

Informal economic activities in Peru: A misleading path for economic growth and how to improve this situation

Cruz, Gustavo

Professor of Corporate Social Responsibility & Consultant in Strategy and Sustainable Development, CENTRUM Graduate Business School, Peru, gustavo.cruz@pucp.edu.pe

Creation of new businesses and jobs are elemental requirements for economic growth of any country, but what happens when those new businesses and jobs are only possible without respecting basic rules, such as paying taxes, respecting labor rights or having function permits? This is the paradox faced by many developing countries, when we talk about informal economic activities, its capacity to boost the economy and how to transit towards formality in a successful way.

In Peru, several variables have contributed to ease informal economic activities, for example, a non-friendly tax framework for entrepreneurs, difficulty to obtain function permits, the social permissibility to this situation, among others. On the other hand, companies which comply with the law are in disadvantage with informal companies, due to higher costs they have to assume. In the long-term, formal companies can be tempted to “cheat” if they consider this situation as an unfair competition that affects its business and they don’t trust in authorities for finding a solution.

Our analysis includes the review and evaluation of some examples of informal activities performed by individuals or small groups, and two activities made in large scale: illegal mining and illegal logging. Besides, we will appraise the impact of social permissibility with this situation, the difference between craft production and informal production, and finally, a few ideas to address with this issue, based on using of technology and leveraging on social commitment for finding sustainable solutions.

With this paper we expect to contribute to open the discussion about this topic, which has a great potential to transform the business environment of several developing countries which face a similar situation. Our governments must explore new approaches to solve this issue, which at the same time is an opportunity to foster economic growth, improve the quality of life of people and increase public resources.