

# Informality and inclusive green growth

Evidence from 'The biggest private sector' event

25 February 2016, London, UK



# Acknowledgements

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P15: *clockwise from top*: "Store" by Maxi Koichi / "hands" by Anton / "Wheelbarrow" by Round Pixel / "Mine" by Edward Boatman / "Technician" by Dirk-Pieter van Walsum / "Work for Food" by Luis Prado / "Organic" by Sina & Marie

P16: "Male" by Egorova Valentina / "Female Symbol" by Zlatko Najdenovski

P22: "Recycle" by jayson lim

P25: "Handshake" by Lauren Manninen / "Conversation" by Rick Pollock / "business idea" by Gregor Črešnar

P31: "homeless person" by Vicons Design

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P62: "Speech" by Edward Boatman / "Handshake" by Martin Baudin / "Networking" by Daouna Jeong

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# About this document

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On the 25th February 2016, in London, IIED and partners hosted a conference to help build a new policy agenda for integrating the informal economy into inclusive green growth and sustainable development. It was titled 'The biggest 'private sector': what place for the informal economy in green and inclusive growth?' and featured speakers from research, policy and practice, including from Brazil, Ethiopia, Ghana, Indonesia and South Africa.

Together, participants demonstrated the variety and vigour of informal economies around the world, shared lessons and benefits, explored challenges for formalisation and highlighted success stories.

This document captures some of the evidence and insights presented at that event and summarises the key discussion points made on the day. It is not intended as a comprehensive general reader on informality and green growth.



