

CONCEPT NOTE

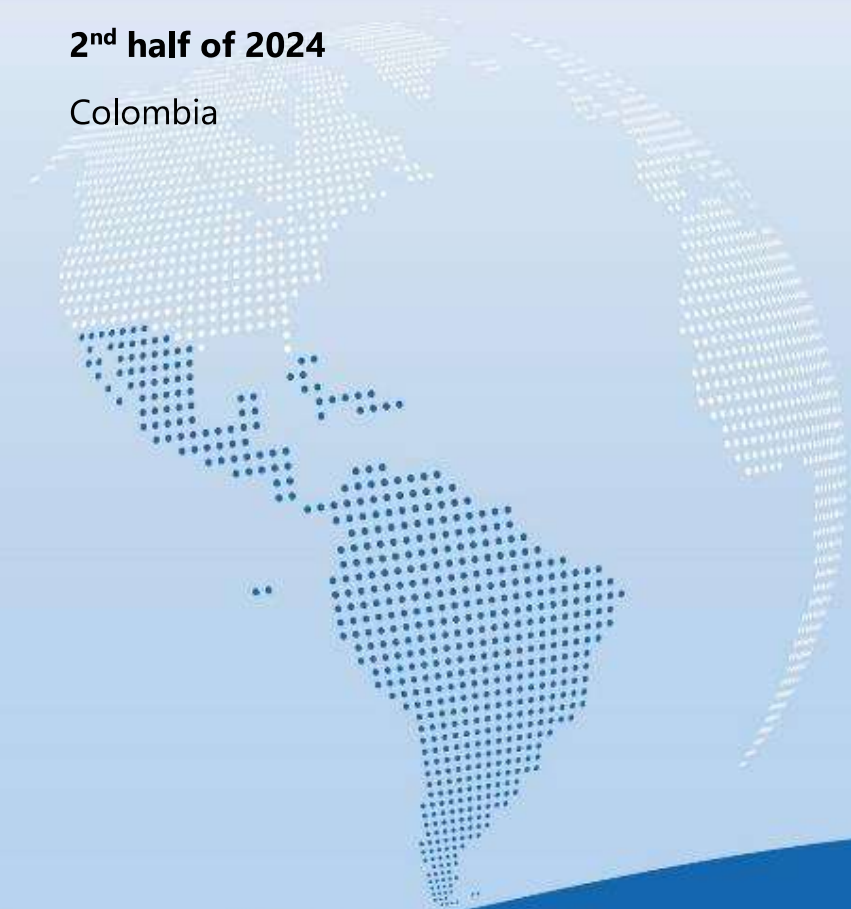


Empowering the popular economy: avenues for social inclusion in Latin America and the Caribbean

