

Informality & Social Inclusion in the Times of COVID-19

PUBLIC PANEL

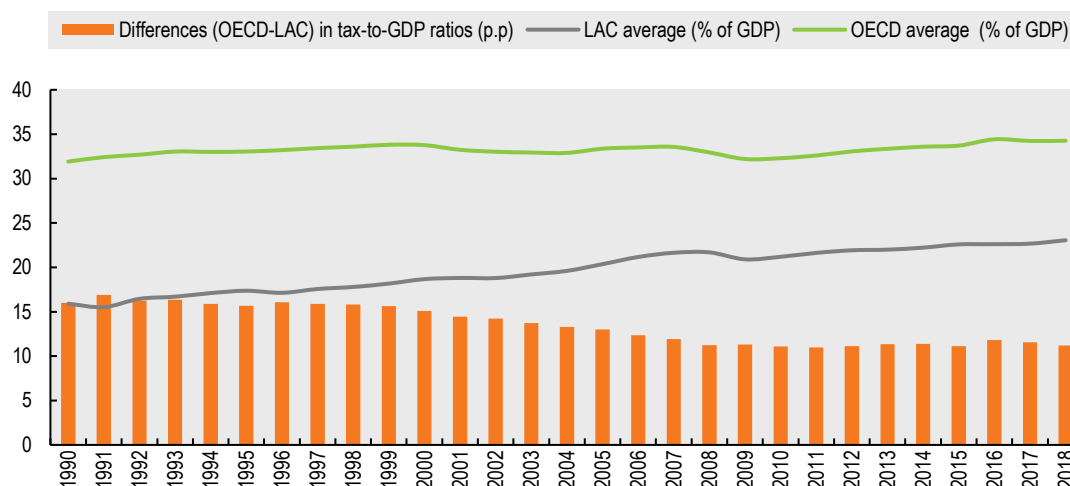
FROM AN IMPENDING ISSUE TO AN EMERGENCY: THE IMPERATIVE NEED FOR A NEW AND MORE INCLUSIVE SOCIAL PACT IN LATIN AMERICA AND THE CARIBBEAN

Promoting more inclusive growth has been high on the policy agenda in Latin America and the Caribbean (LAC) long before the outbreak of the COVID-19 pandemic.

Income poverty and inequality have decreased in most LAC countries over the past two decades, yet the region remains the most unequal in the world¹ and around a quarter of its population continues to live below the poverty line, as reported in the 2019 [Latin American Economic Outlook: Development in Transition](#) (OECD et al., 2019). Similarly, despite improvements in public welfare and the expansion of non-contributory social programmes, persistently high levels of informality have left large parts of the population particularly exposed to adverse shocks (whether economic, sanitary or personal), with limited access to social protection and few opportunities to invest in their human capital or that of their children. This has reduced the resilience of society as a whole, while also putting a brake on productivity growth and tax revenue (see Figure 1 below and Session 1 note).

As the COVID-19 pandemic hit the LAC region, 58% of its workforce was in informal employment and 38% of workers had no access to any form of social protection (OECD, 2020; OECD/ILO, 2019). Even in countries with high growth such as the Dominican Republic, where poverty fell from 34% to 21% over the last decade, the middle class remains relatively small and 40% of the population are vulnerable, with income levels just above poverty. Furthermore, economic vulnerability goes beyond measures of income. In Chile for instance, while the poverty rate is low at 16%, over half the population lack sufficient financial resources to maintain their standard of living at the poverty threshold for more than 3 months in the case of a sudden loss of income. This leaves them particularly exposed to the economic impact of ongoing shutdowns and confinement measures which, in some countries, have already been in effect for over three months.

Figure 1: The tax gap between OECD and LAC countries has not fallen over the past decade



Source: OECD calculations based on *Revenue Statistics in Latin America and the Caribbean 2018* (OECD et al., 2018).

¹ In 2016, the average Gini coefficient for LAC countries was 0.47 after taxes and transfers, well above the OECD average (0.32) and above the average for Africa (0.42) and the Asia-Pacific region (0.36).

LAC countries face a series of structural challenges, which the COVID-19 pandemic will further exacerbate. Without the right measures to address these challenges, an economic recovery will fall short of its potential in terms of delivering more inclusive growth.

