



Economic and
Financial Committee

ECOFIN

MUNUC 35

Model United Nations of the University of Chicago

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CHAIRS LETTER

Delegates,

Welcome to the Economic and Financial Committee (ECOFIN) at MUNUC 35! We'll be your chairs for the committee as we explore the world of the informal economy and find exciting solutions to the many problems it poses.

To begin, my name is Eric Olaizola, and I'll be one of your chairs. I'm a second year at the University of Chicago and am majoring in Law, Letters, and Society – or at least I think I am. By the time we all meet I might be doing something else entirely! I'm pretty involved in Model UN, and besides MUNUC I also chair for CHOMUN, our college conference, and compete as part of our traveling team. I'm excited to be chairing an economics committee and seeing how we can combine policy and research. In my free time, I like to subject myself to unreasonably long movies that I pretend to enjoy. I also like hanging out with my friends and feeling inordinately proud about having finally gone to the gym.

And my name is Virginia Wright, I'll be the other one of your chairs. I am also a second year in The College and am a Political Science and International Relations double major. I am involved in MUN through MUNUC (obviously), our collegiate conference ChoMUN, and compete on Team as well. Outside of MUN, I am a member of the University Wind Ensemble, the Pep Band, W+ through the Institute of Politics, and am the Yovovich House President. Outside of school, I am very active in politics at the local and state levels through my county and state party organizations and have worked on a few campaigns in Kansas, my home state. I am looking forward to meeting all of you and seeing how you collaborate with one another to utilize policy and research to solve real-world economic issues.

We also have some advice for you all. Firstly, we expect everyone to be respectful not just of each other but of the topic we are discussing. Although it may not be as shocking as some other committee topics, it is still a major issue with real impacts on people's lives, and we expect everyone to treat it that way. Secondly, we hope to see real collaboration with everyone. At the end of the day, MUN is about resolving issues which cannot be solved by just one nation, and we would like you

all to make a real effort to work with a variety of nations and delegates. Don't be afraid to combine your ideas into something completely different. There will be a lot of time over the course of the committee to try out new ideas, so take some risks! Thirdly, don't feel intimidated by the scope of the topic. We know economic committees can be challenging, but if you take it slowly you'll be surprised by how quickly you'll be talking like an expert. It's easy to get lost in the weeds of the issue, so keep that in mind while you're preparing. Finally, don't forget to have fun! MUN can become self-serious at times, but don't let that intimidate you. Keep trying your best and speaking up. You might just find that you enjoy the committee!

If you would like to reach out to us with any questions or concerns, please feel free to send us an email at eolaizola@uchicago.edu or wrightv@uchicago.edu. Don't hesitate to let us know if there's something we can do to help. We'll see you all soon!

Best,

Eric Olaizola & Virginia Wright

HISTORY OF THE COMMITTEE

The Economic and Financial Committee (Second Committee) of the United Nations is responsible for dealing with questions about economics, global finance, and growth and development around the world. It was created alongside the other major General Assembly bodies of the United Nations during its founding. It is considered a critical organ of the UN; without it the United Nations and the other organs attached to it would cease to function, as ECOFIN apportions funding among programs and committees. Within the purview of the committee are developing solution mechanisms to persistent economic inequity and dealing with emerging concerns within global finance. ECOFIN is composed of all 193 member states of the United Nations and each of them have equal voting power. It can essentially be described as the policy making body for economics, global finance, and economic growth. As in other UN bodies, ECOFIN has the capacity to make policies and draft guidelines, but cannot enforce them. Accordingly, cooperation and support is essential in this committee, as well as thoroughly thought out incentive systems for nations to voluntarily agree to participate in the resolutions produced by this body.

TOPIC: ADDRESSING THE INFORMAL ECONOMY

Statement of the Problem

When you think of the economy, most tend to think of the everyday “legal” institutions that they interact with—supermarkets, retailers, and mechanics—which legally operate within approved government regulations for worker safety, building safety standards, and legal products. This stands in stark contrast to the economy of bribery, drug smuggling, and other unsavory activities that the government would generally consider “illegal.” However, this legal dichotomy misses a significant portion of the global working population—the informal economy.

The informal economy (or sector) consists of activities, services, and products that have legal market value but are not formally registered with the government. It may be more beneficial to give examples of the informal economy rather than trying to simplify from this definition. The informal economy is expansive, comprising sectors like minibus drivers in Africa, household cleaning staff in the U.S., or market fruit stands in India. It is not the industry itself that makes the work informal or formal; rather, it is whether a specific worker or firm registers their services and/or organization with the government. However, even registered firms can engage in informal activities. What is important to note is that informality is not the same as illegality. While, yes, these activities and goods are technically being sold illegally, the product or service itself is oftentimes legal. This is, of course, not always the case and illegal services often tend to operate informally for obvious reasons.

The impact of informality is clear—individuals and businesses operating outside of the purview of government regulations represent a lost source of income for the government who cannot collect taxes and other fees from these otherwise legal business transactions. Beyond that, workplace regulations cannot be enforced leaving workers exposed to potential exploitation by supervisors or even customers. Since informality is outside the scope of government, it is difficult to measure the scope of the issue. What is clear is that the informal sector, as a percentage of total GDP, constitutes a greater part of developing economies (~35%) compared to developed (~15%).¹ With economists

¹ Alexander, Thomas F. 2019. Review of *The Global Informal Economy: Large but on the Decline*. *IMFBlog* (blog). October 30, 2019. <https://blogs.imf.org/2019/10/30/the-global-informal-economy-large-but-on-the-decline/>.

finding that countries with large informal sectors grow well-below their growth potential, it is imperative that countries move to address this significant sector of their economy.

So, who exactly is a part of this informal economy? Again, the informal economy constitutes any and all individuals and organizations who participate in the market outside the regulatory oversight of the government. While this may seem like a small part of the workforce, the IMF estimated that approximately 2 billion workers, or 60% of the global adult workforce, engaged in work that would be considered informal at least some of the time.² These workers, as evidenced by the aforementioned informality in various economies, are all over the world in every country, sometimes operating in open public markets or behind closed doors in warehouses. Approximately 85% of all informal workers are in their current situation due to a lack of opportunities in the formal economy. These obstacles to formality can consist of anything from bureaucratic red tape to difficulty securing loans to circumventing taxes. The informal economy is of particular interest to policymakers because it is essential to understanding inequality, including gender inequality. Regardless of the reason, every person has their reason for participating in the informal sector. The challenge for international policymakers is creating a regulatory and financial environment which allows the formal economy to thrive while also creating paths to formality for the informal sector.³ Through this lens, many see the formalization of the informal economy as the key to inclusive sustainable development.

² International Monetary Fund. 2021. "Five Things to Know about the Informal Economy." IMF. July 28, 2021. <https://www.imf.org/en/News/Articles/2021/07/28/na-072821-five-things-to-know-about-the-informal-economy>.

³ Alexander, Thomas F. 2019. Review of *The Global Informal Economy: Large but on the Decline*. *IMFBlog* (blog). October 30, 2019.



