



Global Recession and the Informal Economy: Evidence from Latin America

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New York, USA
November 3, 2009

REMARKS

- **employment impact:** assumptions vs. reality
- **impact on the informal economy:** by sectors
- **crisis response measures for the working poor in the informal economy**
- **“window of opportunity” for rethinking informality**

EMPLOYMENT IMPACT OF CRISES: COMMON ASSUMPTIONS

- **Formal Economy:** increased unemployment
- **Informal Economy:** increased employment =
“cushion during the crisis”

EMPLOYMENT IMPACT OF CRISES: REALITY

- **Wage Workers:** formal and informal
 - loss of jobs → increased unemployment
 - » informal wage workers: often first to lose jobs
 - informalization of contracts → more informal wage workers
 - + increased insecurity and decreased earnings
- **Self-Employed:** informal
 - new entrants → increased competition
 - decreased demand and falling prices → decreased earnings
 - fluctuations in exchange rates, interest rates, and prices → volatility and insecurity of earnings
 - → closure of some informal firms

EMPLOYMENT IMPACT OF CURRENT CRISIS

ILO Global Trends Report 2009: predicts harsh labour market conditions as a result of the crisis - *highly probable worst case scenario* during 2008 and 2009:

- **New Unemployed:** an increase of *38 million* unemployed worldwide
- **New Working Poor:** an increase of *200 million* working poor, earning less than USD 2 per day, and unable to lift themselves out of poverty (most of whom work in the informal economy)

Inclusive Cities Study 2009 – WIEGO and Partners in 10 countries:

- findings summarized in my remarks today
- findings cited in UN Secretary General's Report to UN and G20 summits

STUDY BY WIEGO AND PARTNERS: SAMPLE AND METHODOLOGY

Partners: local, national, regional, and international alliances of member-based organizations of informal workers in ten countries

- Asia: India, Indonesia, Pakistan, Thailand
- Africa: Malawi, Kenya, South Africa
- Latin America: Chile, Colombia, Peru

Sectors:

- construction workers
- home-based workers
- *street vendors*
- *waste pickers*

Methods:

- focus group discussion
- questionnaire survey
- key informant interview

CONSTRUCTION: DAY LABORERS

- **Recent Trend:** mechanization → decrease in demand for non-skilled workers + increase in demand for skilled workers (who tend to be men)
- **Current Crisis:** global forecast of significant decline in output over next several years – even if government spending comes through as planned
- **Impact on Construction Day Laborers:** fewer days of work + stable wages/skilled workers + lower wages/unskilled workers + increased competition among unskilled workers

HOME-BASED MANUFACTURERS

- **Export Manufacturing: Industrial Outworkers**
 - fewer + smaller + cancelled work orders
 - decreased wages
 - higher utility costs
- **Domestic Manufacturing: Industrial Outworkers**
 - stable demand
 - stable earnings
 - higher utility costs
- **Domestic Manufacturing: Self-Employed**
 - local demand: mixed picture
 - lower sales prices
 - higher utility and raw material costs
 - longer work hours – to offset lower sales and prices

STREET VENDORS

- **Decreased demand** -> decreased volume of trade (62%)
- **Increased competition** from new entrants (85%)
- **Increased business costs** (83%)
- **Sale prices – mixed picture:** increased (29%) + decreased (41%)
- **Increased market fees**

WASTE PICKERS

Major Global Downturn:

- **Causes:** significant drop in demand (notably from Asia, especially China) – for cardboard, glass, metals, newspaper, paper, plastics
- **Consequences:** significant drop in selling price
 - tons of waste accumulating on streets or in warehouses + container loads of waste stockpiling at harbors
 - less recycling + more waste going to landfills and incinerators
 - large numbers of waste pickers earning significantly less and/or facing possible loss of livelihood

PRICES OF WASTE MATERIALS: JANUARY-JUNE 09

<u>Type of Waste</u>	<u>Price Changes</u>		
	<u>Santiago, Chile</u>	<u>Bogota, Colombia</u>	<u>Pune, India</u>
1. Metal			
• ferrous metal	-70%	-57%	-12%
• aluminum	-59%	-37%	-11%
2. Plastic	-39%	-29%	- 7%
4. Paper			
• Newspaper	NA	-50%	- 2%
• Office paper	-50%	-27%	- 6.5%
4. Cardboard	-58%	-20%	-11.5%
Average Change: all waste materials	-50%	-42%	- 6%

Note: prices had already dropped significantly before January 2009: e.g. in Santiago, Chile, prices for scrap metal had dropped from 100-150 Chilean pesos per kilo in August 2008 to 20-30 pesos per kilo in January 2009

WASTE PICKERS IN BOGOTA, COLUMBIA

“I used to make seven thousand pesos a day, today I make three to five thousand pesos.”

“Now you have to kill yourself three times – wake up earlier, go to bed later, be on the streets for longer periods.”

