

The rise of the informal sector in international developmental discourse

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Abstract

This article documents the rise to prominence of the informal economic sector in academic developmental discourse. After a brief survey of the South African context, the article contrasts the new way of viewing the informal sector with the old. It shows how this shift in attitudes, ranging from grudging respect to outright advocacy, has generated new conceptual tools with which to theorise economic informality. A keen appreciation of the imperatives entailed by the different perspectives of the main protagonists is vital to any reconciliation of the divergent policy prescriptions being advanced for the informal sector. Bureaucrats and human rights activists view informality through very different lenses. The World Bank's exit/exclusion philosophy recognises that economies at different stages of development will require customised approaches in coming to terms with economic informality. However, the common denominator of the theoretical views articulated in the article is a recognition that the informal sector cannot be dismissed out of hand, and that it has grown to the extent that it warrants serious attention and respect. Measures taken by the government to compensate for losses incurred due to informality could prove ultimately to be counter-productive. The informal economic sector has become a force to be reckoned with.

Keywords: informal sector, informal economy, informality, formalisation, entrepreneurship, World Bank

INTRODUCTION

It is only in recent years that the informal economic sector has been accorded anything approaching respect or acceptance. The standard response to the sector in the past was either to dismiss it or to denigrate it in line with its 'outlaw' status. This article tracks the gradual development of a sea change in attitude on the part of academia and the development community towards the sector. Governments and formal business remain, by and large, rather more ambivalent in their stance towards informal economic activity. This is perhaps understandable given that their operations are, at face value, directly challenged by an informality which plays by a different set of rules.

The article commences with a brief contextual snapshot of the informal sector in South Africa, before mapping the elevation of the informal sector in the academic literature; to the point where it is regarded as a phenomenon worth taking seriously. The article then details the contrast between the old and the new ways of viewing the sector. Thereafter the discussion moves to uncover the major paradigms that have been applied to the sector. This is achieved by means of recourse to Chen's (2006) useful account of the dualist, structuralist and legalist schools of thought, which she feels have characterised the last four decades of informal sector scholarship. The elements of Chen's theoretical construct are supplemented by Jutting and de Laiglesia's (2009) identification of a 'parasitic' school of thought which is arguably subscribed to by most commercial stakeholders in the formal sector. This is followed by a discussion of the World Bank's influential 'exit/exclusion' philosophy.

The article closes with an exploration of some of the major themes implicit in the informality discourse. Although the protagonists in the informality debates (academia, donors, NGOs, governments, bureaucrats and formal businesses) are still deeply at odds with one another on how best to transpose approach the informal sector, it is concluded that their having problematised the sector implies that it is, at the very least, worthy of serious consideration and respect.

THE SOUTH AFRICAN CONTEXT

According to Urban, Venter and Shaw (2011:10080), "The informal economy provides an important but poorly understood means by which many South Africans earn a living." A burning question in the South African context is the actual size of the informal economy in the country. The employment services company, Adcorp, claims that "official employment statistics ... are failing to count as many as six million people working in informal businesses, illegally or in some other way below the official radar" (Paton 2011). This number includes the many illegal immigrants

working in the country. Statistics South Africa (StatsSA) puts the number in the informal sector at about two million. “The small size of SA’s informal sector, relative to those of other developing countries, has long perplexed researchers and policy makers. Do South Africans lack entrepreneurial skills... or are the official statistics just wrong?” asks the *Financial Mail* (Paton 2011).

Adcorp maintains that StatsSA’s Quarterly Labour Force Survey, which informs the official view, is “garbage” (Paton 2011). Adcorp says the unemployment rate would plummet from 25% to 8% if the informal sector were properly accounted for. StatsSA in turn says this is “absurd.” Adcorp’s methodology entails comparing gross domestic expenditure (GDE) with the number of bank notes and coins in circulation. “A second indicator... is the fact that since the mid-1990s, despite the arrival of the age of electronic fund transfers, cash in circulation has continued to rise rather than fall.” The economist Brian Kantor has come to the support of Adcorp and says that their methodology is the “internationally accepted” one and that StatsSA’s figures are “ridiculous” (Paton 2011). According to Kantor the official figure “of the informal sector is about 5–6% of GDP.” He argues that this is “a nonsense number. In Italy it’s 15% and in the US and Britain it’s far higher.” As *Financial Mail* points out: “The implications are serious for policy makers, investors and businesses. Businesses are unable to estimate the size and shape of the market. Furthermore, the dangers of social instability as a consequence of high unemployment are exaggerated” (Paton 2011).