# 1 THE OPPORTUNITY

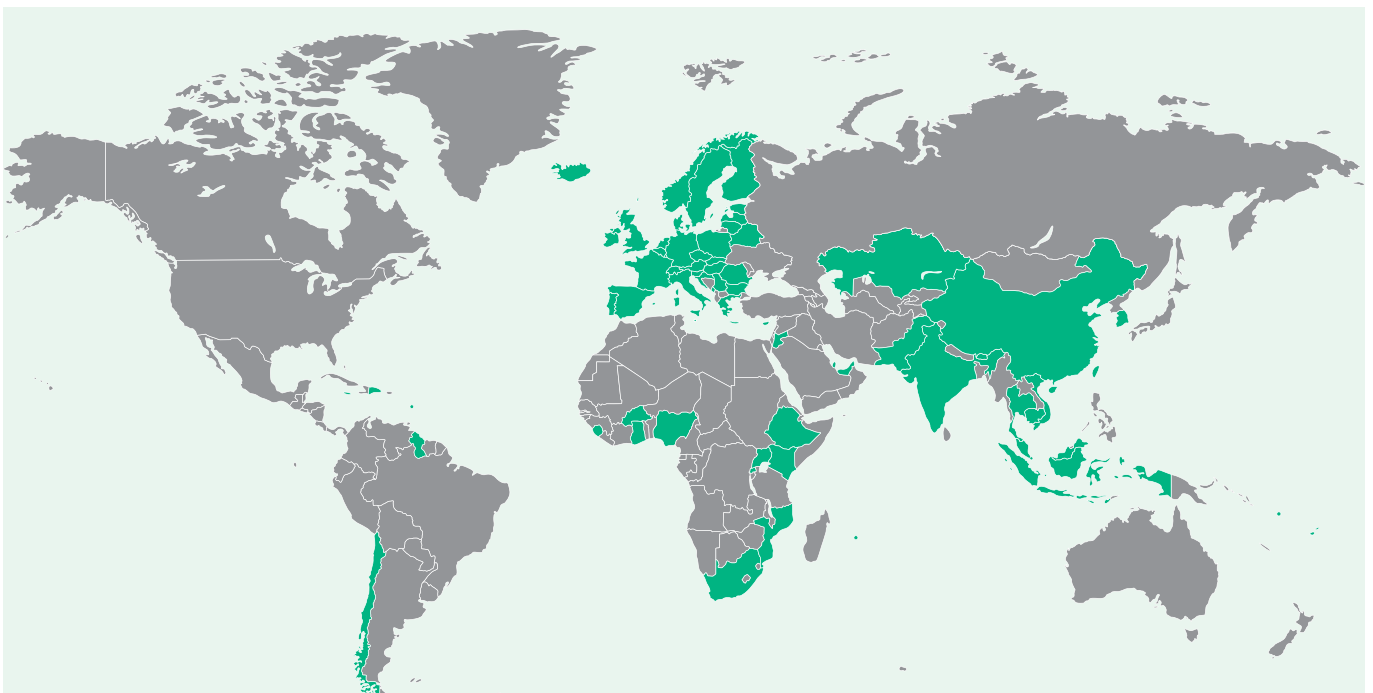




## The idea of **green growth** is attracting real interest and the backing of some powerful institutions.

- At a **national level**, nearly a third of all the world's countries are developing a plan for green growth
- At an **international level**, many of the world's 'big players' are busy establishing green growth architecture, including: OECD, World Bank, regional development banks, UN PAGE. New institutions such as the Global Green Growth Institute are also emerging to support green growth planning and implementation
- **Private companies** such as Unilever are implementing green growth plans. And a growing number of **accounting bodies** are beginning to engage with natural capital accounting
- Ethical Markets Media estimates that US\$ 6.22 trillion is now going towards green economy every year. That is equivalent to **10% of global GDP**.

**US\$6.22 trillion** now going towards green economy every year



Source: Benson, E (2016) [The missing majority](#), presentation at 'The biggest private sector' event.

On paper, there is widespread acknowledgement that the reform agenda for green growth must work for **everybody**.

“*Leave no one behind*  
Sustainable Development Goals (SDGs) promise

“*Inclusive growth*  
Green economy promise

In practice, these promises are manifesting themselves in global targets and indicators, and donor strategies that **focus on**:

#### World's poorest and most vulnerable



#### Women and girls



#### Ethnic minorities









# 2 WHY THE INFORMAL ECONOMY?





## Despite the focus on an 'inclusive' agenda, **only 25% of countries** mention the informal economy in their ambitions or plans of action.

- Green growth plans include the use of diverse policies and tools, including standards, procurement, certification, financial mechanisms, green research and development and natural capital accounting
- All these have implications for informal enterprises and workers
- And yet there is not much thought given to how green growth will work with informal markets.



**Only 15 out of 60** national green economy plans (25%) make explicit mention of the informal economy

*“We must know what green growth means for the informal workforce and start working out how it can get a stake in this agenda.”*

Oliver Greenfield,  
Green Economy  
Coalition



Source: Benson, E (2016) [The missing majority](#), presentation at 'The biggest private sector' event.



