

# The Impact of COVID-19 on the Informal Sector in São Tomé e Príncipe



**December 2020**



- The negative impact of the COVID-19 pandemic on businesses increased poverty for about 50% of households in the informal sector - the decrease in customer inflows, and mandatory closures and shorter hours imposed by authorities being the measures that had the greatest impact on informal family businesses.
- Eighty-six percent of informal businesses surveyed reported that their sales were lower in March 2020 than in March 2019.
- Although the reduction in turnover, number of customers, and profits was felt significantly throughout the country, these effects were stronger in urban areas. This was also the case for reductions in wages paid to workers.
- The main reason behind the changes in the activities of informal businesses was the curfew (40.8%) followed by a reduction in customer demand (32.7%).
- Most informal businesses expect to resume activities in the post-COVID period. The main reasons for not resuming activities are the decrease in demand (34.1% %) and the lack of resources to finance the recovery (38.5 %).

## 1. Introduction

### 1.1. Background and Rationale for the Study

The National Institute of Statistics (INE), in cooperation with the United Nations System and the World Bank, launched a study on the consequences of the Corona virus (COVID-19) pandemic for informal firms in São Tomé e Príncipe (STP).

Following the first reported COVID-19 cases, the country adopted a number of measures to stop the spread of the pandemic.

A curfew was imposed as was the closure of airspace and of all schools and restaurants. These measures had an impact on economic activity in general and on the informal sector in particular.

The informal sector plays an important role in STP's economy and as a source of income for households. In light of the measures adopted to contain the COVID-19 pandemic and taking the importance of the informal sector for the STP economy into account, it became imperative to have statistical data to measure their impact on informal activities. The general objective of this study is therefore assess the impact of the COVID-19 health crisis on the activities of the informal sector in São Tomé e Príncipe.

## 1.2. The Survey

The survey was intended to better understand the scope and scale of the crisis. Policymakers need data on the impacts of COVID-19 on health and the economy.

COVID-19 has made it difficult to collect data. While before the pandemic, face-to-face surveys were the preferred method of collecting relevant policy data, during the current pandemic, face-to-face surveys are to a large extent no longer feasible. Yet the collection of timely and relevant policy data is now more important than ever.

This statistical operation was carried out to quickly tackle the effects of the health crisis. A system was used for this purpose in a computer-assisted telephone interviewing (CATI) format that met the following requirements:

- ✓ Familiarity for interviewers
- ✓ Reduced training needs
- ✓ Low IT requirements
- ✓ Rapid installation and deployment
- ✓ Extensibility

A household survey was collected by means of telephone calls with the residents of primary family dwellings as described in Box 1. For participants in the household survey who reported having an informal business, a section consisting of questions regarding informal businesses was included in the interview. Informal production units (IPUs) comprise workers who meet the following conditions: (i) they are not registered with the Tax Authorities, i.e., they have no tax identification number (TIN); and (ii) the goods and services they supply are for the market (not for own-consumption).

This survey included all districts: Lembá, Lobata, Água Grande, Me Zochi, Cantagalo, Cauê, and the Príncipe Autonomous Region (RAP).