Whatever the true figure might be, this dispute provides an important backdrop to bear in mind when researching the informal sector in South African. One question which arises is whether the official unemployment figure is being manipulated for political ends. The World Bank (2012: 265) endorse the official line. However, when it describes South Africa’s informal sector as “relatively small... compared to other countries at a similar development level.” Yet Pike, Sharp and Black (2010) surely have a point when they remark on South Africa’s seemingly limitless capacity to absorb millions of economically active, but illegal, immigrants.

South African scholarship appears to have paid relatively little attention to the meta-analytical aspects of informality and has applied itself much more closely to the practical questions of what can be done to develop the ‘second economy’. This is taken to consist largely of black-owned, informal microenterprises, although these do not exhaust the varieties of informality that occur in South Africa. An under-researched area is precisely that of how much informality pertains within the so-called *first* economy and how much ‘slippage’ there is from this sector to the realm of the informal. As an example, South Africa shed 422 000 individual taxpayers in the period between 2006 and 2009 at a time when the state was going to considerable lengths to broaden the ‘tax net’ (Gleason 2011). This is a net figure, but even when

making allowance for attrition by retirement, emigration and death (which would have been compensated for to some extent by new taxpayers) it is an extraordinary statistic. It represents roughly 10% of the current tax base (Joubert 2012) and one cannot help but wonder whether it reflects many individuals electing to function ‘below the radar’.

That said, there has been a considerable focus in South Africa on the small-scale informal retail sector and specifically the so-called ‘street traders’ (see for example Moller 2001; Skinner 2008; and Young, Schaffers and Bruwer 2012 as only three among many). There are numerous types of informal traders in South Africa, ranging from home-based spaza shops (small retail grocery outlets) and ‘spazatainer’ operators (spazas in container structures), to street vendors, traffic-light vendors, hawkers and craft stall merchants. They often also differ in the degree of formality they have achieved. There are several systemic issues which characterise the informal retail trade: the market is over-traded and competition is fierce (see for example DBSA 2005:78) and there is only patchy support by government, the private sector or even public-good institutions. Nevertheless, participants in the sector exhibit enormous commitment, innovation and perseverance, despite the heavy odds against them and their often poor returns. The predominant impression is of an economic sector which has a great deal of potential, but is nowhere near realising it (Atkinson 2012).

Informal trade is the largest component of the informal sector. This is despite the fact that spaza shops emerged in the apartheid era as an illegal form of trade. The emergence of informal traders (whether as spaza shops or street hawkers) posed a direct challenge to apartheid thinking. It was a form of economic activity which was officially not allowed in black residential areas or white business areas. Until the 1980s, there were many legal constraints on black traders. Since the late 1980s, these constraints have been gradually abolished, leaving a policy void in this regard. Today, the existence of the ‘second economy’ is accepted as an indubitable reality in South Africa, as is the fact that it is growing at a rapid rate in response to the failure of the ‘first economy’ to create enough jobs (Atkinson 2012).

DEVELOPMENT OF THE CONCEPT OF INFORMALITY

A major element implicit in the informal economy literature is the *stance* that analysts adopt towards the informal sector and this has seen steady progression through the years to the point where a sea change in attitude is evident in the current scholarship.

Things did not start out too promisingly for informal traders. Karl Marx, in *The Eighteenth Brumaire of Louis Bonaparte*, typified them as “vagabonds, discharged

soldiers, discharged jailbirds, escaped galley slaves, swindlers, mountebanks... pickpockets, tricksters, gamblers... brothel keepers, porters, literati, organ-grinders, ragpickers, knife grinders, tinkers, [and] beggars...” and summed up this motley crew as being “scum, offal, [and the] refuse of all classes” (Neuwirth 2011: 182). Quite what Marx had against ‘literati’ is not clear – he might have been characterised as one himself – but, needless to say, Marx’s robust depiction has been considerably modified and softened over the intervening years. However, the important point to note is that, until fairly recently, there was a distinct odour of the disreputable about the sector and, although this has not dissipated altogether (Shapland and Ponsaers 2009), recent scholarship seems aimed at rehabilitating and valorising the informal sector in the eyes of the business and development communities (Banik 2011; Neuwirth 2011).

