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The Impact of Covid in the Informal Sector Employment

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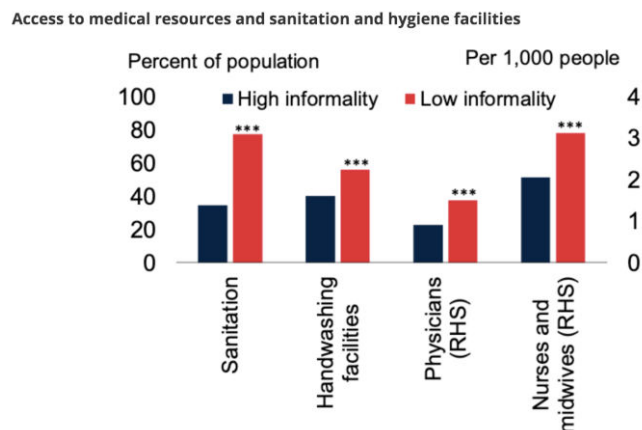
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ABSTRACT: Around the world, some 70% of economic activity is taking place in the shadows – and no, we’re not talking about drug smuggling or other illegal commerce. In this The Development Podcast, the team takes a deep dive into a new analysis that has revealed that the informal sector – firms and workers outside the line of sight of governments in emerging market and developing economies – accounts for about a third of GDP and more than 70 percent of employment. From Cidade Estrutural – one of the poorest neighborhoods in Brasília, Brazil – we hear from Abadia Teixeira de Jesus, who has spent her life climbing out of the economic shadows and into formal employment – only to be knocked back into informality by COVID-19. Back in Washington, Raka and Paul speak with Franziska Ohnsorge, the manager of the World Bank’s Prospects Group, about her new book, *The Long Shadow of Informality*, and what these stunning datapoints mean for the long-term development goals of emerging market and developing economies.

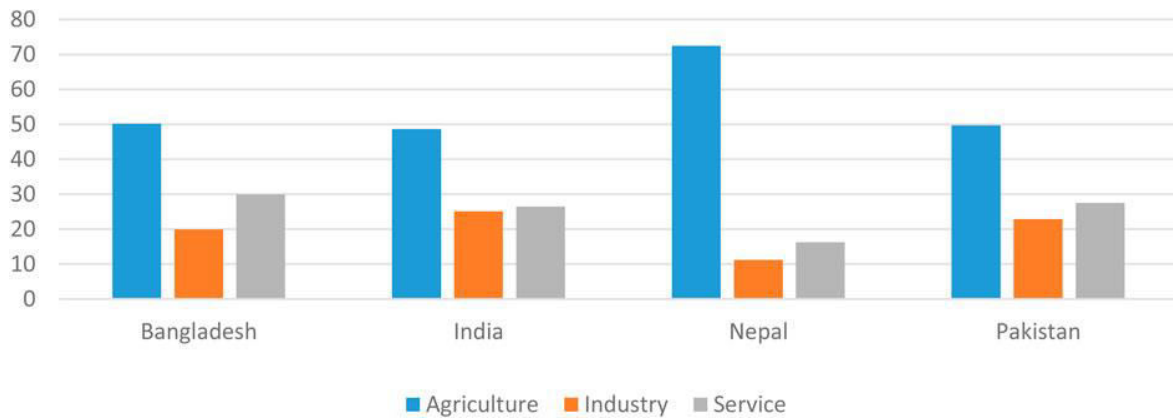
KEYWORDS: COVID-19, commerce, informal, market, economies, sector, analysis, workers, employment, goals

I. INTRODUCTION

The COVID-19 pandemic put dents on every sector of the affected countries, and the informal sector was no exception. expenditure drop during the lockdown.



