Chronic Poverty
Advisory Network
Getting to Zero

Chronic Poverty Report 2023
Pandemic Poverty

Economic impact and policy responses

5

Chronic Poverty Advisory Network

CPAN is a network of researchers, policy makers and practitioners across 15 developing countries (Afghanistan, Bangladesh, Cambodia, Ethiopia, India, Kenya, Malawi, Nepal, Niger, Nigeria, Philippines, Rwanda, Tanzania, Uganda, Zambia, Zimbabwe) focused on tackling chronic poverty and getting to zero extreme poverty and deprivation, and by sustaining escapes from poverty and preventing impoverishment. It is looking to expand this network to the 30 countries with the largest numbers of people in poverty. It has a 'hub', which is currently hosted by the Institute of Development Studies in the United Kingdom.

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Of course, responsibility for the contents of the report rests with the authors, and the report does not represent the views of IDS, the Covid Collective, or of FCDO.

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Key messages

- There was significant variation in policy responses to the pandemic, determined by the quality of pre-pandemic macroeconomic management, as well as political commitments.
- Macroeconomic management really matters – where the macroeconomy had been well managed, there was a possibility of a balanced policy response, with additional public support to health services and social protection, without recourse to heavy borrowing. Cambodia, which had recently become an MIC, was able to make furlough payments, providing additional social protection coverage and depth, and other public expenditures, as a result of its prudent fiscal management.
- It is clear from interviews across 12 countries during the pandemic that poor and vulnerable people would have appreciated policy responses beyond the macro-level and beyond social protection.
- Many governments provided financial and tax reduction support to formal businesses. However, measures directly targeting the informal economies where most poor and vulnerable people work were badly needed but neglected, with the exception of some measures supporting smallholder farming and financial services.
- Women are frequently in informal employment or self-employment, and their jobs and occupations were especially badly affected by the restrictions and recovered slowly – there were few measures aimed at ameliorating their challenging situations. They also experienced significantly increased SGBV.
- A 'New Deal' for the informal economy is therefore needed, following the pandemic, as proposed by the WIEGO network.
- Financial services made at best modest responses to the needs of many people in and near poverty to borrow money to survive during the pandemic. Mobile money was extremely useful, and could usefully be more widely extended. Some institutions postponed repayments but continued charging interest. There could be significant learning from the US where interest was frozen.
- A review of financial services, including micro-finance, is urgently needed following the pandemic to avoid future household over-indebtedness prior to any emergency. Additional regulation may be required.

5.1 Overview

Pandemic health interventions (e.g. medical support and vaccines) took a toll on the fiscal health of LMICs, and on the medical costs, ill health and mortality people on low incomes faced. However, economic policy choices restricting the movement of people and goods arguably had a more substantial economic impact on LICs' economies and on vulnerable non-poor and chronically poor informal sector workers, micro-businesses, and marginalised people who had to work during lockdowns. These economic policy choices included, for instance, the length and stringency of lockdowns; national border controls restricting the international movement of people and goods; the global pandemic's impact on international supply chains; and the response to the war in Ukraine. These choices often contributed to driving reduced household incomes and increased household costs.

Yet, with the exception of social protection measures, few governments acted directly to support livelihoods. Indeed, of all the areas of policy responses covered in this report, economic policy responses to the pandemic are the most poorly documented. Even where information about initiatives exists, they have rarely been evaluated, meaning that there is limited information even about the extent of implementation. In this chapter, we:

- Summarise the economic effects of the pandemic
- Review areas where countries faced challenges in funding effective economic policies including limited fiscal space. For some, this led to a reliance on creditors and higher interest rates, and repayment schedules drove cuts to public services just when beleaguered economies were facing imported inflation (because of dysfunctional global supply chains, the war in Ukraine, etc.).
- Examine the spread and innovation of pro-poor policies during the pandemic in selected countries.
- Conclude with a discussion on the importance of pro-poor economic policies and programmes to establish resilience before the outbreak of a pandemic.

The aim of this analysis is to identify the extent to which polices were pro-poor and specifically how they benefitted people in chronic and extreme poverty. We do this by drawing on evidence from CPAN and the PMI qualitative evidence, supplemented by additional KIIs at national level and the international literature.

5.2 What were the economic effects of the Covid-19 pandemic?

The economic effects of the Covid-19 pandemic were both immediate and spread out over time, and affected people differently based on their livelihood activities, location and initial level of wellbeing. Rapidly putting mitigating measures in place required a good understanding of what was happening in the economy and being able to predict the likely distributional effects of any change. This required a good understanding of how change transmits through the economy. Unfortunately, this understanding was often limited, and governments were slow to design and implement mitigating measures, particularly measures that targeted the poorest producers, workers and consumers, most of whom operate in the informal economy.

In Zimbabwe, for example: 'Cursi laments the negative impact Covid-19 has had on their livelihoods. The lockdowns terribly disrupted their chicken cuts business as they could no longer travel to buy the chicken cuts at Surrey Butchery. The pandemic also affected all their 3 children who are vendors' (INT 27, Cursi, TE, urban site).

Box 5.A gives insight into how macro-, trade- and value chain related shocks transmitted through to household and sub-household levels.

Box 5.A: Economic and wellbeing impacts – key transmission channels

The main transmission channels included:

- **Falls in consumer demand in the global North** resulting in reduced exports, reduced foreign exchange earnings; worsening exchange rates; pressure on US dollar-denominated international loan repayments; increased prices for internationally traded goods entering the economy; and inflation.
- **National value chains fractured by domestic lockdowns**, resulting in reduced market integration (over time and space), driving seasonal price volatility, localised gluts and scarcity; reduced farm-gate prices; increased retail (consumer) prices; increased farm input costs (particularly agro chemicals and purchased seeds); reduced availability of labour and paid work; squeezed farm profit margins; job losses or reduced hours and incomes in trade, and squeezed household budgets (e.g. reduced income earnings, increased costs across a basket of goods).
- **International value chains fractured by border closures**, contributing to fractured national and international value chains (reducing business incomes and tax take, and foreign exchange earnings, driving scarcity and inflationary pressures across the economy); and job losses for both migrant workers, petty traders and workers throughout the domestic economy (reducing household incomes and effective demand and tax take).
- **Fall in enterprise profits driven by reduced income** (public health measures reduced effective demand) and increased costs, which drove retrenchments, salary cuts and business closures, with implications for unemployment; reduced household wellbeing; reduced service provision; reduced tax take and supply-side disruption, with implications for market integration (over time and space); and inflation.
- **Constrained household budgets, reduced discretionary expenditure** (e.g. enterprise profit squeeze; job losses, reduced work hours and income; reduced remittances; food, utility and agricultural input price inflation), which drove demand-side disruption; reduced household wellbeing; and delayed impacts on businesses and employment across the economy.

Source: Lok Sabha Secretariat (2022). The Journal of Parliamentary Information: Vol. LXVIII, No.1.

5.2.2 Macroeconomic effects

The pandemic travelled through economies, with macroeconomic impacts. Across countries, inflation was a major component of the economic shock the Covid-19 pandemic triggered. This was partly imported inflation, with global fuel and food price inflation; some was a consequence of scarcity caused by bottlenecks in national and international value chains that resulted from closures, travel restrictions and other lockdown measures.

Many countries experienced fiscal pressure, with a reduction in tax take just as pressure to spend increased. Lower business profits led to reduced corporate tax take; reduced retail sales led to lower value added tax (VAT – sales tax) revenue; and reduced trade flows cut revenue from both import and export duties. This pressure is illustrated by two thirds of LMICs cutting education spending during 2020 (Al Samarrai *et al.* 2021).

A widespread response to the fiscal squeeze (reduced tax revenue, increased budgetary pressure) was to increase domestic and international borrowing; the debt burden of more than 70 LMICs increased by a record 12 per cent to US$860bn (£630bn) during 2020 (World Bank 2022i). Looking across all LMICs, we see that the rise in external indebtedness at this time was faster than any rise in economic and export growth (with external debt-to-gross national income rising from 37 per cent in 2019 to 42 per cent in 2020; and the debt-to-export ratio rising from 126 per cent in 2019 to 154 per cent in 2020 (World Bank 2021b).

Where countries could access concessionary lending, net inflows from multilateral donors increased to US$117bn during 2020, the highest level in a decade, with net debt inflows of external public debt to LICs increasing by 25 per cent, to UN$71bn, also the highest level in a decade (*ibid.*).

Many countries experienced reduced foreign exchange reserves during the pandemic. Border closures and other measures (e.g. Covid-19 testing at borders, immunisation 'passports' and other requirements) increased barriers to trade. Disruption of international value chains, including increased prices of key imports (e.g. fuel, fertiliser and chemical inputs) had an immediate effect on small farmers and the rural economy. The effects were compounded by reduced demand for key commodities. Many countries experienced a dip in exports; falling commodity prices greatly affected Nigeria and Zambia, for example, drastically weakening their revenue position (Gupta and Liu 2020).