Neuwirth (2011: 168-182) provides a useful account of historical assumptions about the informal sector from an economic perspective. The development economist, Peter Bauer (2000), was a keen student of the workings of the informal sector in West Africa and often wrote admiringly of its ingenuity in the face of implacable obstacles. Economists of a libertarian persuasion such as Murray Rothbard also, perhaps unsurprisingly, often express a certain affinity with informality. Rothbard held that taxation made the state “a vast criminal organization far more formidable and successful than any ‘private’ Mafia in history” (quoted in Neuwirth 2011:183).

In an interview Neuwirth (2011: 179) conducted with Alejandro Portes, an influential informal sector scholar in the 1980s, Portes, made the observation that the sector provides a safety valve for the state “because people find some sort of employment and that translates into relative quiescence... and in the import and export sector it redounds to the benefit of the higher-ups. It lowers the cost of consumption for the middle class and for firms that subcontract to the informal sector.” Simultaneously, Portes believes “it keeps wages for the poor at a subsistence level... [and it] is cultivated by the state as a mechanism to keep the poor and the middle class quiet.” There is of course a strain of activist scholarship which finds precisely this state of affairs deplorable and which does not want the poor ‘kept quiet’. Portes concludes that without the informal sector “the modern state could not survive.” However, Portes is pessimistic about the informal sector as a “long-term solution to underdevelopment.” He believes that “around the globe, governments are moving toward greater and greater deregulation... which will make it easier for big firms to squash smaller competitors.” Nevertheless, Portes holds that the sector is not going to disappear and that it makes sense “to create programs at the local level that engage in training and offering small business loans.” One might have thought that it was their very informality which served as an impediment to making

loans to small enterprises in this sector; but evidently not, especially where those offering the loans themselves are informal operators.

Castells and Portes (1989: 27–28) repeat the interesting observation that the rise of the informal sector was a “reaction by both firms and individual workers to the power of organised labour” and point out that “in this view of things, unions appear as, simultaneously, an obstacle to capitalist accumulation and as a corporatist pressure group eager to defend its interests even at the expense of unorganized workers.” Although this is surely only a partial account of the ascendancy of the informal sector it would seem to have particular resonance for South Africa where trade unions are often accused of pursuing their members’ narrow interests at the expense of the unemployed. As Castells and Portes go on to say, “undermining organized labour’s control over the work process seems to be a common objective of informalisation.”

Another influential analyst is Brasil’s Roberto Unger (the preponderance of South Americans in the scholarly literature is noticeable) who points out, apropos of the informal economy, that “the market has no single natural and necessary legal and institutional form. It’s a historical evolution and a political choice” (Neuwirth 2011). But, as Neuwirth (2011: 180) maintains, ‘run of the mill’ economists generally “want to crush” the informal sector “either by banishing it to some illicit...criminal zone or by forcing it to join the legal world.” Fortunately for the informal sector’s public profile run of the mill, economists are not the only show in town.

The question is often asked whether there is a ‘zero-sum’ relationship between the formal and the informal sectors, and whether they are inimical to one another. This is to say that to the degree one of these poles is strengthened and the other is weakened. International experience has shown that this ‘dualistic’ representation of the formal/informal axis is misplaced, and that the formal and the informal are inextricably intertwined to the extent that they may in fact co-exist in a relation of mutually reinforcing symbiosis. Indeed, according to Ingle (2013: 471), “any formal system is shot through with informal practices (improvisations, bending the rules, short cuts) and without which it would soon grind to a halt.” A study of informality in Zambia revealed that “the relationship between the formal and informal sectors in the cities has been complex and decidedly not one of disconnection” (Potts 2008: 151).