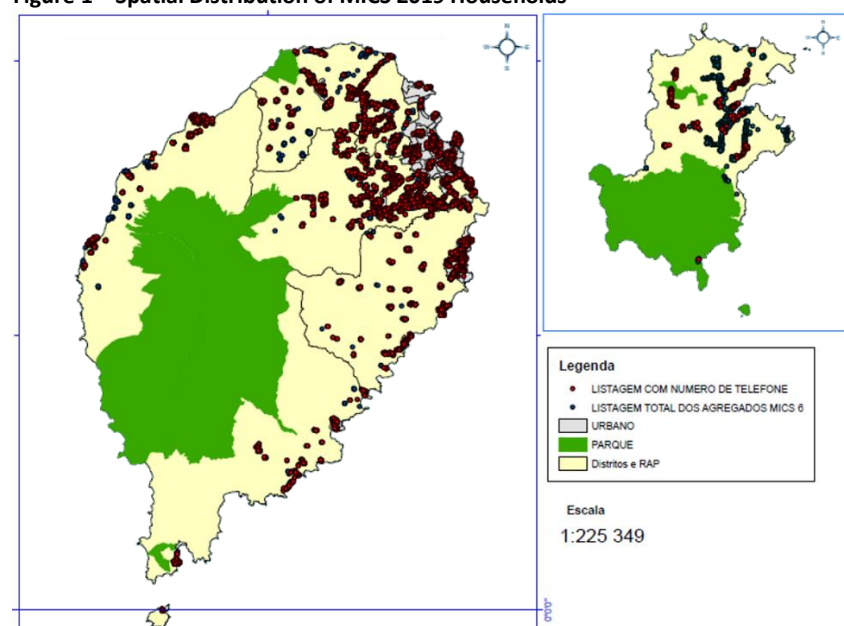
### Box 1: Survey Methodology

This CATI study monitored the economic and social impacts of the COVID-19 pandemic and responses to it by informal businesses. The final dataset includes a panel of some 301 businesses representative of urban and rural areas for respondents with access to a working telephone.

The survey sample consisted of a sub-sample of the Multiple Indicator Cluster Survey (MICS), which was administered in 2019 by the National Statistical Institute (INS) in cooperation with UNICEF. The Household Monitoring Survey (HMS) included households with access to a telephone, covering both urban and rural areas in all regions of São Tomé e Príncipe (STP). The survey contacted all households with a valid telephone number listed in MICS, totaling 1,025 interviews (413 in rural areas and 612 in urban areas). Of these, 301 respondents owned informal businesses.

To mitigate bias in a sample covering only households with a working telephone, an adjustment procedure was made to the sampling weights using the Propensity Score Weighting (PSW) methodology. Following the procedure, the results of this survey came closer to the national representativeness of other face-to-face surveys, such as 2019 MICS.

**Figure 1 – Spatial Distribution of MICS 2019 Households**



General information regarding the first round of the survey:

- Period: July 26 to August 8
- Completed interviews: 295 households (136 rural, 156 urban)
- Average duration of interviews: 25 minutes

## 2. COVID–19 Survey Results

**Table 1.1 – Impact on the business (%)**

		Increase in sales or services	Increase in labor	Increase in customers	Emergence of new opportunities	Risk of bankruptcy	Became an employee	Household income decreased considerably	Household poverty increased abruptly
<b>TOTAL</b>		4.4	0.9	2.5	3.7	46.1	35.9	47.1	49.4
<b>AREA OF RESIDENCE</b>	Urban	2.0	1.0	1.2	0.5	54.7	40.5	54.7	50.4
	Rural	7.8	0.8	4.3	8.1	33.8	29.2	36.4	48.0

As can be seen in Table 1.1, the pandemic had a more severe negative impact on informal businesses in urban households than those in rural households. The risk of bankruptcy was considerably higher for urban firms, reaching 54.7%, even if it was still considerable in the rural environment, where it reached 33.8%. Household incomes decreased substantially for more than half of urban respondents (54.7%) and for more than one third of rural respondents (36.4%). In the informal sector, half the households reported that the impact of the pandemic on their business led to a sudden increase in household poverty (49.4%) – with very similar rates in urban and rural households. Results suggest no significant differences between male and female owned informal firms with both showing similar bankruptcy risk and impacts in household income and poverty.

Not all firms were negatively impacted - a minority of firms reported an increase in sales: 7.8% for rural businesses compared to 2.0% for urban businesses. Table 1.1 also shows that more new opportunities arose in the rural than the urban environment (8.1% compared to 0.5%). Moreover, about 36% of those who lost their business found a new job, particularly in the urban environment (40.5%).

<b>Table 1.2 – Nature of impact on the business (%)</b>									
	What was the nature of the impact of COVID-19 on your business								
	Mandatory closure by public authorities		Difficulty in contacting suppliers	Decrease in customer inflows	New opening hours imposed by the curfew	Shortage of labor	Excessively high cost of inputs, raw materials, or goods	Other (Please specify)	Total
<b>AREA OF RESIDENCE</b>	Urban	29.0	0.8	42.0	10.5	0.0	4.5	13.2	100.0
	Rural	17.9	3.0	53.5	8.3	1.3	3.5	12.6	100.0
	Total	24.5	1.7	46.7	9.6	0.5	4.1	12.9	100.0

Table 1.2 shows the types of impact on informal businesses. The single most important factor was a reduction in customers – reported by 42% of businesses. Mandatory closure and the new opening hours imposed by the curfew were reported by 29%, and 10% of respondents, respectively. The impact of mandatory closure of activities was more significant in the urban environment, with a difference of approximately 11 percentage points relative to rural areas. The decrease in customer inflow was sharper in rural settings, also with a difference of approximately 11 percentage points.

