

Submission to Special Rapporteur on Extreme Poverty and Human Rights' thematic report to the UN Human Rights Council "Social protection: a reality check"

Women in Informal Employment: Globalizing and Organizing (WIEGO)

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The economic impacts of the COVID-19 crisis have been particularly devastating for informal workers

Informal employment accounts for over 60 per cent of all global employment, representing roughly two billion workers, and 90 per cent of employment in low-income countries (ILO 2018).

Early in the COVID-19 crisis, the ILO projected that 1.6 billion informal workers would be among those most severely affected and that they would lose 60 percent of earnings during the first months of the pandemic (ILO 2020a). The ILO forecasted that this would lead to a sharp growth in relative poverty levels among informal workers from 26 to 59 percent globally, and a staggering 18 to 74 per cent among informal workers in low-income countries (ILO 2020b). The World Bank estimates that the pandemic has pushed 93 million people into extreme poverty around the globe in 2020 alone, mainly in low and middle-income countries (Mahler et al. 2021).

To develop a timely and nuanced understanding of the impacts of COVID-19 and public health measures on informal workers, WIEGO implemented a mix-method longitudinal survey in 12 cities worldwide¹.

Interviews conducted in mid-2020 and mid-2021 document the devastating and lasting impacts of the crisis on informal workers' livelihoods and incomes. Most respondents (74%) across the 12 cities reported not working at all in April of 2020. Average earnings in April were only 21 percent of pre-COVID earnings, and 75 percent of respondents reported zero earnings. By mid-2020, when most severe restrictions had been lifted, average earnings were still only 55 percent of pre-COVID earnings (WIEGO 2021a).

The survey's second wave² findings for 2021 show that earnings are still far below their pre-pandemic levels. It is clear that the livelihoods of informal workers have not recovered to their pre-pandemic levels in most cities and occupational sectors. The city samples reported full-time employment prior to the crisis (in February 2020), with 5.5 days a week worked on average. The most severe disruption to working days occurred in April 2020 and then recovered (to 3.4 days per week) by the middle of 2020. However, by mid-2021, the average number of days worked across the city samples had increased to only 4 days per week. As a result, by mid-2021, the typical worker was only earning 64% of their pre-COVID earnings (Reed et al. 2021).

Survey findings also confirm a disproportionate impact on women workers' livelihoods. Home-based workers, mainly women, suffered among the largest drop in earnings and the slowest recovery. In 2021, these workers remain the hardest-hit sector, with typical earnings of this group only 2% of pre-pandemic levels, reflecting the depth of devastation in this predominantly female sector (WIEGO 2021c). Women vendors and waste pickers were also more likely to stop working during the pandemic and experienced steeper drops in earnings than men (WIEGO 2021b). Across sectors, women with increased unpaid care responsibilities had less time for paid work and lower earnings than all other informal workers during lockdowns and as restrictions eased (Ogando, Rogan and Moussié 2021).

¹ Accra (Ghana), Ahmedabad (India), Bangkok (Thailand), Dakar (Senegal), Dar es Salaam (Tanzania), Delhi (India), Durban (South Africa), Lima (Peru), Mexico City (Mexico), Pleven (Bulgaria), New York City (USA), Tiruppur (India)

² Round 2 of COVID-19 Crisis and the Informal Economy was carried out from June to early August 2021, except in Delhi and Ahmedabad where surveys were delayed to September and October 2021 due to the severe Delta variant outbreak.