Figure 1: Informal fruit stand in Cartagena, Colombia.⁴

Informal Labor

While it is important to acknowledge the diversity of work that participates in the informal economy, particularly between countries, there are some general factors that define informal workers. The International Labor Organization (ILO) notes that labor contributing to the informal economy is "...often characterized by small or undefined work places, unsafe and unhealthy working conditions, low levels of skills and productivity, low or irregular incomes, long working hours and lack of access to information, markets, finance, training and technology."⁵ Additionally, these workers are often

⁴ Pietsch, Joachim. "File:Informal Economy Cartagena Colombia by Joachim Pietsch.png." Wikimedia Commons. Wikimedia Foundation, Inc., December 18, 2006.

https://commons.wikimedia.org/wiki/File:Informal_Economy_Cartagena_Colombia_by_Joachim_Pietsch.png

⁵ "13. Informal Economy (Decent Work for Sustainable Development (DW4SD) Resource Platform)." n.d. [www.ilo.org](https://www.ilo.org/global/topics/dw4sd/themes/informal-economy/lang--en/index.htm#:~:text=Work%20in%20the%20informal%20economy.). <https://www.ilo.org/global/topics/dw4sd/themes/informal-economy/lang--en/index.htm#:~:text=Work%20in%20the%20informal%20economy.>

self-employed or work in small family-run businesses where the distinction between labor and family life are often blurred as home lives become overrun with maintaining production of goods and services for the informal business. The dangers posed to workers participating in the informal economy are quite clear when considering the often inadequate working conditions that they find work in on a daily basis. Again, it is important that these workers are not necessarily trying to avoid registration and taxation but are just trying to make an income for themselves. Since these people find themselves in unfortunate informal working conditions, these workers are often more susceptible to other risk factors than their formal counterparts in areas such as health problems, unsafe working conditions, and stolen earnings.⁶

Of great interest to governments around the world is the lost revenue that results from the tax evasion inherent with participation in the informal economy. Unrealized to many in both the formal and informal sectors is the ways in which the informal economy drags the formal economy. By evading taxation and other revenue-generating mechanisms imposed by governments, the informal economy increases the tax burden on the formal economy to pay for the public services that the government already provides to everyone, irrespective of their work in the public or private sectors. In other words, the more people that participate in the informal economy, the less people there will be to pay taxes needed for essential public works projects, further increasing the tax burden on those who are legally registered. Therefore, it is in the interest of governments to limit their informal economies because even if the products being exchanged aren't harmful, the principle by which the exchange operates only hurts governments and its citizens. However, it is the view of some economists and governments that the informal economy is a natural phenomenon in developing and transition economies that acts as a sort of "safety net." To adherents of these beliefs, as governments centralize and assert greater centralized authority, sectors that are dominated by informal labor will become formalized. Particularly in rural areas, the informal economy is believed to inject more money into the local formal economy than if those same services were formalized.⁷

⁶ Hamerlink, Lynn. 2021. Review of *Informal Labor: Business as Usual?* Lendahand (blog). July 12, 2021. <https://www.lendahand.com/en-EU/blog/779-informal-labor-business-as-usual>.

⁷ Mughal, Khurram S., and Friedrich G. Schneider. 2020. "How Informal Sector Affects the Formal Economy in Pakistan? A Lesson for Developing Countries." *South Asian Journal of Macroeconomics and Public Finance* 9 (1): 7–21. <https://doi.org/10.1177/2277978719898975>.

This is not to say that the informal economy should be allowed to flourish, but to show that it is a dynamic marketplace with both beneficial and negative features.

As would be expected, a wage gap undeniably exists between the formal and informal sectors.⁸ Without the oversight of relevant government authorities to monitor wages of workers, workers' wages are often mishandled in a number of exploitative ways. Workers report having wages withheld for multiple days, being paid less than promised, and a number of other egregious situations which leave workers and their families in precarious economic situations. In some countries, minimum wage legal provisions are not extended to workers in informal workplaces. Especially in developing economies, small enterprises (usually consisting of 10 or fewer wage earners) are often excluded completely from minimum wage requirements. While some countries do have legal protections for both formal and informal workers, these countries often face significant interpretation and compliance issues. Pakistan, for example, has legal provisions for all workers. However, businesses almost exclusively interpret the laws as only applying to workers in the formal sector.⁹ Even when wages are good, participants in the informal sector still face a number of other challenges. Research from Vietnam found that 30% of middle class workers in the country are involved in the informal economy. Despite this robust underbelly of the Vietnamese economy—many of these informal workers bring home wages well above the global poverty line—these workers contend with other social issues such as a lack of housing or limited public services.¹⁰

⁸ Parakrama Badullahewage, Bharatha Prabath, and Shohani Upeksha Badullahewage. 2021. "Wage Difference between Formal Sector and Informal Sector Jobs; with Special Reference to the Labour Market in Sri Lanka." *International Journal of Innovation and Economic Development* 7 (3): 7–19. <https://doi.org/10.18775/ijied.1849-7551-7020.2015.73.2001>.

⁹ "4.5 Informal Economy Workers." 2015. www.ilo.org. December 3, 2015. https://www.ilo.org/global/topics/wages/minimum-wages/beneficiaries/WCMS_436492/lang--en/index.htm.

¹⁰ Hamerlink, Lynn. 2021. *Review of Informal Labor: Business as Usual? Lendahand* (blog). July 12, 2021.



Figure 2: An informal street barber.¹¹

Given the ways wages are used to exploit workers, it would seem logical for informal workers to form organizations to take collective action on their behalf. However, as one could imagine, informal workers face even greater obstacles to collectivization than traditional workers. Since most informal work falls outside legal frameworks intended to protect workers, these workers do not have traditional avenues for rectifying workplace transgressions. Beyond that, most informal workplaces are small—rarely larger than a home with no more than 10 workers—so workers in any given industry do not regularly come into contact with each other. This lack of employment relationship makes it more difficult for members of the same informal sector to take collective action. For example, it would be difficult for two street vendors to take collective action when both sell goods made from their respective homes. Even when there is an employment relationship, such as in domestic

¹¹ "File:Sidewalk Cut.jpg." Wikimedia Commons. Wikimedia Foundation, Inc., December 15, 2009. https://commons.wikimedia.org/wiki/File:Sidewalk_Cut.jpg.

housework, workers cannot risk demanding improved working conditions without the threat of immediately being fired and losing any owed wages. While trade unions, workers' associations, and other member based organizations (MBO) have arisen in recent years, these organizations have had varying degrees of success fighting for workers in their respective industries.¹² Furthermore, these groups often have members across countries in a region making the priorities of members within an organization come into conflict rather often.

Illicit Activities

While many parts of the informal economy are not involved in the trading of goods or products which are inherently bad, it would be a gross oversight to not mention the large role counterfeit products and illicit services play in the informal economy. The types of goods and services which constitute this part of the informal economy are also not legal in the formal economy. Therefore, the people and products involved in illicit activities constitute an entirely different set of problems for nations.

Perhaps the most obvious of these illicit activities is the drug smuggling trade. Drug manufacturing is an all-encompassing field and constitutes everything from counterfeit medicines to illegal drugs. The entire process—from cultivation of plants to the selling of the final products—is a part of the informal economy. Very few, if any, parts of the formal economy are involved which makes regulation and control of the global drug economy very difficult to manage. Much of the global effort to stop illicit drug cultivation, production, and manufacturing is done through the United Nations Office on Drugs and Crime (UNODC).¹³ The UNODC provides a number of technical, logistical, and other support services to aid countries and multinational coalitions in tackling the problem of illicit smuggling.