<i>Table 2.1 – Sales: March 2019 – March 2020 (%)</i>				
		<i>Compared with March 2019, how did your sales evolve by March 2020?</i>		
		Decreased	Increased	Unchanged
<b>TOTAL</b>		86.2	5.8	7.9
<b>AREA OF RESIDENCE</b>	Urban	91.3	3.4	5.3
	Rural	79.4	9.1	11.4

As regards sales, 86.2% of informal businesses surveyed reported that their sales decreased between March 2019 and March 2020. This percentage was greater in urban (91.3%) than in rural settings (79.4%). Meanwhile, 9.1% of rural businesses reported an increase in sales versus 3.4% of urban businesses.

<i>Table 2.2 – Change in volume: March 2019 – March 2020 (%)</i>				
		<i>Compared with February 2020, how did your business volume evolve by May 2020?</i>		
		Decreased	Increased	Unchanged
<b>TOTAL</b>		81,8	5,1	13,1
<b>AREA OF RESIDENCE</b>	Urban	86,8	2,3	11,0
	Rural	75,1	9,0	15,8

When asked to compare their business volume over the period before and after the pandemic outbreak, 81.8% of informal businesses reported a decline. However, the negative impact of the pandemic was lower on rural businesses compared to those located in urban areas (75.1% and 86.8%, respectively), while for 9% of those, this period was marked by an increase in volume.

<i>Table 2.3 Change in Profit (%)</i>				
		<i>Compared with February 2020, how did your profit evolve by May 2020?</i>		
		Decreased	Increased	Unchanged
<b>TOTAL</b>		84.4	3.8	11.9
<b>AREA OF RESIDENCE</b>	Urban	88.8	1.2	9.9
	Rural	78.4	7.2	14.5

With regard to profits, when comparing May 2020 and February of that year, 84.4% of informal businesses recorded decreased profits. However, the impact of the pandemic on profits was lower for rural businesses, with 7.2% reporting an increase in profit over this period, as shown in Table 2.3.

<b>Table 2.4 Change in Customer Demand (%)</b>				
		Compared with February 2020, how did customer demand evolve by June 2020?		
		Decreased	Increased	Unchanged
<b>TOTAL</b>		83.5	5.9	10.7
<b>LIAREA OF RESIDENCE</b>	Urban	87.3	2.7	10.0
	Rural	78.3	10.0	11.6

Table 2.4 shows that 83.5% of informal businesses recorded a decline in the number of customers over the period from February to June 2020. Similar to the above-mentioned scenarios, the decrease in customers was more striking in the urban environment (87.3%) compared to the rural environment, where it stood at 78.3%.

<b>Table 2.5 Change in product cost (%)</b>				
		Compared with February 2020, how did the costs of your products (raw materials you purchase in the local market for your activity) evolve by June 2020?		
		Decreased	Increased	Unchanged
<b>TOTAL</b>		52.5	15.5	32.0
<b>AREA OF RESIDENCE</b>	Urban	51.6	18.3	30.1
	Rural	53.8	11.8	34.5

Table 2.5 shows that just over half of firms in both urban and rural settings reported that product costs decreased. On the other hand, 18.3 percent of urban firms reported an increase in product costs, compared to 11.3% of rural firms.

<b>Table 2.6 Change in salaries/earnings paid to workers (%)</b>				
		Compared with February 2020, how did the status of salaries/earnings paid to workers evolve by June 2020?		
		Decreased	Increased	Unchanged
<b>TOTAL</b>		64.7	0.6	34.8
<b>AREA OF RESIDENCE</b>	Urban	66.3	0.5	33.2
	Rural	62.4	0.7	36.8

When comparing wages paid to workers in February and June 2020, Table 2.6 shows that 66.3% of urban businesses reported a decrease in wages paid while 33.2% reported no change. Only 0.5% considered that there was an increase in workers' wages.

