

INSIGHT

The Informal Sector Needs Financial Support



Many informal workers, who are now forced to spend weeks in quarantine, cannot afford to lose even a day's work. Photo exclusively licensed to ADB until 2024.

Providing a lifeline to workers and businesses most affected by the COVID-19 crisis calls for innovative solutions, such as digital money transfers.

Introduction

The novel coronavirus disease (COVID-19) has attacked societies at their core, as it threatens to swamp healthcare and economic systems. Governments in Asia and the Pacific are quickly introducing a series of measures to help workers and small and medium-sized enterprises (SMEs) to cope with the lockdowns and other disruptions, but this is proving difficult in the informal sector.

In a region where on average 70% of the employment is informal, the financial impact of COVID-19 on poor households is enormous. Many in the sector are domestic workers, street vendors, rickshaw-pullers, small farmers, fishermen, and landless laborers. They are hit hardest by the crisis.

Governments have limited levers at their disposal for mitigating the negative impact of the COVID-19 pandemic on the informal sector compared to the formal sector. Yet, failure to help informal workers and businesses can reverse a decade of hard-won progress in reducing poverty in the region. Innovative ways of extending financial support to the sector is urgently needed.

Social protection for the most vulnerable

Cash transfers for sustenance. Informal sector workers slog away without any written contract, paid leave, minimum wages, and access to social safety nets. Most face “no work, no pay” conditions, and with joblessness extended over several days, they are in imminent fear of slipping below the poverty line.

Emergency cash transfers to the vulnerable sector should form an essential component of COVID-19 relief packages. It should provide the flexibility to respond to the immediate financial needs of the informal workers, including families below the poverty line, women, senior citizens, and people with disabilities.

India is among the few countries that is better placed to successfully roll out direct benefit transfers with its digital national identity card, “Aadhaar.” The key elements to make payments work include a universal digital identity system to authenticate a person linked to socioeconomic data on households, a bank account to receive money, and a mobile phone to access cash. In one of the largest-ever cash transfers, the Indian government last April disbursed \$3.9 billion to the bank accounts of more than 320 million individuals.

In the Philippines, conditional cash transfers are credited to the cash cards of beneficiaries, which can be used for cashless purchases of groceries and medicines through point-of-sale machines at cashiers or check-out counters.

The electronic transfer of funds is generally faster, cheaper, safer, and more secure than in-person cash distribution. Given the digital divide and infrastructure gap in the region, most countries are deploying a combination of conventional methods for delivery like in-person cash transfer, branchless banking, and digital technology. With the demonstration effects of the success of e-payments, this is an opportune time to nudge governments to switch to digital payments.

Social assistance. Lack of adequate social security has exacerbated economic insecurity among poor households. The stimulus packages also include wage support to low-income workers, unemployment benefits, and discounts on food and utility payments. Some governments have also provided social pension advances to senior citizens, widows, and persons with disabilities.

Health insurance. In countries where universal health insurance exists, testing and treatment for COVID-19 are now covered. The governments of Bangladesh, India, Indonesia, and Nepal have provided life and health insurance coverage to frontline health workers, including sanitation staff, paramedics, nurses, and community health workers. However, universal insurance coverage is inadequate for informal workers in terms of out-of-pocket expenditure, availability, accessibility of services, quality, and financial sustainability. The COVID-19 pandemic is a timely reminder of the importance of investing in healthcare and social protection for the informal sector.

Financial support for microenterprises

Microenterprises are disproportionately affected as business orders are stalled by restrictions on mobility, delays in payments, and pricing distortions. They urgently need a mix of financial aid and loans to restart their production and services and resume cash flows.

Commercial banks and nonbank financial institutions regard lending to the informal sector as risky due to their inability to furnish collateral and expensive due to the small size of loans. Uncertainty and increasing delinquencies have also shaken the ability and confidence of microfinance institutions to finance them, as they need to manage liquidity and honor commitments to their funders.

Governments need to come up with creative solutions and enable the adoption of financial technologies to assist microenterprises in pursuing their income-generating activities. For example, authorities can set up a pandemic grant stabilization facility to provide urgent financial support to microenterprises with digital access tools using financial technologies to enhance transparency. Coordinated policy responses that can help in garnering complementary social assistance funding from local governments can also be useful to support business activities in the informal sector.

Equity considerations in post-crisis fiscal responses

The real impact of the crisis will depend on the duration of the lockdowns as well as the effectiveness of policy responses for mitigation. Due attention is needed for the risks and equity implications of reducing the economic vulnerability of informal workers. Research and evidence suggest that the crisis will likely deepen poverty and income inequality, especially among vulnerable groups, while proper response mechanisms including credit availability to the vulnerable sector affect income distribution. Without tailored actions, income gaps are bound to widen, resulting in a larger economic cost in the future. Asian governments therefore must leverage on the COVID-19 momentum to make rapid progress toward collectively financed, comprehensive, and reliable social protection systems for the informal sector.

Resources

Asian Development Bank. [COVID-19 \(Coronavirus\): ADB's Response](#).



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Asian Development Bank (ADB)

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