Third Ministerial Summit on Social Inclusion

2nd half of 2024

Colombia



OECD Latin America & the Caribbean Regional Programme

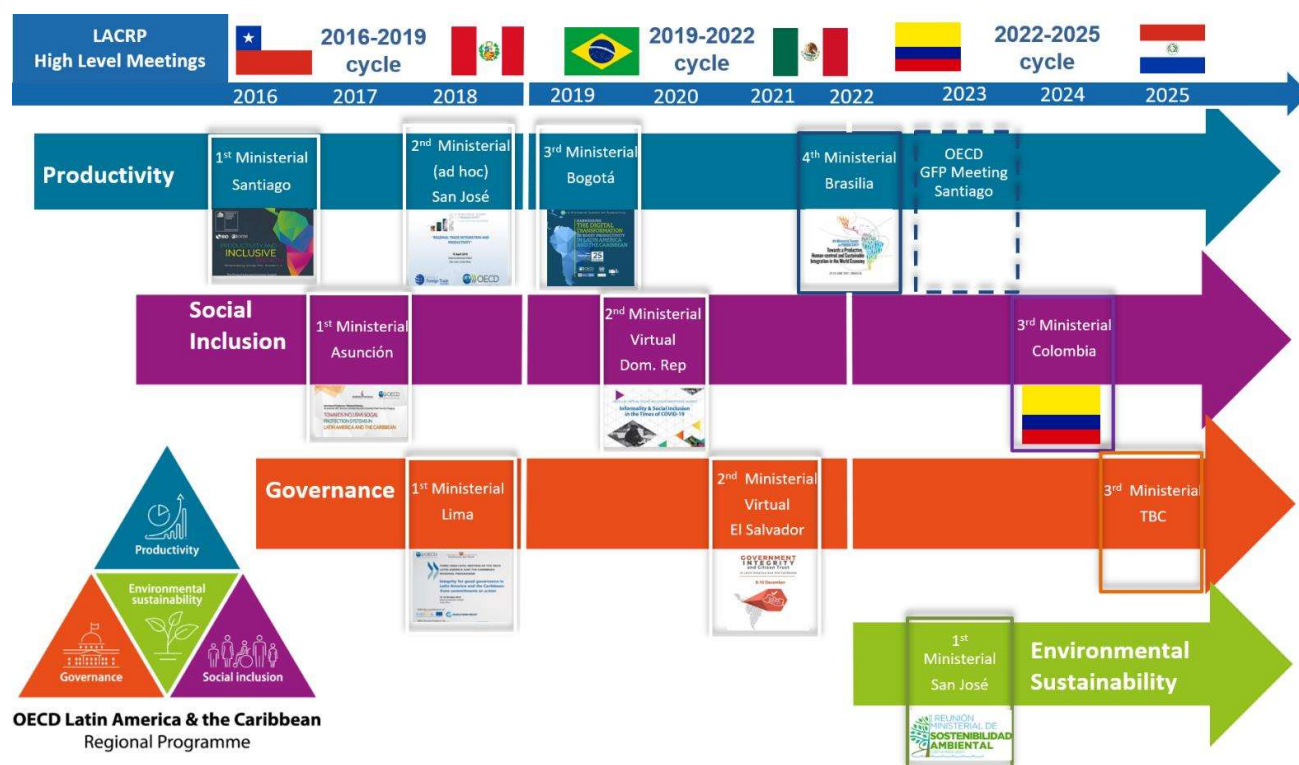


Created in 2016, in response to a greater demand for engagement of Latin America and the Caribbean (LAC) countries with the OECD, the Latin American and the Caribbean Regional Programme (LACRP) supports the region advance its reform agenda along three key priorities: **increasing productivity, enhancing social inclusion, strengthening institutions and governance**, and since 2021, ensuring **Environmental Sustainability**.

The LACRP's third cycle (2022-2025) provides an opportunity to explore and promote synergies between the Environmental Sustainability priority and the Programme's original priorities: Governance, Social Inclusion and Productivity.

MINISTERIAL SUMMITS OF THE LAC REGIONAL PROGRAMME

Since 2016, the Regional Programme has annually organised a ministerial level summit on each of its priorities: productivity, social inclusion and governance. The 2022-2025 cycle started with the 4th Ministerial on Productivity held in Brasilia in June 2022, will feature the first Ministerial Summit on Environmental Sustainability in Costa Rica in October 2023, and will hold its third Ministerial Summit on Social Inclusion in Colombia during the second half of 2024.



THIRD MINISTERIAL MEETING ON SOCIAL INCLUSION

Context

Apart from being a moral affront, inequality in Latin America poses a significant intellectual and policy challenge for the region. Even as many countries' average incomes rise, levels of poverty, even extreme poverty, remain abnormally high. Although many causes can be plausibly adduced, informality is one of the most pervasive. Not only are informal units unable to access the most dynamic sectors of the economy, they also operate outside the social safety net.

For all the efforts at reducing informality in the region, it has proven to be a stubborn phenomenon. It is already more than four decades since the very term "informal economy" entered the policy debates and yet progress has been notoriously slow, something that calls for a paradigm shift.

Of late, the term "popular economy" has come to embody a set of developments, both in academia and on the ground, that, albeit still at an inchoate stage, set such paradigm shift in motion. In spite of its significant conceptual overlap with the "informal economy," the research and policy agenda behind the notion of "popular economy" brings to the fore some elements that have been neglected in the past.

Taken as a conceptual framework, "popular economy" does not denote a different set of phenomena than those analysed through the prism of "informality." Rather, it enriches the study of informality by making explicit the fact that, far from being merely an issue of incentives for individual actors in the market, the persistence of "popular economies" speaks to a broader set of issues, namely, the collective strategies of survival and self-organisation in the face of state institutions with limited reach. The prevailing approach to formalization is predicated on the assumption that, once the right market incentives are set in place, agents in the informal economy will, left to their own device, flock to the formal sector to enjoy its advantages. But the meagre results obtained so far suggest that the labor dynamics and individuals' behavior are more complex.

Popular economies are more than an array of (sometimes inefficient) economic units. They are embedded in networks of credit, mutual support, recognition of expertise and even security provision. Income is a small part of the decision to formalize, a significant one to be sure, but a part that is weighed against, for instance, the possible loss of recognition, status, connections, social benefits, bargaining power among others. Often agents in the popular economy perceive formalisation not as path of social mobility but as a step into the void. In sum, the barriers to formalisation are not merely a matter of economic incentives.

In the end, although formalization regulates markets, it is an outcome of the state. Understanding informality requires understanding why the processes of state-building, not only in the LAC region but in other emerging and developing economies, has remained incomplete. By the same token, addressing the root causes of informality requires a reformulation of the underlying social pact.