This occurred alongside an increase in the volume and value of imports (e.g. demand for PPE; fuel and food price inflation), which squeezed foreign exchange reserves. Such a squeeze may increase the costs of borrowing, lengthen the repayment period, and stifle both investment and economic growth (Fukuda and Kon 2010). The erosion of foreign exchange reserves also limits their 'shock absorber' function against factors that can negatively affect a country's exchange rate, which may then experience volatility. Exchange-rate risk increases transaction costs and reduces gains to international trade, which can otherwise be an important driver of economic growth (Poncet and Hericourt 2013).

These macroeconomic and trade effects were transmitted through the economy, driving wage cuts, job losses, enterprise failures and increases in household costs.

Box 5.B: Impact of the pandemic on the economy, India

India's real GDP is estimated to have contracted by 6.6 per cent during 2020/21. The government estimated in 2020 that GDP would grow at 8.9 per cent in 2021/22, with real GDP surpassing the pre-Covid-19 level of 2019/20.

The gross value added of the manufacturing sector is estimated to have contracted by 0.6 per cent in 2020/21, but in 2020 was estimated to grow by 10.5 percent in 2021/22

Industrial production (measured using the Index of Industrial Production) fell between April 2020 and January 2021, declining by 12 per cent, but then rebounded between April 2021 and January 2022, growing by 13.7 per cent.

Employment fell during the pandemic, but grew rapidly as the economy reopened. Taking net payroll data from the Employees' Provident Fund Organisation as a proxy for formal employment, data for February 2022 shows that new subscribers to the fund increased from 7.71 million in 2020/21 to 9.24 million in April–December 2021/22.

Source: Lok Sabha Secretariat (2022). The Journal of Parliamentary Information: Vol. LXVIII, No.1.

Box 5.C: Impact of the pandemic on the economy, Bangladesh

Prior to the pandemic, Bangladesh experienced rapid economic growth, averaging GDP growth of more than 6 per cent from 2010/11 and reaching 8.1 per cent by 2018/19. Income per capita grew from US$754 to US$2,064 between 2009/10 and 2019/20. The poverty headcount fell steadily from 48.9 per cent in 2000 to 31.5 per cent in 2010 and 20.5 per cent in 2023; and extreme poverty fell from 17.6 per cent in 2010 to 10.5 per cent in 2023 (World Bank 2019). Covid-19 disrupted the domestic economy and the global recession affected Bangladesh 'through trade, foreign direct investment, and remittance linkages', with estimates suggesting that the economy could lose 4.3–6.6 per cent of GDP (ADB 2020), equivalent to between US$13bn and US$21bn (Cabinet Division and GED 2022).

The lockdown disproportionately negatively affected poor, vulnerable and marginalised population groups, with informal sector workers, day labourers, part time workers, industrial workers and workers outside government salaried roles finding it extremely difficult to survive. Urban slum dwellers were so badly affected that reverse migration started to occur, with urban informal sector workers beginning to migrate back to rural areas.

The government had to respond to macroeconomic challenges and ensure that the economy continued to grow. It also needed to put in place measures to support the wellbeing of badly affected groups, including through expanding existing social protection schemes and introducing new ones.

5.2.3 Job losses and increases in unemployment

The majority of enterprises around the world experienced a profit squeeze during the pandemic as consumer confidence dipped, value chains were disrupted, imported inflation led to an increase in input costs, and transporting goods became more complex and costly. This led many businesses to cut staff wages, reduce workers' hours or shed staff. The need to keep working to survive during the pandemic meant that the 2estimated number of working hours lost was lower in LICs than in other parts of the world (Parisotto and Elsheikhi 2021) (–13.9% compared with –17.3% from the fourth quarter of 2019 to the second quarter of 2020). However, because this was largely an uninsured income loss, that affected people with limited savings and alternative sources of resilience, the wellbeing decline was inevitably higher among the poorest people in the poorest countries. Labour markets have recovered more slowly in poor countries, too, with informal sector workers struggling the most (ILO 2022, cited in Das and Susantono 2022)

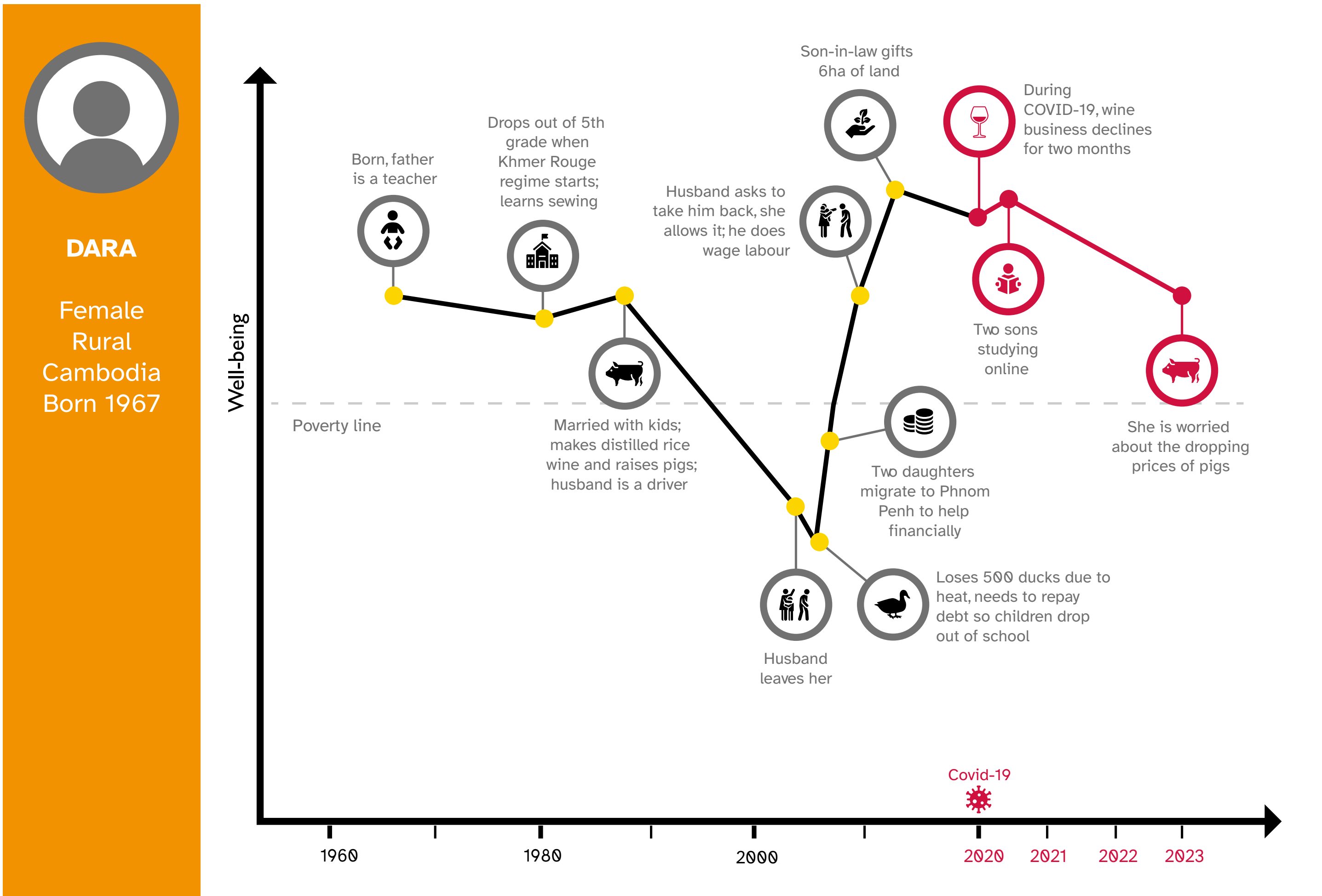
Certain groups were particularly vulnerable to retrenchment, job losses and the impacts of enterprise suspension or failure. Those particularly badly affected were: migrants, shuttle traders or (informal) cross-border traders (in the Southern African Development Community region, these are disproportionately women); manufacturing enterprises with value chains ending with consumers in the global North (e.g. the garment sector); the urban informal sector (Box 5.D and 5.E); and casual labourers (e.g. agricultural labour, construction, informal sector employees). Some of these had managed to escape or stay out of poverty pre-pandemic, but the restrictions changed their situation, as in this example from Cambodia:

> *Right now, with little earnings made, it could only support little school children and food spending. Such decline happens since the beginning of the Covid-19 outbreak. For example, in the past, his truck carried a full load of ice blocks and such amount sometimes did not meet local demands. Right now, his truck carries only half of the ice blocks and the remaining is delivered back to the stall. In 2018, their business was doing good. They could sell and supplied up to 100 ice blocks per day. At present time, only 8 ice blocks are sold and the remaining 8 ice blocks are stored at the stall. There is a big difference between now and before. The decline of ice supply jumps to 90%* (LHI, Cambodia).