CHANGING UNDERSTANDINGS

The International Labour Organisation (ILO) generally shares the laurels with Keith Hart as having been instrumental in first positing the informal sector as a discrete topic for study in its own right. This was as a result of its “mission to Kenya”,

the results of which were published in 1972 (Guha-Khasnobis, Kanbur and Ostrom 2006: 1). Martha Chen (2006) is generally credited, along with the ILO, with having brought about the redefinition of the informal sector (Banik 2011). As Chen is an accepted authority apropos of the new understanding of the informal sector (or ‘informal economy’) her schematic of how understandings of the sector have changed in recent years is reproduced here in full.

Table 1: Old and new views of the informal economy

Table 1: The old view	Table 2: The new view
The informal sector is the traditional economy that will wither away and die with modern industrial growth.	The informal economy is here to stay and expands with modern, industrial growth.
It is only marginally productive.	It is a major provider of employment, goods and services for lower-income groups. It contributes a significant share of GDP.
It exists separately from the formal economy	It is linked to the formal economy – it produces for, trades with, distributes for and provides services to the formal economy.
It represents a reserve pool of surplus labour.	Much of the recent rise in informal employment is due to the decline of formal employment or to the informalisation of previously formal employment relationships.
It is comprised mostly of street traders and very small-scale producers.	It is made up of a wide range of informal occupations – both ‘resilient old forms’ such as casual day labour in construction and agriculture as well as ‘emerging new ones’ such as temporary and part-time jobs, plus homework for high-tech industries.
Most of those in the sector are entrepreneurs who run illegal and unregistered enterprises in order to avoid regulation and taxation.	It is made up of non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation. Most informal wage workers would welcome more stable jobs and workers’ rights.

Work in the informal economy is comprised mostly of survival activities and thus is not a subject for economic policy.	Informal enterprises include not only survival activities, but also stable enterprises and dynamic growing businesses, and informal employment includes not only self-employment, but also wage employment. All forms of informal employment are affected by most (if not all) economic policies.
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Source: Chen (2006: 81).

It would be a mistake to think that Chen's 'new view' has gained universal acceptance in all respects. There are still many scholars, for example, from eastern Europe, which are frankly hostile towards the informal economy, especially insofar as it functions 'underground' and speak of the "fight to control and stop this negative phenomenon" (Badulescu and Caus 2011: 7050). More of this ambivalence can be found in Shapland and Ponsaers (2009) and in Ledeneva (2006).

While Neuwirth (2011) is an avowed advocate for the informal sector, the current 'popular' view, containing a mixture of admiration and fear, is also nicely captured in the publisher's blurb for Venkatesh's (2008) *Off the books: the underground economy of the urban poor*:

Venkatesh takes us... to explore the desperate, dangerous, and remarkable ways in which a community survives. We find there an entire world of unregulated, unreported, and untaxed work, a system of living off the books that is daily life in the ghetto. From women who clean houses and prepare lunches for the local hospital to small-scale entrepreneurs like the mechanic who works in an alley; from the preacher who provides mediation services to the salon owner who rents her store out for gambling parties... we come to see how these activities form the backbone of the ghetto economy.

PARADIGMS APPLIED TO THE INFORMAL SECTOR

The major paradigms applied to the informal sector in the scholarly literature appear to be those of 'public policy and administration' (what to do about the informal economy from the state's point of view) and 'rights-based' discourse (what to do about the people in the informal economy from the 'development community' and academics' point of view). This is a fairly crude division, but Chen's (2006: 84) delineation of "dominant schools of thought" perhaps serves to refine it.

According to Chen (2006:84) these schools can be characterised as *dualist*, *structuralist* and *legalist*. She says: "The dualists argue that informal units and

activities have few (if any) linkages to the formal economy but, rather, operate as a distinct sector of the economy; and that informal workers comprise the less-advantaged sector of a dualistic labour market.” This is the view represented by the World Bank (Mazumdar 1974) during the 1970s and indeed, the scholars Chen cites as exemplifying the dualistic approach, all date from the 1970s.