The past two decades, saw the LAC region grow at a faster rate than the OECD average², coinciding with significant reductions in inequality and poverty³. While economic growth can be an important engine driving improvements in living standards and social inclusion, history also suggests that LAC's persistently high levels of inequality will not be resolved by more economic growth alone. LAC countries need integrated reform agendas to overcome "structural development traps" that are economic, social, institutional and environmental in nature (OECD et al., 2019). Key areas for action include productivity enhancing reforms and transition to formality, increasing the progressivity of tax systems and efficiency of tax collection, strengthening fragmented social safety nets and healthcare systems, and enhancing institutional capacity and the quality of governance.

"Win-win" reforms can help catalyse progress. Supporting business creation, market entry and dynamism, increased and improved investment in education, social protection and public service delivery can yield high returns in terms of economic growth and social inclusion, as can measures designed to reduce crime and violence through better prevention, detection and control. However, the positive impact of reforms is weakened by the difficulties many LAC countries encounter in implementing public policies effectively. Findings from the OECD/IDB publication [Government at a Glance: Latin American and the Caribbean 2020](#) (OECD, 2020a) underline this problem, showing for instance that only half of the centres of government in the LAC region coordinate the design and implementation of strategic priorities. Similarly, while laws on political financing and access to information are stronger on average in LAC countries than in OECD countries, their enactment and enforcement often lag behind⁴. This creates a damaging gap between policy and practice, between citizens' rights and their lived experience. The current crisis may deepen these institutional challenges, as containing the spread of COVID-19 and protecting citizens from its negative economic effects will require vastly increased support measures and cross-government coordination.

Many of the barriers preventing greater progress are linked to issues of political economy and reflect the difficulties involved in generating sufficient public support for reform in a context where inequality and lack of inclusion have undermined trust in government. Restoring trust between citizens and government will be essential to tackle the challenges of the COVID-19 pandemic.

The LAC region has seen waves of social protest over the past few years, most recently in late 2019, which have accompanied falling trust in government and growing dissatisfaction among citizens. In 2018, only 26% of the population across the region reported having trust in government, down from 45% in 2008 (OECD et al., 2020). Data from Latinobarómetro paint a similar picture, with support for and satisfaction with democracy hitting historic lows in 2018 (Latinobarómetro, 2018). Economic vulnerability has been one of the main drivers of social discontent, with rises in the cost of living cancelling out the gains in income for much of the population, including the crucially important middle class. In Chile, for instance, the share of middle-income households who spend more than they earn in a year has risen, despite strong economic growth over most of the past two decades and a marked recovery in 2018, as housing, health and education costs have increased faster than the average income⁵.

Rising social aspirations may also have outpaced institutions' capacity to deliver on them, contributing to discontent in a phenomenon sometimes referred to as the "Tocqueville paradox". Tellingly, satisfaction with healthcare and education have decreased on average across the LAC region. For instance, despite having

² 2.5% GDP growth per annum on average for the LAC region between 1999 and 2018, against 2.0% for the OECD (OECD and World Bank National Accounts data).

³ The GINI coefficient for the LAC region declined from 0.561 in 2000 to 0.517 in 2018 while poverty measured at 5.5 USD PPP declined from 44% of the population to 23.3% ([LAC Equity Lab](#) tabulations of SEDLAC, CEDLAS and World Bank).

⁴ For instance, according to the [World Justice Project Rule of Law Index 2019](#) (WJP, 2019), LAC countries score substantially lower on average (0.57) than OECD countries (0.76) on the index of protection of fundamental rights.