5.2.4 Rural non-farm economy

The rural non-farm economy played an important role in absorbing labour, generating livelihoods and incomes, and providing access to crucial goods and services, even at the hight of the pandemic. Lockdowns, and travel and transport restrictions placed constraints on the non-farm rural economy in many countries at various points during the pandemic. This situation was accompanied by tightening supply for wholesalers and retailers, which translated into price rises for consumers (e.g. of food, fuel, agricultural inputs). Nevertheless, it appears that the rural informal sector, and the rural non-farm economy in general, were more resilient than the urban equivalent, as they were often (though not always) less exposed to virus transmission, and also less affected by restrictions. This may help to explain why so many urban workers returned to their 'rural homes' during the pandemic. Some people managed to maintain a degree of resilience enabled through economic diversification during the pandemic (Life-History Figure 4). However, more commonly, others had escaped or stayed out of poverty pre-pandemic, but the restrictions in 2020 then changed their situation, as in this example from Cambodia.

Life-History Figure 4: Dara, Cambodia



The business diversification within Dara's household, including her migrating children and gifts from her son, alongside low restrictions in local trade enabled the household to remain resilient during the COVID-19 pandemic.

Source: Authors' own.

5.2.5 Migration and remittances

Migration is an important source of livelihood diversification. It has been a reliable pathway out of poverty for some and an adverse coping strategy for others (Diwakar and Shepherd 2022), depending on factors driving their decision to migrate, their level of education and agency, and the quality of employment at their destination.

During the pandemic, migrants were often treated poorly. In India, a short-term programme lasting 125 days was launched in June 2020 to attempt to mitigate the impact of mass return migration during lockdown. The US$6.1bn Garib Kalyan Rojgar Abhiyaan programme sought to boost employment and livelihood opportunities for return migrants in rural areas by providing immediate employment and livelihood opportunities, while improving public infrastructure and livelihood assets in affected villages. The programme had the dual goals of resolving an immediate employment and wellbeing crisis, while also boosting livelihood opportunities over the longer term. The programme focused on 116 districts across the six states of Bihar, Jharkhand, Madhya Pradesh, Odisha, Rajasthan and Uttar Pradesh, bringing together 25 schemes from across

12 central government ministries and departments.[3]

There were some other examples of good practice, but much within-country migration is into the urban informal sector and migrants received limited policy support (see below). Examples of good practice include: Thailand, which provided full access to health care, irrespective of immigration status (Ginn and Keller 2020); Peru, which provided temporary health coverage to migrants and refugees suspected of having Covid-19; and the Philippines and Chile, both of which provided stipends to eligible migrant families (Duigan 2020).

More broadly, however, within-country remittance flows fell in many countries as increased precarity reduced migrants' ability to support their extended families. As the pandemic continued, enterprise failure and retrenchments drove up unemployment. Urban living requires an income – to cover rent payments, to buy food and water and to pay for basic services. Without a job or an income, and unable to move into street vending or other urban survival activities in the midst of the pandemic, some poor urban workers responded to job loss by relocating to rural areas. This drove high levels of urban rural migration, with people returning to their rural homes. Some were recent migrants to cities, but others were long established, with very urban in lifestyles and preferences. Their return migration provided the migrants with improved (and more affordable) access to food, housing and water, but placed additional pressure on the rural component of their kinship networks at a time when they faced reduced remittances.

Remittances to many rural households ended as relatives lost jobs in manufacturing (garments), services (tourism), construction or the urban informal sector, and the newly unemployed relocated to rural areas, attracted by the lower costs of living, swelling rural populations. Urban relatives, who had previously sent remittances, were absorbed by their kinship networks, and rural household budgets came under increasing pressure, as the fall in remittances was accompanied by increased household costs (inflation) and a greater number of mouths to feed (return migrants).

5.2.6 Agriculture sector

The agricultural sector absorbed some of the excess labour noted above, as farmers were often able to continue working even during wider lockdowns or travel restrictions, and rural households commonly provided not just accommodation, but also a small plot of land to cultivate.

However, it came with its own set of challenges, as pandemic-related lockdowns reduced market integration, with many agro-traders unable to travel, particularly across borders (e.g. between Vietnam and Cambodia). This led to localised gluts, wastage and price collapses, leaving farmers with unsold produce, or forcing them to sell at below production costs. Many were unable to repay seasonal loans; evidence from Cambodia indicates that some farmers had to borrow informally (from moneylenders) to repay seasonal input loans. The crisis drove up the debt burden at household level, with some households becoming dangerously indebted, triggering distress migration to urban centres and illegally across borders. Cambodia is an extreme case in terms of household debt, building on its pre-pandemic levels of debt; but the same was true in many countries on a lesser scale.

Imported inflationary pressures, border closures, national and subnational transport bans, and bottlenecks in international value chains furthermore drove up the cost of key agricultural inputs, including fertiliser, pesticides and herbicides, petroleum products and hybrid seeds.[4] Some small-scale farmers responded to these pressures by withdrawing from the market and producing solely for home consumption, or for home consumption with localised sales of any surplus. This contributed to food shortages elsewhere, driving up the cost of the household basket of goods for net consuming households.

Despite the combination of input price inflation, fractured national and international value chains, and reduced effective demand suppressing farm-gate prices, all of which drove up producer debt, the agricultural sector fared less badly than other sectors in many countries – it absorbed some labour. However, rural unemployment and under-employment also increased, with casual agricultural labourers commonly being replaced by household labour. Demand for very low-wage domestic labour also declined, with labourers who had previously washed dishes or clothes in rural and peri-urban areas replaced by household labour, and share croppers and agricultural tenants displaced by landowners who took over cultivation of the land (e.g. in Afghanistan). Agriculture still also supported the wellbeing of landowning households, absorbing return migrants and enabling households to survive, even while value chains collapsed, as they could withdraw partially or fully from the market to cultivate food for home consumption.

5.2.7 Urban informal sector

The pandemic greatly affected the urban informal sector. This matters because of the importance of the informal sector in many LMICs. In Africa, for instance, the informal sector absorbs 86 per cent of workers (on average), the majority of them women (Saha and Abebe 2020). At the start of the pandemic, governments were advised to build resilience and capabilities, and therefore safeguard informal sector firms and workers by swiftly implementing a mixture of context specific, short-term, and medium- to longer-term measures (*ibid.*). Unfortunately, as we have seen, few governments provided support to either enterprises or workers in the informal sector.

Box 5.D 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 about 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 the Covid-19 policy responses on informal workers has confirmed the ILO prediction.

For instance, in mid-2020 and mid-2021, the 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).

Continued:

For instance, in mid-2020 and mid-2021, the 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 the 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. In April 2020, during peak lockdowns or restrictions across the 11 cities, 74 per cent 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 before the pandemic. Also, most of the sample had not been able to repay the loans they had taken out to survive the pandemic, rebuild the savings they had depleted, replace the assets they had sold or pawned, or pay the 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 America and South Africa[5] confirms that the pandemic, and associated restrictions and recession, had a major impact on total employment and a disproportionate impact on informal employment, apart from in Peru where the losses were greater in formal employment (except in metropolitan Lima). Further, women workers suffered higher percentage losses of numbers employed than men in the five countries. However, the difference in employment losses was greater between formal and informal workers than between women and men workers in all countries apart from Chile where the loss gaps between informal and formal workers and between women and men workers were roughly the same.

Source: Chen (2023)

Box 5.E: India's informal sector

According to Periodic Labour Force Participation Survey of India 2017–2018 estimates, over three quarters of employment in India (77.1%) was 'non-regular' or informal, with workers either self-employed or casual (Walter 2020).

Around 80 per cent of informal workers lost their job during the pandemic (Action Aid 2020) and more than 400 million informal workers were pushed deeper into poverty. Some 100 million workers returned to their rural homes, along with their families. Their urban worksites were closed and employers failed to pay their wages (*ibid.*).

Informal workers are the most vulnerable category of workers because they are not covered by government benefits and social protection. They do not have income saved for immediate sickness and lockdown. Unlike the formal sector, workers in the informal sector do not have the option to work online and stay at home (UNDP 2020).

Continued:

In India, MSMEs are the largest source of employment outside agriculture, employing over 110 million workers. MSMEs contribute 29 per cent of India's GDP and generate almost half of its exports (Sharma 2020). There may be more than 63.3 million MSMEs in India, 63 million (99.4 per cent) of them micro enterprises in the informal sector (Soni 2020).

Some 122 million Indians lost their jobs during the Covid-19 lockdown (estimates from Centre for Monitoring Indian Economy 2023). More than three quarters of those who lost their jobs were casual labourers and petty traders, but a significant number were salaried workers. Around 18 million businesspeople lost employment, indicating that job losses due to lockdowns reflected the impact on enterprises (The Hindu 2020), and 60 million entrepreneurs were adversely affected.