Structuralists, by way of contrast, “see the informal and formal economies as intrinsically linked. To increase competitiveness, capitalist firms in the formal economy are seen to reduce their input costs, including labour costs, by promoting informal production and employment relationship with subordinated economic units and workers” (Chen 2006:84). This is presumably exemplified by the ‘sweatshop’ phenomenon where production may be moved offshore to countries with laxer labour regimes than those of the domestic economy. Chen (2006: 84) cites Portes, Castells and Benton (1989) as belonging to this camp, which believes that “both informal enterprises and informal wage-workers are subordinated to the interests of capitalist development, providing cheap goods and services.” The feminist scholar Caroline Moser is also counted among the structuralists.

Lastly, following Chen (2006: 84), “the legalists focus on the relationship between informal entrepreneurs/enterprises and the formal regulatory environment, not formal firms.” Pre-eminent among these scholars is Hernando de Soto (1989; 2000). Legalists, along with structuralists, also acknowledge “that capitalist (‘mercantilist’) interests collude with government to set the bureaucratic ‘rules of the game’” (Chen 2006: 84). Macharia (1997: xiv) provides a fine example of this dynamic in action. Writing of the Kenyan state, Macharia says that:

... in spite of its traditional opposition to any form of non-formal economy, [it] has in fact selectively supported certain informal economic activities. To the image of government officials demolishing shopping stalls and kiosks in Nairobi, residential quarters and their confiscation of merchandise, one must superimpose the image of metal artisans and taxi-drivers receiving the favours of co-ethnic politicians, administrators and police officers... Food sellers have in the past been allowed to operate near factories at a time when their cheaper prices would have lowered factory workers’ cost of living and therefore enabled factory owners to pay lower wages.

However, the use of the pejorative “collude” in Chen’s (2006: 84) typification is also arguably indicative of a somewhat hostile bias against “capitalist interests”. After all, informal enterprises also have ‘capitalist interests’ and there is surely no lack of examples where *informal* interests ‘collude’ with government to set ‘the rules of the game’ much to the chagrin of established ‘mercantilist interests’ (cf. Macharia, 1997).

As Chen acknowledges, all three of these approaches contain elements of the truth and given the heterogeneity of the subject matter it would be surprising were this not so. Jutting and de Laiglesia (2009: 20) endorse Chen's approaches but add a fourth category, which they term the "parasitic school". This they say "puts the emphasis on the illegality of informal activities and presents them as a means to gain an unfair advantage in their competition with formal counterparts." This would seem to pertain where informality is resorted to as a deliberate strategy to undercut the competition. The parasitic school is apparently associated with W.W. Lewis who published *The Power of Productivity: Wealth, Poverty and the Threat to Global Stability* in 2004 (Jutting and de Laiglesia 2009).

How might these different approaches play themselves out in the real world? Jutting and de Laiglesia (2009: 21) present the following scenario:

Using the stylised views... it is possible to see how the assessment of a particular policy would vary. As an example, it is possible to imagine policies that would make sub-contracting easier: for example, through VAT exemptions. Dualists would take a benign view of formal sector enterprises subcontracting to the informal sector, as this would provide new opportunities for informal sector firms, possibly leading to increases in wages for the workers. On the other hand, the parasitic school would oppose such a move as it results, in its view, in informal firms benefiting from their illegal status. Structuralists would also oppose it, but for quite different reasons: such a policy would enshrine the unequal links between sectors, and would therefore be unlikely to have a positive effect on informal workers.

Jutting and de Laiglesia do not venture any opinion on what the legalist school would make of this but, presumably, they would welcome it as an example of minimising red-tape. Jutting and de Laiglesia (2009: 22) go on to claim that: "while in the past the focus has been very much on an assessment of the implications for society as a whole of informal employment, the debate since the 1990s has moved on to discuss the causes of informal employment, taking a micro-perspective and looking at the motivation of individuals. The key question is whether people or firms voluntarily exit from formality or are excluded from the formal edifice of rights and obligations." One might have thought the answer to this would be "it all depends..." but the World Bank's work of Perry et al. (2007) has spawned three subsidiary schools of thought.

The *exit* faction says that those in the informal sector have calculated that, on balance, it pays them to stay that way and that their being informal is a chosen state of affairs and not the result of duress. The *exclusion* faction, by way of contrast, says that informals are being denied access to formal status or that the bar has been set so high that the effect is to marginalise them (this would be consonant with de Soto's legalistic stance). The third school claims that the informal sector is split into

two tiers. The upper-tier corresponds with the *exit* fraternity, whereas the lower-tier consists of the *exclusion* cohort where, to add insult to injury as it were, the excluded are not only denied access to the formal sector, but also to the upper-tier informal sector (Jutting and de Laiglesia, 2009: 21). Again, given the heterogeneity of the sector, one suspects that it is this third position that corresponds most closely with reality.