To understand how they emerge and how they operate, we need to understand why, and in what sense, the central state has failed to extend its writ into these spaces. Well-functioning states derive their legitimacy, without which law enforcement becomes impossible, from striking a balance between rights and duties. In emerging and developing economies at large such balance has proven elusive in the face of chronic fiscal weakness and clientelism.

Against such backdrop, policies of social inclusion need to look beyond issues of productivity and deal with questions of governance (especially at the local level) and the health of civil society. Those are, after all, the connective tissue that make economic institutions work, be they formal or informal.

Apart from their complexity, and mostly because of it, the other key trait of popular economies is their heterogeneity. Some can be the support of vibrant communities with significant contributions to social welfare. Others are spaces of despair where citizens end up trapped in unbreakable cycles of destitution and even violence. Most are somewhere along such a spectrum.

Because of this heterogeneity and complexity, it is a mistake to assume that the only viable outcome for popular economies is to dissolve into the formal economy without a trace. Decades of disappointing results show that, even if such an outcome were desirable, states in Latin America lack the fiscal and political wherewithal to reach it. While some popular economies may prove to be in need of a complete overhaul that results in their formalisation, others may in their own terms become viable even in modern markets. Still others may well contribute to social welfare through the provision of valuable services. Discerning between these possible outcomes requires information that is attuned to the local context.

Popular economies can be found in cities and rural areas. They can center around all sorts of activities such as vending, waste management, care provision, transportation, food growing, even mining. Their relations with the formal economy and the state can range from open conflict, to tense bargaining, to symbiosis. As a result, the needs and aspirations of agents in the popular economy cannot be reduced to a single formula. The obstacles to their social inclusion may come from lack of a safety net, as emphasised by the literature on formalization, but also from inadequate negotiations around the use of urban space, from lack of flexible schemes for skill recognition, from difficulties to access credit, from weak support to associative forms of production, among others.

The first step towards genuine, lasting social inclusion is, then, the creation of novel analytical tools and frameworks that can inform decisions and guide the necessary debate. Hence, the LACRP 2024 Ministerial Summit on Social Inclusion will be preceded by a region-wide, cross-disciplinary conversation among academics, policy makers and civil society aimed at bringing into sharper focus the different dimensions involved. Such exchange will bring together experiences, both failed and successful, from across the region (and beyond) thus serving as the starting point of a long-term project on development in which the OECD can put its unique technical capabilities to the service of designing a well-rounded approach to an issue that has, for decades, held back economic and social progress in Latin America and the Caribbean.

What can the OECD offer, building on recent work and the two prior LACRP Ministerial Summits?

The OECD LACRP's first [Ministerial on Social Inclusion "Towards Inclusive Social Protection Systems in LAC](#) (Paraguay, 2017) focused on the imperative of building more inclusive social protection systems. On that occasion the OECD published the report [Enhancing Social inclusion in Latin America: key issues and the role of social protection systems](#) which describes the challenge of social inclusion in Latin America through the prism of poverty, vulnerability and inequality. It discussed the policy levers that can be used in response with a special focus on the role of social protection systems. In July 2020, at the peak of the COVID-19 pandemic, the Second [Ministerial on Social Inclusion: Informality and Social Inclusion in the times of COVID-19](#) (Dominican Republic), addressed the need for a new Social Pact to lead the way to a more inclusive recovery from the COVID-19 crisis. The document of [Conclusions and Policy Considerations](#) proposed a ***Roadmap for Action in Support of an inclusive recovery and setting the ground for a renewed social pact.***

In follow up to the mandates of these two ministerial summits, the LACRP has worked intensively with LAC countries on the social inclusion agenda, notably on informality, social protection and gender. New databases are

available 12+ LAC countries on [Informality based on Individuals and their Household](#) (Key Indicators of Informality based on Individuals and their Households – KIIbIH - database), and on [public and private social expenditure](#), by extending the [OECD SOCX](#) methodology, in collaboration with UN ECLAC. The [Social Institutions and Gender Index \(SIGI\)](#) issued a [Regional LAC report](#) in 2020; and a Series of Gender Equality Reviews, Towards a Better Sharing of Paid and Unpaid Work, have been prepared for [Chile](#) and [Peru](#). Reviews for Colombia and Costa Rica, as well as a lessons learned policy insights publication are forthcoming. In Addition, the report ***Portraying informality and households' vulnerabilities in Latin America***, to be published in the second half of 2023, uses the new OECD KIIbIH database to analyse the understanding of informality in LAC, adding the household dimension. This report identifies the specific needs of informal workers to better design appropriate policy responses, including social protection systems, that can mitigate the long-standing vulnerabilities of informal workers and their dependents.. Finally, each edition of the [LEO-Latin American Economic Outlook](#) has analysed the social situation of the region with a focus on social cohesion and informality in the region.

