

Literature Review: Latin America, COVID-19 and Informal Markets¹

The Organisation for Economic Co-Development (OECD) summarizes the position and short-term focus of policies of Latin America related to COVID-19 as follows:

“Most Latin American and Caribbean countries have been hit by the Covid-19 crisis in the context of low potential growth, high inequalities and rising social discontent. (...). In the immediate term, the priority must be to prevent contagion and support most vulnerable families, workers and firms. In the phasing out of the containment and lockdown measures, continued income support to stimulate consumption and support inclusiveness, as well as investment efforts to promote activity are fundamental to spur a swift economic recovery (OECD, 2020).”²

The OECD expresses here several areas related to tracks of the hackathon (issues as financing of government-debt related to monetary and fiscal policies and fall in prices main export (raw commodities) are most likely beyond the scope of this hackathon), especially on measures to prevent contagion and emergency government-assistance programs. The informal nature of Latin America’s economy, as expressed in Table 1 from Busso, Camacho, Messina & Montenegro (2020)³ (see Appendix, Table 1), increases the difficulty of implementing these measures:

- Firstly, only 6,7% of all informal workers are capable of working from home (Delaporte & Piña, 2020)⁴, increasing the difficulty of preventing contagion and meaning large loss of income for these workers due to lockdown-measures;
- Secondly, “Given that they have no savings or other financial cushion, most owners of informal enterprises may have no choice but to use their negligible business capital for consumption” (ILO, 2020)⁵. Therefore, “ILO estimates show that, assuming a situation without any alternative income sources, lost labour income will result in an increase in relative poverty for informal workers and their families of more than 21 percentage points in upper-middle-income countries (...) and 56 points in lower- and low-income countries” (ILO, 2020)⁶. In other words, if informal workers are unable to obtain government-assistance programs, this may lead them to sell their limited capital to buy necessities. Since they require this capital to produce the goods and services to earn income, this may

¹ For further and more detailed information, please contact me at koen@rethinkingeconomics.nl.

² <https://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: Regional socio-economic implications and policy priorities”

³ <https://publications.iadb.org/en/the-challenge-of-protecting-informal-households-during-the-covid-19-pandemic-evidence-from-latin-america>, “The Challenge of Protecting Informal Households during the COVID-19 Pandemic: Evidence from Latin America”

⁴ <https://ideas.repec.org/p/zbw/glodps/528.html>, “Working From Home Under COVID-19: Who Is Affected? Evidence From Latin American and Caribbean Countries”

⁵ https://www.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS_743623/lang--en/index.htm, “COVID-19 crisis and the informal economy: Immediate responses and policy challenges”

⁶ Ibid.

result in inalterable destruction of micro-, small- and medium-sized businesses, leading to widespread increases in relative poverty.

- Thirdly, the informal nature of the economy increases the difficulty of finding who is eligible for government-assistance programs, communicating eligibility and measuring whether funds are used for intended purpose (latter being focus of Track J. “Verifying the use of funds to reactivate the economy”) (ILO, 2020)⁷;
- Fourthly, bancarization (i.e. access to financial services such as bank-accounts) is low across Latin America, increasing difficulty of transferring payments (ILO, 2020)⁸;
- Lastly, although the coverage (i.e. amount of workers which are covered by a program) and replacement (i.e. percentage of amount paid by program relative to earlier income) are high for the first quintile (i.e. bottom 20% of informal workers), they are far lower for the second and third quintile (i.e. bottom 20%-60% of informal workers, as expressed in Figure 1 in the Appendix (Busso et al., 2020)).⁹ This endangers the rising middle-class in Latin America, potentially reversing the decreases in income-inequality achieved since the 1980’s (Busso et al., 2020; Our World in Data, 2020)¹⁰ (see appendix for changes in income-inequality in Latin America, 1981-2017, Figure 2). Each of these areas present potential areas of focus of the hackathon, especially for “Empowering the Informal Economy” (track I, J and to some extent track E).

Latin America has a number of advantages relative to other countries, in the form of early and strict implementation of control measures, predominantly youthful population and lower densities of less populous regions which help for social distancing (Malamud & Núñez, 2020).¹¹ Latin America’s main shortcomings are in health infrastructure and financing capacities. The authors assess therefore that “the Latin American health situation, which is very uneven and heterogeneous from country to country” could mainly benefit from (and thus potential areas of focus in the hackathon, quoted from Malamud & Núñez, 2020)¹²:

- 1. Strengthening surveillance (especially track H);
- 2. Training the health services (especially track D); and
- 3. The prevention of propagation and the maintenance of essential services to slow down the transmission and save lives (especially track E) .

⁷ Ibid.

⁸ Ibid.

⁹ <https://publications.iadb.org/en/the-challenge-of-protecting-informal-households-during-the-covid-19-pandemic-evidence-from-latin-america>, The Challenge of Protecting Informal Households during the COVID-19 Pandemic: Evidence from Latin America

¹⁰ Ibid; <https://ourworldindata.org/grapher/income-inequality-in-latin-america>, Income Inequality in Latin America, 1981 to 2017 (based on Gini index)

¹¹ http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari36-2020-malamud-nunez-covid-19-latin+america-political-challenges-trials-for-health-systems-and-economic-uncertainty, “COVID-19 in Latin America: political challenges, trials for health systems and economic uncertainty”

¹² Ibid.

