The Formal Disguise

Financial Inclusion Among Flexible Workers and the Self-Employed

Medellín, Colombia

Ana Echeverry - Coppelia Herrán
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Barely legal formal workers

Who they are

> Employees with contracts that fall outside conventional full-time, full benefits models.

Colombia’s workforce:

- 43.3% self-employed
- 46.4% earn below minimum wage
- 50% lack social security coverage

> Independent workers and the self-employed

Unskilled or low skills required:

- Car maintenance and services
- Delivery and packaging
- Retail & sales
- Construction
- Outsourced textile and manufacturing
- Food and restaurant
- Fitness & beauty
### Methodology – exploratory research

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<th>Data collection</th>
<th>24 Informants. Direct approach in public spaces and referrals Video ethnography. Semi-structured interviews</th>
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<td>Analysis</td>
<td>Work arrangements</td>
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<td>Interplay between formal and informal economies</td>
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<td>Financial behavior and access to healthcare, pension and other social security benefits.</td>
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<td>Synthesis</td>
<td>Transforming values into guidelines for developing services</td>
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Contrasting behaviors

Careful planner

Independent

Apprentice

Starting career

Technology averse

Risk averse

Multiple trades

Specialized

Risk taker

Tech-enthusiast

Ending career

Formally trained

Submissive

Spontaneous

Common patterns among diverse people
<table>
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<th>Common patterns - examples</th>
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<tr>
<td><strong>Work</strong></td>
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<td>Using word of mouth and</td>
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<td>referrals for finding jobs</td>
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<td>In &amp; out mobility instead</td>
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<td>of upward mobility</td>
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<td><strong>Underlying Factors</strong></td>
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<tr>
<td>Reliance on social networking</td>
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<td>Frustration with job websites’ offerings</td>
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<td>Indirect, triangulated employment, became the norm.</td>
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<td>Typecasting jobs</td>
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<td><strong>Money</strong></td>
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<tr>
<td>Withdrawing all balance on</td>
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<td>pay day</td>
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<td>Preferring cash based income</td>
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<td><strong>Underlying Factors</strong></td>
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<td>Avoiding account deductions</td>
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<td>Staying below the “fiscal radar” to reduce costs</td>
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<td>Low savings capability</td>
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<td><strong>Risk</strong></td>
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<td>Using out of pocket money to get better healthcare</td>
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<tr>
<td>Building home additions for future rental</td>
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<td>Saving towards equipment</td>
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<td>Taking funeral costs insurance</td>
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<td><strong>Underlying Factors</strong></td>
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<tr>
<td>Speedy, high quality care, especially for children</td>
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<td>Ensuring retirement or future income</td>
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<td>Fearing to lose one’s job or ability to work</td>
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<td>Sure event, peace of mind, not burdening family with unforeseen need</td>
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Findings - Guidelines

Enduring Formal work

> Workers assume all risks and operational costs as consequence of flexible and emerging contracts:

  - Taking qualification courses from potential employers without a guaranteed job
  - Paying mandatory insurance for healthcare, retirement & professional risk
  - Deductions for uniforms, supplies, materials, and glassware among others

To stay competitive and reduce costs many opt out of mandatory requirements i.e. military passbook, retirement plan.

1. Offer incentives to compensate social protection benefits.
2. Provide social dialogue tools that bring together disperse workers and employers.
Findings - Guidelines

Enduring formal work

Children are a source of motivation to get ahead in life. Workers place a child need before their own.

Using loans and out of pocket expenses to:
- Get better healthcare services
- Raise children in safer neighborhoods
- Solve practical needs i.e. computer, motorcycle, job outfits.

Word-of-mouth is the most important means to find better jobs as referrals and recommendations have more relevance than resumes alone (trust).

Leverage referrals and social networks into employment services.
Findings - Guidelines

Money matters

> Smartphones and payroll accounts are common among these workers

> Payroll accounts have fees and deductions according to transactions

> Cash transactions are preferred to stay out of the fiscal “radar” and avoid taxes

> Financial planning is done by memory and in monthly basis

5 Make loans or credit eligibility visible to the user

6 Recommend related products or services into payroll accounts - insurance, investments.
Findings - Guidelines

Managing risk

> Risk is strongly associated to fear of not being able to work and provide for the family.

> Most flexible workers can barely afford mandatory insurance services (approx. 15 % of income) making additional coverage unaffordable.

> The only widespread insurance is for funeral expenses, due to its low cost.

At least, promote add-on complements to mandatory insurance

> A common means of protecting Structural social security reform should include lowering costs through customization
Findings - Guidelines

Managing risk

> Low possibility of meeting requirements for obtaining retirement money and unemployment subsidies.

> Need to find alternate ways of securing one’s future:
  - Build house additions for rent
  - Save small amounts towards a small business that can generate income
  - Buy equipment (sewing machines, hair)

> Promote alternative investments, forms of savings, and entrepreneurial ideas to secure complementary income

> There are no insurance products for independent workers, except the
Innovation opportunities 1

Enduring formal work

>> CONGREGATE disperse independent and flexible workers to facilitate EXCHANGE of services and SPREAD opportunities.

>> Help workers make INFORMED DECISIONS and stay up-to-date on legal, insurance and financial topics.
Innovation opportunities 2

Money matters

>> Provide SAVINGS INCENTIVES toward specific goals – loans, insurance add-ons – tied to payroll accounts.

>> Promote small “HIDDEN” SAVINGS for unforeseen events or specific goals.

>> Allow money management or BUDGET ALLOCATION features to help workers keep control.

>> Make ELIGIBLE SERVICES VISIBLE to the user to keep them aware financial services are more than a payroll account.
Innovation opportunities 3

Managing risk

- Develop micro-insurance ADD-ON products to personalize “one-size-fits-all” mandatory insurance.

- Create specific micro-insurance for INDEPENDENT AND SHORT-TERM WORKERS since there are no solutions for this growing segment.

- Focus on UNEMPLOYMENT, which is the primary concern among workers.
Closing the loophole

To be competitive in a global market,

- Countries have implemented flexible labor laws
- Employers have transferred risks to employees
- Intermediaries have profited from triangulation services between companies and workers

While workers jump through hoops to keep precarious jobs.

Mobile technology can help dispersed flexible workers create a marketplace where,

- Business relationships
- Financial and risk management services
- Social dialogue

Can offer a chance to get ahead professionally and financially.