

# The Cost of Informality: A structural barrier to growth — Colombia

10 May 2026

## About CERI

CERI — the Centre for Economic Research and Intergovernmental Co-Operation — advances inclusive, evidence-based economic research to support sustainable development, human well-being, and global cooperation. We bridge national and institutional divides by delivering high-quality analysis, facilitating dialogue, and equipping policymakers, institutions, communities, and governments with actionable insights. Guided by equity, integrity, and collaboration, CERI promotes shared prosperity and resilience across nations and sectors.

## About CERI Policy Briefs

CERI Policy Briefs should not be reported as representing the official views of CERI or of its member countries. The opinions expressed and arguments employed are those of the author(s).

This document, as well as any statistical data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city, or area.

©CERI (2025)



Attribution 4.0 International (CC BY 4.0)

This work is made available under the Creative Commons Attribution 4.0 International license. By using this work, you accept to be bound by the terms of this licence:  
<https://creativecommons.org/licenses/by/4.0/>.

- **Attribution** – You must cite the work.
- **Translations** – You must cite the original work, identify changes to the original, and add the following text:  
*In the event of any discrepancy between the original work and the translation, only the text of the original work should be considered valid.*
- **Adaptations** – You must cite the original work and add the following text:  
*This is an adaptation of an original work by CERI. The opinions expressed and arguments employed in this adaptation should not be reported as representing the official views of CERI or of its Member countries.*
- **Third-party material** – The licence does not apply to third-party material in the work. If using such material, you are responsible for obtaining permission and for any claims of infringement. You must not use the CERI logo, visual identity, or cover image without express permission or suggest CERI endorses your use of the work.

Any dispute arising under this licence shall be settled by arbitration in accordance with the Permanent Court of Arbitration (PCA) Arbitration Rules 2012.

The seat of arbitration shall be New York, NY, United States of America; Paris, France, or Geneva, Switzerland. The number of arbitrators shall be one.



Sources: Medina & Schneider (IMF, 2018); World Economics QIES; national statistical agencies.

## 1 The Issue

Colombia's informal economy is one of the largest in Latin America relative to GDP, estimated at approximately 35–37% of official GDP. This places Colombia well above the regional average for upper-middle-income countries and significantly above its peer economies. The phenomenon is structural — rooted in decades of conflict, weak institutional reach beyond urban centers, and a labor regulatory framework that increases the cost of formal employment.

More than half of Colombia's workforce — approximately 58% — operates outside the formal economy. These workers lack access to social security, pension contributions, occupational health coverage, or enforceable labor rights. This places a structural ceiling on productivity, limits tax revenues, and compounds inequality. Colombia's Gini coefficient of 54.8 is among the highest in Latin America, and informality is a direct contributor.

The COVID-19 pandemic exposed the depth of the problem: informal workers had no access to employment retention schemes, causing household consumption to drop sharply in 2020 and unemployment to peak at 19.9%. Recovery has been uneven, and the structural drivers remain unaddressed.

## 2 Key data by sector

Sector / Indicator	Estimated Rate	Key Impact
Agriculture & rural labor	~80–85%	No pension, health, or injury coverage
Retail & street vending	~75%	No tax registration, off-book revenues
Construction	~65%	High accident rates, no worker protection
Domestic & personal services	~70%	Gender-disproportionate; largely women
Manufacturing (micro-enterprise)	~45%	Below-standard wages, no benefits

Table 1: Informality by Sector in Colombia

### 3 Comparative Context

Informality is not unique to any single country, but its scale, drivers, and costs differ significantly. The table below places this brief in the context of CERI's three founding member countries.

Country	Informal Economy (% GDP)	Informal Workforce (%)	Est. Annual Tax Gap
Colombia	~36%	~58%	~\$10–14B USD
France	~13%	~11%	~\$80–100B EUR
USA	~7%	~7%	~\$600B+ USD

Table 2: Informality and Tax Gap: Cross-Country Comparison

### 4 Why it matters

Informality in Colombia costs the state an estimated \$10–14 billion USD per year in uncollected tax and social security revenues. This constrains public investment in infrastructure, education, and health — precisely the services needed to break the cycle. Colombia's central government fiscal deficit reached 6.7% of GDP in 2024, partly driven by this structural revenue gap.

From a regional stability perspective, high informality undermines Colombia's ability to finance the post-conflict social compact. Municipalities with the highest informality rates correlate closely with those most affected by armed conflict and rural displacement. Without formalization, economic development remains concentrated in four major urban centers — Bogota, Medellin, Cali, and Barranquilla — widening territorial inequalities.

## 5 Policy Recommendations

- **Reduce Payroll Tax Burden on Small Employers:** Reduce non-wage labor costs for small employers to lower the cost of formal hiring, with priority in sectors with structurally high informality rates such as agriculture and construction.
- **Expand BEPS and Health Contributory Floor as a Transitional Mechanism:** Expand Colombia's subsidized pension scheme (BEPS) and establish a health contributory floor for informal workers as a bridge toward full formalization. This mechanism must include an explicit graduation pathway to avoid creating a formality trap where workers face no incentive to transition to the full contributory system.
- **Expand Adoption of the Existing Simplified Tax Regime (SIMPLE):** Rather than creating parallel instruments, scale the reach and adoption of the Régimen Simple de Tributación (SIMPLE), in force since 2019, through targeted outreach, DIAN digital registration improvements, and reduced administrative barriers for micro-enterprises, small traders, and the self-employed.
- **Strengthen Rural Institutional Presence:** Invest in state presence in territories currently operating outside formal reach, including land registries, business registration infrastructure, and access to financial services. This is particularly critical in post-conflict municipalities where institutional gaps directly sustain informality.
- **Build a Real-Time Municipal Informality Index:** Establish interagency data-sharing between DIAN, the Ministry of Labor, and DANE to produce a granular, real-time informality index at the municipal and sectoral level, building on DANE's existing national measurements.
- **Introduce Flexible Contribution Mechanisms for Variable-Income Workers:** Create weekly or daily micro-contribution options for workers with irregular income — including agricultural workers and gig economy participants — who cannot sustain the financial load of standard monthly formal contributions.
- **Strengthen Graduated Enforcement:** Cost reduction alone is insufficient. Pair supply-side incentives with graduated penalties for non-compliance, particularly in construction, to ensure formalization is not only accessible but structurally expected.

## References

DANE - Departamento Administrativo Nacional de Estadística. (2024). *Mercado laboral – gran encuesta integrada de hogares*. DANE.

International Monetary Fund. (2024). *Colombia: Article iv consultation*. IMF. Washington, D.C.

Medina, L., & Schneider, F. (2018). Shadow economies around the world: What did we learn over the last 20 years? (WP/18/17).

World Bank. (2024). *Colombia economic monitor*. World Bank. Washington, D.C.

World Economics. (2025). *Informal economy size – colombia, qies database*. <https://www.worldeconomics.com>

**CERI** | Improving Policy  
Through Research.

*Centre for Economic Research and Intergovernmental Cooperation*