⁵ (OECD, 2019a) >>

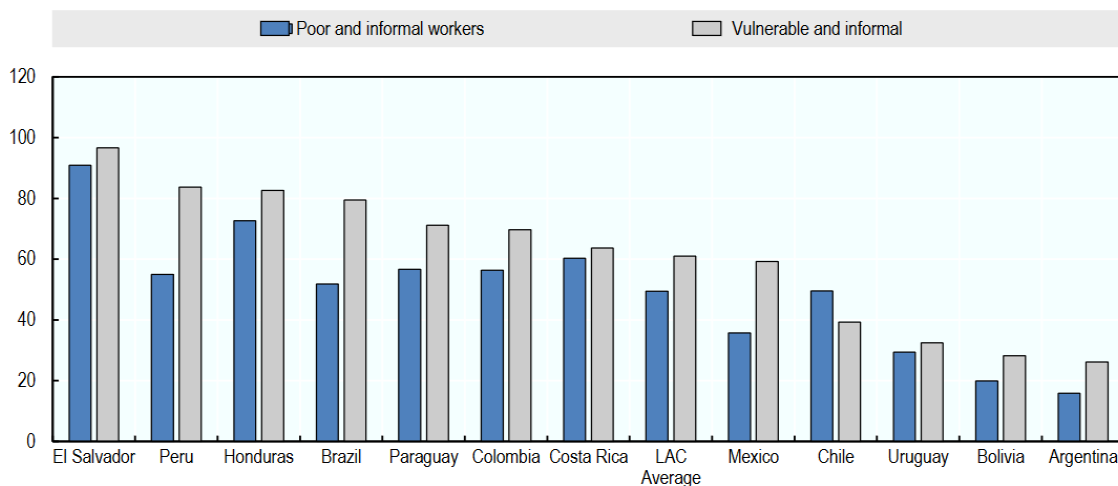
gained more than 10 years in life expectancy since 1990 and 5 years since 2000⁶, the share of population satisfied with the quality of healthcare services fell from 57% in 2006 to 42% in 2018, below the OECD average of around 70% (OECD et al., 2019). The COVID-19 crisis may further exacerbate these trends and contribute to deepen distrust and discontent across the region.

Social discontent may deter governments from enacting reform. However, it also provides them with an opportunity to listen and respond to the demands of citizens. These demands are likely to remain and grow stronger in the aftermath of the COVID-19 pandemic.

Recent protests across the LAC region have called for increased accountability and transparency on the part of governments. At the same time, they also echo growing demands for tax fairness in a context where the share of benefits received by the middle class remains low; and for better access to justice, education and social protection (health and pensions) notably by vulnerable groups including women, youth, migrants and indigenous populations (see Figure 2 and Session 2 note). Similarly, the digital transformation has resulted in rising expectations by “digital citizens” regarding the quality of public service delivery and the integrity, transparency and responsiveness of public institutions (OECD et al., 2020).

These demands reflect changing socio-economic conditions and citizens’ experience. They also tend to be well aligned with perceptions of inequality and public attitudes towards government. For instance, across the LAC region, only 16% of respondents surveyed in 2018 perceive the income distribution in their country to be fair, down from 25% in 2013 (Latinobarómetro, 2018). Similarly, 79% of respondents believe that corruption in government is widespread (OECD et al., 2020). Tax morale has also declined as citizens see less value in fulfilling their obligations, with 54% of the population believing that failure to pay taxes is justified (OECD et al., 2019). In this context, promoting inclusive growth in LAC countries is not just a matter of adopting the right policies, it implies that the social pact binding citizens together and to their governments be rethought and re-established on a stronger basis. The COVID-19 pandemic has provided evidence of the importance of responsive and effective government, social cohesion and trust in helping protect citizens’ health, lives and livelihoods.

Figure 2: Large numbers of poor and vulnerable informal workers are not covered by major social assistance programmes in LAC countries (% of workers for selected LAC countries)



Source: OECD (2020b).

⁶ The [OECD-IDB Health at a Glance Latin America 2020](#) registers a growth of 4 points from 2000 to 2017. UN World Population Prospects refers to data before 2000 and calculates an average life expectancy of slightly over 75 years for 2020, i.e. 5 years more than in 2000.

Note: Regional average is a simple average. Major social assistance programmes include poverty-targeted cash transfers in the form of conditional cash transfers, unconditional cash transfers and social/non-contributory pensions. They do not include disability benefits or in-kind transfers. Labour informality is estimated using methodology implemented in (OECD/ILO, 2019).

Throughout the crisis and during the recovery, a key challenge for governments will consist in getting the political economy of reform right by balancing policy action and social cohesion.

Current OECD work on the political economy of reform can help governments address this challenge. This work has a focus on well-being and inclusive growth and is organised around two complementary lines:

- Improving the design and implementation of reforms to ensure they achieve their objectives. This implies paying greater attention to distributional impacts across groups and regions and integrating considerations of equity upfront into the design of reforms.
- Understanding the conditions that contribute to the public acceptability of reforms to ensure they receive sufficient support. This implies paying greater attention to the “demand side” of reform (including citizens’ perceptions and attitudes) in order to better engage with citizens and build an inclusive “people-centred” narrative for reform. Social dialogue and participatory processes can play an important role here by empowering citizens, building a shared understanding of objectives and increasing ownership of reforms (see Session 3).