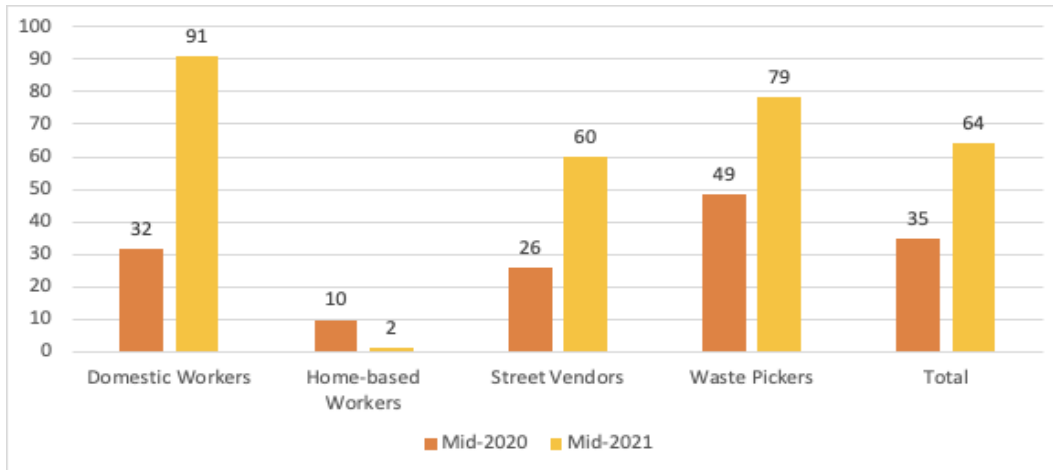


Figure 1. Typical (median) percentage of pre-COVID earnings in mid-2020 and mid-2021, by sector. Source: Reed et al. 2021

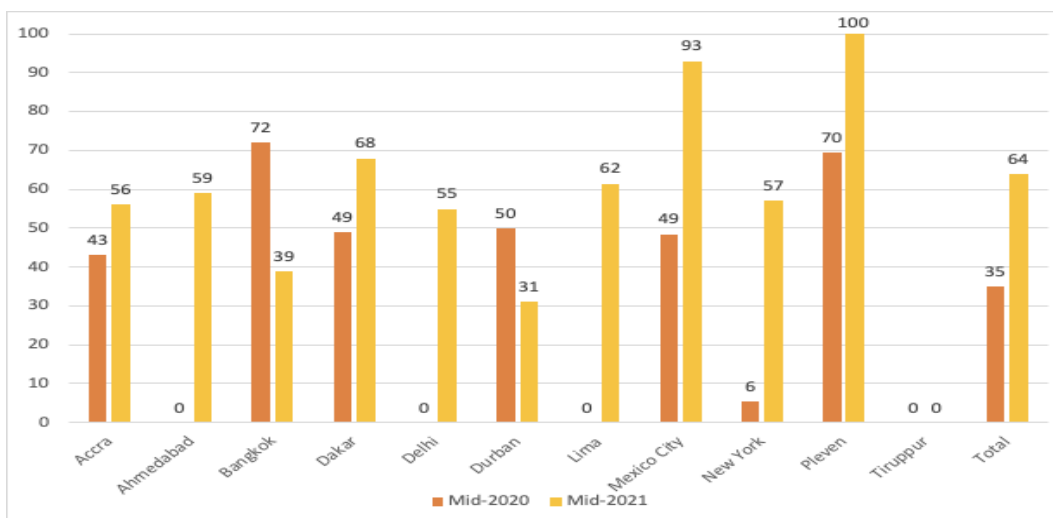


Figure 2. Typical (median) percentage of pre-COVID earnings in mid-2020 and mid-2021, by city. Source: Reed et al. 2021

Increased reliance on asset-depleting coping mechanisms and household responsibilities have put considerable economic and emotional strain on the households of the working poor. The crisis has forced workers into damaging survival strategies. In the 12 months preceding the 2021 survey, respondents were forced to borrow money (46%), draw down on already meagre savings (35%), or reduce household spending on non-food (26%) and food (23%) items (Reed et al. 2021).