“If you have kids, you have to move forward because that’s what is most important. We’ll be fine with anything, but not the children. Do you have any idea what it’s like to have your kids awake at midnight telling you they’re hungry?”

IMPACT OF TWIN CRISES* IN OAXACA, MEXICO

- **Exposure Dialogue:** March 2009
 - fourth in series by Cornell University, Self-Employed Women's Association (SEWA), and WIEGO
 - featured guest: Santiago Levy of IDB
 - six hosts: baker + brick-maker + fireworks maker + pottery maker + rug weaver + tin artisan
- **Phone Interviews:** June and October 2009
 - three hosts: brick-maker + pottery maker + tin artisan

* Global recession + H1N1 outbreak

BRICK-MAKER: FILEMON

Changes During 2009:

- March: making bricks @ 1100-1300 pesos per 1000
- June: clearing land for construction projects + building poultry and pig sheds at local farms
- October: making bricks @ 750-850 pesos per 1000 + plans to start making thinner bricks which sell for higher prices

“I have a big pile of bricks lying (*unsold*) in the front of my house. The bricks have gone down in price, but the price of materials is still the same. I know where to find good and cheap materials, and that is why I do OK. We eat chilies, beans, and vegetables – we do not eat meat and never have, and that is why we don’t feel a difference.”

“Everyone around is complaining that there is no money, and then you see many construction sites left unfinished because there is no money to finish the projects. It is very bad, many people have no work.”

POTTERY MAKERS: GUADALUPE AND AMADO

Changes during 2009:

- March: making pottery (Amado had recently lost job in a craft shop and joined his wife in making pottery) + plans to build a new kiln to fire pottery with lead-free glaze
- June: lower sales + same prices + slim profits re-invested in business
- October: lower sales + lower prices + little (if any) profit

“We have not sold enough products. There is no comparison to past years. This year, sales are very low, tourism dropped tremendously... We live off tortillas, beans, and rice. Sometimes our daughters-in-law bring some vegetables from the markets and that is how we survive, day after day”

TIN ARTISANS: AIDA AND CHRISTINO

Changes during 2009:

- March: making tin craft for individual clients + shop + government museum with help of two hired workers
- June: making tin craft with help of two hired workers + same prices as in March + government museum had not paid them for 3 months
- October: making tin craft with help of two hired workers for same prices + higher costs of raw materials + closure of government museum (due to protests in downtown Oaxaca)

“The museum doesn’t want to pay because they had to close due to the blocked streets... They paid me in September what was owed for June – no payments since then. With the store that I sell to, it’s the same story, even worse. They don’t pay me because they don’t have tourists. We have had a really, really tough time. There is so much competition from other artisans and many of them are simply exchanging their work for something to eat. What I think helps us is the quality of Christino’s work. There are many who seek quantity, but we have kept some individual clients that seek quality.”

THE INFORMAL ECONOMY DURING CRISES: “NO CUSHION TO FALL BACK ON”

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

- former wage workers + unemployed + underemployed seek work in the informal economy
- over-crowding in *already highly competitive* informal markets
- downturns *within* the informal economy
- more and more workers competing for their “*sliver*” of a *shrinking* “informal economy pie”
- *no “cushion”* for the working poor
- *further impoverishment* of the working poor

CRISIS RESPONSE MEASURES FOR THE WORKING POOR

- **Emergency Relief Measures**
 - *emergency cash transfer programs*: targeted at specific groups of working poor
 - *existing cash transfer programs*: accelerated disbursements + expanded coverage + relaxed rules to allow use of funds for *livelihoods*
 - *public works*: targeted at specific groups of working poor and hard-hit areas
- **Sector-Specific Stimulus Plans** developed in consultation with different groups of working poor – for example:
 - construction workers: skills training
 - waste pickers: access to waste + space for sorting and storing waste
- **“Do No Harm” Measures**: *temporary embargo* on laws, rules, and regulations that prohibit or undermine livelihoods of the working poor
 - street vendors: urban regulations that ban street vending or market fee hikes on street trading
 - waste pickers: city regulations and procurement systems that deny waste pickers access to waste or the right to bid for modern waste management

WINDOW OF OPPORTUNITY TO RETHINK INFORMALITY

- **Reframing the Formalization Debate**
 - *Goal*: increased earnings and reduced risks of the working poor in the informal economy (not simply registration of informal enterprises)
 - *Multi-Pronged Approach*:
 - » *Regulation*: including taxation
 - » *Protection*: both legal and social
 - » *Promotion*: to raise earnings and productivity
- **Mainstreaming the Informal Economy**
 - *Visibility*: in economic statistics, policies, and plans
 - *Voice*: in economic institutions and decision-making
 - *Validity*: as contributing to GDP + target of economic policies
- **Re-Envisioning the Future Economy**
 - *Hybrid Economy*: traditional alongside modern activities
 - *Continuum of Economic Arrangements*: from informal to formal