Of particular concern to the work of this committee is the drug cultivation process. It is helpful to understand why people get involved in the production of illicit drugs—or at least the plants used in

¹² Bonner, Christine, and Dave Spooner. n.d. Review of *Organizing in the Informal Economy: A Challenge for Trade Unions*. *Internationale Politik Und Gesellschaft* 01 (01): 87–105. Accessed August 18, 2022. https://library.fes.de/pdf-files/ipg/2011-2/o8_a_bonner.pdf.

¹³ "Monitoring of Illicit Drug Cultivation, Production and Manufacture." Office on Drugs and Crime. United Nations. Accessed December 3, 2022. <https://www.unodc.org/unodc/en/data-and-analysis/drug-cultivation-production-and-manufacture.html>.

the subsequent manufacturing. One illustrative example is coca farmers in Colombia. Colombia has long been the global number one producer of cocaine despite a number of policy initiatives aimed at stifling production.¹⁴ This position has been aided by a coca farming sector that has thrived within the country. Coca is not legal to farm in the country, but hundreds of communities across the country depend on the cultivation of coca to survive.¹⁵ Simply put, coca is more profitable. Farmers regularly report that making one pound of coca paste, which is sold to drug traffickers who turn the paste into cocaine and other related products, “sells for more than one ton of corn.”¹⁶ Coca paste can be easily made by farmers by mixing gasoline, sulfuric acid, and other chemicals—a cheap workup for a much bigger payscale. With so much less product needed to make such a large amount of revenue, the threat of jail time or other penalties is seen as a worthwhile risk to many farmers and their families.

When farmers in a town see their neighbors getting away and profiting off the cultivation of coca, it creates a perverse incentive to grow coca rather than other legal crops. This has created entire communities within Colombia that rely on the cultivation of coca for their survival and economic well-being. One example is Tumaco, a town whose recent economic developments including a rail line, soccer field, and cultural center—all good things for the community—were paid for by community members selling coca paste. Virtually every person of working age in the community is involved in the production of coca.¹⁷

While many farmers acknowledge that they contribute to a dangerous and illicit industry, they also know that participating in the formal economy through the production of legal crops would drastically reduce their income. For many families, especially those in rural areas, there is simply no way that they can meaningfully participate in the formal economy without making serious sacrifices to the health and wellbeing of their families—food on the table, even if from coca production, is better than sending their kids to bed at night hungry. Especially for rural communities which have

¹⁴ Otis, John. “Colombia Is Growing Record Amounts of Coca, The Key Ingredient in Cocaine.” *NPR*. October 22, 2018. <https://www.npr.org/2018/10/22/658547337/colombia-is-growing-record-amounts-of-coca-the-key-ingredient-in-cocaine>.

¹⁵ Noriega, Christina. “Colombia’s Radical New Approach to Cocaine.” *Foreign Policy*, October 30, 2022. <https://foreignpolicy.com/2022/10/30/colombia-cocaine-coca-industry-policy-war-drugs-gustavo-petro/>.

¹⁶ Otis, John. “Colombia Is Growing Record Amounts of Coca, The Key Ingredient in Cocaine.” *NPR*.

¹⁷ Noriega, Christina. “Colombia’s Radical New Approach to Cocaine.” *Foreign Policy*.

been largely forgotten in economic development plans, coca farming is the only way to make a livable wage for families. While the newly elected president Gustavo Petro has called for tackling Colombia's drug problem through investing in rural communities, plans are still in development.¹⁸ Colombia's problems with coca are just one of many national-level crises around the world. Similar problems with Colombia's coca farmers exist in countries like Afghanistan, Mexico, and Myanmar for opium production; Peru and Bolivia also face similar coca production problems.¹⁹ These countries serve as the starting point for the global production and trade of illicit drugs. It is in the interest of all UN member states that production of these start products is curbed to reduce addiction, illness, and death associated with long-term use of products like cocaine and opium.

Social Impacts

If it has not been evident already, the informal economy has significant impacts on society and its development. Beyond the economic impacts regarding its ability to slow the formal economy, many view the informal economy as an obstacle to sustainable development. By circumventing avenues for revenue of government, the informal economy diminishes the amount of money a government—whether at the municipal or national level—can put into beneficial community projects such as public works. As mentioned previously, the evasion of, at a minimum, taxes related to the informal business' operations increases the tax burden on participants in the formal economy. Therefore, it is the view of some that the formalization of the informal economy is the solution to sustainable and inclusive economic and social development. By acknowledging and working towards integrating informal sectors into the formal economy, states stand to benefit from increases in revenue streams which can then be reinvested into communities for sustainable development and other critical projects. However, the problem lawmakers around the world continue to run into is the myriad of circumstances that lead to informality.

¹⁸ *Ibid.*

¹⁹ "Monitoring of Illicit Drug Cultivation, Production and Manufacture." Office on Drugs and Crime.



Figure 3: Informal cleaning service during the COVID-19 pandemic in Antananarivo, Madagascar.²⁰

While informality's impacts on sustainable development are foggy, there is little doubt that informality disproportionately affects women across all regions. Women are over-represented in informal workplaces—they are twice as likely as men to report being the contributing family worker in a household.²¹ Additionally, women face some of the most precarious working conditions where they are often underpaid and susceptible to financial and other types of exploitation. It is therefore critical to address the gender-based factors which hinder women's ability to participate in the formal economy. Across all regions, the International Monetary Fund (IMF) found that lower levels of education attainment, views on traditional gender roles, discrimination, and gender-biased laws all significantly impacted a woman's ability to participate in the formal economy.²² Perhaps most impactful are the laws which restrict women's economic competitiveness that are still in place in

²⁰ Raboanaly, E. Photograph. *Flickr*. Antananarivo, Madagascar: Yahoo!, May 6, 2020. International Labor Organization. <https://www.flickr.com/photos/ilopictures/49869791607>.

²¹ Hamerlink, Lynn. 2021. Review of *Informal Labor: Business as Usual? Lendahand* (blog). July 12, 2021.

²² Malta, Vivian, Lisa Kolovich, Angelica Martinez, and Marina Mendes Tavares. 2019. "Informality and Gender Gaps Going Hand in Hand." *IMF Working Papers* 19 (112): 1. <https://doi.org/10.5089/9781498314718.001>.

communities around the world today. If women are to have the opportunity to participate in the formal economy, an environment must be created for them to participate fully without restrictions which may impact their competitiveness in the marketplace. While rolling back these biased laws will be critical, changing the culture—at all stages of a woman’s life—of the environments in which they learn and work in will be critical to ensuring the integration of women into the formal economy.

History of the Problem

Formality has had a long and varied history by country. While some countries have had great success at reducing the size of their informal economies, other countries have struggled to make such progress. Therefore, rather than engage in a reductionist approach to the history of informality by characterizing broad global trends, what follows are two illustrative case studies which exhibit both success and failure in dealing with the problems of informality within specific cities of countries. There is much to learn from each example, irrespective of a country's current state of economic development. These cases serve to demonstrate potential solutions, but also potential pitfalls of these solutions.

Durban, South Africa

As Apartheid came to an end in South Africa, the country was forced to contend with the many socioeconomic conditions its racist history and laws created for black South Africans. The Apartheid government that ruled prior to 1994 had a zero tolerance policy for informal traders and went to lengthy and repressive measures to enforce these laws, almost exclusively on black street vendors. As such, compared to other African economies, South Africa had one of the lowest levels of informality despite other economic factors like unemployment, which is typically associated with high levels of informality.²³ While this may seem counterintuitive, the end of Apartheid instead left the new South African government in a strange position where they needed to encourage informal economic growth. This is because informality, for its problems, is still necessary for growing small businesses into larger enterprises (to be discussed later). However, the government recognized that informality could also lead to a myriad of problems which meant it needed to play an active role in regulating the formal economy.