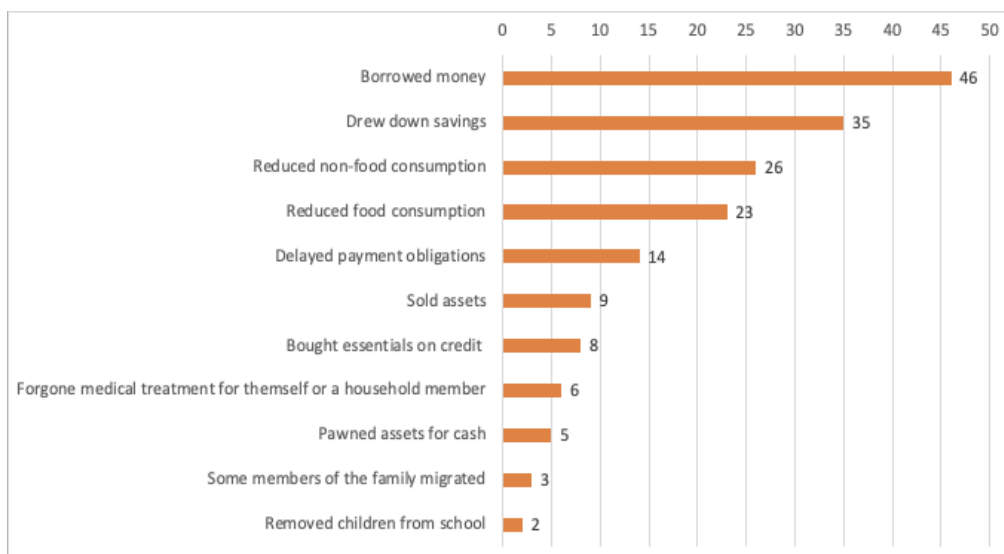


Figure 3. Coping strategies between mid-2020 and mid-2021 (%). Source: Reed et al. 2021

To what extent are informal workers protected by social protection schemes provided by the State?

According to the ILO, just 47 per cent of the global population was effectively covered by at least one social protection benefit in 2020. Within this global average are significant variations across contingencies, regions, and countries' income levels. Benefits for those in 'working ages' are particularly scarce: While just above half of unemployed workers in Europe and Central Asia receive benefits, the percentage falls to 18 per cent globally, and to just 5 per cent in Africa (ILO 2021c).

Despite facing higher risks of poverty than their formally employed peers, few informal workers have access to social protection. While often excluded either de jure or de facto from employment-linked social insurance, they also tend to fall outside of most narrowly poverty-targeted social assistance. (OECD and ILO 2019). The lack of social protection coverage for workers in the informal economy and their families makes them particularly vulnerable to shocks, such as COVID-19. The risk of impoverishment is exacerbated for those not covered by social health protection schemes, who must bear the costs of health care themselves (ILO 2020d).

In response to the COVID-19 crisis and related public health measures, governments around the world have implemented relief measures at an unprecedented scale. Often building on existing social protection systems, governments have established or expanded cash or in-kind assistance to populations already considered vulnerable, as well as new groups such as informal workers that were seen as particularly exposed (Gentilini et al., 2021).

Despite significant efforts, most informal workers remained excluded from social assistance during COVID-19, or only received inadequate and short-term support. Although in 11 of the 12 cities where WIEGO surveyed informal workers' access to social protection between May and June 2020, governments announced relief measures, less than half reported receiving cash or food. Across those 11 cities, the most widely cited reason by workers for not receiving cash and/or food was that they were not aware of the relief measures. The second reason cited was that they were not eligible. (Alfers, Ismail and Valdivia, 2020).

In some cities, women and workers with children were more likely to be reached by relief schemes. In Dakar, Delhi, Mexico City and Durban, women were more likely to report receiving cash transfers and/or food assistance. In Lima (32% vs 18%) and Durban (50% vs 15%) those with children were more likely to report receiving food relief. These findings may suggest that relief was more likely to reach those already covered by social assistance, such as schemes for families with children, than to reach the previously uncovered (Alfers, Ismail and Valdivia, 2020).

