LEARNING FROM INNOVATION IN LATIN AMERICA AND THE CARIBBEAN:

LISTENING TO THE INFORMAL SECTOR

Learning from Innovation in LAC is a thematic knowledge brief series jointly developed by the UNDP Regional Bureau for Latin America and the Caribbean and the UNDP Accelerator Labs. It seeks to advance our understanding of key structural development challenges in LAC by capturing emerging lessons learned from the Accelerator Labs' innovative approaches to tackling these issues in countries across the region.

THE CHALLENGE OF INFORMALITY IN LAC

Informality is a defining feature of the labor market in the Latin America and the Caribbean (LAC) region. Prior to the COVID-19 pandemic, more than half of workers in Latin America were in the informal sector—meaning that they were not covered by contributory social insurance schemes. In some countries in the region, the share of workers in the informal sector reaches as high as 70 or 80 percent. Achieving the SDGs in LAC will require addressing this widespread challenge. As informality imposes a greater burden of risk on workers, it is an issue that can perpetuate existing development challenges in the region such as poverty, inequality, and low productivity.[1] Moreover, as informality is both a complex and cross-cutting issue, successful solutions will ultimately require attention to deeper underlying challenges of governance.

INNOVATION AND INFORMALITY IN LAC

The UNDP Accelerator Labs offer a unique opportunity to advance the way that we think about the challenge of informality in the region. As the Labs are designed to pick up signals from the ground in diverse country contexts, they can help us to expand the types of evidence that we have on this issue and help us to learn about how we can improve the lives of those working in the informal sector. In particular, the Labs emphasize learning from grassroots solutions.

In more than twenty countries across the world, Labs are engaging with the issue of informality. Through innovative approaches focused on exploration, solutions mapping, and experimentation, the Labs are generating knowledge about informality around a series of key questions—ranging the from subjective dimensions of informality (i.e. informal workers' perceptions and motivations), to the implications of informality for various development outcomes (i.e. environmental sustainability, equity), to how informality interacts with the rapidly changing global context (i.e. digital transformation, the COVID-19 pandemic), to what all this might mean for policy (i.e. incentives for formalization, formal-informal "hybrid" models).

In the LAC region, Labs in five countries (Argentina, Colombia, Ecuador, Guatemala, and Paraguay) are working to answer these questions. Using diverse methodological approaches ranging from ethnography to randomized control trials, the Labs are exploring different manifestations of informality across the region and experimenting with solutions to address its various underlying causes. Each Lab's approach considers a unique aspect of the challenge presented by informality—taking into account, for example, how sectoral differences, gender norms, or local service provision networks matter for shaping local realities. The map in Figure 1 provides country-specific descriptions of these initiatives.

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1   UNDP (2021). Regional Human Development Report 2021. Trapped: High Inequality and Low Growth in Latin America and the Caribbean.

FIGURE 1. UNDP Accelerator Lab initiatives on informality in LAC

COLOMBIA

In collaboration with the Poverty Reduction Programmatic Unit and with the Vice Presidency of Colombia, the Lab is working to address informality with a focus on MSMEs. Key aspects of this work include complementing the global dialogue on informality with local perspectives, using behavioral science to learn about collective approaches to formalization in the context of business associations, learning about incentives for formalization through a portfolio of experiments, and collecting existing solutions from other actors through an open challenge.

GUATEMALA

In collaboration with the Ministry of Environment, local municipal governments, civil society, and academia, the Lab is working on informality with a focus on solid waste management. Key aspects of this work include mapping the waste recovery chain as a hybrid system of formal and informal workers, ethnographic analysis of the challenges and opportunities faced by informal workers, co-creation of a transition plan, and pilot projects in multiple municipalities.

PARAGUAY

In collaboration with the Ministry of Labor and the ILO, the Lab created the Participatory Laboratory for Employment Formalization (LabMTESS). LabMTESS seeks to experiment and validate new strategies, practices, and interventions for employment formalization to strengthen Paraguay's Integrative Strategy for Employment Formalization. Multiple "learning loops" have been conducted for different sectors in the informal economy, including the construction industry, domestic work, and the apparel industry. For more information visit labformalizacion.org.py.