The World Bank's exit/exclusion philosophy accepts that informality is everywhere a mixture of exit and exclusion in differing measures. In more developed economies, though, informality is more a matter of tax evasion and employing workers 'off the books' than a situation whereby the economy is largely comprised of informal business enterprises. Usually in developed countries "social protection benefits cover the entire population, so that there is less of a divide between those who hold formal jobs and the rest" (Oviedo, Thomas and Karakurum-Ozdemir 2009: 1).

But in developing economies, as the World Bank points out, the situation is somewhat different. Here "the exclusion factor, coming from costs of formality and limits on the availability of formal jobs, is still quite prevalent, even if there is an important exit component... Furthermore, because of a two-tier social protection system, informal workers are often left to cope with unforeseen events such as illness and job loss on their own, with significant costs for society as a whole. Finally, if informal firms do have growth potential that is stifled by their informal situation, there can be significant costs for economic growth as well" although as the World Bank proceeds to caution "the empirical literature has not provided strong enough evidence of a causal relationship from informality to economic growth to make confident predictions in this regard" (Oviedo et al. 2009: 1).

MAJOR THEMES IN THE INFORMALITY DISCOURSE

The thrust of an important collection of essays edited by Guha-Khasnobis, Kanbur and Ostrom (2006) is that although "the usefulness of the formal-informal dichotomy has constantly been debated in the literature... we need to move beyond formality and informality to make progress in understanding the realities of economic activities in poor countries, and to design policies to benefit the poor" (Guha-Khasnobis et al. 2006: 1-2). This looks like an attempt to shift the goalposts. Instead of seeing the informal sector as a necessary evil and half-wanting its dissolution, a la Portes who speaks of "this disreputable economic zone" which produces "little of lasting benefit" (Neuwirth, 2011: 178), it seems that these scholars want the formal-informal *debates* to go away. They seem to imply that these debates stand in the way of "understanding the realities of economic activities in poor countries" but it

is not at all clear that they do. In fact, one could equally convincingly argue exactly the opposite. Why cannot the formal-informal debates be seen as an essential prerequisite to understanding the economic realities of the poor?

It is not difficult to see where Guha-Khasnobis et al. 'are coming from' (specifically the United Nations University and the international donor community), but it is arguably 'where they are coming from' that detracts from the broad acceptability that their sentiments are likely to unlock. Would any national fiscus, for instance, think that the fact of informality could simply be leap-frogged or airbrushed out of existence in the cause of greater economic understanding? Would the formal business sector, aggrieved by the unfair advantage informal operators often seem to enjoy, subscribe to Guha-Khasnobis et al.'s recasting of the terms of the debate? Is the debate about the formal-informal dichotomy really just a specious red herring used to divert attention from more worthy and pressing issues?

What this clearly indicates is the enormous role played by *point-of-view* in dealing with the informal sector. The concerns of well-meaning academics and activists are not necessarily those of the taxation authorities, a Department of Labour or any local Chamber of Commerce. It is all very well to argue that the state should desist from harassing the informal sector and should support it instead but support it to what end? So that it is encouraged to formalise – or so that it is encouraged to flourish informally and remain so? Surely, if the state (on behalf of the taxpaying public) is expected to allocate resources to 'growing' a sub-sector of the economy, it is entitled to look forward to some kind of return on investment from this expenditure in the form of levies and taxes?

But all of these constituencies seem to want to evade confronting the implications of the *principle* of informality head on. If informality is to be nurtured and championed, should not formal structures seriously consider 'de-formalising'? Would that be regarded as desirable? The World Bank, by way of contrast, seems more focused on the practical 'nuts and bolts' issues of accommodating the informal sector.

The World Bank has produced a vast quantity of research on the informal sector over the past 40 years. However, the bulk of this work can be digested via recourse to just two publications – Oviedo et al. (2009), which in its turn is heavily reliant on the influential 'exit/exclusion' paradigm set out by Perry et al. (2007) and which was elucidated above.

