

Policy Brief

The Pandemic, Informality and Poverty: Rethinking Economic Policy Responses to the Informal Economy

Summary

Informal workers, who represent over 60 per cent of all workers globally, were disproportionately impacted by the pandemic restrictions and recession. The pandemic exposed the pre-existing disadvantages that informal workers face as well as the essential goods and services they provide. To reduce poverty and inequality going forward, it is important to build on this new-found recognition of the contributions of informal workers and promote an enabling policy and regulatory environment towards them.

Key messages

- **61 per cent of all workers worldwide are informally employed:** 90 per cent in developing countries, 67 per cent in emerging economies, and 18 per cent in developed economies – a total of 2 billion workers (ILO 2018)
- **There is a significant overlap between working informally and being poor.**
- Informal workers, who live off daily earnings and cannot work remotely, were **disproportionately impacted by the pandemic restrictions and recession.**
- **Supporting informal workers is a key pathway to reducing poverty and inequality** going forward.
- Support to informal workers should include **social and legal protection, access to public goods and a collective voice in policymaking processes.** The public goods required by specific groups of informal workers include: basic infrastructure services for home-based workers; regulated access to public space for street vendors; and municipal solid waste management contracts for waste pickers.

The informal workforce and poverty: pre-Covid-19

In May 2018, the International Labour Organization (ILO) published the first global estimates of informal employment. These global estimates show that 61 per cent of all workers worldwide are informally employed – a total of 2 billion workers (ILO 2018: 13; Bonnet *et al.* 2019: 4). The data also show that the rate of informal employment is highest in developing countries (90%), lowest in developed countries (18%) and quite significant in emerging countries (67%) (ILO 2018: 14; Bonnet *et al.* 2019: 4).

The ILO global estimates also confirm a significant overlap between working informally and being poor: a higher proportion of informal workers than formal workers are from poor households; and a higher percentage of all workers in poor households, compared with non-poor households, are informally employed (ILO 2018: 49–50, Figures 22–23; Bonnet *et al.* 2019:15–17, Tables 4.1 and 4.2). Also, less than three per cent (2.7%) of all informal workers are employers (ILO 2018: 39; Bonnet *et al.*:6), the one segment of informal workers who are non-poor on average (Chen *et al.* 2005).

The Impact of Covid-19 on informal workers: decreased employment, increased poverty

In late April 2020, the ILO estimated that 1.6 billion people employed in the informal economy – 80 per cent of the global informal workforce and nearly half of the total global workforce – could see their livelihoods destroyed due to the decline in work, working hours and earnings brought on by lockdowns or other restrictions to curb the spread of Covid-19 (ILO 2020: 1). This prediction was in marked contrast to the widely held assumption in previous economic crises that the informal economy offered ‘a cushion to fall back on’ for formal workers who lost their jobs, with little, if any, consideration paid to the impact of crises on informal workers and their livelihoods. Since the onset of the pandemic, a growing body of studies on the impact of Covid-19 policy responses on informal workers has confirmed the ILO’s prediction.

For instance, in mid-2020 and mid-2021, the Women in Informal Employment: Globalizing and Organizing (WIEGO) network undertook a panel study on the impact of Covid-19 policy responses on informal workers in 11 cities across five regions of the world (Asia, Africa, Latin America, North America and Eastern Europe). The study findings confirm that Covid-19 policy responses had a major negative impact on the work and earnings of the nearly 2,000 informal workers in the study sample.

“By mid-2021, when the lockdowns or restrictions had been lifted or eased, 21 per cent of the informal workers were still not able to work; and the average days of work per week and average earnings of those able to work were lower than pre-Covid-19. Also, most of the sample were not able to repay loans they had taken out to survive, rebuild savings they had depleted, replace assets they had sold or pawned, or pay rent or school fees they had deferred since the onset of the pandemic. In short, even many of those who were able to work in mid-2021 were still stuck in a deep pandemic hole.”

In April 2020, during peak lockdowns or restrictions across the 11 cities, nearly two-thirds (65%) of the informal workers in the study sample were not able to work. By mid-2021, when the lockdowns or restrictions had been lifted or eased, 21 per cent of the informal workers were still not able to work; and the average days of

work per week and average earnings of those able to work were lower than pre-Covid-19. Also, most of the sample were not able to repay loans they had taken out to survive, rebuild savings they had depleted, replace assets they had sold or pawned, or pay rent or school fees they had deferred since the onset of the pandemic. In short, even many of those who were able to work in mid-2021 were still stuck in a deep pandemic hole (WIEGO 2022).

National data from Latin America¹ confirm that the pandemic, and associated restrictions

and recession, had a major impact on total employment and a disproportionate impact on informal workers except in Peru, where job losses were greater among formal workers (except in Metropolitan Lima). Further, a higher percentage of women workers, than of men workers, in the five countries suffered employment losses. However, the difference in employment losses and gains was greater between formal and informal workers than between women and men workers in Brazil, Mexico and Peru and roughly the same in Chile and El Salvador.