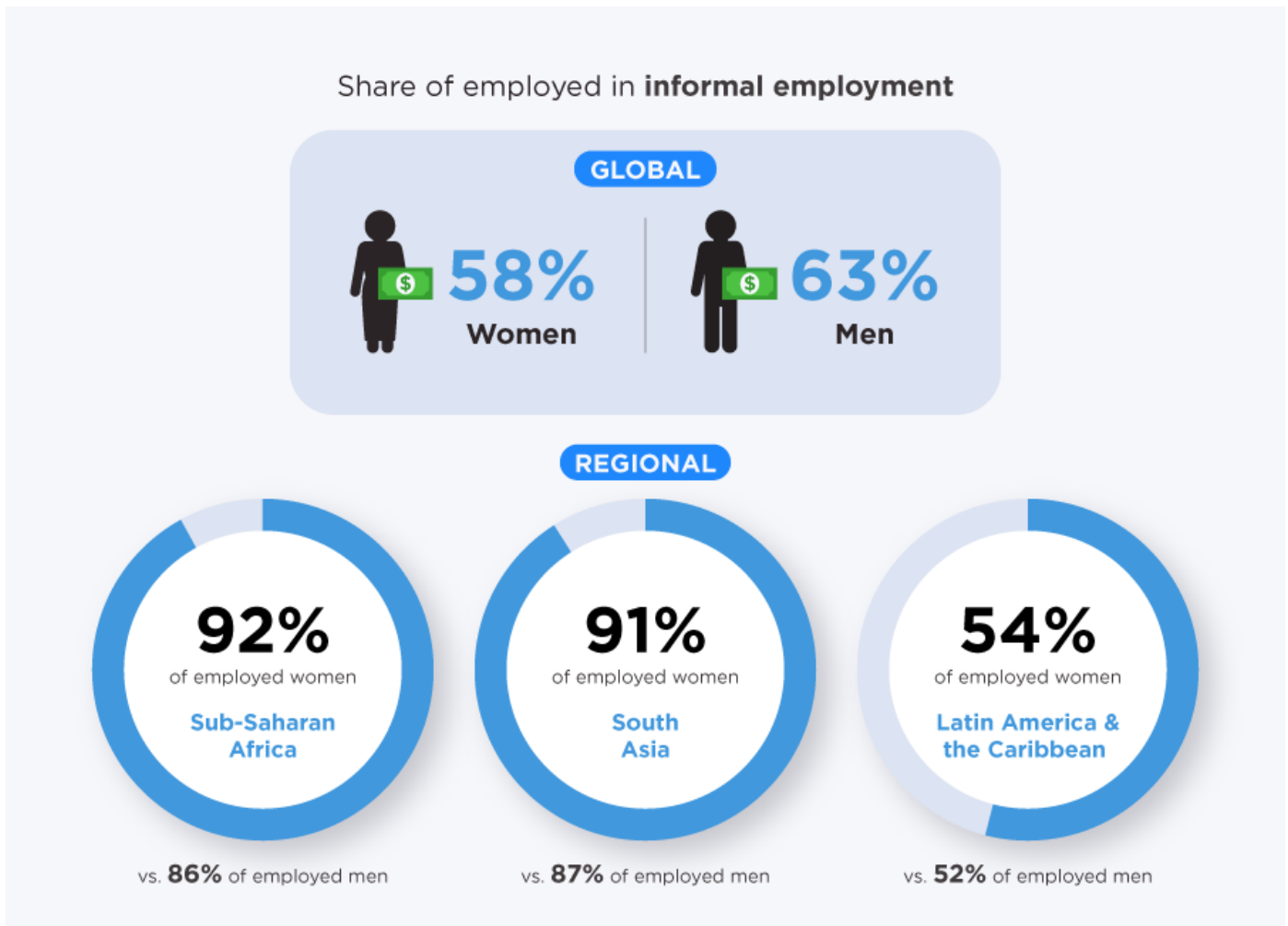
This study is based on the quantitative analyses of the primary data of 1,867 informal workers to shed light on the impact of the pandemic-induced economic crisis on this working class. The survey was conducted between 8 July and 13 August 2020 across the eight administrative divisions of the country. Analysis points out that about ninety percent of these workers faced an income and food . The effect was higher in males, particularly among the urban-centric and educated males engaged in services and sales. The findings suggest that policy support is needed for the informal workers to face such a crisis.[1,2]