Farming became the livelihood of last resort, absorbing some of the unemployed, with the number of farmers increasing in April 2020.

5.2.8 Women's engagement in labour markets

Women's engagement in labour markets is also an important source of livelihood resilience and escape from poverty. It generates instrumental benefits through greater investments in children's education and health-seeking behaviour, and a stream of intrinsic benefits, including greater self-efficacy and agency of women and girls, a more equitable conjugal contract, and more collaborative household decision making (Bird 2018; Diwakar and Shepherd 2022; Diwakar *et al.* 2023).

During the pandemic, women's engagement in paid labour markets became more severely constrained, with restrictions affecting activities in which women are strongly represented (e.g. tourism, garment factories, domestic work) and declines in demand in international value chains driving income loss and retrenchments among women. This occurred particularly during lockdown periods, when schools were closed, as women took on the bulk of childcare across country contexts.

In India, women bore the brunt of job losses because they tend to be highly concentrated in risky, hazardous and stigmatised jobs, as waste pickers, domestic workers, home-based workers and street vendors. Much of their work is informal and invisible. They do not receive the minimum wage specified by the government and were disproportionately adversely affected by the lockdown (Raveendran and Vanek 2020). The unequal gendered division of domestic labour, already one the most unequal in the world (own calculations using the National Time Use Survey (1998–99))[7] deepened during the pandemic, with lockdowns worsening the situation.

In LICs, most women and girls work outside the formal sector; for example, as smallholder farmers or casual agricultural labour, and as petty traders, selling food or second-hand clothes, or providing small-scale and low-cost services. When migrant men lost their urban jobs in either the formal or informal sectors and returned to their rural homes, women had to find ways to support their families and this was often in agro-processing (e.g. processing vegetables in Afghanistan) or petty trade (e.g. in many countries in Africa).

Household consumption and wellbeing were negatively affected. The reduction in earning power also contributed to a worsening of gender relations in many contexts. Anxieties about money and social isolation created exceptional conditions, and SGBV increased. Policies to mitigate SGBV might include giving survivors mobility exemptions during pandemics, so they can move to a place of safety (e.g. women's refuges or their family of origin). An important preventative measure would be to strengthen women's rights through legislation around marriage, divorce and child support, as well as ensuring equal access to education, employment and ownership, and inheritance of assets.

Post-pandemic, women's earnings have taken longer to return to their pre-pandemic levels; and in some labour markets, there has been a partial rolling back of the gains made in gender equity in the formal sector (e.g. hiring practices, promotion prospects, pay and conditions). This is particularly true for workers in the formal sector – for example, those working in the garment and tourism sectors – and probably also for women engaging in urban labour markets.

Many women who were part of the 'vulnerable but not poor' group were impoverished after losing their jobs during the pandemic. This has had longer-term consequences for them, as many have yet to return to pre-pandemic levels of employment or income, with implications for their workloads, as they have had to engage in multiple livelihood activities to attempt to regain their former income levels. Unemployment and loss of income have also had implications for gender equality, with women's agency tracking downwards with reduced income.

+ Box 5.F: Women street vendors and the pandemic

Micro- and small-scale food vending is a very common livelihood among poor and extremely poor women in Africa, including cooked food (from small sweet doughnuts to entire meals) and fresh vegetables. The women's families depend on their trading earnings and this dependence increased as men lost their jobs during the pandemic.

Women food vendors lost customers and their income fell steeply or stopped completely due to lockdowns and social distancing. Even when restrictions loosened, their former clients often remained resistant to buying food from others out of fear of health risks. The closure of markets (e.g. Iringa market in Tanzania) and businesses whose customer bases the women relied on further exacerbated their loss of custom. Finally, disruptions in supply chains led to rising prices of ingredients in the food they cooked (e.g. wheat, sugar, oil).

Recovery was difficult for many, as they lost the capital they needed to continue trading when lockdowns ended. In Tanzania we found that 'vulnerable but not poor' traders were very slowly rebuilding their businesses (e.g. tiny restaurants) 'chair by chair'; but the chronically poor, who lost income and often had to spend their working capital on food for their families, found it difficult or impossible to resume trading when the economy reopened; they will need support to resume trading (CPAN 2022a).

Female vendors in Dar es Salaam were particularly affected when the government

Continued:

banned street vendors, forcibly clearing the streets, ostensibly to improve urban hygiene and reduce the risk of Covid-19 transmission, but possibly also to enforce zoning regulations, bring the informal sector under control and ease urban traffic. This prevented street vendors trading from their normal locations. Women who became the sole breadwinners after their husbands lost work reported having to move their trading pitches daily to avoid the authorities' attention, losing their regular customer base (*ibid.*).

5.3 Economic policy responses: an overview

In response to Covid-19 and its economic effects, some macroeconomic policies were designed to address national economies and larger businesses, with the expectation that these would indirectly support people in poverty – these included quantitative easing to create liquidity in the economy, policies to support business debt and public spending on infrastructure projects. These were expected to support people experiencing poverty indirectly through 'trickle-down'.

They were combined with microeconomic policies that targeted people in poverty and poor economies – including cash transfers, working capital for SMEs, and food security. These also included support for poor microeconomies; for instance, by supporting small businesses and labourers, which created effective demand for work and goods in slums and informal settlements, and villages reliant on exportable crops. It is important to recognise that the line between this type of social protection and economic policies is slim, and even cash transfers and food rations can be part of poor households' diversified livelihood portfolio, as they make trade-offs between buying food, ring-fencing capital for their micro-enterprise and meeting school expenses. Social protection is discussed elsewhere in this report (Chapter 4).

In this chapter we focus on economic and enterprise-related policy interventions.

The portfolio of pre-pandemic economic policies, particularly targeted macroeconomic and microeconomic policies, varied across LMICs. So did the range of policies, policy innovation during the pandemic and implementation of these policies. Few of these policies have been evaluated but we have some qualitative insights from people's lived experiences of them from CPAN's PMI. One thing that is clear is that the political ideology of a country's government, and political settlements underlying that ideology, had an impact on the type of policies the government chose and their implementation. But implementation also depended on the government's financial and institutional capacity, and the effectiveness of delivery mechanisms. It is also clear from interviews across ten LICs and lower-MICs during the pandemic[8] that there was demand for policies and programmes beyond social protection, in particular to help with running or setting up a micro-business. However, the economic policy response to the pandemic was largely slow to emerge, with many governments acting first through macroeconomic policy, quantitative easing and support for large enterprises. This tended to be in the form of tax breaks and soft credit (e.g. reduced interest payments, delayed repayments). Some countries used the rhetoric of supporting people in poverty, despite their policies also leaning towards supporting big businesses, alongside the protective potential cash transfers, loans and employment guarantees offered. There are important exceptions, including Bangladesh, India and Cambodia, but the impact of their policy programmes has yet to be evaluated.

As evidence emerged of the widespread job losses and worsening consumption levels among the poorest people, governments began to respond, seeking to develop interventions that directly targeted saving the livelihoods and wellbeing of the poorest people. However, in many cases this was around at least six months into the pandemic. Taking policies from initial formulation through to funding and implementation tends to be slow, and the delay in designing policies aimed directly at people in poverty and their businesses meant that many targeted policy innovations were never properly funded or implemented, limiting the mitigation they could offer. This is important because cross-country evidence shows that economic policies that targeted people experiencing poverty directly were more likely to support their livelihoods and local economies compared with policies that focused on macroeconomic and business support, which only indirectly supported people living in poverty through uncertain trickle-down effects. Moreover, economic support channelled through mechanisms with more opportunities for elite capture, corruption or discrimination (e.g. based on gender or religion) were less likely to support people in poverty.

Countries entered the pandemic experiencing different macroeconomic situations. Having adequate fiscal space for public expenditure on health, education and social protection was critical to countries developing positive mitigating measures, as this impacted their room for manoeuvre in formulating and delivering a policy response, both in terms of health promotion and protection (e.g. social-distancing policies, PPE, immunisation) and their livelihood and economic responses. However, for policies not only to be developed but also delivered, supportive pro-poor political arrangements were required.

It is also worth noting that a country's fiscal position and political economy were not the only determining factors, as some countries were able to mitigate their poor fiscal position by borrowing internationally, despite poor macroeconomic indicators. So, Cambodia had a very different experience to South Africa, Zambia and Bangladesh, which went into the pandemic with structural budget deficits.

The following sections provide an overview of country responses in terms of macroeconomic management, as well as in relation to economic and livelihood mitigation.