It is instructive that the World Bank takes as its point of departure "the design of appropriate policies to reduce informal activity and promote formalisation" with the rider that "emerging economies often face an environment of stringent regulation, unreliable institutions, and low productivity, where informality is then the only possibility for a large fraction of the population. In such cases attempts to

reduce informality may simply destroy informal jobs and might lead to even worse outcomes” (Oviedo et al. 2009: 1).

Oviedo et al. (2009: 22–32) suggest a number of policy options (which are a mixture of ‘carrot and stick’) arising out of “an extensive review of recent international experience with policies” to address the formalisation problem. These consist mainly of increasing tax compliance, encouraging business creation and growth, strengthening enforcement, and building trust and collective incentives.

In South America extensive recourse has been had to rationalising and simplifying tax regimes to make them less intimidating for smaller enterprises. In Brazil, for example, this had the effect of increasing the registration rate of firms by some 20% (Oviedo et al. 2009:24). A similar logic applies to simplifying and lowering the costs of registration in order to encourage business creation. Oviedo et al. (2009: 25) report, for example, that in Montenegro the number of registered firms increased by roughly 350% between 1999 and 2003 as a result of reforms intended to streamline formalisation procedures. Strengthened enforcement to formalise speaks for itself, although Oviedo et al. (2009:28) suggest this works best when applied in tandem with “appropriate incentives to formalise... so that informal firms have a viable transition path from informality into formality.” In the absence of such incentives, increased enforcement may result in unintended negative consequences and merely aggravate the situation. By “building trust and collective incentives” Oviedo et al. (2009: 30) wish to argue that “people will be willing to participate in formal activities only if they believe that their contributions will ultimately be used to increase their well-being in the future, either by an efficient use of taxes or by a good provision of social services.”

These policy recommendations at least have the merit of taking the informal sector seriously, albeit that it is still seen as something which needs eventually to be ‘brought into the formal fold’ before it can attain to full acceptance.

There is of course a constituency within the informal economic sector that, by definition, can never aspire to respectability (albeit that it may attract a measure of admiration from those who enjoy seeing ‘the system’ being thwarted). This is the sector’s overtly criminal component (Shapland and Ponsaers 2009). It is reported that South Africa loses R178 billion a year to “the smuggling of tobacco products, counterfeit textiles... and the illicit mining of gold and diamonds” (Hartley 2011). The dilemma for the state is that, every time it raises the duty on products such as tobacco, it boosts the market for undercover operators and creates greater incentives for corruption. In this way, it plays into the hands of criminal elements and a vicious cycle could set in whereby, in order to recoup foregone tax revenues, the state simply raises the tax again without bothering to tackle the source of the problem. This is analogous to municipalities increasing rates and taxes to make up for deficits incurred

due to non-payment and is in effect, an indirect tax on conscientious ratepayers' desire to 'play by the rules'. This is a dynamic that has been well documented by de Soto (1989) in his investigations into informality in South America. The situation sets a 'positive' feedback loop in motion, which results in a 'race to the bottom' whereby previously diligent consumers soon learn that their good faith is being penalised and that it pays them to join the ranks of the defaulters. This is the way in which the level of informality in a country comes to reflect the degree to which a state has lost its hold on its people.

CONCLUSION

This article has endeavoured to chart the changing attitudes towards the informal sector on the part of academia, the development community, established business and officialdom. Clearly, there is no unanimity concerning policy prescriptions for informal economic activity. While some analysts advocate a hard-line approach, others plead for much more understanding of the circumstances of those engaged in this sector. Much hinges on the perspective adopted. Bureaucracies use very different lenses to study a problem to those lenses adopted by, say, NGO activists (Scott 1998).

However, at the very least, the informal sector worldwide is now being accorded serious attention and this speaks of a measure of acceptance having been bestowed on it that was not the case 40 years ago. Whether governments continue to deal with economic informality through benign neglect, or attempt to co-opt it with 'carrot and stick' methods, the brute fact of the matter is that it constitutes a reality that cannot simply be wished away. Economic informality has grown to become a force to be reckoned with.

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