During COVID-19 lockdown, about 98% of informal workers experienced an income drop, and on average, the amount is about BDT 6,829 (US\$ 80) from the sample of 1,867 workers. Informal workers were sampled randomly from the available list collected through BRAC local officials and local authorities. Those selected reflected, somehow, little dominance of urbanism (urban 60: rural 40). Gender ratio was almost equal for workers (male 52: female 48). Divisional ratio was addressed in terms of their working place; Higher education (above secondary level) in the informal working class was low (8%); plant and machine operators had the lowest representation (5%) in the sampled data.

At the end of April 2020, the number of COVID-19 infections had exceeded 2.8 million cases affecting 210 countries and territories. 1 Today, physical distancing is pretty much the only way to break the chain of transmission. Full or partial lockdown measures are therefore being implemented all around the world, affecting more than 5 billion people. In 2020, 2 billion people work in the informal economy: 6 out of 10 workers. Informality concerns close to 9 out of 10 workers in sub-Saharan Africa and Southern Asia. As of 22 April 2020, close to 1.1 billion informal economy workers live and work in countries in full lockdown with an additional 304 million in countries in partial lockdown.² These workers together represent 67 per cent of informal employment. For them, stopping work or working remotely at home is not an option. Staying home means losing their jobs and, for many, it has also means losing their livelihoods. “To die from hunger or from the virus” is the all too real dilemma faced by many of those earning their living in the informal economy. Taking into account the additional effects of sectoral risk, employment status, the size of enterprises and different levels of lockdowns (full, partial and weak), leads to an even larger estimate of the impact of COVID-19 on informal economy workers. Almost 1.6 billion informal economy workers or 76 per cent of informal employment worldwide are significantly impacted by the lockdown measures and/or working in the hardest-hit sectors

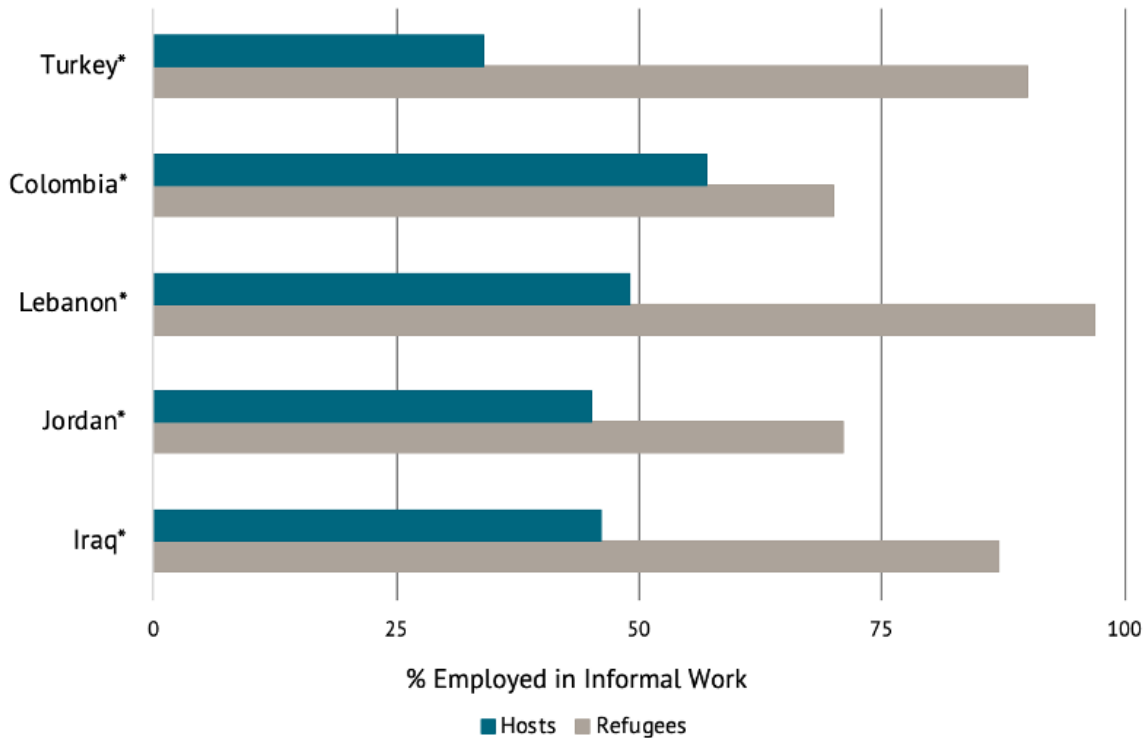
The proportion varies from 55 per cent in upper-middleincome countries (influenced by the situation of weak lockdown in China) to 94 per cent lower-middle-income countries which include the largest countries in terms of informal employment, all of them in situation of full lockdown (India, Bangladesh, Pakistan or Nigeria to name the main ones). Almost all these workers (over 95 per cent) are working in small units of less than 10 workers, many operate in wholesale and retail trade, manufacturing or in agriculture. Among informal economy workers significantly impacted, 42 per cent of women are in high risk sectors compared to 32 per cent of men. Income losses for informal economy workers are likely to be massive.^[3,4]