Rethinking economic policy responses to informality: the post-Covid-19 moment

Historically, mainstream economists have tended to be ambivalent, negative or hostile towards the informal economy, viewing informal workers (especially self-employed ones) as non-compliant and non-productive – a problem to be tackled – and blaming the persistence of informality on informal workers themselves, or on labour regulations and social policies that allegedly create perverse incentives for firms and workers to operate informally. Very few mainstream economists, with some notable exceptions, have given much thought to how economic policies – micro-, sectoral and macro- – impact the persistence and productivity of informal firms and workers.

The Covid-19 pandemic shone a spotlight on the essential goods and services informal workers provide – from food to health and childcare to transport and waste collection; and also exposed the disadvantages and inequalities informal workers face in accessing health services and relief aid, in pursuing or restarting their livelihood activities, and in receiving financial or other recovery support to rebuild their livelihoods and assets. In this post-Covid-19 moment, the policy question or challenge is whether the informal workforce will face:

“What is required going forward is “a shift in the dominant narratives in economics about the informal economy: from stigmatising and penalising informal workers to seeing them as the broad base of the economy, providing essential goods and services; and from focusing on what policies drive informality to what would enhance the productivity and earnings of informal workers.”

- The **bad old deal** – ongoing exclusion from economic policies and social protection, plus adverse integration into supply chains.
- A **worse new deal** – intensified destruction of their workplaces and further erosion of their commercial and employment arrangements.
- A **better new deal** – inclusion in economic policies, social policies and supply chains on an equal footing with formal firms and workers.

¹ As part of its work on the impact of the pandemic on informal workers, the WIEGO network also commissioned analyses of recent national labour force data in Brazil, Chile, El Salvador, Mexico and Peru (Chen and Vanek 2024).

A **better new deal** for informal workers is essential to reduce poverty and enhance economic growth. It would need to give priority to informal firms and workers in economic recovery efforts and future economic policies. But this would require a shift in the dominant narratives in economics about the informal economy: from stigmatising and penalising informal workers to seeing them as the broad

base of the economy, providing essential goods and services; and from focusing on what policies drive informality to what would enhance the productivity and earnings of informal workers. Without such a shift, existing policies will continue to make it difficult for working poor people in the informal economy to dig themselves out of their pandemic hole and, more so, to work their way out of poverty.

Policy recommendations

A new policy approach that promotes a **better new deal** for informal workers would have to address what *all* informal workers want and need – notably, recognition of their economic contributions, social and legal protection, access to public goods and a collective voice in policymaking processes; and what *specific groups* of informal workers want and need – for example, housing tenure and basic infrastructure services for home-based workers, regulated access to public space and protection of their natural markets for street vendors, and the right to access waste and bid for solid waste management contracts for waste pickers.

Further reading

Bonnet, F.; Vanek, J. and Chen, M. (2019) *Women and Men in the Informal Economy: A Statistical Brief*, Switzerland: International Labour Organization and Manchester: Women in Informal Employment: Globalizing and Organizing

Chen, M. and Vanek, J. (2024) 'The Impact of the Covid-19 Pandemic on Employment: Findings from National Labour Force Surveys in Five Latin American Countries', in M. Chen, M. Rogan and K. Sen (eds), *Covid-19 and the Informal Economy: Impact, Recovery and the Future*, Oxford: Oxford University Press

Chen, M. et al. (2024) 'Covid-19 and Informal Workers: Sector-specific Pathways of Impact in Eleven Cities' in M. Chen, M. Rogan and K. Sen (eds), *Covid-19 and the Informal Economy: Impact, Recovery and the Future*, Oxford: Oxford University Press

Chen, M. et al. (2005) *Progress of the World's Women: Women, Work and Poverty*, New York: United Nations Development Fund for Women

ILO (2020) 'Covid-19 and the World of Work: Updated Analysis and Estimates', *ILO Monitor* (3rd ed.), Geneva: International Labour Organization (ILO)

ILO (2018) *Women and Men in the Informal Economy: A Statistical Picture* (3rd edn), Geneva: International Labour Organization (ILO)

Authorship

Written by Martha Alter Chen (WIEGO Board, Harvard University). This brief was commissioned through the Covid Collective based at the Institute of Development Studies (IDS) and is funded by the UK Foreign Commonwealth and Development Office (FCDO).

Suggested citation

Chen, M. (2023) 'The Pandemic, Informality and Poverty: Rethinking Economic Policy Responses to the Informal Economy', CPAN Policy Brief 9, Brighton: Institute of Development Studies

Institute of Development Studies, Library Road, Brighton, BN1 9RE, United Kingdom. T +44 (0)1273 606261 W ids.ac.uk

IDS is a charitable company limited by guarantee and registered in England. Charity Registration Number 306371. Charitable Company Number 877338.

© Crown copyright 2023

DOI: [10.19088/CPAN.2023.009](https://doi.org/10.19088/CPAN.2023.009)



Find out more about the **Chronic Poverty Advisory Network** www.chronicpovertynetwork.org