

How significant is the *informal sector* economy, especially in poorer countries? What kind of legal and policy framework is most likely to be effective in managing the development of this sector? Give examples. Is *management* actually needed in this sector and, if so, by whom and by what means?

The International Labour Organisation states that 2 billion people (roughly 60% of the world's workforce) work within the informal economy at least part time. The sector, which was once widely regarded as an economic space for illegal activity and tax evasion is now being assessed more critically and equitably, revealing its place in the global economy. The informal economy comprises an extremely varied range of services and goods, which inexplicably allows for the survival of a huge percentage of the global workforce, particularly in low and middle income countries. While the sector provides income for billions of especially vulnerable people, its unregulated nature proves to foster many detrimental effects on economic and social development. Such a complex economy calls for policies that understand its intricacies, through acknowledging its importance and mitigating its associated issues. The crucial role played by the informal sector in enabling the survival of millions of people, especially in developing countries, must be protected and developed through government management and policies that will enable a transition to a formal economy that inevitably protects workers.

In an article shared on the site 'Africa Is a Country' Nigerian photographer Bukola Afolayan wrote, "Old Oshodi highlighted the complexity of the city, showcasing the ingenuity of the people of Lagos in their use of the informal market in making a living"(Afolayan, 2012). Located in Lagos, Nigeria Oshodi Market served as a hub for the informal economy. It was the second largest market in the country, and hosted hundreds of people, both sellers and buyers each day. The market provided a source of income for most people living in the crowded area of Oshodi, whose population grew increasingly due to an urban boom in the 1990's. As a result of this urbanisation, in 2008, the market which supported the livelihood of hundreds, was demolished by the Babatunde Fashola government. The demolition followed an urban redevelopment initiative created by the government which "transformed" the area from a market to a "transport hub" (Nwannekanma and Gbonegun, 2017). One primary motivation for the demolition, as stated by the government officials, was due to safety concerns as petty crimes and violence were frequent within the crowded market. Yet as one shop owner stated in an interview after the demolition, "Do you know how many people they have rendered homeless? Do you know how many people will become armed robbers as a result of this situation? Many!" (Eremionkhale, 2016). The case of the Oshodi Market illustrates aptly, the necessity of the informal economy for the livelihoods of large populations in developing countries. This illustration provides a close understanding of the effects of poor policies and management of such a crucial sector and how it impacts especially vulnerable individuals.

The case of the Oshodi Market also reveals the bigger picture on the issues surrounding the informal economy. Urbanisation was a key factor contributing to the emergence of such a large informal sector within the area, as people migrate from rural areas to find work. A common feature of the informal economy is the existence of surplus (often low-skilled) labour within a country, emanating from increasing industrialisation. As modernisation theory has become centrefold of the world economic model, the informal economy exists as a glaring stump in its pathway. As the movement from ‘traditional’ economies as described by American Economist Walt Rostow to ‘mature’ economies of mass consumption has been attempted globally (Rostow, 1959), it is argued that the informal economy is a symptom of this trajectory. The modern neo-liberal market has widely been assessed as a “one size fits all” system that in reality only suits a specific few. As the informal economy is most prevalent in the Global South, the Westernised nature of the approach is conspicuous.

“Global trade and investment patterns have dramatically affected employment relations and work arrangements. While economic globalisation can generate new opportunities for workers in the informal economy, in many instances, it produces a rise in informality”(OECD, 2019b)

As a symptom of the modernised global economy, most low-income and developing countries suffer greatly from the existence of the informal economy. The importance of the sector as previously discussed, does not negate the many issues that emerge from its existence. The United Nations Sustainable Development Goal (SDG) of ‘Decent Work and Economic Growth’ can be associated with the sector. According to the International Monetary Fund (IMF), “85% of all informal workers are in precarious employment.” (IMF, 2021) Precarious employment refers to employment in which various aspects including compensation, working hours and security are poor and inferior to formalised standards (International Labour Organisation, 2010). As a result, while people are finding employment in the informal sector they are often subject to serious inequalities of wealth, as well as a lack of social protection. The COVID-19 pandemic clearly illustrated in real life just how detrimental ‘precarious work’ is and how it impacted millions within the informal economy. Approximately 1.6 billion informal workers were greatly affected by the COVID- 19 pandemic and 60% of informal workers’ earnings significantly decreased (Swarna et al., 2022). The effects of the pandemic were shared globally, however it was greatly magnified on those who operated within the informal sector as they depended on consumption based activity and were not protected by any contractual or formal frameworks.

Traditional policy approaches towards the informal sector typically seek to address business regulations as a means of managing the sector, while the social aspect of the issue is overlooked. As illustrated in a briefing paper by Chatham House, this approach is fundamentally flawed and is ineffective in securing social protection for informal workers. The paper highlights a common

misconception of the informal economy that it consists mainly of entrepreneurs and as such, business regulations are best suited to allow for the formalisation and protection of these enterprises (Sabatini, 2021). Yet statistics have shown that the informal sector actually consists primarily of single 'own-account workers' without employees.

