneurs such as street sellers and small service providers were left with no source of income as streets became empty. Working from home may be a solution for educated middle-class workers, but it is out of reach for the most vulnerable (Mongey and Weinbergy, 2020).

Figure 1. Labour informality is widespread in Latin America



Note: Informal workers include own-account workers outside the formal sector, contributing family workers, employers and members of producers' cooperatives in the informal sector, and employees without formal contracts. Data refer to 2019 or latest available year.
Source: ILOstat, IBGE, OECD. Data refer to 2019 or latest available year.

The crisis has exposed shortcomings in existing social protection mechanisms

Governments in Latin America responded swiftly to the unprecedented challenges posed by COVID-19. Many countries designed temporary support measures, building on existing instruments such as formal-sector unemployment insurance and cash transfers. Formal-sector employees benefitted from more flexible access to unemployment benefits, for example in Brazil and Chile, while temporary short-time work schemes, wage subsidies or lower labour contributions helped to preserve formal labour contracts Brazil, Colombia, Costa Rica and several Mexican states. Cash transfer schemes targeted to low-income households play important roles in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Uruguay, among others. These cash transfer schemes are typically based on large locally-maintained registries of low-income households that can consider both formal and informal incomes. Providing additional resources to these schemes allowed to raise benefit levels and/or expand coverage, including by eliminating previous enrolment waiting lists, as in the cases of Brazil, Chile, Colombia and Peru.

The COVID-19 policy response, however, has also exposed significant gaps in existing social safety networks. Amid policy support for formal workers and for the poor, vulnerable households whose livelihoods depend on informal activities are often left without any social protection mechanism to fall on. Before the pandemic, many of these had successfully escaped poverty and gained incomes above the threshold where they would qualify for cash transfers, but without gaining access to the kind of social protection in place for formal employees. As distancing measures led to unprecedented declines in demand, many of these households were left without any income.

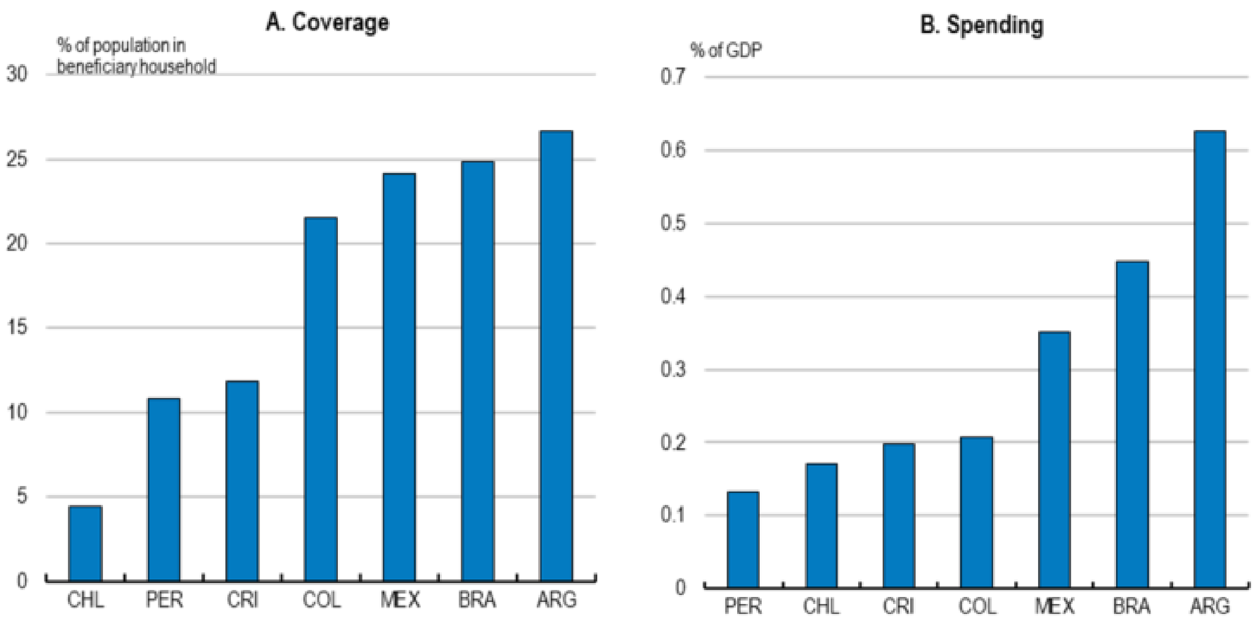
Reaching informal workers is a challenge for public policies and has required innovative ideas. Beyond the grasp of income tax systems, and with no access to social benefits, many informal workers have traditionally been outside the radar of the state. In addition, they often lack access to banking services, so governments had to respond creatively and ensure the creation of basic bank accounts for emergency benefit recipients. More than 50 million Brazilians used a smartphone application to receive an emergency benefit established after the outbreak. Colombia has been similarly successful, paying out benefits to 1.5 million households previously not covered by social benefits, and including free digital banking products. Chile is supporting more than 2 million vulnerable and informal households through different cash transfers, handing out debit cards to those without a bank account. Costa Rica’s new cash transfer also offers the creation of a bank account. Such programmes have replaced significant shares of pre-crisis incomes for low-income households (Busso et al., 2020).

Lessons for the future

Building more effective universal social safety nets that include informal workers and entrepreneurs emerges as one of

the main lessons from the COVID-19 crisis and the social unrest during 2019. Given their wide reach in many countries, existing cash-transfer programmes would be the most straightforward basis for effective social safety nets (Figure 2, Panel A). In several countries, eligibility is in principle universal, but in practice, enrolment processes are too slow or cumbersome to help people in the face of sudden income losses. An important step would therefore be to make cash transfer programmes more agile, so that they can disburse quickly when people lose their livelihoods, following the examples of the UK's Universal Credit or Malaysia's BSH programme. More universal social safety nets based on means-tested cash transfers could also help to reduce the widespread fragmentation of social programmes, and strengthen their effectiveness.

Figure 2. Conditional cash transfer programmes achieve significant coverage at low fiscal costs



Note: Data refer to 2017 for Colombia and 2018 for all remaining countries. Source: OECD calculations based on ECLAC: Database of non-contributory social protection programmes in Latin America and the Caribbean, available at http://dds.cepal.org/bdptc/.

Financing universal social safety nets will require additional resources, but building on existing programmes may make the cost manageable. Cash transfer schemes are among the most cost-efficient social expenditure programmes, and they cost relatively little (Figure 2, Panel B). Brazil's successful Bolsa Família programme, for example, currently only costs

0.5% of GDP, compared with 12% spent on formal social security schemes. During the COVID-19 pandemic, additional spending of 0.04% of GDP was enough to eliminate an accumulated queue of 1 million benefit applicants. Building on existing citizen identification systems and digital technologies could further reduce costs.

Social protection for informal workers should go along with efforts to foster formalisation. Reviewing non-wage labour costs can help to reduce informality, as illustrated by Colombia's 2012 tax reform. Costly and complex business regulations, including those for starting a formal business, also hamper the formalisation of firms and jobs. Expanding the use of one-stop shops for business regulations would be one way forward. Social programmes could increasingly integrate training and lifelong learning for informal workers. This could create a virtuous circle between formal employment, growth and equity.