The same situation was found in rural settings, albeit with less sharp declines. There was a decrease in wages paid in about 62.4% of businesses while wages remained constant in 36.8%. This difference may be due to incentives handed out by the Government under the *Bámu ximía pá non bê kwá kumé* program, which sought to encourage agricultural work during lockdown so as to maintain agricultural production.

Table 3.1 Reasons for changes in activities due to the impact of COVID-19 (%)																
AREA OF RESIDENCE		As a result of curfew	Shortage of labor	Difficulty in obtaining inputs or goods	Low customer demand	Excessively high cost of inputs or raw materials	Lockdown leading to no supplies	No more customers to sell products, goods, or services	Decrease in customer demand and decline in sales	Closure of schools	No more suppliers	Closure of borders	Decision to close down accommodation facilities and restaurant services	Not enough customers	Start of new favorable activity in the context of COVID-19 (If so, please give details)	Other (Please specify)
	Total	40.8	5.8	9.4	32.7	4.7	1.7	8.6	13.5	5.2	3.9	3.5	6.2	9.7	1.5	4.6
	Urban	52.4	8.2	10.8	35.1	6.7	2.6	10.5	15.9	5.5	0.8	3.6	9.9	12.8	1.0	3.2
	Rural	24.3	2.4	7.5	29.3	2.0	0.4	6.0	10.2	4.7	8.2	3.2	1.0	5.5	2.2	6.8

The reasons behind the changes in the activities of informal businesses due to government impositions to mitigate the impact of COVID-19 are described in Table 3.1. The mandatory curfew was mentioned by 40.8% of respondents. This variable represented the most important effect among all reasons. Next, low customer demand was the second most relevant reason behind the change in activity, being reported by 32.7% of businesses.



The reasons that had the least impact in the change in activity of the informal sector were the start of a new favorable activity in the context of COVID-19 and the lockdown leading to no supplies, contributing less than 2% to the aggregate.

The results are similar for rural and urban areas in terms of contributions to the decision to change the activity. In general, predominant economic activities vary according to the living environment: in urban settings, the dominant activities are the provision of services and trade, while in rural settings, it is agriculture. This is important when interpreting the results shown here.

The option 'No more suppliers' is the only one where the direction of the effects is reversed by area of residence, with rural firms reporting this option more often. This is because there are cases where only one business supplies a specific product to the sector, usually chemicals or foodstuffs. In general, the STP economy is more active in the urban environment, and the activities in this setting show greater variation when there are shocks to economic activity as seen in the current crisis.

<i>Table 3.2 Reasons for not resuming activities post-COVID</i>					
		If not, why?			
		Lack of liquidity (no more resources)	Loss of customers	Loss of motivation	Loss of premises, space
<b>AREA OF RESIDENCE</b>	Urban	36.9	40.2	10.8	12.2
	Rural	26.5	33.9	14.3	25.3
	Total	34.1	38.5	11.7	15.7

The main reasons for not resuming the activity were the decrease in demand and the lack of resources to finance the recovery. However, the difference between not resuming activities as a result of lack of liquidity (resources) and loss of customers is not very large, being reported by 34.1% and 38.5% of respondents, respectively.

Other relevant aspects are loss of motivation (11.7%) and loss of premises (15.7%), with the latter being more predominant in rural settings. Since most rural businesses are informal and based on agricultural production on land donated by the government, the loss of premises likely means loss of such land tenure.

In all cases, most informal businesses expect to resume activities in the post-COVID period. It should also be noted that the loss of motivation in urban settings is lower as the expectation of income in urban centers outweighs that in rural areas.

<b>Table 4.1 Workers demonstrating that they lost their job due to the pandemic and were recipients of government monetary support for over three months (%)</b>									
		Level of satisfaction				Impact on the activity			
		Very satisfied	Satisfied	Dissatisfied	Very dissatisfied	Very positive	Positive	Negative	Very negative
<b>AREA OF RESIDENCE</b>	Urban	19.6	62.2	14.8	3.5	2.7	41.2	47.5	8.6
	Rural	18.6	62.8	16.7	1.9	10.8	62.5	19.0	7.7

Following the early cases of COVID-19 in São Tomé and Príncipe and the measures taken by the Government to limit the spread of the disease, the nature of the difficulties with a direct impact on businesses is seen mainly in a decline in employment. This is a concern because this sector is the main source of income and occupation for many people.