The city of Durban, compared to other South African cities, was chosen because of the innovative action it took to address the need for a growing informal economy. In 1997, the government passed the Basic Conditions of Employment Act, a series of protections which applied to both formal and

²³ Ramsuraj, Trisha. "An Investigation of the Impact of Post-Apartheid Informal Economy Policies on Informal Traders in South Africa." *International Journal of Entrepreneurship* 25, no. 4. Accessed December 3, 2022. <https://www.abacademies.org/articles/an-investigation-of-the-impact-of-postapartheid-informal-economy-policies-on-informal-traders-in-south-africa-10549.html>.

informal workers.²⁴ Street vendors and other informal workers moved into quickly deregulated environments like public spaces and turned them into centers of trade within Durban. In response to these new developments, Durban began a successful consultative process to effectively manage, regulate, and improve spaces for these workers.

The consultative process worked in a number of ways but largely sought out individuals from poorer backgrounds and women to share their experiences as vendors and other informal workers.²⁵ Policy was not dictated by bureaucrats but informed by the experiences of the people who were actively using these spaces in order to make their lives better. Policy changes not only included improvements for vendors in public spaces but also small scale (household) manufacturers. Household manufacturers asked for places where they could work and network with similarly-sized businesses, a practice called firm clustering. In public spaces, vendors requested water and toilet facilities, storage locations for products, and attractive infrastructure. These measures mitigated conflict and encouraged collective action. As a result, individuals participating in the informal economy felt a greater sense of investment in the spaces in which they traded because the government was taking action on their behalf to improve them—public spaces in which trade occurred saw high levels of self-regulation of crime and cleanliness.²⁶

One particularly important effect of Durban's, and South Africa's, recent policies towards the informal sector are the effects it has on small, medium, and micro-enterprises (SMMEs). In contrast to the previous government, post-Apartheid government policy created an environment conducive to SMMEs, both formal and informal. SMMEs are businesses and other organized groups of people working to make products which can be sold on the market—it does not distinguish between formal and informal businesses. Businesses which are classified as a SMME often have the ability to grow from a micro- to a medium-sized enterprise in the right business and economic environments.

²⁴ Skinner, Caroline. "Inclusive planning for the informal economy: Lessons from Durban, South Africa." In ILO Interregional Symposium on the IE. *International Labor Organization*. Accessed December 3, 2022. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/presentation/wcms_125912.pdf.

²⁵ Lund, Francie, and Caroline Skinner. "Integrating the Informal Economy in Urban Planning and Governance: A Case Study of the Process of Policy Development in Durban, South Africa." *International Development Planning Review* 26, no. 4 (December 2004): 431–56. <https://doi.org/10.3828/idpr.26.4.5>.

²⁶ Skinner, Caroline. "Inclusive planning for the informal economy: Lessons from Durban, South Africa." In ILO Interregional Symposium on the IE. *International Labor Organization*.

Experts often differentiate SMMEs between “survivalist” enterprises and “growth” enterprises.²⁷ The former constitutes businesses in which the income generated falls short of a minimum income standard—in other words, all the profits go towards, usually, feeding the family who runs the business and not much more—and are generally run by women. These businesses often do not have the ability or even aspirations to expand into formal businesses. On the other hand, “growth” enterprises are often small businesses in which the owner, some family, and, at most, four employees work. These businesses sell products or services which have scalability and could expand into larger operations—they just lack the licenses, permits, and accounting procedures necessary for formality.

Unfortunately for South Africa, much of its informal economy is being driven by survivalist enterprises. This is due in large part to poor global economic conditions—the informal economy of a country is still linked to the health of the formal economy. What this means is that economic growth in the informal economy is from people leaving the formal economy in order to sustain themselves rather than trying to start a new business to meet a new market niche. An overly simplistic way to think about this is that people are leaving the formal economy to make and sell bread rather than trying to develop a new jam that people will want to put on their bread. Innovation is not driving the informal economy—surviving is. Informalization, or the process of informal workers displacing formal workers, has a large role to play in this as well. As more people enter the informal economy through survivalist enterprises, they are also willing to sell their goods and services for less money than what the formal sector can afford. This hurts both the survivalist entrepreneur and the formal economy. While South Africa’s policies undoubtedly helped many small businesses, poor national and international economic conditions have slowed government action on the matter. This demonstrates the power economic conditions have to affect the lives of everyday people around the world.

South Africa has been exploring a number of options to uplift SMMEs and facilitate their growth from micro- to small/medium-sized enterprises. That means policies are aimed at helping “growth” enterprises thrive and expand which can provide an alternative for many in “survivalist” enterprises.

²⁷ Rogerson, Christian M. “Emerging from Apartheid's Shadow: South Africa's Informal Economy.” *Journal of International Affairs* 53, no. 2 (2000): 673–95. <https://www.jstor.org/stable/pdf/24357770.pdf>.

One such policy has been the creation of local business service centers (LBSCs) which are focused on “[delivering] non-financial business support to small enterprises, including informal [ones].”²⁸ However, LBSCs have faced the issue that many new policy initiatives face—slow roll-outs. After two rounds of accreditation, only 32 LBSCs were accredited in the entirety of South Africa. The LBSCs have had great success when they are accredited, but the slow accreditation process means that the limits of this assistance have greatly reduced the benefits to only a lucky few SMMEs.

Los Angeles, United States

Though informality doesn’t just exist in developing countries, developed countries have very different dimensions in which informal workers exist. Developed countries, such as the United States, have strong formal economies with a variety of jobs requiring different skills, enterprises meeting many new market niches, and generally livable wages. However, the make-up of informal workers in these economies often consists of “out” groups of society: women, minorities, and immigrants constitute the large part of informality in these economies. These workers are often not fully protected by labor laws which are usually strong for workers within the formal economy. Further compounding this issue is the fact that many people in developed countries believe that informality is a labor practice that exists “elsewhere.”²⁹ In fact, people in the formal economy interact with informal workers just as often in developed countries as they do in developing countries, though they are less cognizant of it. Informality in places like Los Angeles takes on the form of street vendors, landscapers, caretakers, and other workers. These informal workers occupy and engage with employment in ways similar to formal workers which makes their informality “invisible” to the average person. However, they do still exist.

One such example in Los Angeles are street vendors. Street vending in Los Angeles is primarily made up of immigrants, mostly from Central and South America, who have faced years of discrimination and a lack of upward mobility. Instead, they have opted to take their work into their own hands by being street vendors where they can serve their communities, set their own hours, and adjust to

²⁸ Rogerson, Christian M. “Emerging from Apartheid’s Shadow: South Africa’s Informal Economy.” *Journal of International Affairs* 53, no. 2 (2000): 673–95.

²⁹ Devis, Juan, and Justin Cram. *The Informal Economy: The History of Workers’ Rights*. KCET. Public Media Group of Southern California, n.d. <https://www.kcet.org/shows/city-rising/clip/the-informal-economy-the-history-of-workers-rights>.

market demands as they see fit. The city of Los Angeles alone is estimated to have well over 10,000 street vendors.³⁰ However, these vendors are repeatedly harassed by police, customers, and other businesses and their penalties are often harsher than those levied against formal vendors.