5.4 Macroeconomic management

5.4.1 Fiscal balance

The policy response to the pandemic delivered a seismic shock to the global economy. HICs responded with aggressive macroeconomic policies and financed substantial packages of mitigating measures, borrowing at very low interest rates. This enabled them to stabilise household incomes and financial markets (UN DESA 2023). Limited budgets and an inability to borrow at scale prevented LMICs from developing economic mitigation packages at similar scale, despite international support.
The poorest countries were commonly unable to borrow on international markets or faced very high borrowing costs, and were forced to 'cut spending in areas

critical to the SDGs, including education and infrastructure', as they faced 'shortfalls in revenues at a time of greater needs' (*ibid.*). Those that borrowed from the International Monetary Fund and other international financial institutions faced making repayments in 2022/23 at exactly the time they were tackling imported inflation triggered by the war in Ukraine and trying to support their economies to recover from the pandemic. Meeting repayments had an impact on funds available for public services, resulting in reduced services at just the point when they were needed most.

Looking at two contrasting examples, we see how countries responded to demand for public spending. In Cambodia, prior to the pandemic, government policy had been that public borrowing should be kept low and reserved for capital projects. Budgetary discipline meant that there was a budgetary surplus that could be drawn on rapidly when the pandemic emerged in China, and before the first cases of Covid 19 were announced in Cambodia. Many other countries had more limited fiscal space and their responses differed (e.g. India and South Africa).

In South Africa, the government borrowed to maintain wellbeing. Even prior to the pandemic, South Africa's debt-to-GDP ratio was forecast to be 65.6 per cent for 2020. However, the government breached the spending limits it had previously set and the forecast debt-to-GDP ratio rose to 80.5 per cent for 2020 (Bhorat and Baskaran 2021). Some view borrowing to support expenditure like this to be reckless, because high debt-to-GDP ratios can impair a country's future growth.[9] However, others recommend setting this risk against the impact that poverty increases will have on dampening growth, as well as their impact on inequality and wellbeing.

Seeking to mitigate the impact of the pandemic has driven public debt in many of the poorest countries to critical levels; in early 2022, three out of five of the poorest countries were at high risk of or already in debt distress, and one in four MICs were at high risk of fiscal crisis (UN DESA 2023).

Since February 2022, the war in Ukraine has affected global financial markets, with increases in interest rates, energy and food prices placing increased pressure on the fiscal and external balances of commodity-importing countries (*ibid.*). Poor countries typically face relatively high borrowing costs, commonly paying interest rates three times those of rich countries (*ibid.*). High repayment costs translate into reduced fiscal space, so they have an immediate impact on post-pandemic reconstruction and recovery. Despite these constraints, a number of countries implemented fiscal stimulus measures to support their economies. These included tax relief for businesses and households, public spending on infrastructure projects to create jobs and stimulate economic growth, and cash transfers.

5.4.2 Taxation policy

Many countries feared the long-term economic and social impacts of widespread business failure and introduced a raft of policies to soften the tax burden on enterprise. These policies sought to support household consumption and halt the demise of retail and service enterprises, under pressure from reduced effective demand. Measures included reductions in the standard VAT rate, and in rates of personal and corporate income tax, and turnover tax (Kenya); support for hotels, restaurants, and transport, including suspension of VAT paid by these sectors (Senegal); and a waiver on import duty on medical equipment (Bangladesh, Nigeria and Zambia) (Gupta and Liu 2020). These measures rarely directly supported informal sector workers, highlighting the limited policy toolbox governments drew on, and how governments tend to bypass directly targeting the informal sector and the poorest people.

In India, time limits were extended for tax compliance; interest on late income tax payments was reduced for delays from March to the end of June 2020); tax rates were reduced (by 25 per cent between mid-May 2020 and the end of March 2021 for specified non-salary payments); individuals and cooperatives were offered reduced tax rates from 2020; US$15.5bn in corporate tax was refunded to over 200,000 businesses (between April 2020 and the end of February 2021); and tax on dividends was reduced from 2020 to make India's equity market more attractive to investors. To boost both employment and manufacturing output, a reduced rate of corporation tax (15 per cent, down from 35 per cent) was offered to new manufacturing companies in India (starting manufacturing outputs between October 2019 and the end of March 2023) (Lok Sabha Secretariat 2020–22). It is unlikely that much of this expenditure directly benefited the poorest people and a longer-term legacy of the pandemic is likely to be a rise in inequality between the rising wealth of the global rich and a corresponding fall in the livelihoods and income of middle income and poor groups. Oxfam has identified potential equalising policies; for example, with a suggestion that progressive fiscal policies include a one off windfall tax for India's new 'Covid billionaires' (Tarfe 2023).

In Cambodia, temporary tax breaks were offered to formal sector enterprises in the tourism and garment sectors (including footwear and bag manufacturing) (February 2020) and airlines were offered tax exemptions (April 2020–June 2021), indicating targeting of labour-intensive and vulnerable sectors.

5.4.3 Monetary policy

Macroeconomic policy response to the pandemic initially centred on reducing interest rates to stimulate borrowing and investment. This focus sought to buffer businesses – particularly big businesses – from the impact of low effective demand. Central banks also introduced quantitative easing. This approach notably tends to disproportionately support wealthy people and those with assets, though people in poverty may benefit from spillover or transmitted effects. There were also some targeted lending programmes to ensure adequate liquidity in their financial systems, which had a more direct impact on people in poverty. Later, inflation rose and some central banks raised interest rates to address inflation.

Countries responded differently to inflation, with some governments responding to the increased cost of the consumption basket solely by increasing social protection transfers for target groups. Other governments instead sought to use monetary policy as a tool to support wellbeing during the pandemic, by controlling interest rates (monetary policy), by intervening directly in key markets, or by mitigating the impact of inflation on the poorest people through social protection.

Intervening in key commodity and food markets by imposing price controls occurred in some countries where the government has high surveillance capacity and a willingness to intervene in this manner. Maize price controls (e.g. in some African countries) and price floors (e.g. India) sought to limit the pandemic's impact on poor consumers and producers.

Other countries' governments intervened in financial services markets to drive down interest rates on borrowing, in response to high levels of enterprise and household indebtedness, and as protection from widespread business failures.

Policy – and sometimes revised regulations – encouraged debt restructuring and, in some countries, the freezing of interest payments. Where offered, this was generally restricted to enterprises and rarely extended to household borrowing or the informal economy. In Cambodia, however, households could apply for debt restructuring, with repayments paused and the deadline for repaying the principal and capital sum extended, though interest continued to accumulate throughout the extended life of the loan. This suggests that the focus of many governments was on business failure. mostly in the formal sector, with the likely short-run impact on employment and longer-run impact on economic growth, rather than on household indebtedness and household wellbeing, particularly among the poorest people. Across countries, we see an attempt to use increased liquidity to support domestic food supply, reducing reliance on imports, and ensuring the continuity of essential goods and services.

Conventional policy responses to inflation centre on monetary policy. However, some countries – as well as heterodox economists – have sought to expand the toolkit. This experience suggests that experimenting to find alternative approaches to inflation management can be successful, particularly when looking at inflation in the basket of goods most commonly consumed by people in the bottom two deciles. What we see is that when inflation damages the wellbeing of the poorest people, they benefit from having expanded agency and institutions they can participate in, which may help reduce costs and/or provide some protection from the impact of inflation.

Box 5.G: Mitigating the impact of inflation on the poorest people

Experiments to mitigate the impact of inflation on the poorest people could include subsidising the food basket when inflation rises; for example, through vouchers to purchase a given quantity of key staples, legumes and fish to prevent longer-term impacts on children's health.

This is similar to experiments in 'helicopter drops',[10] when central banks provide money directly to households as a form of quantitative easing to stimulate the economy and can address the argument that quantitative easing disproportionately benefits wealthier individuals who hold a larger share of financial assets. This can involve central banks creating new money and using it to finance fiscal measures that benefit lower-income households directly; for example, by financing social welfare schemes, funding targeted tax rebates or direct cash transfers (Blyth and Lonergan 2014).

These measures come with risks, such as inflation or currency depreciation, if not managed carefully. It is important for governments and central banks to consider the specific context and economic conditions when designing and implementing unconventional monetary policy measures (*ibid.*).

An alternative entry point for governments, was to focus on alleviating the negative consequences of high inflation and to protect the consumption levels of poor people by expanding social protection, with an enlarged pool of recipients and an expanded set of benefits (see Chapter 4).

5.4.4 Net trade and balance of payments

The impact of Covid-19 on Chinese export levels and the availability of key inputs into manufacturing production around the world concerned business leaders and governments. Reduced demand for key commodities around the world saw their prices drop and reduced demand for consumer items affected businesses throughout global value chains. Countries responded to this challenging business environment differently. The Government of India was relatively interventionist and engaged in close interaction with Indian export promotion councils and trade bodies, particularly in the pharmaceutical, electronics and automobile sectors where supply chains sourced imports from China. These agencies contacted Indian trade abroad to secure and transport inventories available with existing suppliers. Missions were asked to identify alternative sources of supplies of raw materials to support India's domestic production (Lok Sabha Secretariat 2020–22).

