

# Global Economic Crisis and the Informal Economy

*“Smaller-and-Smaller Slivers of a Shrinking Pie”*



*“Recession has hit the entire world. Wherever we go everybody is talking about it and each and every trade is affected by it. Recession is like a disease, how then can these workers remain unaffected by it?” ~ Manali Shah, Self-Employed Women’s Association, India*

## Why Attention is Needed Now:

The global economic recession is negatively affecting workers everywhere. Media and policy makers have focused on the rising unemployment of formal salaried workers. Little attention, however, has been paid to the impact of the crisis on informal firms and workers, nor the consequences of new entrants into the informal economy.

In reality, economic downturns often affect the informal economy in the same ways they affect the formal economy. Like formal firms, informal firms are affected by decreased demand, falling prices, and fluctuations in exchange rates associated with economic crises. Like formal wage workers, informal wage workers face loss of jobs or greater informalization of their employment contracts. Indeed, during downturns, informal wage workers are often the first to lose their jobs.

## Misconception: The Informal Economy “Cushion”

There is a common assumption that the informal economy serves as a cushion for formal workers who lose their jobs. While it is the case that *employment* in the informal economy tends to expand during economic downturns, this does not mean that those working in the informal economy thrive.

Informal workers, particularly women, tend to occupy the bottom of the global economic pyramid, with less protection and flexibility than their formal counterparts. Informal firms and wage workers, in times of economic trouble, have no cushion to fall back on and have no option but to keep operating or working. In addition, as more workers crowd into the informal economy, the net result is more-and-more firms or individuals competing for smaller-and-smaller slivers of a shrinking (informal) pie. Unemployment, in this instance, is eclipsed as an issue by increasing impoverishment - the working poor becoming poorer.

## Economic Crisis And The Informal Economy: Impact By Sector

### Waste Recycling And Waste Pickers: Major Global Downturn

An estimated 1-2 per cent of the urban population of the world lives off collecting and recycling paper, cardboard, plastic, glass, and metal waste. Most waste pickers who do the primary collection and sorting already earn very little; many are women and children.<sup>i</sup> The significant global downturn in demand and price for recyclable waste began in September - October 2008.<sup>ii</sup> The major cause of the downturn was a drop in demand from Asia, especially China, for raw materials and packing materials. Decreased demand for manufactured goods from developed countries led to a decline in exports, resulting in a decline in demand for recycled waste materials and a drop in the selling price of waste. The net result has been waste materials accumulating in streets, warehouses and harbours. Waste is also going directly to landfills and incinerators without being sorted for recycling. Large numbers of waste pickers around the world are earning significantly less or facing loss of livelihoods.<sup>iii</sup>

## ILO Global Employment Trends Report 2009: A grim forecast

**Newly unemployed:** projected increase of up to 50 million worldwide (since end 2007)

**New working poor:** projected increase of 200 million, earning less than USD 2 per day, and unable to lift themselves out of poverty - most of whom work in the informal economy.<sup>iv</sup>

## Export Commodities:

Both exports and prices were expected to fall significantly during 2009. Recent evidence from Eastern Africa, for example, indicates a decrease in exports of cotton from Tanzania and a decrease in price of coffee in Rwanda. The decline in commodity exports and prices will affect many small farmers and producers.

## Export Manufacturing: Factory Workers And Industrial Outworkers

Much of the global workforce in export manufacturing is informal, including: wage workers without legal or social protection in factories and small workshops; industrial outworkers producing for export and being paid by the piece; and some self-employed producers.

The economic crisis has resulted in a significant downturn in trade. Decreasing incomes and increasing uncertainty in the global North correlate with trends of decreased consumption and demand for imports. Exports from developing countries and countries with economies in transition are estimated to decline, in 2009, in the range of 7 to 9 per cent in volume<sup>v</sup>.

Factory and other wage workers are losing jobs or having their contracts restructured (fewer hours and benefits, fixed terms). Industrial outworkers are receiving fewer or smaller work orders: some have had existing orders cancelled or simply have not been paid. Those who supply raw materials or accessories for export manufacturing also face declining work orders or cancellation of existing orders.

**China:** “factory of the world” experiencing massive lay-offs in the garment, toys, and electronic sectors, especially in the Pearl River Delta region.

**India:** massive lay-offs in some sectors (diamond polishing) + less secure contracts in other sectors (textile/garments)

**Lesotho:** decline in aggregate demand for clothing and textiles from USA

## Drop in waste prices in Ahmedabad, India

(Figures in Indian rupees, SEWA)

Type of Waste      Price (Indian rupees)  
Oct. 08 | Jan. 09

### 1. Steel/Iron

Nuts, bolts, screws      25      15

Sheet metal      10      5

### 2. Hard Plastic

Grade 1      15      6-8

Grade 2      13      3-4

### 3. Plastic Bags

Grade 1      18      6

Grade 2      8      5-6

4. Newspaper      8      4

### 5. Cloth

White cloth      20      12

Clean cloth      6      3

*“When we heard about the global crisis we thought it would not affect us immediately but then the buyers said they would cut down the orders and not visit. No orders and cutting down staff - so it hit us much earlier than we thought. The export market is 30% down.”*