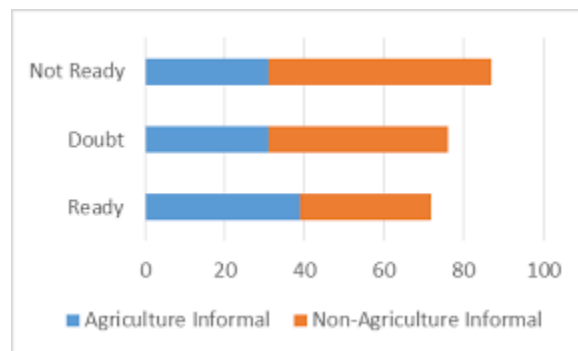
ILO estimates show that, in the absence of income support measures, earnings are expected to decline in the first month of the crisis by 60 per cent globally, 28 per cent in upper-middle-income countries, 82 per cent in lower-middle- and low-income countries and 76 per cent in high-income countries (Table 2). By region, the expected decline is largest in Africa (81 per cent), Northern America (82 per cent) and Latin America and the Caribbean (80 per cent). Assuming a situation without any alternative income, lost earnings would result in an increase in relative poverty for informal workers and their families by almost 34 percentage points globally; more than 21 percentage points in upper-middle-income countries, around 52 percentage points in high-income countries and 56 percentage points among lower-middle- and low-income countries.

III. DISCUSSION

By the end of April 2020, global coronavirus infections have exceeded 2.8 million cases worldwide, with the death toll nearing 195,000. It is now affecting 210 countries and territories¹. With a growing number of countries now facing the Covid-19 crisis, growing nation-wide or local initiatives are being taken to prevent the spread of the deadly virus. Physical distancing measures as the sole option and the impossible choice for informal economy workers, including business owners, between prevention and starvation. Until the discovery of appropriate vaccines and treatments, physical distancing is pretty much the only intervention available to break the chain of transmission and protect a large share of the population. Therefore, full, or partial lockdown measures are now implemented all around the world affecting in April 2020 more than 5 billion people, who have now been asked or ordered to stay at home by their governments [5,6]



All countries are at risk and need to prepare for and respond to COVID-19 to address its health but also economic consequences. Initiatives are starting to take shape in countries on all continents. The fact that the coronavirus spread in many low- and middle-income countries after having reached Asia and Europe has given them some time to prepare. Yet, in most low- and middle-income countries, the majority of the population depends on the informal economy, resources are scarce, gender inequalities and discrimination are persistent, and the capacity of certain institutional structures -including the health and social protection systems- are limited. This limits the scope for replication of measures as applied elsewhere. Some additional measures of scale for the informal economy are necessary. As of April 2020, it is estimated that hundreds of millions of workers, including business owners, are severely impacted by COVID-19 and the necessary measures to ensure physical distancing. For many people in the informal economy, to stop working or working remotely at home is not an option. In the absence of income replacement or savings, staying home means losing their jobs and, for many, losing their livelihoods.[7,8]