Figure 4: An informal hot dog vendor in Los Angeles.³¹

It was not until 2017 that the Los Angeles City Council legalized street vending. However, the city moved very slowly to issue permits and it was not until 2020 that the first permits were issued. At present a little over 200 food permits have been issued.³² Even to the present, most vendors cannot file the proper paperwork because their businesses fail to meet the equipment standards required by

³⁰ Devis, Juan, and Justin Cram. *The Informal Economy: De-Criminalizing Street Vending in Los Angeles*. KCET. Public Media Group of Southern California, n.d. <https://www.kcet.org/shows/city-rising/clip/the-informal-economy-de-criminalizing-street-vending-in-los-angeles>.

³¹ Photograph. *Rawpixel*. Los Angeles, California. <https://www.rawpixel.com/search/hotdog?page=1&sort=curated&tags=%243%3A2>.

³² The Times Editorial Board. "Most Street Vendors Still Can't Get Permits. There's a Bill to Fix That." *Los Angeles Times*. Los Angeles Times, August 3, 2022. <https://www.latimes.com/opinion/story/2022-08-03/legalizing-street-vendors-permits-sb972>.

the city's and state's regulations. Current regulations around street vending are aimed at food trucks and expect that these operations have an established brick-and-mortar restaurant that can handle the paperwork side. For many of the "mom and pop shops" that constitute the average street vendor, they don't have the time to deal with the dizzying bureaucratic and financial toll that the street vending application requires. While legislation is being written to amend much of the bureaucracy and ease the application process for vendors, it highlights the importance of streamlining necessary, but difficult bureaucratic processes. Particularly for families whose income is reliant on these vendors, taking days or weeks off to deal with bureaucracy like this costs time and money that their families cannot afford. While this is the primary issue confronting informal workers in developed economies, it is more broadly applicable to informal workers across the world. The creation of more bureaucracy isn't enough to get people to register—processes must be streamlined and made easy to understand and do for these workers.

Past Actions

Formalizing the informal economy has been an issue as long as there's been an existent formal economy. One of the most comprehensive recommendations of recent years was the International Labour Organization's Transition from the Informal to the Formal Economy Recommendation published in 2015.³³ This document defined the informal economy, made sure to stress the importance of "ensuring that an integrated policy framework to facilitate the transition to the formal economy is included in national development strategies or plans as well as in poverty reduction strategies and budgets," and defined the types of rights at work that everyone deserves to have access to within the formal economy.³⁴ Among those rights were the "freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation."³⁵ In addition to the enumeration of these rights, the 2015 Recommendation also notes the role that incentives and advertising could play in bringing informal workers into the formal economy through policies such as social security, maternity protections, a minimum wage that takes into account cost of living and the socio-economic status of the time, and the right to a healthy and safe working environment.

In another approach to formalizing the informal, the United Nations Department of Economic and Social Affairs has Sustainable Development Goal 8 (SDG-8) to "promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all."³⁶ The goal of all the SDGs is to have achieved their objectives by 2030. Unfortunately, due to the COVID-19 pandemic, much of the progress being made towards SDG-8 has been reversed. Some of the negative impacts of the pandemic on the work of SDG-8 are shown in the infographic below.

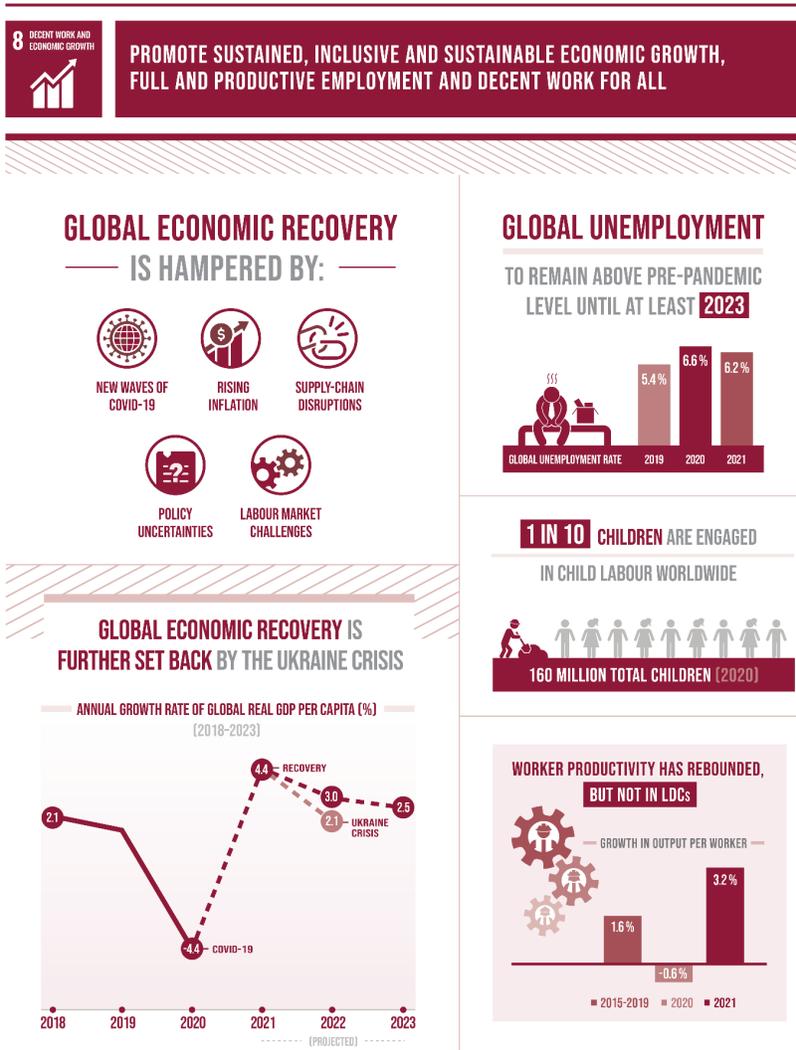
³³ *R204 - Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)*. International Labor Organization (ILO), 2015.

https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R204.

³⁴ *R204 - Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)*. International Labor Organization (ILO).

³⁵ *Ibid.*

³⁶ "Goal 8 | Department of Economic and Social Affairs." United Nations. United Nations. Accessed November 27, 2022. <https://sdgs.un.org/goals/goal8>.



THE SUSTAINABLE DEVELOPMENT GOALS REPORT 2022: UNSTATS.UN.ORG/SDGS/REPORT/2022/

Figure 5: UN Infographic on Impacts of COVID-19 Pandemic on Progress of SDG-8.³⁷

As for attempting to regulate drug trafficking, there have been three major conventions of the United Nations ranging four decades to combat the sale and use of illegal substances. The first is the Single Convention on Narcotic Drugs of 1961, which aimed “to combat drug abuse by coordinated international action” through two forms of intervention: first, seeking to limit the possession, use, trade, distribution, production, etc. of drugs exclusively for medical and scientific purposes and second, to combat drug trafficking through international cooperation to deter and discourage drug

³⁷ “Goal 8 | Department of Economic and Social Affairs.” United Nations. United Nations.

traffickers.³⁸ In other words, rather than focusing on punishing drug users, the convention focuses on cutting the international supply of drugs by focusing on prosecuting drug traffickers. Of particular importance to the international community is Article 49, which addresses cultural practices around drug use. Article 49 calls for, among other practices, the phasing out of coca leaf chewing, opium smoking, and other past practices which serve little health or cultural value.³⁹

Another UN solution was the Convention on Psychotropic Substances of 1971, which “was adopted to limit the diversion and abuse of certain psychotropic substances, such as central nervous stimulants, sedative-hypnotics and hallucinogens, which had resulted in public health and social problems in some countries.”⁴⁰⁴¹ While technically a new treaty, the 1971 Convention should be viewed more as an amendment to the 1961 Convention which expanded the scope of drugs by which the UN was taking action to regulate. In particular, the 1971 Convention was primarily focused on newly synthesized drugs with psychoactive properties such as barbiturates and psychedelics which had taken popularity in the 1960s. However, the treaty did little more than what the 1961 Convention was already doing—work of the UNODC was focused on stopping traffickers, not users.