Again in India, during the early months of the pandemic (March–May 2020), the government sought to mitigate the negative effects of the pandemic by making trade as frictionless as possible;[11] for instance, requesting that customs stations and testing labs worked around the clock and to showed sensitivity when dealing with cargo from affected areas in China, waiving late fees for delayed documentation (*ibid.*).

5.5 Economic and livelihood mitigation

Many governments implemented both quantitative easing and policies, and interventions targeting enterprises, livelihoods and value chains owned by or employing people in poverty. The relative emphasis matters, in terms of attention and resources given to macroeconomic management and quantitative easing vs targeted interventions to protect the livelihoods and enterprises of people in poverty. However, what we see is that many governments tended to focus their attention and resources on large enterprises. Bangladesh, for example spent US$13bn (3.96% of GDP) on economic support during the pandemic, but nearly 80 per cent of this funding went to growth-oriented interventions and large enterprises, with only 20 per cent going towards protection (see Chapter 3). The widespread focus on macroeconomic management and large enterprises appeared to be based on the assumption that by doing this it would protect the economy as a whole and maintain the food security, employment and wellbeing of the poorest people. This approach discounts the importance of the informal sector and indicates the limited policy toolbox that policymakers were drawing on to support enterprises and workers in the informal sector during the pandemic. Some examples of good practice in the timely development and delivery of mitigating measures were in proto-authoritarian states (e.g. Cambodia, Rwanda), suggesting that their form of governance enabled them to respond quickly to the pandemic.

5.5.1 Economic and business support

Some governments provided support to business, aware of the pressures companies were under through the combined impact of broken international and national value chains (e.g. lockdown measures, transport restrictions), reduced effective demand in domestic and international markets, increased input costs (e.g. food, fuel, utility prices), exchange rate pressures and tightening credit markets. Bangladesh therefore provided substantial financial support to all MSMEs and large enterprises from 2020 (costing 3.96% of GDP). In Senegal, tax concessions and additional spending on business support were estimated to be likely to increase the fiscal deficit by 2.4 per cent of GDP in 2020 (Gupta and Liu 2020). Early in the pandemic, India announced a US$265.8bn economic stimulus package (Aatma Nirbhar Bharat Abhiyan), which included funds for liquidity support, fiscal measures and monetary policy actions. It is impressive that India allocated more than 13 per cent of GDP to pandemic policy in comparison with Bangladesh's 3.96 per cent.

The nearly US$5bn India spent to support the livelihoods and employment of the poorest people was overshadowed by the US$265.8bn economic stimulus package announced for 2020/21. With 70 per cent of the population absorbed by the informal sector, we might have expected a higher proportion of the stimulus package to have been allocated to supporting the livelihoods of the poorest people.

Box 5.H: Economic and livelihood mitigation policies, India

The economic stimulus package sought to correct supply-side shock and keep supply chains open, while compensating the 'demand-side shock' created by the pandemic, by boosting the resources of the poorest people. For example, the budget for the MGNREGA programme, to support wage employment, was increased by US$4.86bn and the minimum wage for manual workers for 2020/21 was increased from Rs182 per day to Rs202 per day (from US$2.20 to US$2.50).

The government announced a US$6.1bn boost to the Garib Kalyan Rojgar Abhiyaan programme across six states, which provided livelihood opportunities for rural workers. To create employment and boost the rural economy, India's stimulus package also invested in housing,[12] roads,[13] peri-urban growth poles[14] and women's self-help groups.[15]

Source: Lok Sabha Secretariat (2022)

Box 5.I: Economic and livelihood mitigation policies, Bangladesh

The government introduced 21 economic support packages, with an overall value of US$13bn (3.96% of GDP) (Osmani and Siddiquee 2021), with nearly 80 per cent of funding going to growth-oriented interventions and only 20 per cent to protection:

- 8 growth-oriented support packages – to support enterprises badly affected by the economic collapse brought by the lockdown to revive economic growth.
- 13 protection-oriented support packages – targeting households and individuals who had lost their entitlements to food and other essentials of life as their livelihoods disappeared due to economic collapse, providing social protection to support food security and to reduce deprivation stemming from the loss of livelihoods. (See Chapter 3 for more details of these packages.)

Box 5.J: Support for business, the Garment Industry, Bangladesh

The government on 25 March 2020 announced that it would allocate US$624m for a stimulus bailout package to the factory owners in the garment sector to pay garment workers' salaries. There were around 800 Bangladesh Knitwear Manufacturers and Exporters Association factories prior to the pandemic. Of these, 519 factories received 'clearance certificates' from the association to apply for stimulus loans; 99 were refused. Of the 519, 420 received government stimulus loans. They worked relatively well, with eligible factory owners gaining prompt access to the stimulus and using it to pay workers.

Some have suggested that this fund, routed through industry owners, supported the owners more than it supported workers. Another criticism is that industrial workers and transport sector business owners found it difficult to access the stimulus fund.

Source: The Business Standard, 2021; CPD- Shojag Coalition, 2021.

5.5.2 Support for the informal sector

Few governments provided comprehensive livelihood or economic support to the informal sector, with funding commonly focusing on maintaining consumption through entitlement support and social protection. Bangladesh provided a one-off cash transfer to informal sector workers, India sought to stimulate job creation (and formalisation – Box 5.L) and Cambodia provided grants for informal sector workers.

Box 5.K: Support for informal sector workers, Bangladesh

Informal sector workers and those not covered by existing safety net programmes were eligible for a one-off cash transfer. US$120m was allocated, targeting people in poverty, mostly in rural areas.

A critique of the cash transfer process provides lessons for future pandemics. There was inadequate pandemic preparedness: ward committees had to rapidly prepare beneficiary lists of people living in extreme poverty, which did not exist previously; the committees verified the status of self-identifying applicants, then the lists were consolidated and digitised. This was a time-consuming process, and local committees were not given sufficient time or support to complete the process.

Lists were also found to have various anomalies, among them the inclusion of names of government officials and pension recipients, individuals listed more than once, people listed due to their political affiliation and so on. Lists were sent back to Upazila (district) level for rectification. Despite attempts to correct them, substantial targeting errors remained, with leakage to non-target groups and failure to reach people in need.[16]

In addition, the value of the one-time cash transfer (US$23) was inadequate and funds could only be transferred through a mobile device, despite a significant proportion of beneficiaries not having a mobile phone or bank account.

Source: Cabinet Division & GED, 2022; Siddiquee *et al.*, 2022

The general absence of mitigating measures for informal economies, despite early acknowledgement of their vulnerabilities to both Covid-19 and the effects of lockdowns and restrictions, is indicative of the low status and limited political importance of the informal economy – despite employing very large numbers of people and producing a substantial proportion of GDP.

Box 5.L: Job creation, India

Returnee migrant employment and livelihood programme (Garib Kalyan Rozgar Abhiyan)[17] – aimed at migrants returning to their rural villages. In Uttar Pradesh, 31 districts out of 75 were identified as being adversely affected by a very substantial influx of migrants who returned during the lockdown.

Job creation and formalisation scheme (Pradhan Mantri Rojgar Protsahan Yojana)[18] – sought to provide employers with incentives to create jobs and bring informal workers into the formal workforce. The government has committed to pay employer contributions (12% of the employees' salary) for three years to the Employees' Provident Fund and Employees' Pension Scheme.

Job creation and social security benefits (Aatmanirbhar Bharat Rozgar Yojana)[19] – provides employers with incentives to create new jobs, providing social security benefits and seeking to restore jobs lost during the pandemic. Under this scheme, the government has committed to pay both employer contributions (12%) and employee contributions (12%) for two years, or only the employees' share, depending on the size of the registered company.

This analysis suggests that the informal economy needs a New Deal following the pandemic. 'Historically, mainstream economists have tended to remain ambivalent, negative or hostile towards the informal economy: viewing informal workers (especially the self-employed) as non-compliant and non-productive – a problem to be tackled – and blaming the persistence of informality on informal workers themselves or on labor 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 provided by informal workers – from food to health and childcare, to transport and waste collection; and also exposed the disadvantages and inequalities workers faced 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 going the informal workforce will face:

- **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; or
- **a Better New Deal** – inclusion in economic policies, social policies and supply chains on an equal footing with formal firms and workers.

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 in 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 that provides essential goods and services; and from focusing on what policies drive informality to what policies would enhance informal workers' productivity and earnings. 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.

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 (Chen 2023).

5.5.3 Support for agriculture

Agriculture is another source of resilience. Many governments were highly motivated to enable the resilience of the agricultural sector, as they recognised its crucial role in supporting domestic food markets and the food security of self-provisioning households, but also in keeping export markets functioning during the pandemic. There was also recognition of the role the sector played as a provider of livelihoods of last resort and as a safety net.