Social protection provides a clear illustration of the importance of addressing both the technical aspects of reform and the issue of public acceptability. Past reforms in this area have not always achieved their objectives in terms of poverty reduction and inclusion, despite increased social spending. Improving the design and implementation of social programmes can help increase their effectiveness (by better incentivising household savings and education or by facilitating the transition to formal work) and efficiency (by reducing wasteful expenditure, duplication and non-compliance). Furthermore, social protection systems need to adapt to changing socio-economic conditions and to the challenges created both by the COVID-19 pandemic and by ongoing trends such as digitalisation and population ageing. Understanding the evolution in citizens’ demands and mapping social risks over the short-term and long-term will be highly important as LAC countries develop the next layer of their social protection systems.

The COVID-19 pandemic will change the political economy in the LAC region in ways that cannot be fully foreseen. In the short-term, it calls for bold and transparent government action to prevent contagion, protect the most vulnerable and support the economy towards a swift recovery. In the medium-term, it provides an opportunity to renew the social pact in a way that promotes more inclusive growth.

The COVID-19 pandemic has added new urgency to a pre-existing need for action. It has brought to light critical gaps in health and social safety nets, while providing citizens with a vivid illustration of the costs that these gaps impose on people’s safety and livelihood, on the wider economy and on society as a whole. As such, it creates space for a debate on reform in areas that are of key importance for promoting greater inclusion in LAC countries, including healthcare, labour markets and social policy (OECD, 2020b). Furthermore, the pandemic may heighten the sense of vulnerability among different populations. Based on ECLAC projections for the economic impact of the pandemic, more than 28 million Latin Americans risk falling into poverty by the end of the year (ECLAC, 2020)⁷. This includes groups that have been at the forefront of the fight against the pandemic, such as women who represent two-thirds of the healthcare workforce worldwide⁸. A multi-dimensional approach based on broader indicators of well-being, such as the one developed in the OECD brief [COVID-19: Protecting people and societies](#) (OECD, 2020c), can help identify who these populations are and the specific nature of their needs. Doing so can provide a better understanding of the impact that COVID-19 is having on the political economy of reform, as well as a basis for discussing and setting priorities for the recovery.

⁷ This estimation is based on a projected contraction of GDP by 5.3% and increase in unemployment of 3.4% in the LAC region in 2020.

⁸ (OECD, 2020b) >>

The COVID-19 pandemic has also created margins for action which governments can use to strengthen the social pact and set it on a new and more inclusive basis. For example, the lack of capacity in healthcare systems has led a number of LAC governments to take strong preventive measures to contain the effects of the pandemic. In the medium term, the pandemic may spur support for further measures to consolidate capacity and increase the level of public investment in health which, at 3.8% of GDP on average across the LAC region, still lags far behind the OECD average of 6,6%⁹.

More broadly, the crisis will likely have strengthened the case for effective and accountable public institutions, high quality public services and a professional civil service with strong public values. Many centres of governments have taken a leading role in managing and coordinating the operational and communicational aspects of the crisis. These emergency measures can translate into improved governance in the recovery, particularly if combined with renewed efforts to strengthen civic space and fight corruption in the complex context created by the pandemic. Finally, the specific nature of the crisis may give rise to valuable resources in terms of social and political capital. Faced with a common threat, citizens in LAC countries – as elsewhere – have experienced first-hand the sense of interdependence, solidarity and shared destiny that binds them together as a society. Governments should leverage these civic resources, which embody the resilience of LAC societies, to mobilise public support and engage in an inclusive national dialogue to renew the foundations of the social pact.

In line with the three pillars of the [OECD Framework for Policy Action on Inclusive Growth](#), the OECD has identified the following options, which LAC policy-makers may consider in order to strengthen the social pact:

