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## **INFORMAL ECONOMY CONTROVERSIES**

Presented by Simon White on Wednesday, 14 April 2010

### ***HOW WE UNDERSTAND INFORMALITY***

- 1 Informality may not be a totally bad thing, but whose interest does it serve?**
  - Many people benefit from informality
  - We all prefer to buy certain types of goods and services from the informal economy – usually because of price and convenience
  - Governments don't always want to encourage formalisation because this will create more pressures on them to deliver
  - Informality doesn't exist simply because it meets the preferences of poor people
  - How can we make the positive functions of the informal economy more effective, while helping those in the informal economy be less vulnerable and operate more safely?
- 2 Informality is often used as a shorthand way of saying “unregistered”, but this is an inadequate characterisation.**
  - How important is registration and licensing when compared with other dimensions of informality, such as the quality of labour, access to markets, etc.
- 3 Why are there often more women in the informal economy than men?**
  - Is the answer to this question as simple as it first appears?
- 4 Why does informality look different in different part of the world?**
  - Informality has different drivers and origins
  - It is a diverse field with many sub-themes and typologies
  - Does it help to classify business along the informal-formal continuum?
  - Are we looking for a silver bullet?
  - Does this have an affect on the kinds of business environment reforms that are required to promote formality?
- 5 How does rural informality differ from urban informality?**

**6 What do donor agencies really know about informality in developing countries?**

- Is this an area where donor and development agencies have a unique advantage?
- Are there success stories or lessons learned? There seems to be little that can be transferred from the developed to the developing world in this regard.
- It seems that donor intervention has done very little to address this issue

***HOW WE RESPOND TO INFORMALITY***

**7 What is the primary objective of formalisation?**

- Economic growth?
- Addressing exclusion?
- Do these objectives change the focus of reform and the instruments that are used?

**8 Making it easier to register is only part of the equation**

- Why are informal firms disinterested in registering?
- What are the benefits of formalisation?
- Is this really about using the right carrots and sticks, or is it more complex than that?

**9 If informality is a continuum, why do we keep talking like it is static and homogeneous? How do we move businesspeople along this continuum?**

- Are there first-order, priority reforms followed by second-order reforms?

**10 How do the concerns of informal enterprise feature in business environment reform programmes?**

- Should attention be given to these concerns or does this limit the impact of reform?
- Old debate: pro-poor reform reduce the impact of reforms on growth

**11 What linkages exist between formal and informal firms?**

- These are often exploitative, but can they be made to aid formalisation?
- Commercial linkages between formal and informal firms can lead to formalisation, but in many cases they do not. In many cases these relationships remain exploitative.

**12 Taxation — how can taxation be used to encourage formality? Is it always a disincentive to formalisation?**

- Many developing country governments simply see enterprises and formalisation as a source of potential revenue

- How do we deal with predatory states?
- What is kinds of relationships between the state and the enterprises do we want to see? Do our programme partners also want this?

**13 Motivations for formalisation — what are they?**

- What are government's motivations?
- Business motivations?
- Community motivations?
- Consumer motivations?

**14 Formalising the informal, organising the unorganised, giving voice to the voiceless, or power to the powerless**

- Are these contradictions?
- Who really are the change agents in this dynamic?

**15 Business environment reform is described as a systemic response to business issues -- how do we understand and respond to the systems that sustain informality?**

- Policy and legal reforms seems trivial and inadequate in the face of these forces

**16 Is a rights-based approach to reform relevant?**

- Some agencies argue strongly against a rights-based approach and in favour of an economy-wide approach.
- Both approaches create very different priorities and starting points for reform.
- How can rights be enforced?

**17 How important is informality? Is it just a symptom of poverty? If so, then it is better to focus on the cause and not the symptom.**

- Land reform and redistribution
- Education and literacy
- Housing and public services
- Jobs

**18 What are our gaps in knowledge and how do we fill them?**

- This topic has been researched for more than 20 years and still we are painfully aware of our knowledge gaps
- What are these gaps?
- Why do they exist?
- Are we asking the right questions?