Despite the prolongation of the pandemic, cash relief is declining in a number of cities. Over the last 12 months, access to cash relief has improved in only four cities (Bangkok, Durban, Lima, Mexico City and Pleven). This reflects the improved reach of additional cash grants in Durban and Bangkok, and the provision of small pension supplements for pensioners in Pleven and Mexico City. In 2021, access to cash relief was lower than in 2020 among respondents in Ahmedabad, Delhi, New York and Tiruppur, and was not available at any point in the crisis to informal workers in Accra or Dakar. Overall, just 2% more respondents received cash grants over the 12 months since mid-2020 than in the first three months of the crisis (39% versus 37%) (Reed et al. 2021).

The findings from 2020 and 2021 suggest that the level of relief provided to informal workers was generally insufficient to ensure food security and reduce negative coping strategies. Across most of the study's cities, those that received cash or food assistance in 2020 were not less likely to report adult and child hunger at home or adopt coping strategies which increased debt and eroded assets and savings (Alfers, Ismail and Valdivia, 2020). Across the sample as a whole in mid-2021, 29% of respondents reported that an adult in their household had gone hungry over the last month, 27% reported that a child had gone hungry and the majority (57%) reported a decrease in dietary diversity or less-frequent meals (Reed et al. 2021).

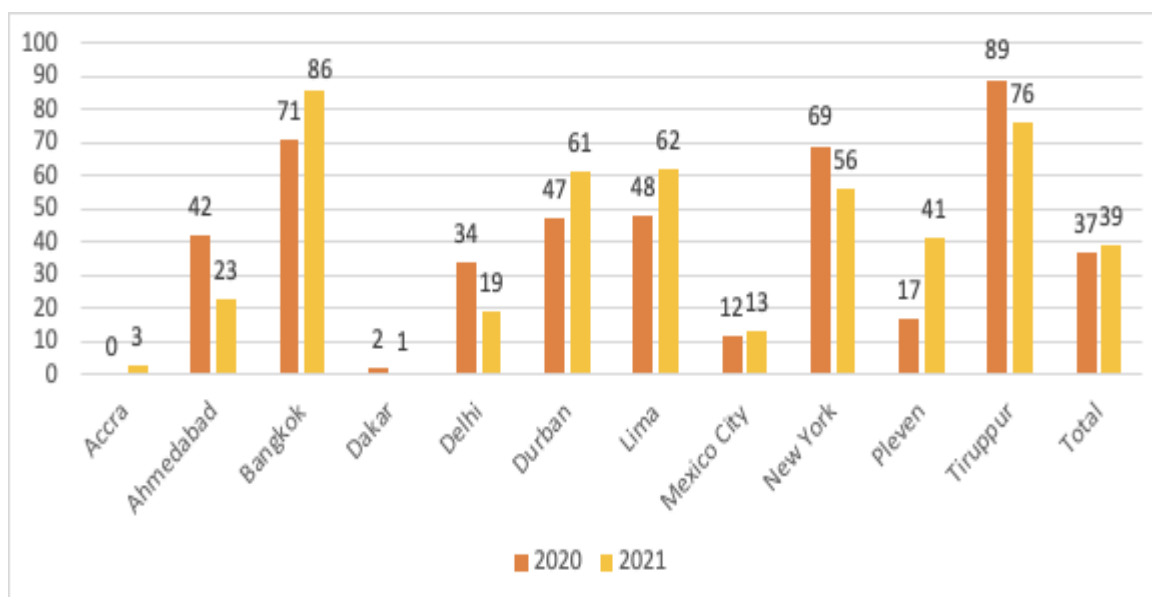


Figure 4. Receipt of cash relief, by city (%), in 2020 and 2021. Source: Reed et al. 2021

With regard to food aid, respondents were slightly more likely to report receiving food aid support in 2021 in Dakar, Durban, Lima, Mexico City and New York. Access to food support declined in all other cities (Reed et al. 2021).