The final major action taken was the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988, which provided “comprehensive measures against drug trafficking, including provisions against money laundering and the diversion of precursor chemicals.”⁴² The 1988 Convention built upon the work of the previous two Conventions but strengthened the oversight of the UN by empowering member states to pass laws regulating the use, sale, and distribution of precursor products for certain illicit drugs. Precursor products are chemicals which are available to consumers as regular household items (i.e. cleaning products, fertilizers, etc.) which could also be used in the manufacturing of illicit substances. In addition to

³⁸ “International Drug Control Conventions.” Office on Drugs and Crime. United Nations. Accessed November 27, 2022. <https://www.unodc.org/unodc/en/commissions/CND/conventions.html>.

³⁹ “International Drug Control Conventions.” Office on Drugs and Crime.

⁴⁰ Office on Drugs and Crime, Convention on Psychotropic Substances §. Accessed November 27, 2022. https://www.unodc.org/pdf/convention_1971_en.pdf.

⁴¹ Dessart, Martin. “Psychotropic Substances.” International Narcotics Control Board (INCB). Accessed November 27, 2022.

<https://www.incb.org/incb/en/psychotropics/index.html#:~:text=The%201971%20Convention%20was%20adopted,social%20problems%20in%20some%20countries>.

⁴² Office on Drugs and Crime, Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances fo 1988 §. Accessed November 27, 2022. https://www.unodc.org/pdf/convention_1988_en.pdf.

global monitoring of these products, the 1988 Convention also provided avenues for international cooperation and harmonization in transnational legal proceedings. An example is easing the process for extradition of drug traffickers.

These past actions work to protect workers rights, provide incentives for citizens to transition their labor to the formal economy, and target the many causes of illegal trade (of both legal and illegal substances). However, more action must be taken to harmonize these varied systems and understand how informality, as a whole, can be addressed. Many of the issues being addressed in these conventions play complementary roles in driving informality. It is imperative that governments take greater action to address informal workers and provide them a safer alternative in the formal economy.

Possible Solutions

Research shows that the informal economy arises due to one of two reasons: either a lack of development or poor governance.⁴³ In the case of the former, the inability of the urban formal economy to sufficiently employ rural migrants, a lack of financial development, and the inability of workers to find employment due to a lack of education or skills all contribute to the persistent informal economy.⁴⁴ In the case of the latter, overly difficult systems of taxation and regulation, inordinately stringent labor regulation, and subpar governance increase the cost of the formal economy and drive laborers out of it. Within a given nation, one of the causes will provide a better explanation of the informal economy, but on a worldwide scale, solutions must be developed for both.

At a broad level, any attempt to reduce the informal economy must first understand what the specific causes are. By definition, the informal economy lies beyond the easily measured and observed formal economy, and hence the first step for any nation is to gather as much information as possible. Funding existing academic research offers a useful starting point, but government surveys are the most reliable source of evidence. Certain regions may see greater participation within the informal economy, and so measures must be adjusted to account for these discrepancies. As with any large economic change, data-gathering is critical to avoid unwanted consequences.

Changes to taxation and regulation

One of the reasons that firms and individuals may move into the informal economy is to avoid taxation. Most obviously, this can be because taxes are perceived to be too high, but it can also be because of the difficulty of filing taxes. If a tax system is too complex, the cost of hiring an accountant or of attempting to figure out the system may drive individuals into the informal

⁴³ Capasso, Salvatore, Ceyhan Elgin, Sergiy Kasyanenko, Gene Kindberg-Hanlon, Wee Chian Koh, M. Ayhan Kose, Shu Yu, et al. Edited by Franziska Ohnsorge and Shu Yu. *The Long Shadow of Informality: Challenges and Policies*. World Bank Group, 2021. <https://thedocs.worldbank.org/en/doc/37511318c092e6fd4ca3c60foafobe3-0350012021/related/Informal-economy-full-report.pdf>.

⁴⁴ *Ibid.*

economy.⁴⁵ Adjustments to the system of taxation must be carefully considered, but offer a relatively simple solution, particularly in nations with an established tax system.

Reducing taxes is the most straightforward method of encouraging people to leave the informal economy. A decrease in corporate taxation by 10 percentage points has been found to reduce informality by 0.1% of GDP over two years, and a reduction in income taxes has been found to have a slightly greater impact.⁴⁶ Oftentimes, these reductions have been accompanied by the introduction of the Value-added tax (VAT), to make up for potential lost revenue. If done correctly, reducing taxes will increase government revenue because the people who leave the informal economy will make up for the reduced tax revenue of people in the formal economy.

Another option is withholding taxes on imports.⁴⁷ Essentially, any imported good has a tax placed on it, usually between 2% and 10% of its value. The tax, however, is deductible. When a company pays taxes at the end of the year, it states how much it has already paid in import taxes, and gets that amount deducted from its taxes. That means that in the end, it gets the money back, and it is like it never had to pay the tax at all. However, if a company is in the informal economy, it does not pay taxes at the end of the year, and so it is stuck having to pay the tax on the import.⁴⁸ This encourages companies to enter the formal economy, while at the same time raising revenue from firms that stay in the informal economy.

A key concept in the taxation of the informal economy is tax morale, which is the belief that one should pay taxes.⁴⁹ In many developing countries tax morale is low, meaning that people believe they are justified in not paying taxes. This can be because citizens do not believe that their tax money is being spent well, and so feel that they are not harming anybody by avoiding taxes. Increasing the quality of government programs, like education and social welfare, also raises tax morale and makes it easier to bring people into the formal economy.⁵⁰ Measures such as reducing

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*

⁴⁷ Keen, Michael. "Vat, Tariffs, and Withholding: Border Taxes and Informality in Developing Countries." *Journal of Public Economics* 92, no. 10-11 (May 31, 2008): 1892–1906. <https://doi.org/10.1016/j.jpubeco.2008.05.006>.

⁴⁸ *Ibid.*

⁴⁹ Capasso, Salvatore, Ceyhan Elgin, Sergiy Kasyanenko, Gene Kindberg-Hanlon, Wee Chian Koh, M. Ayhan Kose, Shu Yu, et al. Edited by Franziska Ohnsorge and Shu Yu. *The Long Shadow of Informality: Challenges and Policies*.

⁵⁰ *Ibid.*

corruption and improving the legal system are also important in improving trust in government and raising tax morale.

Regulations

In most cases, the real reason companies stay in the informal economy is because regulation is expensive, not because they wish to avoid taxes.⁵¹ These costs include the cost of getting a business license, the cost of declaring taxes, and the cost of following labor laws. Oftentimes, people simply do not understand the tax system. Simplifying regulations and reducing the costs of formalization are critical to bringing firms to the formal economy.