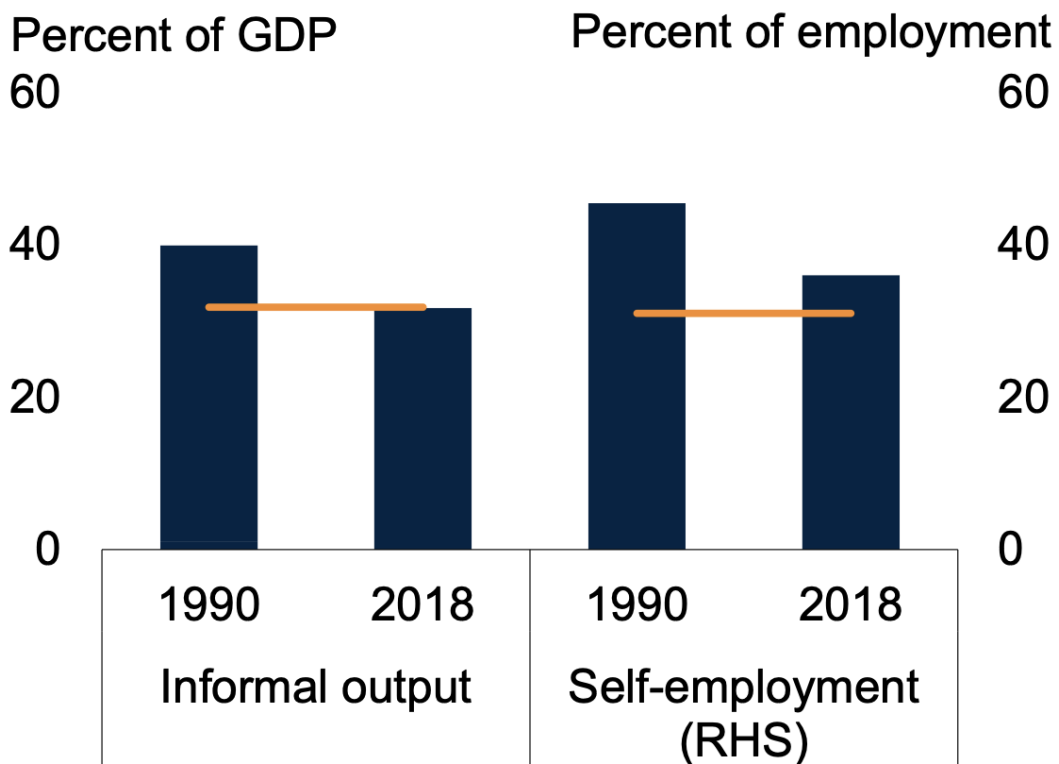


Sectors and economic activities in the informal economy are heavily hit by the consequences of COVID-19. The most represented sectors and subsectors in the informal economy are often also those that are directly impacted by COVID-19 and associated measures to ensure physical distancing (mobility restrictions, partial or full lockdowns), affecting at the same time the demand, imports and access to raw materials and intermediate goods that are required for production.



Heavily impacted sectors are notably the wholesale and retail trade sector which concentrates one fourth of informal nonagricultural employment globally but one third in developing countries with a majority of street vendors and other traders without fixed location. The crisis affects as well small craftsmen in the clothing, leather or carpentry sectors, transport workers and associated activities such as car mechanics, workers in personal services including catering, hairdressing and beauty salons, but also the numerous domestic workers and many more. It concerns agriculture too — which represents 40 per cent of total informal employment worldwide, but more than two thirds in developing countries — with millions of small peasants from rural or peri-urban areas producing for the urban market being unable to sell their produce.