ECUADOR

In collaboration with the Institute of Solidarity and Popular Economy and the Economic Inclusion Programmatic Unit, the Lab is working on a collaborative mapping of cooperatives that comprise the Solidarity Economy ecosystem to understand its different layers. Using methods such as digital mapping, participatory dialogue, and field visits, the Lab is identifying grassroots innovations, experimentation opportunities, and barriers faced by cooperatives.
Moreover, along with ILO and UN Women, the Lab is working to expand the social protection system to young informal workers. As a first step, the Lab is creating a registry for this sub-group of workers and is experimenting with the use of an online platform to gather this data in a safe and ethical manner while also providing tools to improve working conditions.

ARGENTINA

In collaboration with the Ministry of Economy and the UNDP Gender Area, the Lab is working on informality with a focus on financial inclusion. Key aspects of this work focused on exploring the role of trust and interpersonal relationships (including peer effects) on financial behavior and experimenting with the provision of digital support services in local markets ("con vos" Network).

EMERGING LESSONS

While each Lab is learning lessons specific to its country-context, there are a few emerging insights at the regional level. In particular, the following four key lessons stand out that can help to advance the way that we traditionally think about the challenge of informality and its potential policy solutions in LAC.

1 | ADDING AN S:
Viewing the informal sector(s) as a multiplicity rather than as a monolith

The knowledge being generated by the Labs points to how different the informal sector is for sub-groups of workers or firms depending on the context. There is no such thing as a single "informal sector" and differentiated profiles of informality at more disaggregated levels are critical for complementing global and national dialogues about "informality" as a whole. To this end, the work of the Labs provides value in understanding the nature of these various and multi-faceted informal sectors and reinforces the notion that there is no overarching answer to informality.

The Labs' work reveals in particular three key ways in which informality manifests differently: i) by sector; ii) by demographic group; and iii) by collective status. In terms of sector, the Labs are working on informality in a diverse range of sectors including transportation, waste-management, domestic work, construction, apparel, and financial services. Something that clearly emerges from this work is how the drivers of informality, the risks of informality, and the obstacles to addressing informality are highly specific to each of these sectors. For example, the work in Paraguay highlights the challenge of the limited subjective valuation of social insurance (and its links to gender norms around masculinities) as an obstacle to formalization for workers in the construction industry, the challenge of navigating bureaucratic barriers as an obstacle to formalization for the employers of domestic workers, and the challenge of low labor productivity (leading to insufficient profit to afford social insurance) as an obstacle for firms in the apparel industry. In terms of demographic group, the Labs are exploring how factors such as gender or age matter for shaping access to social protection for workers. For example, the work in Ecuador points to the unique challenges faced by young people in the informal sector. The Lab is exploring not only the importance of mechanisms to include them in social registries (by experimenting with a digital platform co-creat-

ed with youth in the country) but also the provision of other targeted solutions through this platform such as access to tools for job searching and educational training. In terms of collective status, the Labs are looking at how barriers to formalization may be different depending on whether workers/firms are organized in a collective or whether they act alone. For example, the work in Colombia is exploring how business associations and other collective approaches within the informal sector matter for incentivizing processes of formalization.

2 | FILLING IN THE GAPS:
Learning from informality as a space of creative problem solving

The knowledge being generated by the Labs points to the importance of learning from informal solutions that arise to solve various problems citizens face. While ideally states would provide equal access to high quality public services and benefits to all, in reality state capacity is often unequally distributed across the territory. In some places, in particular spaces such as rural areas or peripheral urban areas, state presence is marginal. In these spaces, people and communities often create their own solutions to fill in these "gaps." With their ear to the ground, the Labs are uniquely capable of exploring what these types of grassroots solutions look like and learning from them.

While the informal sector is often viewed negatively as a space of high risk for workers and firms, the Labs are learning that this is not the only relevant story about informality in the region. While many workers in the informal sector are left with inadequate protection against risks and often face violations of their rights (and these issues need to be addressed), there are also some aspects of the informal sector that we can learn from positively. The informal sector in many countries contains a dynamic hot bed of small-scale entrepreneurism and innovation that is creating solutions to fill gaps left behind by governments. For example, the work in Guatemala shows how informal workers (despite needing improved conditions, including basic

personal protective equipment) are part of ensuring the effective and affordable provision of municipal waste management while also providing a source of income for populations with limited education and access to formal employment opportunities. Similarly, the work in Ecuador, reveals how entrepreneurial associations and cooperatives are filling in some of the gaps left by the limited coverage of formal social protection through the provision of community-level social protection schemes such as common savings, health emergency funds, and "in-kind" loans. The work in Argentina has even experimented with scaling up some of these types of informal solutions. For example, building on an existing informal practice to help people overcome digital gaps, the Lab supported the creation of the "Con Vos" Network (a network of local shops offering services to support neighbors in completing digital tasks such as online payments or enrollment in public benefit schemes).