The measures taken by the Government to mitigate the effects of the pandemic (Table 4.1) had significantly different impacts in terms of satisfaction. More than 81.6% of all respondents were satisfied or very satisfied with the measures adopted and the remaining 18.6% were dissatisfied or very dissatisfied. However, there was no statistically significant difference between urban and rural areas in terms of satisfied or very satisfied individuals, this difference being no greater than 1%.

In contrast, in terms of impact on activities, 56% of respondents who lost their jobs due to the pandemic considered that the measures had a very positive or positive impact, while the other 44% considered the impact to have been negative or very negative. We assume that this difference is due to the fact that informal workers cannot easily demonstrate the loss of their job and also to the fact that the support process is slow.

The measures were more widely accepted in rural areas, where 73.3% considered that the measures taken to mitigate the impact of the pandemic on their activities were positive or very positive, while in urban areas, this proportion was 43.9%.

<b>Table 4.2 Promotion of agricultural production through “Bámu ximía pá non bê kwá kumé” (%)</b>											
		Level of satisfaction					Impact on the activity				
		Total	Very satisfied	Satisfied	Dissatisfied	Very dissatisfied	Total	Very positive	Positive	Negative	Very negative
<b>AREA OF RESIDENCE</b>	Total	100	33.1	59.4	6.5	1.1	100	13.8	63.1	17.1	6
	Urban	100	33.8	56.5	8.2	1.4	100	13.4	55.2	23.5	7.9
	Rural	100	32.1	63.4	4	0.5	100	14.4	74.5	7.9	3.2

Table 4.2 shows the results in terms of satisfaction with a Government program designed to encourage increased production and consumption of STP produce. Increased production can improve the supply of agricultural products and reduce prices. Informal workers considered themselves very satisfied or satisfied with this program, or 90.3% and 95.5% in urban and rural areas, respectively, while in terms of impact on their activities, the program was seen as satisfactory or very satisfactory by 68.6% of respondents living in urban areas and 88.9% in rural areas. Since this is an economic policy specific to the agricultural sector, it is expected that the effects will be more intensely felt in that sector. Consequently, greater optimism or acceptance is expected from informal residents in rural areas and greater pessimism from those residing in urban areas.

<b>Table 5.1 Opportunity to maintain the activity to limit the risk of closure (%)</b>						
		Percentage of units having an opportunity to maintain their activity to limit the risk of closure	By what means			
			Repurposing/reconversion/new dynamics	Readaptation/diversification	Leveraging the opportunities of new jobs in the context of COVID-19	Improved collaborative relationships with formal businesses
<b>TOTAL</b>		68.6	14.1	20.8	29.9	31.0
<b>AREA OF RESIDENCE</b>	Urban	73.1	13.0	19.1	31.0	32.4
	Rural	62.3	15.7	23.2	28.3	28.9

Table 5.1 looks at strategies that can limit the risks of closure, with 68.6% of the surveyed units considering that they had opportunities to maintain their activity. The main mechanism highlighted by respondents to limit closure was related to improved relationships with formal businesses (31%). When the indicator is broken down by area of residence, the trend to collaborate with formal businesses was more marked in urban settings.

Similarly and more specifically in the urban environment, taking advantage of opportunities for new jobs in the context of COVID-19 was mentioned by 29.9% of respondents. Meanwhile, the Repurposing and Readaptation strategies to limit the closure of activities were chosen by 14.1% and 20.8% of respondents, respectively, with the two latter options predominant in rural areas.

<b>Table 5.2 Opportunities arising from the pandemic outbreak (%)</b>

		Hygiene, sanitation of public spaces	Cleaning, maintenance and sanitation in markets	Context-specific specialist transportation	Home delivered/take out catering services	Community-based awareness-raising and training	Digital services businesses	Domestic tourism	Traditional medicine	Other
<b>TOTAL</b>		51.7	47.5	28.3	36.7	51	67.9	28	33.8	5.3
<b>LIVING ENVIRONMENT</b>	Urban	54.7	49.3	22	32.1	48.7	67.8	23	28.8	5.6
	Rural	47.4	44.9	37.2	43.2	54.2	68.1	35.2	40.8	4.9