Usual measures to support income and sustain economic fabric is out of reach for informal economy workers and enterprises. In addition to physical distancing, measures also focus on maintaining and stimulating the economic fabric while ensuring income security for individuals. However, an examination of the measures that have been developed by the most affected countries (in particular Europe, China and North America) shows that the usual measures to stimulate and support economic activity - including for small enterprises - as well as income protection measures will hardly reach the informal economy. In the absence of social protection, legal recognition of activities and jobs as well as access to formal financial structures, proposals related to unemployment benefits (partial or total), tax breaks, new lines of credit or business subsidies limit the response to formal businesses and formal workers. All these measures are important because they contribute and will keep preventing poverty and the informalization of the formal economy while supporting global demand, which is decisive for the survival of informal economic units. However, they will hardly reach women and men in the informal sector - or those who have fallen through the cracks of existing social protection systems.[9,10]



At the same time, the informal economy is seen as instrumental in the fight against insecurity, unemployment and underemployment. Handicraft enterprises in the informal economy also play a major role in vocational training, representing for many young people the only way to acquire skills for the world of work. Yet, to be able to be

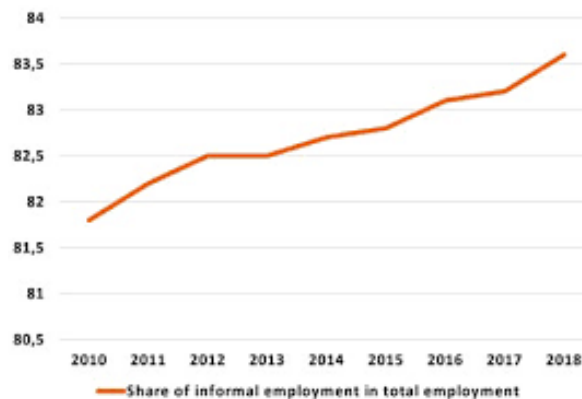


instrumental, it is necessary to preserve the informal economy from this health, economic and social crisis associated with COVID-19 and to limit its immediate, medium and long-term negative consequences.

This undoubtedly requires responses that complement conventional measures to effectively reach informal economy women and men workers, including business owners. The priority is to hear and make heard the voices of women and men entrepreneurs and workers in the informal economy together with the organizations representing them. The priority is also to identify the extent and nature of the direct and indirect effects of COVID-19 and the preventive measures associated with it as well as opportunities to ensure the continuity of activities, to prevent closure of enterprises and job losses, to ensure and sustain the contribution of the informal economy to the economic fabric and to ensure an income for the people depending on it by offering realistic options. The rapid assessment contributes to meeting this priority by providing information on the situation of workers and economic units in the informal economy. Depending on countries, the assessment can focus on certain components of the informal economy: entrepreneurs and workers in the informal sector, workers in undeclared work in formal enterprises, domestic workers, and when possible, workers and units at the edge of informality highly exposed to the risk of informalization of their jobs or units. The generic methodology can apply to those different categories but may imply some adjustments regarding the channels used to reach them and the formulation of data collection tools. The guidelines can be used to carry on rapid assessments dedicated exclusively to the informal economy. It can also be used to insert components on the informal economy on broader rapid assessments covering a full country, specific sector groups of workers or economic units.[11,12]