“In emerging and developing countries, direct measures of informal employment show that 78.1% of all economic units are own-account workers in the informal sector. This is even higher in African countries at 87.3%. By contrast, only 4.4% are informal sector employers.” (Van den Boogaard, 2021)

This acknowledgement of the sector allows for more appropriate and effective policies to manage it, with a focus on labour reform rather than business regulations. As such, legislation and policies that require and monitor the formal hiring of employees as well as social security nets provided by the government, are more effective approaches (Sabatini, 2021). For instance, within the last decade, China has reformed their pension program, with the inclusion of informal workers into the system. The program is multifaceted and allows for informal and agricultural workers to voluntarily contribute to a small defined sum which will be subsidised by the local government, allowing these informal workers to gain a pension when they've reached the retirement age (Zuo, 2014).

While the most obvious of applicable SDGs is 'Decent Work and Economic Growth', SDG number 5 'Gender Equality' also applies to the informal economy very significantly. According to the IMF, 58% of all employed women globally work in the informal economy (IMF, 2021). While statistically more men are engaged in the informal sector than women, more women are employed in the informal sector in low and middle income countries than men, particularly in SubSaharan Africa, Latin America and Southern Asia (OECD, 2019). As the sector comprises mostly vulnerable, uneducated and impoverished individuals, this statistic highlights the enormous level of gender inequality that still exists within society. While the informal sector allows for women to engage in economic activity and gain some form of income, they are also subjected to the lowest wages even within the informal sector (OECD, 2019). Tackling the issues of the informal sector would not only provide economic benefit but would contribute greatly to the cause of gender equality by providing more opportunities for women to work in safe and equitable environments.

The issue of economic growth is even more highly contested in relation to the informal economy on a national level. A major criticism of the informal economy exists in the deficit of taxes incurred by the sector. While income taxes and other business taxes may not be paid by the informal economy, the creation of income among a large population and the support of economic activity, allows for the informal economy to contribute significantly to other indirect forms of taxation, especially Value Added Tax (VAT). In fact, many developing countries have taken this

into account in their fiscal planning. In a recent study from the University College London it is shown that the existence of an informal economy in developing countries increases the imposition of indirect taxes by (mostly leftist) governments (Castaneda and Doyle, 2019). While the loss of taxes is often the most discussed subject of the informal economy, fiscal policies may also play a crucial role in managing the sector. Progressive taxation policies, as adopted by most developed countries globally, acts as a means to redistribute wealth and reduce the burden of taxes on the low-income populations that often make up the informal sector.

As its economic activity is highly unregulated and unregistered, it is difficult to accurately assess the contribution of the informal economy to the GDP of countries. Nevertheless, the IMF approximates that around 35% of the GDP in developing countries is represented by the informal economy (IMF, 2021). In addition to the monetary value the sector provides, it also serves as a crucial training opportunity for many individuals who are unable to access other forms of vocational training, education and work experience (OECD, 2019b). In this regard the sector acts as a means of development, though strained in nature, that can prove to be essential to developing economies, if supported and managed effectively.

This effective management of the informal economy can only be achieved through contemplative policies and legislation that are uniquely tailored to the sector and the region that it exists within. A major proponent of the informal economy exists in poor access to finance markets. In a cyclical nature, the low-income self-funded informal workers are unable to access loans and other financial instruments to grow their businesses, which prevents their economic development. A key measure to support informal workers and provide a gradual pathway to formalisation, is through providing access to finance markets for these individuals.

In St. Vincent and the Grenadines, agriculture contributes roughly 7% of the country's GDP and consists of approximately 26% of the labour force (Blanco, Kamuragiye and Brodber, 2020). A significant percent of these agricultural farmers operate within the informal sector, and sell their produce locally as market vendors. In acknowledging the importance of this informal economic activity, the Government of St. Vincent and the Grenadines embarked on structural reform of the sector, implementing policies that enable some means of formalisation (Caribbean Agricultural Research and Development Institute, 2019). In 2013, the government founded the Farmers' Support Company (FCS) which works to provide farmers and fisherfolk with credit facilities. As identified previously, a major barrier that the informal sector faces is access to credit and finance markets, which prevent their development and ability to formalise. This initiative played a major role in giving access to a large percent of the working population to credit facilities which were not previously accessible, which enabled the ability to expand businesses and engage in formal activities (SVG Farmers' Support Company, 2016). The government also introduced Farmer Identification Cards which required all farmers to register with the government, this measure was

initially introduced with the aim of mitigating praedial larceny within the country (Searchlight Newspaper, 2008). However, the Farmers' ID initiative became increasingly useful within the agriculture sector, as it became a requirement for any aid given to farmers. Registration for the ID cards were easily accessible and uncomplicated and allowed for a gradual approach towards more formalised activity within the sector. Other measures to support these informal workers have also been implemented, in 2005 farmers were granted a 75% fee exemption of import duty and consumption tax on imported pickup trucks (SVG Customs and Excise Department, 2005). While the informal sector in SVG still requires much more management and support, these measures greatly benefited the low-income farming population, and are likely to have significant long-term economic benefits within the island.

As global inequalities remain on the forefront of the world's development agenda, a more meticulous examination of the informal sector, which consists of nearly one quarter of the world's population is needed. The first step of this newfound inquiry into the sector, is the retirement of ineffective 'one size fits all' policies and assumptions. Instead the acknowledgement of the unique and specific factors contributing to the sector in each country must be prioritised. As the political economy evolves, policies and legislation must evolve as well, taking account for the inequalities produced by the globalised open market. Outdated theories of 'modernisation', while still being clung to by its beneficiaries, are being increasingly acknowledged as insufficient in understanding current global development. In this socio-political evolution, a focus should be made on the creation of equalities of wealth, class and gender which are all inexplicably tied to the informal sector.

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