



Why informal isn't cool in LAC

by Andrew Thompson

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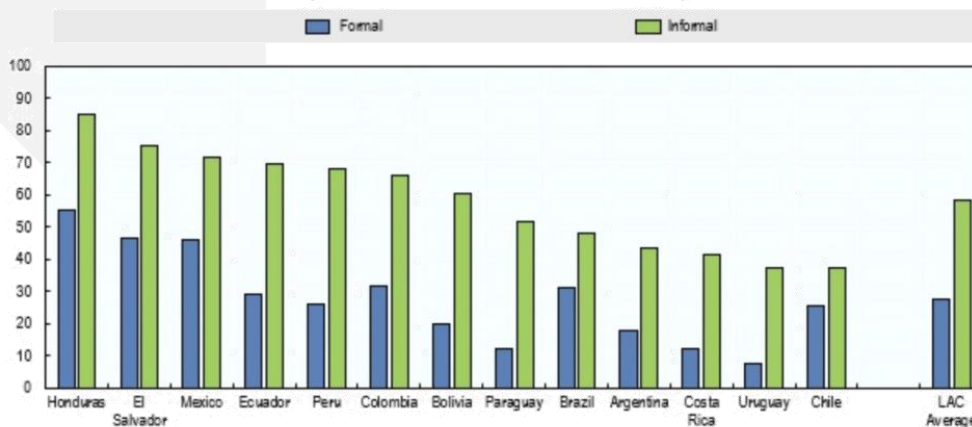
What happened?

The International Labour Organisation (ILO) regional headquarters based in Lima has launched an intriguing competition, asking organisations anywhere in the world to submit “ideas, solutions, and innovations” designed to reduce labour informality in Latin America and the Caribbean (LAC).

The details

Labour informality is one of the biggest economic and social problems in Latin America. Formal workers pay taxes; they have bank accounts, they are protected by legislation (things like the eight-hour working day), and they receive benefits (things like pensions and access to public health). Informal workers are almost completely off the radar. They don't pay taxes and they have almost no rights. They work extended hours. They don't get sick pay. They are not insured. Typically, informal workers do a whole range of jobs – they work on construction sites, as street sellers, or as domestic servants, or taxi drivers. Some are accountants. Intermittent attempts have been made to “formalise” the informal, but progress has been slow. The workers themselves need to be convinced of the cost-benefits of starting to pay taxes. Governments like the idea of receiving more taxes but worry about the cost of offering social security support.

Figure 1. Share of formal or informal workers living in poverty or economic vulnerability (% of total formal or informal workers)



Source: [Vox Lacea/OECD](#)

The COVID-19 pandemic has given everyone a dramatic illustration of why informality is not a good thing. To protect the population from diseases like the coronavirus, health authorities need to be able to reach them. Introducing quarantines, social distancing rules or shielding requires the ability to identify and reach out individually to the work force and, for example, to initiate furlough schemes to allow them to shelter at home. One reason why the pandemic has been so devastating in Latin America is that informal workers cannot easily “self-isolate” because they need to earn a living – often in crowded streets and shanty towns where virus transmission gathers speed.

This is where the ILO comes in. It says that before the pandemic around half the total LAC workforce, or 158mn people, were informal. They have been extremely hard-hit by the virus, losing livelihoods and disposable income. Women – more likely to work informally than men – have suffered more. So the ILO is looking for new ideas and tech applications to formalise, to increase the skills and training of informal workers, to give them a voice, and to register them for social benefits and financial access. Case studies are also welcome. The two top proposals will win US\$30,000 and US\$20,000 of funding and will be helped to develop prototypes in an “innovation lab”.

What does it mean?

There is unlikely to be a single silver bullet for solving a multi-dimensional problem like labour informality, but new technology (already applied in things like mobile payment systems for the unbanked) could make a significant contribution, particularly since creating new, productive jobs is likely to be one of the long term priorities in any post-pandemic period.

About the Author

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As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC’s Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.



These stories are also available on Andrew’s blog site, [La Rambla Research](#).