Appendix

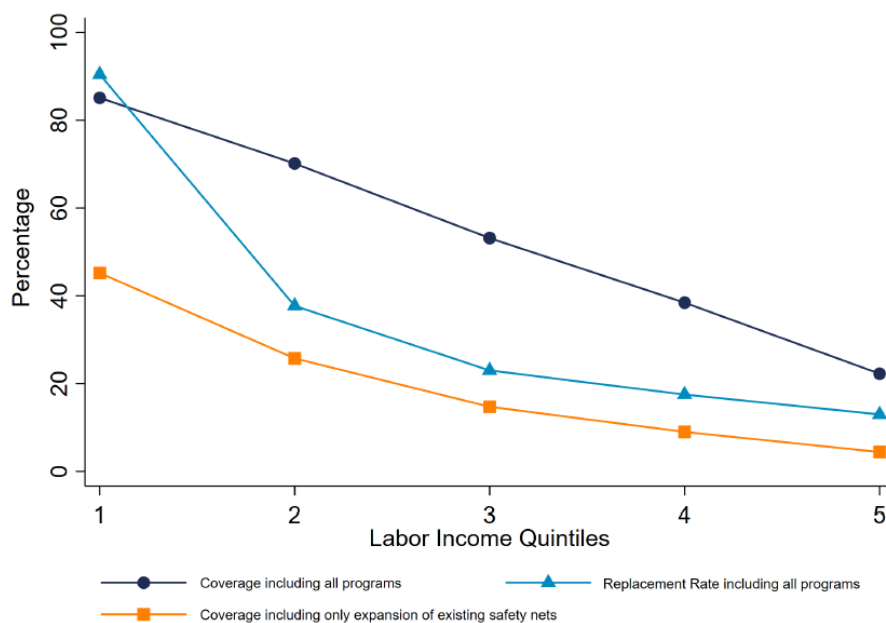
Table 1: Percentage of Households without Formal Workers, by Country and Income Quintile

	Q1	Q2	Q3	Q4	Q5
Argentina	74	44	29	23	19
Bolivia	97	86	75	61	47
Brazil	67	31	19	14	9
Chile	46	24	16	14	11
Colombia	94	70	44	34	17
Dominican Republic	69	51	43	41	32
Ecuador	83	63	48	34	20
El Salvador	94	72	54	45	34
Peru	99	87	68	51	38
Uruguay	51	18	8	4	2
LAC	77	55	40	32	23

Note: Unweighted average for LAC. Data are from 2018 household surveys from Inter-American Development Bank–Harmonized Surveys for LAC, except Chile (2017). Income quintiles are calculated at the household level using monetary labor income per capita. LAC = Latin America and the Caribbean.

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Figure 1: COVID-19 Emergency Social Assistance Programs in LAC. Coverage and Replacement Rates



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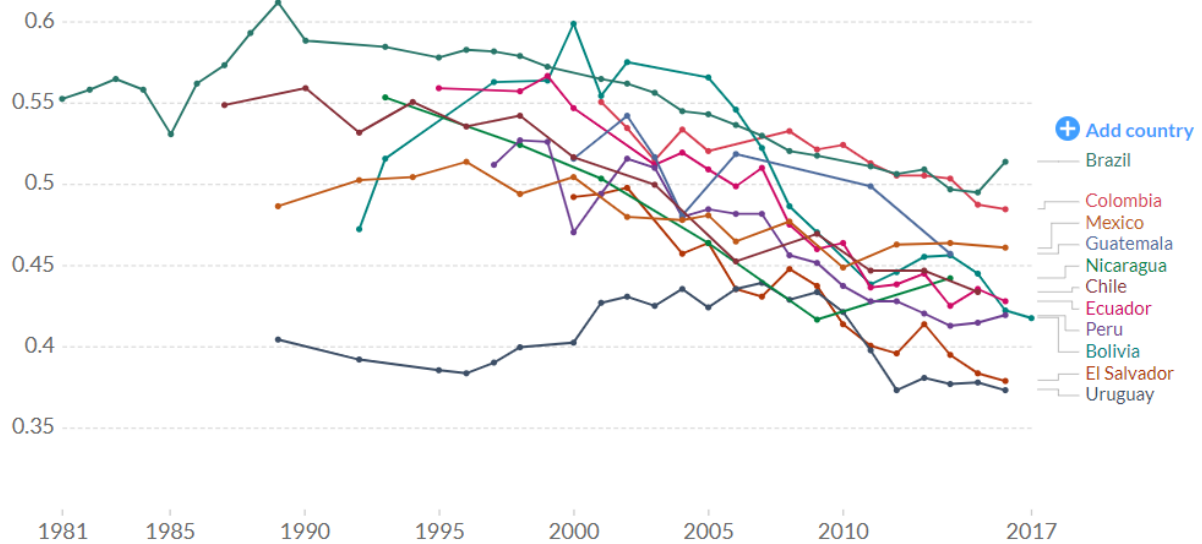
¹³ <https://publications.iadb.org/en/the-challenge-of-protecting-informal-households-during-the-covid-19-pandemic-evidence-from-latin-america>, The Challenge of Protecting Informal Households during the COVID-19 Pandemic: Evidence from Latin America

¹⁴ Ibid.

Figure 2: Income Inequality in Latin America, 1981 to 2017 (based on Gini index)

Income inequality in Latin America, 1981 to 2017

The Gini index measures the distribution of household equivalized income, including zero income. A higher Gini index is indicative of a more unequal distribution of income.



Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank)

OurWorldInData.org/income-inequality • CC BY

¹⁵ <https://ourworldindata.org/grapher/income-inequality-in-latin-america>, Income Inequality in Latin America, 1981 to 2017 (based on Gini index)