In Bangladesh, farmers and workers were exempted from movement restrictions and the government ensured that restrictions did not impede the functioning of the mango value chain, to ensure that mangoes reached the market rather than rotting in the fields (see Box 5.M).

Box 5.M: Support for agricultural production and marketing, Bangladesh

Refinancing: US$460m was allocated to the agriculture refinance scheme and US$280m for the low-income refinancing scheme for low-income professionals, farmers and traders. These schemes have not been evaluated.

Seasonal input subsidy: farmers were provided with seed and fertiliser subsidies to enable them to maintain food production.

Markets: moved to open spaces, but the process was not properly planned, and markets were moved to locations where it was difficult to maintain social distancing during the first wave. This had been resolved by the second wave, when markets were moved to open fields (e.g. in Chapainawabganj special market places were established

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for the sale of mangoes), illustrating the learning that was absorbed from the first wave and applied to the second.

Local government interventions: local governments (district administrations) implemented various agriculture support measures.

Mobility: in Chapainawabganj, farmers were exempted from mobility restrictions and issued with mobility passes to allow them to move freely; transport was made available to enable them to travel between districts.

Transport: transport was limited and prices increased dramatically. During the harvest season, transport was arranged for agricultural day labourers. Also during harvest season, mango traders in Chapainawabganj could not transport their mangoes to markets in towns and cities. District administrations intervened, holding discussions with the railway authority, which introduced a special mango train service.

Source: KIIs, Bangladesh

Farm households fared differently through the pandemic, depending on what they grew and how they grew it. The food security of farmers who produced food crops (e.g. staples, legumes and even vegetable gardens in peri-urban areas) was somewhat protected, as they could consume their own produce and engage in local markets, so were less exposed to price shocks commodity exporters experienced. In Tanzania, for example, maize farmers were greatly protected by the established practice of identifying household food needs for the year and storing this quantity before marketing the surplus. In some countries (e.g. Afghanistan, India), adopting or expanding vegetable cultivation and trade during the pandemic provided an important source of income. However, farmers who were heavily reliant on purchased inputs (e.g. in Afghanistan, Bangladesh, Cambodia, India, Pakistan) were extremely vulnerable to variations in price and availability, contributing to indebtedness. Widespread increases in the cost of fertiliser around the world (especially after the start of the war in Ukraine) impacted the profitability of agriculture, with many farmers' incomes falling. Specialised livestock rearing (e.g. of broiler chickens) depends on purchased feed and, again, margins were affected by disruption to value chains and increases in transport costs (fuel).

Box 5.N: Interventions in agriculture, India

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Agriculture is the responsibility of states in India, so state governments lead on delivering agriculture-related interventions. However, the national government put together the Garib Kalyan Package to pay 87 million farmers in the first week of April 2020 (Government of India 2020). The stimulus package for farmers included an additional US$3.66bn in an emergency working capital fund for 30 million farmers to meet post harvest requirements.

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A programme to provide US$2,440 in concessional credit to 2,500,000 farmers and fishers and to refinance US$3.66bn in seasonal agricultural bank loans was developed. In addition, US$13bn in investment funds were made available for farmers to invest in farm-gate infrastructure (SIRU 2020).

The government also instituted three agricultural reform bills that aim to increase farmers' incomes: The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, the Farmers' (Empowerment and Protection) Price Assurance and Farm Services Agreement and the Essential Commodities (Amendment) Act. These aimed to counter restrictive trading practices and cartels, and enable farmers to engage in agribusiness markets (IBEF 2020).

5.5.4 The financial services sector

Borrowing emerged across countries as an important coping strategy across wellbeing groups. In Cambodia household debt increased dangerously.

Box 5.O: Impact of lockdown on unemployment and household debt, India

Acute distress was identified among informal workers, particularly migrant workers, with extremely high levels of livelihood loss (78%) and indebtedness (53%) (a longitudinal survey by Action Aid, round 1, 11,530 workers interviewed, across 21 states in May 2020). Months later, around 48 per cent of workers reported that they were still unemployed, and nearly four in ten were still in debt (39%) (round 2 of the Action Aid survey, August–September 2020, across 23 states and five union territories, covering 16,961 informal workers). Recovery was highly dependent on the sector and type of work, with construction being the slowest to recover and agriculture the fastest. But nearly 42 per cent of those who restarted work were underemployed (Action Aid 2020).

Borrowing rose in response to unemployment and livelihood collapse during the pandemic. But formal credit providers – banks and co-operatives – could not cater to poorer households. Instead, people borrowed from informal networks, such as friends, relatives and neighbours, and private moneylenders (World Economic Forum 2020). Most borrowed to meet food and healthcare costs.

Approaches to minimise household debt were trialled in the US, but LMIC examples are scarce. In India, concessional credit was provided to farmers and fishers (see Box 5.P) and the restructuring of bank loans was supported by the government stimulus package (see Box 5.H). Micro-enterprises were offered access to collateral-free loans, fully guaranteed by the government, with 'subordinate debt' for stressed micro-enterprises, partially guaranteed by the government. A credit facility was also established for street vendors, and the collateral-free credit limit for self-help group members under the National Rural Livelihood Scheme was increased from US$12,000 to US$24,000 (Lok Sabha Secretariat 20–22). Farmers were also offered concessional credit (*ibid.*). Unfortunately, the implementation of these measures has not been evaluated.

Box 5.P: Rescheduling domestic debt in the US

Between March and October 2020, loan payments worth US$2tn were rescheduled in the US, with the largest cumulative payments rescheduled being for mortgage repayments (US$3,200) and car repayments (US$430) (average values). An estimated 60 million borrowers rescheduled debt repayments worth US$70bn by the end of the first quarter of 2021, reducing household distress and loan 'delinquencies'.

In value terms, better-off households benefitted more, with 60 per cent going to above-median income borrowers, but the proportion of low-income borrowers who rescheduled their borrowing was higher.

Interestingly, one third of borrowers who had rescheduled their loans continued to make full payments, suggesting that rescheduling acted as a credit line, allowing borrowers to 'draw' on payment deferral only if needed.

Source: Cherry *et al*. (2021)

Box 5.Q: Mobile money and pandemic preparedness

People in poverty benefited from having access to an established mobile money infrastructure during the pandemic as they were able to save, borrow and access social protection payments. This suggests that an important element of pandemic preparedness would be for governments to establish this financial and digital infrastructure now, including through leveraging partnerships with the private sector.

An example of where mobile banking was highly effective during the pandemic is Zambia, where mobile money infrastructure kiosks – called agent networks or agent banking – were crucial in improving financial inclusion, particularly in rural and remote areas with limited access to formal banking services. Access to mobile money enabled people in poverty to save small quantities every day, even during the pandemic, keeping track of their account using a mobile phone they or someone in their household owned and withdrawing cash on demand from local mobile money kiosks. These savings schemes supplemented their membership of village-level savings or 'friendship credit groupings' and helped unbanked extremely poor people to quickly access cash transfers and formalise their savings.

For those without phones, they might access mobile money through a relative with a mobile phone or through local-level government agents who support local working

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extremely poor people to save small amounts from their daily wage via mobile money kiosks.

Measures to include people in extreme poverty in mobile money networks during normal times is perhaps one way to secure pandemic preparedness for cash transfers for the most vulnerable people. Cash transfers were disbursed during the pandemic through mobile money networks in Ghana, Kenya, Nigeria, Pakistan Rwanda and Togo. This included support to older people, orphans and people with disabilities. The Togolese government launched the Novissi emergency cash transfer programme during the pandemic, using mobile money to provide financial support to informal workers affected by the pandemic

Source: IMF (2020)

5.5.5 Debt restructuring and debt forgiveness

This section explores household and micro-enterprise debt and financial services. Effective management of debt is important to enable post-crisis recovery to occur, contributing to future resilience. However, in many countries, unsustainable levels of household and enterprise debt have been allowed to develop, with borrowing enabling households to survive even when their income fell (paying for food and medicines), making seasonal investment in agriculture and enterprise start-ups or funding working capital and investment. This was rarely matched by compensatory savings or insurance. So, when households face life-cycle or other shocks, or when there are negative shocks or trends in the wider economy, the vulnerability of heavily debt-exposed households and enterprises precipitates a crisis, with households and enterprises adopting the rapid accumulation of arrears or adverse adaptation to maintain payment schedules.

This begs the question of whether financial services need to be better regulated, to ensure that indebtedness is tightly contained and credit provision balanced; and with savings and insurance products offered proactively by private sector financial services institutions to support resilience. Further, governments and the financial sector need to learn lessons to allow the development of creative approaches to rescheduling and writing off debt in times of crisis, with write-offs supported by industry-wide insurance or other mechanisms. The African Development Bank's portfolio of loans to financial institutions across Africa is insured; innovative approaches could extend insurance to financial instruments, benefiting micro-enterprise and the informal sector (AfDB 2018).