During the pandemic, a unique and quite different crisis from the usual economic crises, new business opportunities arose. The business opportunities resulting from the pandemic outbreak shown in Table 5.2 show different results in relation to the other questions in the survey, including possible opportunities specific or related to the health crisis. More than half of respondents saw opportunities for business in areas such as hygiene and sanitation in public spaces, community-based awareness-raising and training, and digital services, or 51.7%, 51%, and 67.9%, respectively. These opportunities have on average a greater impact in the urban environment. On the other hand, new opportunities related to domestic tourism and transportation were those reported least frequently, by 28% and 28.3%, respectively.

## Conclusion

The negative impact of the COVID-19 pandemic on businesses increased poverty for about 50% of households in the informal sector, with the decrease in customer inflows, mandatory closures, and new opening hours imposed by the public authorities being the measures that had the greatest impact on informal family businesses.

Although the reduction in turnover, number of customers, and profits was felt significantly throughout the country, all these effects were stronger in urban areas. This was also the case for reductions in wages paid to workers.

The main reason behind the changes in the activities of informal businesses due to government impositions to mitigate the impact of COVID-19 was the curfew, which was mentioned by 40.8% of respondents, with low customer demand representing the second most important reason behind changes in activities, being reported by 32.7% of businesses.

Most informal businesses expect to resume activities in the post-COVID period, with the loss of motivation in the urban environment being lower. The strongest reasons for not resuming activities are the reduction in demand and the lack of resources to finance the recovery.

## Appendix

Table A1												
Field of study <sup>a</sup>	Stratum	Stratum code	Number in Census District in 2012	Number in census district household in 2012	Number in household in 2012	Percentage of households within field of study	Percentage of number in field of study per total number in household	Number in census district to be extracted by stratum and field of study	Adjusted number in Census District	Adjusted households to be interviewed by stratum and field of study	Percentage of number of informal businesses by total stratum and field of study	Number of informal businesses to be extracted adjusted to total stratum and field of study
Água Grande	Água Grande	1	151	1.00	17,494	1.00	0.39	8.00	8	200	1.00	43
Mê-Zóchi	Urban	2	33	0.42	3,725	0.35	0.08	3.38	3	75	0.38	16
	Rural	3	45	0.58	7,062	0.65	0.16	4.62	5	125	0.63	27
<b>Subtotal</b>			78	1.00	10,787	1.00	0.24	8.00	8	200	1.00	43
Cantagalo	Urban	4	20	0.69	2,486	0.57	0.06	5.52	6	150	0.75	32
	Rural	5	9	0.31	1,872	0.43	0.04	2.48	2	50	0.25	11
<b>Subtotal</b>			29	1.00	4,358	1.00	0.10	8.00	8	200	1.00	43
Caué	Urban	6	9	0.64	827	0.57	0.02	5.14	5	125	0.63	27
	Rural	7	5	0.36	614	0.43	0.01	2.86	3	75	0.38	16
<b>Subtotal</b>			14	1.00	1,441	1.00	0.03	8.00	8	200	1.00	43
Lembá	Urban	8	17	0.77	2,299	0.66	0.05	6.18	6	150	0.75	32
	Rural	9	5	0.23	1,205	0.34	0.03	1.82	2	50	0.25	11
<b>Subtotal</b>			22	1.00	3,504	1.00	0.08	8.00	8	200	1.00	43
Lobata	Urban	10	14	0.47	1,866	0.38	0.04	3.73	4	100	0.50	22
	Rural	11	16	0.53	3,080	0.62	0.07	4.27	4	100	0.50	22
<b>Subtotal</b>			30	1.00	4,946	1.00	0.11	8.00	8	200	1.00	43
RAP	Urban	12	5	0.45	695	0.35	0.02	3.64	4	100	0.50	22
	Rural	13	6	0.55	1,304	0.65	0.03	4.36	4	100	0.50	22
<b>Subtotal</b>			11	1.00	1,999	1.00	0.04	8.00	8	200	1.00	43
<b>Total</b>			335	1.00	44,529	1.00	1.00	56	56	1400	1.00	301
Urban			249	0.74	29,392	0.66		42	42	1041		194
Rural			86	0.26	15,137	0.34		14	14	359		108