3 | RETHINKING DICHOTOMIES:
Addressing informality as an incremental and non-linear process

The knowledge being generated by the Labs points to how the traditional dichotomy of "formal" versus "informal" is not necessarily the best model for understanding the realities on the ground. In many countries, these categories function more as complements and/or as two ends of a single spectrum. Moreover, both people and firms frequently transition between formality and informality during their working lives. In particular, when thinking about greater protection for workers, the work of the Labs highlights how incremental processes can be critical for fostering an effective and sustainable transition away from informality.

One key finding that emerges from the Labs is how there are many entry points for advancing firms along in this process. In particular, the work in Argentina highlights the role of financial and digital services as potential catalysts for pushing people toward formality. Moreover, the work in Guatemala highlights how moving toward the greater protection of informal workers is a process that often requires the cooperation of many different actors. In many cases, this cooperation can be complicated given associated costs and existing tensions. To this end, the Lab was able to serve a unique role in acting as a "bridge" between informal workers and local authorities in the waste management sector and found that solutions require jointly rethinking the potential opportunities and gains for different parties. In these contexts, smaller wins (such as agreements around improving working conditions or the formal recognition of workers in relevant decision-making spaces) can help to open the door to bigger changes later on (such as paying taxes). The work in Colombia also highlights the importance of understanding MSMEs' incentives and motivations for operating in the formal versus informal sector—and, in particular, for switching between these sectors. For example, MSMEs that emerge as a reaction to a temporary need for subsistence income have very different motivations to operate in the (in)formal sector than MSMEs that emerge from the perspective of achieving a longer-term entrepreneurial goal. As individuals and firms rotate between informality and formality, policies aiming to ensure worker protection need to take into account how this process often materializes more as a revolving door rather than as a linear jump between two artificial spheres.

4 | REIMAGINING THE END GOAL:
Aiming for protection and productivity rather than "formalization" per se

The knowledge being generated by the Labs points to the need to change the policy narrative around "formalization." For many governments, the most obvious way to solve informality is through formalization. While formalization is certainly going to be a central part of any solution, from a development perspective is it not necessarily the end goal in and of itself. It is important to remember why we care about formality. If we care about formality because it provides incentives for productivity and ensures protection against risk, then reframing the dialogue around these goals could help to expand the menu of policy options available to governments.

Across the Labs, a key issue that keeps resurfacing is the need to unpack the assumption that everything can or should be formalized. Taking into account the other lessons learned in this brief, it is important to open up the policy conversation to better understand the nature of the risks and opportunities involved in these processes of formalization for different sub-groups of stakeholders. Where formalization may not yet be a viable option, we need to think more creatively about what alternative solutions exist in the interim to incentivize enterprises to grow and to offer protection against risk for vulnerable workers. For example, the work in Paraguay points to the need to increase the productivity of businesses in the apparel industry before formalization is a viable option for them. In an effort to advance this conversation and expand the way we think about solutions to informality, the Lab in Colombia will be launching an Open Challenge to collect ideas from diverse actors (such as communities, public institutions, and private sector companies) and accelerate our learning on this topic.

SUMMING UP

The knowledge being generated by the Labs supports the notion that informality is a highly complex challenge in the LAC region. Addressing it requires embracing complexity and learning from the solutions emerging on the ground. As highlighted in this brief, the signals that the Accelerator Labs in the region are picking up point to four key emerging lessons: (i) solutions must be tailored the different realities faced by different sub-groups within the informal sector; (ii) we can learn from creative solutions people are devising in the informal sector to fill the gaps left behind by the state; (iii) moving from informality to formality is often an incremental and nonlinear process; and (iv) policy goals need to be framed around protection and productivity rather than formalization per se.