There are a variety of different ways of doing so, most of which fall under the category of business environment reform.⁵² Looking at reforms that are not explicitly aimed at reducing the informal economy is a good way of discovering other creative solutions.

An example is making a single business permit for opening a small business instead of requiring individuals to apply for multiple permits with different agencies.⁵³ Clear communication is vital. The goal should be to convince individuals to register their businesses by highlighting how simple and painless the process is. The internet is a great way of spreading awareness, but traditional methods of advertising are also useful.

⁵¹ Joshi, Anuradha, Wilson Prichard, and Christopher Heady. "Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research." *The Journal of Development Studies* 50, no. 10 (August 26, 2014): 1325–47. <https://doi.org/10.1080/00220388.2014.940910>.

⁵² *Ibid.*

⁵³ *Ibid.*



Figure 6: A grandmother and her granddaughter prepare their stand in an informal market.⁵⁴

Another example is simplifying taxes for areas that are known to have large numbers of informal workers.⁵⁵ Workers in the informal economy are often among the lower earners in society and often qualify for deductions or exemptions. At the same time, if workers are not aware of these deductions then they will avoid paying taxes, or may avoid doing so out of confusion. Resources must be developed to educate and support workers in declaring taxes. Reducing the documentation required is another important step, especially in rural areas where administrative records are not as well-kept.

It is also important to keep in mind that even workers who fall below the minimum tax threshold should be encouraged to declare taxes. Although they earn below the threshold, and so do not have to pay taxes, simply declaring taxes brings them closer to the formal economy and gives them access

⁵⁴ Brown, Ryan. Photograph. *Flickr*. Victoria, Seychelles: Yahoo!, January 14, 2017. UN Women. <https://www.flickr.com/photos/worldbank/5321187768>.

⁵⁵ Capasso, Salvatore, Ceyhun Elgin, Sergiy Kasyanenko, Gene Kindberg-Hanlon, Wee Chian Koh, M. Ayhan Kose, Shu Yu, et al. Edited by Franziska Ohnsorge and Shu Yu. *The Long Shadow of Informality: Challenges and Policies*.

to more of the banking system. This can enable people to take out loans and palace deposits, which opens up greater opportunities for them.

Expanding Access to Finance

Workers in the informal economy largely lack access to finance, which limits their ability to expand their businesses, makes it harder for them to save their money, and makes payments more difficult. Increasing access to finance means spreading access to credit, including loans and credit cards, and opening more bank accounts. It offers great benefits for individuals as well as an opportunity for economic growth for the country as a whole.⁵⁶ It also pairs well with other initiatives such as expanding energy access and reducing female inequality due to its ability to expand funding.

The most straightforward method of expanding banking access is to expand bank locations. Some countries, such as India, require a portion of new bank locations to be in under-served areas.⁵⁷ Banks are also required to set targets for opening branches and small-size accounts. These requirements are often accompanied by government programs to expand public banks, such as Mexico's Banco del Bienestar, which is in the process of constructing 2,700 new locations.⁵⁸ Utilizing public banks is particularly useful for bringing access to the most remote regions of a nation where private banks may otherwise not go to.

Public initiatives have also proven successful in increasing the number of bank accounts. The largest of these initiatives was the Pradhan Mantri Jan Dhan Yojana in India, which opened several hundred million accounts over five years.⁵⁹ It was accompanied by a broader push to introduce accounts requiring zero or low minimum balance, which brought in individuals who otherwise would not be able to afford an account. Reductions in the documentation required, the elimination of overdraft

⁵⁶ Maravalle, Alessandro, and Alberto Gonzalez Pandiella. "2. Expanding Access to Finance to Boost Growth and Reduce Inequalities." OECD Economic Surveys: Mexico 2022 | OECD iLibrary. OECD. Accessed September 11, 2022. <https://www.oecd-ilibrary.org/sites/2239c51c-en/index.html?itemId=%2Fcontent%2Fcomponent%2F2239c51c-en>.

⁵⁷ Gang, Ira N., Rajesh Raj Natarajan, and Kunal Sen. "Finance, Gender, and Entrepreneurship: India's Informal Sector Firms." *The Journal of Development Studies* 58, no. 7 (2022): 1383–1402. <https://doi.org/10.1080/00220388.2022.2061855>.

⁵⁸ Maravalle, Alessandro, and Alberto Gonzalez Pandiella. "2. Expanding Access to Finance to Boost Growth and Reduce Inequalities." OECD Economic Surveys: Mexico 2022 | OECD iLibrary.

⁵⁹ Gang, Ira N., Rajesh Raj Natarajan, and Kunal Sen. "Finance, Gender, and Entrepreneurship: India's Informal Sector Firms." *The Journal of Development Studies*.

fees for certain accounts, and partnerships with local governments all contributed to the success of the program.

Opening bank accounts for minors is also a viable long-term strategy. By simplifying the process for opening accounts for beneficiaries, workers who are signing up for their first account can also enroll their children. Countries with social programs designed for families or children can open accounts for the beneficiaries, and introduce regulations controlling access to the accounts until a certain age to protect against abuse.⁶⁰



Figure 7: A rural bank in Mamfe, Ghana.⁶¹

⁶⁰ Maravalle, Alessandro, and Alberto Gonzalez Pandiella. "2. Expanding Access to Finance to Boost Growth and Reduce Inequalities." OECD Economic Surveys: Mexico 2022 | OECD iLibrary.

⁶¹ Ernst, Jonathan. Photograph. Flickr. Mamfe, Ghana: Yahoo!, June 19, 2006. World Bank. <https://www.flickr.com/photos/worldbank/5321187768>.

Digitization

Digitization presents another important avenue for expanding access to the financial system.

Developing digital payment systems could offer a more inclusive economy, and it also is a chance to educate workers about finance.⁶² But digitization is not just limited to payment, and can also encompass changes to how credit scores are reported, which could improve an individual's ability to get loans, and broader aspects of digital identity and security. All of these aspects are opportunities to address the issues of the informal economy, even if they may not directly move people into the formal economy.

Digital payment systems offer a way to bring people into the formal economy without the barriers of other forms of banking, and if widely adopted can be almost as convenient as cash. In an open system, any of the payment service providers—think banks or Venmo—would be able to send money to any other service or individual. The open nature of the system is important to avoid monopolistic fees and limitations on growth.⁶³ To be clear, these systems are different from simple mobile payments which are already common across the globe. Although useful, such systems are limited by their adoption rate and are not particularly practical for running small businesses.

Government regulation is necessary to make sure that the different payment systems can transfer money to each other. In countries that already have digital payment systems, the task is to get them to communicate with each other rather than creating another additional system. At the same time, there may be parts of the world where digital payments are not widespread, and there the focus should be on encouraging their development. The real ability of the government is to encourage collaboration between companies and banks and promote the adoption of digital payment systems in the informal economy. Developing things such as standards for verifying identity—for example by requiring the use of state IDs when creating accounts—and subsidies for reducing consumer costs can go a long way toward making digital payments more convenient.

⁶² Maravalle, Alessandro, and Alberto Gonzalez Pandiella. "2. Expanding Access to Finance to Boost Growth and Reduce Inequalities."