IV. RESULTS

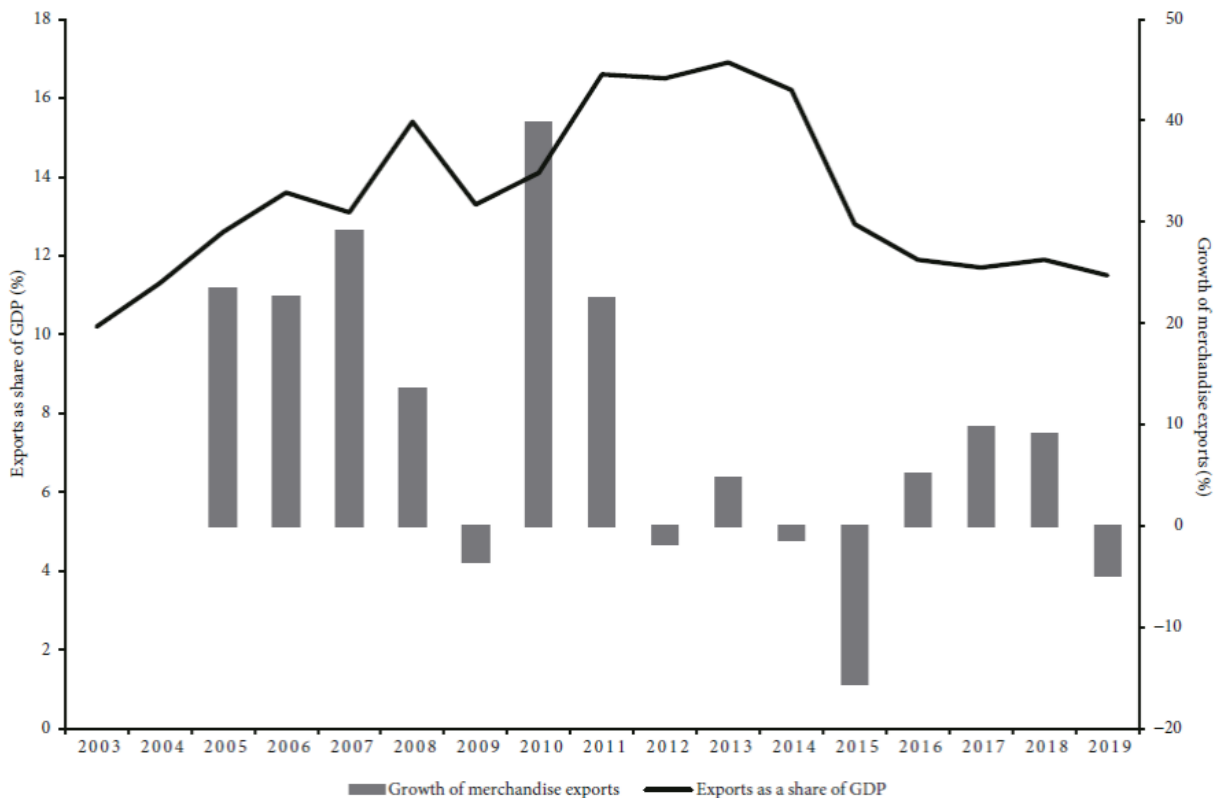
Enhancing collaboration and joint activities with other organizations, international, regional or national institutions. Ensuring the efficient use of resources, time and efforts is critical.



A particular attention should be paid, before starting the rapid assessment, to the identification of possible collaboration with other planned or ongoing assessments sharing some common objectives. This could involve joint assessments or the enhancement of complementarities allowing for the enriched analysis of results from different initiatives and notably the benefit of combining both quantitative and more qualitative methods. At national level, it is of particular importance to consult with the Government, main social partners and the national statistical office to identify ongoing and planned assessments initiatives and identify any possibility for joint work and avoid duplication of efforts. Multiple waves. Rapid assessments can be carried out in two waves: one at the earlier stage of the crisis and another one three months later, contacting again all a sub-group of people. Physical distancing. Develop methods respectful of the need for physical distancing. Set priorities. Do not try to cover everyone in the informal economy: focus on those that are the most affected and fix priorities. One of the most recommended approach is a sectoral approach encompassing the various subsectors involved in each chain. Rapid assessment: The completion time is estimated at four weeks.[13]



Main issues covered during the telephone interview and the online survey include: 1) perception of the social and economic impact of COVID-19 and of the units and workers the most affected; 2) knowledge and perception of sanitary measures adopted so far; 3) involvement in the definition and implementation of current measures, the potential economic activities in which informal operators could engage as well as possible links with formal businesses (in the internal market or in local and global value chains); 4) their means of action, as organizations, to provide support and services to their members; services and support that could be envisaged in order to reduce the negative consequences of COVID-19 and the challenges they face and support needed to enhance their action



Although it exists in all economies – whether developed or developing, high- or low-income – informal working is particularly prevalent in lower-income countries.