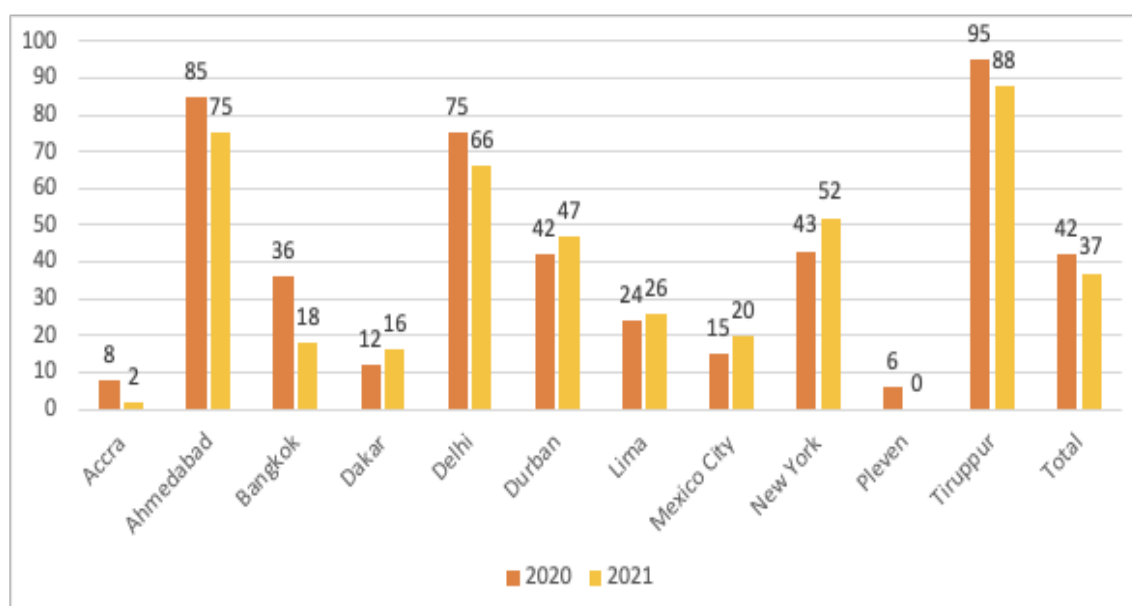


Figure 5. Receipt of food relief, by city (%), in 2020 and 2021. Source: Reed et al. 2021

What is the rate of non-take-up for the various social benefit schemes available in your country? What obstacles prevent eligible individuals and households from accessing the benefits to which they are entitled? How can non-take-up be reduced?

The COVID-19 crisis has once more revealed the urgency of realising Universal Social Protection, including for informal workers. The ability of governments to provide quick and effective economic relief hinged to a large extent on the capacity and design of the social protection system in place. Countries with comprehensive social protection systems in place were generally able to provide imperfect but timely assistance, whereas those with only weak or limited schemes faced significant difficulties in identifying and reaching those in need of support (Beazley, Marzi and Steller 2021; ILO 2020c).

As emergency responses to COVID-19 have largely relied on pre-pandemic systems, they replicated existing inequalities, including between those with access to social protection, and those excluded. This divergence between the social protection 'haves' and 'have nots', risks undermining an equitable and inclusive economic recovery, pushing large swaths of informal workers further into poverty, and excluding

the most vulnerable from ongoing and future crises response mechanisms. The limited progress in expanding social protection coverage to informal workers is at the heart of the failures of many governments to provide income protection to large segments of their populations during COVID-19.

Challenges for informal workers to access social protection are numerous – but so are examples of countries successfully expanding coverage. While most countries have significantly expanded important non-contributory social assistance programmes, these tend not to focus on the working poor, especially in urban areas, and often provide only inadequate benefits. Progress in expanding contributory social insurance – crucial to achieve higher levels of protection and especially relevant for working age populations – has been slow.