- “Investing in people and places left behind”, notably by ensuring access to quality health services, promoting regional catch-up internally and externally and improving communities’ well-being and social capital.
- In the context of COVID-19, promoting innovative options can help increase the benefits of formality and strengthen social protection systems (see session 1). It can also set the ground for a more inclusive social pact by reducing coverage gaps, protecting vulnerable populations and improving the quality and universality of healthcare.
- “Supporting business dynamism and inclusive labour markets”, notably by boosting productivity while ensuring the diffusion of technology to small and young firms, facilitating employment recovery, promoting labour-mobility and opportunities for women and under-represented groups (see session 2).
- In the context of COVID-19, LAC governments may review the content and/or timing of reforms enlarging access to unemployment benefits that are already scheduled. Increased links between government and the informal economy also provide an opportunity to facilitate the establishment of comprehensive registries and gradual follow up with formalisation programmes.
- Lessons from the crisis can be drawn regarding the use of digital technology to preserve economic activities, save jobs and enhance opportunities for digital learning, as well as the negative consequences of the digital divide. Doing so can help LAC governments ensure that the digital transformation works for all.
- “Rebuilding trust in efficient and responsive governments”, notably by ensuring that citizens play a meaningful role in the design and evaluation of policies, increasing coherence and coordination across levels of government, and integrating distributional aspects upfront into the design of policy.
- In the context of COVID-19, efforts to engage citizens and stakeholders in the design of policy responses should be stepped up and maintained, in line with the [OECD Recommendations on Open Government](#) (see Session 3). This should notably be the case in key policy areas for advancing social inclusion and cohesion, such as emergency health responses, fiscal and redistributive policies and public sector integrity. Efforts to mainstream well-being in public policy should also be maintained to ensure that responses to the crisis are people-centred.
- Due to the emergency nature of the crisis, important decisions have to be taken rapidly, often with reduced transparency and oversight as well as considerable uncertainty regarding their overall

⁹ (OECD, 2020c) >>

effects. To ensure that the LAC region emerges from the crisis with strengthened public trust, governments must take care to avoid policy loopholes that could allow for fraud, corruption, deviation of funds or the improper use of direct transfers.

Questions for discussion:

- *What effect has the COVID-19 pandemic had on citizens' expectations and demands and how has it changed the political economy of reform in LAC countries? What new constraints and margins for action has it created for governments and societies? And how can the OECD best adapt its support to help LAC countries meet these challenges?*
- *To what extent is "this time different"? What lessons can be learnt from policy responses in the region to the 2008 crisis and how can they be leveraged to promote economic growth and strengthen social cohesion in the recovery?*
- *What narrative should underpin reform agendas and serve as basis for redefining the social pact in the aftermath of COVID-19? Can indicators measuring well-being and inclusion help identify new priorities for reform or strengthen public acceptability?*

Additional Reference Material from the OECD:

- 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/>
- COVID-19 in Latin America and the Caribbean: An overview of government responses to the crisis, OECD, April 2020 - <https://www.oecd.org/coronavirus/policy-responses/covid-19-in-latin-america-and-the-caribbean-an-overview-of-government-responses-to-the-crisis-0a2dee41/>
- COVID-19: Protecting people and societies, OECD, March 2020 - <http://www.oecd.org/coronavirus/policy-responses/covid-19-protecting-people-and-societies-e5c9de1a/>
- Government at a Glance: Latin America and the Caribbean 2020, OECD/IDB, 2020 - <https://doi.org/10.1787/13130fbb-en>
- Health at a Glance: Latin America and the Caribbean 2020, OECD/The World Bank 2020 - <https://doi.org/10.1787/6089164f-en>
- Health at Glance 2020: OECD Indicators, OECD, 2020c, <https://doi.org/10.1787/4dd50c09-en> [9]
- Latin American Economic Outlook 2019: Development in Transition, OECD/CAF/ECLAC/EU, 2019 - <https://www.oecd.org/publications/latin-american-economic-outlook-20725140.htm>
- Latin American Economic Outlook 2020, OECD/CAF/ECLAC/EU, 2020 (*forthcoming*).
- Tackling Vulnerability in the Informal Economy, OECD/ILO, 2019 - <https://doi.org/10.1787/939b7bcd-en>
- Under Pressure: The Squeezed Middle Class, OECD, 2019a - <https://doi.org/10.1787/689afed1-en> [5]
- Women at the core of the fight against the COVID-19 crisis, OECD, April 2020 - <http://www.oecd.org/coronavirus/policy-responses/women-at-the-core-of-the-fight-against-covid-19-crisis-553a8269/> [8]

Additional Reference Material from LACRP Partners and Others:

- El desafío social en tiempos del COVID-19, Informe Especial COVID-19 No 3, ECLAC, May 2020, - https://repositorio.cepal.org/bitstream/handle/11362/45527/5/S2000325_es.pdf
- Informe 2018 Latinobarómetro, Corporación Latinobarómetro, 2018 - http://www.latinobarometro.org/latdocs/INFORME_2018_LATINOBAROMETRO.pdf
- World Justice Project Rule of Law Index 2019, World Justice Project, 2019 - https://worldjusticeproject.org/sites/default/files/documents/WJP-ROLI-2019-Single%20Page%20View-Reduced_0.pdf [4]