Between 2010 and 2016, informal work made up around 40% of GDP across Sub-Saharan Africa, Europe and Central Asia, and Latin America and the Caribbean. A key indicator of the relative size of the informal work sector is how many people are classed as self-employed. The World Bank estimates 50%-60% of workers are self-employed in Sub-Saharan Africa, South Asia, and East Asia and the Pacific.[14]

These also tend to be parts of the world without established social security safety nets. “In the one-third of EMDEs [emerging market and developing economies] with the most pervasive informality, unemployment benefits, on average, are only available to less than 2.5% of the population,” the World Bank warns.

Informal workers are also less likely to have their own financial cushion, the ILO says, leaving them with stark choices: ““To die from hunger or from the virus’ is the all-too-real dilemma faced by many informal economy workers.”

The cumulative effect of informal work, lack of support structures and the coronavirus pandemic is that chronic hunger is becoming a way of life for millions more people. The World Food Programme estimates the number of people suffering from profound hunger could grow to 270 million by the end of the year. That’s an 82% increase on pre-



pandemic levels. Meanwhile, Oxfam is warning that 12,000 people per day could die from hunger caused by the COVID-19 crisis.

Poverty and disease go all too often hand in hand. In many low-income countries, water scarcity is a daily battle. Climate change, conflict, and a lack of infrastructure mean millions of people don't have a source of safe water close to where they live.

If there's no clean water, you can't wash your hands – one of the most abiding pieces of advice regarding coronavirus containment. And once again, there is a link between sanitation and informal working.[15]

V. CONCLUSIONS

Combating the threat to the informal sector calls for joined-up thinking, the ILO advises. Health and finance concerns should not be separated from one another but addressed by a coherent plan of action.

Ensuring adequate financial support is an important factor. It will, of course, make it possible for people to remain in their homes and provide for themselves and their dependents. But they also need to be given swift access to medical services as well as advice on how to limit the likelihood of them spreading the virus.

The Covid-19 pandemic has indeed created huge challenges for informal laborers in the Indian economy. Even though government measures have been introduced, they have been neither sufficient and timely nor well thought-out. Structural problems and long-embedded disadvantages have further complicated the situation. However, the crisis has also brought an opportunity as a lot of attention has been drawn to this sector and there might be pressure on the state to have a comprehensive policy to revamp the situations. On a long-term basis, the informal sector and labor in this sector must be carefully geared up to self-sustained growth behavior that does not remain perennially dependent on government support. Such efforts must be integrated into economic policies and measures such as poverty reduction. Survival strategies must not be considered as sufficient or the final goal. Actually, the Indian government in the last six years has tried to formalize the labor force in India, and between 2015 and 2018 around 7 million jobs have been formalized. It has been done through introduction of Employee Provident Fund reforms, Fixed-Term Contract reforms, Goods and Services Tax (GST) reforms, Skill India, demonetization and Maternity Benefit reforms. There are estimates that another 11 million jobs would be further formalized by 2021. The Covid-19 pandemic has been instructive that such formalization must be augmented and hastened. Furthermore, the dichotomy between social support for the informal labor sector and productive initiatives must be bridged, which could be done by providing help in stimulating productive development of small and micro enterprises by providing them market access as well as resources. There must be also concrete measures to ensure the social well-being of the informal workers. Regulatory frameworks also must be reformed to create an integrated economic process and provide incentives for formalization of labor. It is advisable that amidst the pandemic, the government must give the highest priority to the poor and informal workers so that their livelihoods are not threatened but at the same time, structural limitations must be addressed to make this marginalized section a source of strength rather than weakness in the Indian economy.[16]

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