⁶³ *Ibid.*

For an individual or business in the informal economy, the greatest draw of the formal economy is the ability to access credit. Being able to get a loan to start a business or buy a house is a life-altering opportunity that many people are unable to access because they work in the informal economy and do not have the credit data required. A bank will rarely make a loan to a person who has no credit history, and if they do it will be at a higher rate because of the risk.⁶⁴

However, with the rise of digitalization, individuals leave behind records that can be of use to lenders.⁶⁵ Things such as records of digital payments can demonstrate to lenders that a business has customers and is making money, and so is proof that a loan is a good idea. This alternative data has the potential to give workers in the informal economy access to loans but needs to be done in a way that is regulated and fair.

An important step is figuring out how to prove that an individual is who they claim they are. Some type of identifier, be it a government ID or bank account, is needed to connect a person to their digital records.⁶⁶ This question is particularly pronounced in areas with limited access to the internet, where a family might have only one computer or phone. Making sure that everyone has equal access to credit is necessary to prevent inequality.

Sharing data is another issue that must be addressed. Ideally, an individual would be able to go to any lender and not have to worry that some important data would be left out.⁶⁷ Government centralization is an option, but also comes with administrative overhead and questions of privacy. A good solution must also address the fact that many developing nations don't have the resources to pour into such new industries, so drawing on existing programs is a must.

⁶⁴ *Ibid.*

⁶⁵ Andre Wirjo, Sylwyn Calizo, and Rodrigo Balbontin. *Stepping Outside the Shadows: Informality and Digitalization*. Asia-Pacific Economic Cooperation, April 2022. https://www.apec.org/docs/default-source/publications/2022/4/stepping-outside-the-shadows-informality-and-digitalisation/222_psu_informality-and-digitalisation.pdf?sfvrsn=80c289d1_2.

⁶⁶ *Ibid.*

⁶⁷ *Digitalization and Informality: Harnessing Digital Financial Inclusion for Individuals and MSMEs in the Informal Economy*. G20 Argentina Presidency 2018. Accessed September 12, 2022. <https://www.oecd.org/g20/G20-Policy-Guide-Digitisation-and-Informality.pdf>.

Vocational Training and Education

Within the informal economy, most of the skills and education of workers are developed on the job. Although the average worker entering the informal economy has received more education than a worker a generation ago, they still lack the same schooling and training as a worker in the formal economy. By expanding the education system and providing opportunities for vocational training, workers can gain the skills needed to move into the formal economy. When combined with greater opportunities for entrepreneurship, greater vocational training has the potential to create large numbers of small businesses and jobs.

A vocational training program can combine in-school education with work in a local business. An example is the Egyptian GIZ project, where students spend two days in school and four days working. Each region has a body pairing up students and businesses, and at the end of the program teachers and employers evaluate the students and grant a diploma. It is based on the German model, which has proven remarkably successful. Such combined programs have been shown to teach the necessary skills and often result in jobs for students.

Although a program should ideally include formal education, a program can consist entirely of apprenticeships. The issue lies in ensuring that students learn all the necessary skills and that working conditions are fair and safe. This can be in part addressed by educating craftsmen on best practices and incorporating their insights into the design of the final program exam. The BEP-STAR project in Bangladesh offers some ideas for improving the quality of apprenticeships. It offered training to craftsmen and monitoring of work conditions as well as microfinance opportunities for students. Compliance monitoring and skill logs helped ensure that all students received a similar education. It also incorporated one day a week of formal education in nearby training centers, but some of those benefits could be replicated in other settings.

Vocational programs should be designed to address the needs of the local economy and local entrepreneurs. It is important to identify skills that will be needed in the future and which can get

workers jobs as soon as they graduate.⁶⁸ These programs have a high cost for participants even if they are free because they take up time that otherwise could have been spent earning money. For those with limited savings this is a significant concern, and so to draw in participants the program must make that lost time worthwhile. In the short term, programs should emphasize basic education and soft skills which can benefit almost any worker, but over time greater autonomy needs to be given to local programs so that they can identify the most useful skills to teach.

These programs can also be incentives for businesses to formally register. As an example, an agricultural skills development program in Bosnia and Herzegovina between 2010 and 2012 required farmers to register as agricultural producers and formalize their employees.⁶⁹ The program offered funding and technical assistance and led to the number of workers registered in the agricultural sector to increase sixfold. It illustrates the benefits of collaboration across government agencies and also helps stretch limited resources further.

Other vocational programs delegates can look at include Jobs for Youth Strategy for Africa by the African Development Bank, the ILO STED program in Myanmar, and the Human Security Through Inclusive Socioeconomic Development in Upper Egypt project by the UN. All of these programs highlight practical ideas and different approaches to the problem.

Another important element is validating skills that have been developed informally. Creating a “skills passport” is one option, which can be accomplished by partnering with labor associations and employers.⁷⁰ If possible, incorporating testing of some sort also goes a long way towards establishing legitimacy.

On a larger scale, expanding schooling as a whole has been shown to drive formalization. One case study in Brazil found that increased schooling was the greatest reason for the reduction of the

⁶⁸ Larsen, Christa, Sigrid Rand, Alfons Schmid, Vyacheslav Bobkov, and Vyacheslav Lokosov. “Assessing Informal Employment and Skills Needs: Approaches and Insights from Regional and Local Labour Market Monitoring,” 2019, 23–40. <https://doi.org/10.978.395710/3598>.

⁶⁹ Larsen, Christa, Sigrid Rand, Alfons Schmid, Vyacheslav Bobkov, and Vyacheslav Lokosov. “Assessing Informal Employment and Skills Needs: Approaches and Insights from Regional and Local Labour Market Monitoring.”

⁷⁰ *Ibid.*

informal economy from 2003 to 2012.⁷¹ The question of how to expand schooling is a massive topic in and of itself, but key facets include improving access to resources, collaborating with local NGOs and stakeholders, and addressing issues that keep children out of school.

⁷¹ Haanwickel, Daniel, and Rodrigo R. Soares. "Fighting Employment Informality with Schooling." *IZA World of Labor*, October 2017. <https://doi.org/10.15185/izawol.394>.

Bloc Positions

Countries with High Levels of Informality

Primarily constituting countries in sub-Saharan Africa and South America, and South Asia, these economies are focused on all aspects of informality. These countries have felt the impacts of informality across all levels of the economy which means they need all-encompassing solutions to not only deal with the problems leading to informality, but also with creating systems that will facilitate the formalization of their economies. In many of these cases, these economies are dealing with high levels of unemployment and economic growth driven by survival, not innovation. These countries, however, also stand to benefit from massive overhauls of taxation regimes and other solutions which could lead to high levels of sustainable and inclusive growth. While poor economic conditions have stifled these countries, the right policy could be the key to unlocking growth in the economy. Therefore, it is in the interest of these countries to work on helping the individual informal worker develop their business and contribute to the economic development of their community and thus, their country. The most powerful growth will come from within, not from external funding sources, although in small amounts they can be useful.

Countries with Low Levels of Informality

With members like the U.S., China, and the European Union, this bloc consists of primarily developed economies dealing with the consequences of non-inclusive economic planning. While these countries don't see high levels of informality, the informality that does exist will be difficult to navigate because it has been the economic development of these countries that has excluded certain groups from reaping the benefits of formalization. These countries have experience—both successful and otherwise—which should inform global policy making decisions. These countries have the ability to offer logistical and technical support through their experiences to the previous bloc. While investments from these countries is a realistic possibility, these countries also have their own problems with informality they must address. It is therefore, in the interest of these economies to focus primarily on injecting capital and resources into their own problems while providing the tools and support to the previous bloc to work on formalizing their economies.

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