In Cambodia, to reduce debt distress financial institutions in March 2020 were instructed by government to offer loan restructuring to borrowers who were severely affected by the pandemic across four sectors: tourism, garment, construction, and transport and logistics. By the end of April 2021, loan restructuring had directly benefited 421,935 people, to the value of US$4.9bn (Amarthalingam 2021). However, Cambodia's measures were not sufficient to prevent an increase in debt-related distress.

International financial institutions restructured loans and extended loans at preferential rates to some recipient governments to enable them to respond to the pandemic. Many governments also sought to restructure their own domestic borrowing, and some introduced new legislation or regulations that required financial services providers to restructure loans.

Many governments preferred to implement measures to support businesses rather than household debt. Some governments put considerable effort into enabling debt restructuring for MSMEs; but despite this, micro-enterprises and enterprises in the informal sector rarely benefited. Loan forgiveness was rare and individual domestic borrowers seldom had interest frozen, meaning that although loan repayments might have been suspended and repayment dates postponed, interest on the capital sum continued to accumulate and be compounded, increasing the cost of repayments overall. Many households could not afford to reschedule the loans they held and went to extraordinary lengths to continue repayments, even at the height of the pandemic.

5.5.6 Furlough schemes

In Cambodia, workers who had lost jobs in the garment or tourism sectors (from formal enterprises only) were offered a monthly payment of US$40 from December 2020 to June 2021. This is one of the few examples internationally of an equivalent of the furlough schemes provided in HICs, such as the United Kingdom. It is both interesting and commendable that it was developed by a relatively poor lower-MIC such as Cambodia. Cambodia was able to deliver this programme as it had the fiscal space, created by years of fiscal conservatism, which ensured that there was a national budget surplus.

Bangladesh and Botswana also funded furlough schemes. In Bangladesh, the government sought to safeguard jobs by allocating US$600m to subsidise loans for exporting companies in the ready-made garment sector to pay the wages of 4 million workers for up to three months. In Botswana, the government provided 50 per cent of monthly wages (US$75.26–188 per month) for workers in private businesses across the economy for up to three months (only citizens were eligible, not migrants) (ILO 2021d).

5.6 Conclusions and recommendations

We need to learn several lessons from the experience of managing the tension between saving lives and protecting livelihoods.

Firstly, lockdowns and other restrictions were launched as public health measures during the pandemic, but rapidly became de facto economic policies. Given their impact, it is perhaps surprising that economic policymakers did not have a higher profile in meetings at which decisions were taken to impose the restrictions WHO and the public health community was recommending. What is clear from the evidence presented in this report is that the least impoverishing policy combination appears to have been short lockdowns and strong pro-poor recovery; for example, Bangladesh suffered fewer economic consequences than India, which had much more stringent and long-lasting lockdowns and restrictions.

Secondly, macroeconomic management is critical. Governments with strong fiscal and foreign exchange positions unencumbered by massive debts were in a much better position to mitigate the disastrous economic and social effects of the pandemic and the global policy response to it. Many governments' hands were tied, unable to borrow enough because their macroeconomic management had not been good enough leading up to the pandemic. They were limited in the mitigating measures they could offer citizens and businesses, and were also limited in the extent to which they could impose restrictions for long periods without huge penalties in terms of economic growth. These governments also tended to have shorter lockdowns (e.g. Malawi, Tanzania, Zambia); targeted the most vulnerable people with their limited resources; opted for food assistance programmes where these already existed and could be built on, such as food distribution or subsidised food prices; and encouraged local or community-based initiatives such as community kitchens, food banks and mutual aid networks, avoiding the need to create new programmes from scratch. They also sought financial support from international organisations, such as the International Monetary Fund, World Bank and international NGOs.

However, where macroeconomic positions were stronger a much more balanced policy response was possible. Cambodia is a case in point; now an LMIC but until recently an LIC, it was able to offer furloughs and additional social protection coverage, engage with financial service providers to delay repayments, and roll out a very active and speedy vaccination programme (national-level KII).

Thirdly, a global review of inclusive financial services is badly needed. Financial services organisations and their government regulators were reluctant to embark on structural renegotiation of household debts during the pandemic, with priority seemingly given to business debt. This mattered because coping strategies were so constrained across countries that poor households resorted to borrowing to survive during the crisis, driving indebtedness up sharply and unsustainably.

Creativity will be needed to rethink financial sector regulation and sources of consumption smoothing, so that the poorest people do not enter unsustainable debt during crises, and so that people in poverty are better able to borrow to invest in small business start-ups. Currently, many people in sub-Saharan Africa (e.g. in Malawi, Tanzania, Zambia) fear borrowing even small amounts due to predatory lending practices, including excessive interest rates and 'securing' the assets of clients who have fallen into arrears.

Fourthly, flexibility in the application of pandemic lockdown measures should include mobility passes for informal sector workers who need to work to meet basic needs, agricultural wage labourers and women at risk of SGBV.

Fifthly, pandemic preparedness needs to be multi-sectoral, ensuring macroeconomic stability; building the resilience of the poorest people; regulating mobile banking and financial services and investing in transport and health services. Greater awareness is needed of the irreversibility and intergenerational transmission of poverty generated by reduced consumption by people in poverty, so that future pandemic policies include greater attention to economic oriented mitigations.

Finally, a longer-term perspective on recovery is needed. International attention is needed now to mitigate the impact of post-pandemic austerity on public services, investment in human capital, women's equality and empowerment, and the assets and investments that enable the livelihoods of people in poverty. This need is urgent and also needs to be sustained.

Endnotes

Chapter 5

[1] **https://www.cgs-bd.com/cms/media/documents/ceb38082-af72-4071-85c7-91d277e55cd1.pdf**
[2] **https://openknowledge.worldbank.org/handle/10986/32755**
[3] These included four schemes from the Ministry of Rural Development, namely: MGNREGS, Pradhan Mantri Awaas Yojana-Gramin, Pradhan Mantri Gram Sadak Yojana and Shyama Prasad Mukherji Rurban Mission.
[4] For example, the cost of a key fertiliser, diammonium phosphate (DAP), rose more than 400 per cent at the height of the pandemic. Prices on international commodity markets rose from US$238.16/metric tonne in December 2019, to US$388.50/metric tonne in December 2020, and US$954/metric tonne in April 2021 (Baffes and Chian Koh 2022)
[5] As part of its work on the impact of the pandemic on informal workers, the WIEGO network also commissioned analyses of recent national labor force data in Brazil, Chile, El Salvador, Mexico and Peru (Chen and Vanek forthcoming); and undertook a separate analysis of South African data on employment losses and gains during Covid-19 (Rogan and Skinner forthcoming).
[6] Globally, according to figures from 2012, informal employment is a greater source of employment for men (63%) than for women (58.1%); but in India, a higher proportion (90%) of women were in informal employment than men (87.7%) (ILO 2018).
[7] National Time Use Survey (1998–99): **http://www.microdata.gov.in/nada43/index.php/catalog/140**
[8] See **https://www.chronicpovertynetwork.org/covid-19** for multi-country insights from CPAN's PMI.
[9] A World Bank study (Braga *et al*. 2011) found that emerging markets could expect a loss of annual real growth of 0.02 per cent for each percentage point over a 64 per cent debt-to-GDP ratio.
[10] The term was coined by economist Milton Friedman and refers to a central bank giving money directly to households, rather than routing it via banks or the government. People are likely to spend the money, stimulating economic activity and increasing aggregate demand. This approach has been discussed as a potential tool to address deep economic crises, but has been rarely implemented.
[11] The Central Board of Indirect Taxes and Customs.
[12] Providing assistance to eligible rural households (under the Pradhan Mantri Awaas Yojana-Gramin programme) to construct 29.5m 'pucca houses' (solidly built with bricks, tile or concrete floors and tile or tin roofing) with basic amenities.
[13] Boosting the construction of rural roads under the Pradhan Mantri Gram Sadak Yojana programme and building 25,943km of road in 2020–21.
[14] The Shyama Prasad Mukherji Rurban Mission invested in 300 peri-urban growth poles, boosting investment, increasing economic activities included in the programme and seeking to improve programme implementation.
[15] Deendayal Antyodaya Yojana–National Rural Livelihoods Mission (DAY-NRLM) aims to reduce poverty by organising the poor rural women into self-help groups and enabling them to access credit from the formal banking sector to invest in productive assets and micro-enterprises.

[16] Targeting errors were widespread during the pandemic. In India, urban migrants were excluded from beneficiary lists, which were based on ration card holders, because they had no official residence in the city in which they lived. Extremely poor people, without homes or permanent residence, were also excluded.

[17] **https://rural.nic.in/en/press-release/garib-kalyan-rojgar-abhiyan**

[18] **https://www.india.gov.in/spotlight/pradhan-mantri-rojgar-protsahan-yojana-pmrpy**

[19] **https://labour.gov.in/brief-note-abry**

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Getting to Zero

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