*~ Revita Shreshta, Association of Craft Producers,  
& Sabina Singh, Fair Trade Group, Nepal*

Informal Asian manufacturing workers, many returning from deflated economies abroad, are finding scant opportunity at home. Shrunken markets, due to decreased demand, and increased numbers of workers have intensified regional competition for contracts and driven prices down sharply.<sup>vi</sup> HomeNet Thailand's Poonsap Tulaphan reports that the piecework rate for a blouse is now one third of what workers received just over a year ago.<sup>vii</sup>

#### **Industrial outworkers, garment sector in Ahmedabad, India: decline in days of work and monthly earnings (Figures: SEWA)**

November 2008	January 2009
100% - >20 days of work	69% - >20 days of work
100% - earned >1000 rupees	50% - earned >1000 rupees

#### **Women construction workers in Ahmedabad, India: decline in days of work and daily earnings (Figures: SEWA)**

November 2008	January 2009
80% - >10 days of work	23% - no days of work
20% - <10 days of work	67% - < 10 days of work
Earnings: 125-150 rupees	Earnings: 90-120 rupees

## **Construction: Day Laborers**

The construction industry is expected to experience a significant downturn over the next several years, even in countries with increased government spending on infrastructure. One dimension of this downturn is that the decline in remittances will mean a decline in construction of private residences.

## **What Can And Should Be Done: Tackling The Crisis In The Informal Economy**

There can be no fair and effective response to the current economic crisis without solutions that address the needs of informal workers. Increased attention, research and analysis is required to give policy-makers, organizations, organizers and workers a better understanding of the impact of the crisis on the informal economy. The Self-Employed Women's Association SEWA has recently completed a study on the effects of the crisis on informal workers in Ahmedabad, India.

## **WIEGO-Coordinated Study: “Impact Of The Global Economic Crisis On The Urban Working Poor”**

With its members and partners around the world, WIEGO has begun tracking the impact of the global economic crisis on the working poor in the informal economy - the study is collecting evidence and accounts from workers in three different sectors, in 11 different countries across three regions. Facts and figures from Latin America, Africa and Asia will become available in July 2009.

**Stay up to date at WIEGO's News Section ([www.wiego.org](http://www.wiego.org)).**

## **An Overview Of Effective Responses To Address The Impact Of The Global Recession On The Informal Economy**

**Emergency Relief Measures:** Emergency cash transfers, public works and targeted programs to help the working poor, and the poor more generally, survive the crisis without further impoverishment.

**Sector-Specific Rescue Plans:** Developed in consultation with different groups of working poor, sector-specific plans would help secure existing employment opportunities during the crisis or secure new employment opportunities after the crisis.

**“Do No Harm” Measures:** Laws, rules, and regulations that prohibit or undermine livelihoods of the working poor and the policy biases that favour formal firms and workers over informal firms and workers should be suspended.

**Longer-Term Window of Opportunity:** Rethinking of economic models and policies should extend to the mainstream economic approach to the informal economy. The goal of “formalization” should have three “pillars”: appropriate regulation and fair taxation; legal and social protection; and measures to increase earnings and productivity. The informal workers must be *Visible* in economic statistics and policies, have a *Voice* in economic decision-making, and be seen as having *Validity*, or legitimacy, as economic agents and targets of economic policies.

*“The crisis is affecting the informal sectors differently. Formal economy businesses are closing and the informal retail sector is the first place where people go when they lose their jobs - both to buy affordable goods and seek an income... There is also a neutralizing effect - as more people enter the informal retail sector, there will be more competition, but we don't know what the data looks like yet. That's why we need these studies.”*

*~ Pat Horn, StreetNet International Coordinator*

- i WIEGO. “Informal Recycling Around the World: Waste Collectors.” [http://www.wiego.org/occupational\\_groups/waste\\_collectors/index.php](http://www.wiego.org/occupational_groups/waste_collectors/index.php).
- ii New York Times. “Back at Junk Value, Recyclables Are Piling Up.” 7 December 2008. [http://www.nytimes.com/2008/12/08/business/08recycle.html?\\_r=1&em](http://www.nytimes.com/2008/12/08/business/08recycle.html?_r=1&em)
- iii Chaturvedi, B. et al. “Scrap Crash: What the crash in prices of scrap means for wastepickers and other recyclers.” CHINTAN Environmental Research and Action Group. (Forthcoming.)
- iv International Labour Organization. 2009. *Global Employment Trends: January 2009*. Geneva: ILO. p.19-20.
- v UNCTAD Interdivisional Task Force on the Impact of the Economic Crisis on Trade and Development in Developing Countries. 2009. *Global Economic Crisis: Implications for Trade and Development*. Geneva: UNCTAD. p.8-16. [http://www.unctad.org/en/docs/cicrp1\\_en.pdf](http://www.unctad.org/en/docs/cicrp1_en.pdf).
- vi International Monetary Fund. 2009. *Regional Economic Outlook : Asia and Pacific*. Washington, D.C. : IMF. p.5
- vii Interview 27/05/09. For more information about HomeNet affiliates: [www.homenetseasia.org/home.html](http://www.homenetseasia.org/home.html) and [www.homenetsouthasia.org](http://www.homenetsouthasia.org)