Informal workers can be legally excluded from accessing social insurance schemes. They may lack adequate information about often complex and burdensome administrative procedures or have low levels of trust towards implementers. Benefits may not be aligned with their priorities and needs and priorities, while costs may be too high and financing arrangements inappropriate for their livelihoods (ILO 2019).

Despite challenges, many middle-income countries have found innovative ways to include informal workers into the social insurance system. These include efforts to lower contributions, allow for more flexibility, improve the benefits packages available, and reduce transaction costs through technological innovation (UNDP 2021; ILO 2019).

However, schemes designed to expand social insurance to informal workers through siloed schemes detached from the country's social insurance systems face a host of challenges. By separately targeting informal, and often poor, workers, the risk pool of such schemes is narrow, and the benefits of cross-subsidization between formal and informal, richer and poorer, workers are absent (UNDP 2021).

Without greater solidarity and cross-subsidization, most informal workers cannot afford to access social insurance, or will receive inadequately low benefits. This is particularly the case for the most vulnerable informal workers who are often self-employed women (i.e. own account workers, industrial outworkers, and contributing family workers). Self-employed informal workers do not have an employer who can co-contribute to social insurance schemes. Therefore, they may need to pay a proportionally higher share of their income to join these schemes, as compared to employees in the formal sector (WIEGO 2019). This lack of co-contribution from employers also means that benefits will be lower.

Governments should therefore design social insurance schemes that not only rely on contributions from informal workers themselves, but also from others, such as public authorities, firms who profit from their work, and cross-subsidise from the often better-paid formal sector. This is already being done in a number of countries. For example, in Uruguay, the microentrepreneurs who sign up to the *Monotax* are entitled to the benefits of the contributory social security system (except unemployment benefit). In another example from Pune, India, the Pune Municipal Corporation pays the health insurance premiums of registered self-employed waste pickers (WIEGO 2019).

Important barriers to Governments expanding equitably financed social insurance to informal workers are unfounded policy claims promoted by international financial institutions, in particular the World Bank and IMF, that social protection incentivises informality. The argument proposes that social protection systems which combine employment-linked social insurance with tax-financed social assistance for low-income informal workers, incentivises informality. The reason is that social insurance contributions place a “tax” on formal employment, while informal work is “subsidized” through the provision of non-contributory benefits. This “traps” workers in informality, leading to lower productivity and development.

Recently, this line of thinking featured notably in UNDP’s 2021 Regional Human Development Report for Latin America, which argues that social protection is central to firms and workers’ decisions to pursue formal and informal work (UNDP 2021b). This claim is also deployed in a 2021 report by the IMF, in which the authors warn that means-tested benefits “generate severe disincentive effects and often create poverty traps” (IMF 2020). These arguments should be read in the context of the World Bank’s push, outlined in the 2019 World Development Report, to “delink” social protection from employment, in part due to perceived labour market distortions created by social insurance (World Bank 2019).

Despite the potential significance of these claims for the design of tax and social protection systems, they lack a robust empirical basis. These sweeping claims are not backed-up with credible research conducted across a wide variety of contexts, economic structures and social protection systems. The few studies over the last two decades that have explored such incentive effects contain a number of glaring conceptual and methodological shortcomings. They: 1) take an almost exclusively ‘volunteerist’

understanding of the informal economy and ignore the constraints that workers, especially women, face in accessing formal employment; 2) Assume diverse groups of informal workers respond to incentives in the same way; 3) Make overly simplified assumptions about the structure of the informal economy which may not hold in many or most contexts; 4) Contain large gender blindspots; and 5) Ignore labour market segmentation that are not related to claimed 'distortionist' effects of social protection.

WIEGO is concerned that these well-publicised but under-research claims might make governments more hesitant to include subsidies when designing social insurance schemes for informal workers. We know that for many poor informal workers, particularly women who are segregated into the most insecure and low-paying forms of informal work, contributory schemes are unlikely to be accessible without any support, and low value social assistance schemes will not be enough to counter the devastating impacts of the pandemic and economic downturns.

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