In the social protection front, which has been the central thread line across the LACRP work, the OECD and the EU partnered to prepare a ***policy paper on alternatives for financing the expansion of social protection systems in LAC***.

The OECD, including its Development Centre, together with International Organisations including the Ibero-American Organisation of Social Security (OISS) will **accompany the implementation of a new wave of social protection reforms**, through country specific policy dialogues and tailored recommendations to strengthen universal protection benefits against longevity, poverty and health risks, as well as suitable alternative sources of financing that reduce the current reliance on charging formal wages, which encourage informality.

The third Ministerial Summit on Social Inclusion

The **Third LACRP Ministerial Summit on Social Inclusion** aims to become a key milestone in the regional efforts towards breaking the vicious cycle of poverty, informality and incomplete social protection systems, **focusing on empowering popular economy**, which refers to commercial activities and occupations (production, distribution and commercialisation of goods and services) and non-commercial (domestic or community) developed by small-scale economic units (personal, family, or micro-businesses), in any economic sector¹.

The ministerial could contribute to the regional debate from different angles:

- **The well-being perspective:** specific vulnerabilities and multi-dimensional challenges of the popular economy. Key policy objectives and financing needs to address them.
- **Opportunities that the digital and green transition offer to the social transition**, notably in the domain of financial and digital inclusion, formal job creation and social entrepreneurship.
- **Inclusiveness perspective:** focus on the economic inclusion of women, youth, migrants, indigenous populations, and remote areas
- **Social protection perspective:** concrete avenues to strengthen and expand social safety nets unttying their financing from formal-sector employment

Format

The Ministerial Summit will be a full-day event taking place during **the second half of 2024, in Colombia**. Following the usual scheme, it will consist of two public sessions (morning) and three closed ministerial sessions (afternoon) with the participation of government officials, representatives from International Partner Organisations, the private sector and civil society.

¹ National Development Plan of Colombia, 2022-2026

Objectives

The third Ministerial Meeting on Social Inclusion will gather a diverse group of ministers and senior government officials from OECD and LAC countries, the EU and International and Regional Organisations to discuss effective avenues for empowering the popular economy.

The meeting will also aim to bring the political commitments on social, digital, gender and financial inclusion from the Summit of the Americas, the Ibero-American Summit and the EU-CELAC summit to concrete action, to meaningfully advance in the achievement of the Sustainable Development Goals.

Potential preparatory policy dialogues

In preparation to the Ministerial, the following preparatory regional policy dialogues could take place:

- **Leveraging women's skills in the labour market, investment and trade agendas in LAC** to discuss the link between the productivity and social dimension of gender policies. To be held in Madrid, in October 2023, in the context of the Spanish Presidency of the EU
- **Popular Economy in Latin America** to discuss the interdisciplinary approach needed to analyse actors involved in the popular economy, and key policies addressed to vulnerable citizens that are at the core of the popular economy and the key policy objectives to improve their well-being.
- **Good practices in Financial Inclusion in LAC.** A focus on financial mechanisms to improve access to credit to households and firms will be included in this dialogue.
- **Good practices in Digital inclusion in LAC.** A focus on successful strategies of digital inclusion and the use of new technologies to address social inclusion challenges.
- **Social inclusion and Informality in Latin America** to discuss social assistance, social protection mechanisms and other policies touching informal population. This dialogue includes mechanisms to incentivise formalisation in the region. A gender lens will be included in this session.
- **Productivity, Informality and the financing of social protection in Latin America** to discuss strategic issues concerning social protection, and the challenges associated with the transition towards universal social safety nets.
- **Improving the socio-economic inclusion of migrants in LAC countries** to discuss the key challenges associated with the inflow of migrants, including expectations from national and local governments, integration frameworks, leveraging of migrant skills and highlight scope for policy action. A gender lens will be included in this session.

Expected outcomes

Following the experience of other Ministerial Summits, a key outcome could be the proposal of an **Action Plan, which could have the broad focus of “empowering the popular economy” covering multiple sectors, or specific to one or two policy areas, for example skills or social safety nets. Such Action Plans**, proposed by the OECD secretariat and other IOs which might be interested in joining, would include concrete proposals that the OECD could help implement those countries that would be interested through country specific dialogues with the relevant stakeholders.

SIDE EVENTS

Following prior experiences, the following side events could be envisaged during the week of the Ministerial.

- A Youth event organised by the Global Relations and Co-operation Directorate and the Australia Latam Emerging Leaders Dialogue
- A private sector event organised in cooperation with the private sector (EmNet/BIAC)