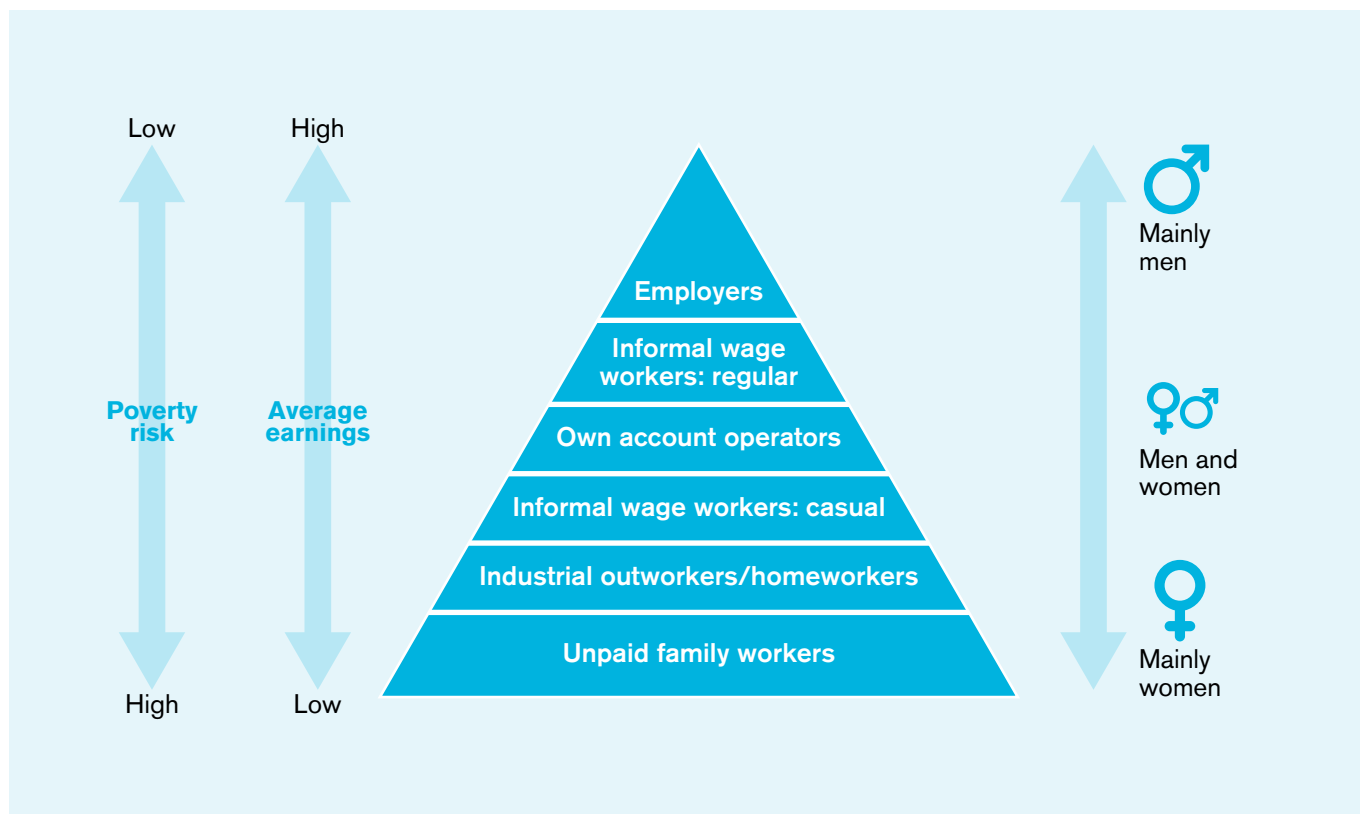
# Inclusive green growth agendas cannot afford to ignore the informal economy for **three key reasons:**

## One

Most of the world's poorest and most vulnerable people live and work in the informal economy.

More than half the workforce in developing countries is employed in the informal economy. Of course, not all informal workers are poor — and not all working poor are engaged in the informal economy. But there is significant overlap between working in the informal economy and being poor.

Without including the informal economy in development strategies, we cannot deliver on the SDGs — specifically, the commitment to 'leave no one behind'.



Source: Chen, M (2012) "The Informal Economy: Definitions, Theories and Policies". WIEGO Working Paper # 2.

## Two

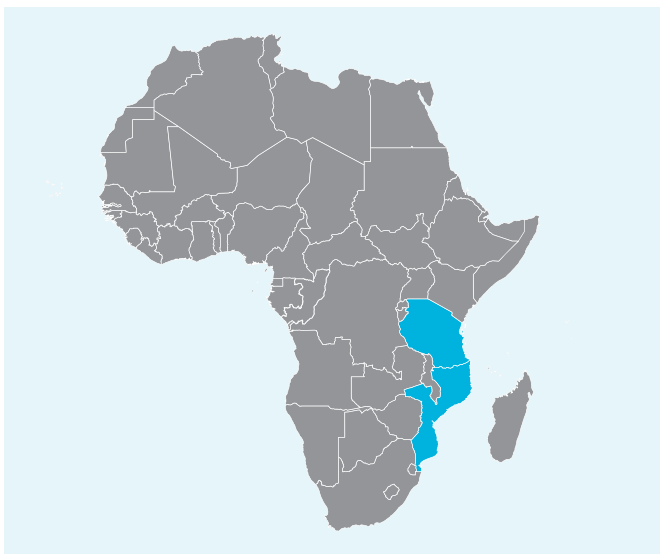
The informal economy is closely tied to the state of the environment.

- Many poor people depend on natural resources to support their informal economic activities
- This means they are particularly vulnerable to the impacts of climate change and environmental degradation, which exacerbate the poverty cycle
- Informal activities that depend on natural resources can be environmentally damaging. Artisanal mining and charcoal production, for example, are both associated with environmental pollution and degradation.

• **The link between deterioration in natural resources and drop in incomes is direct**

*“It is critical that...the social and environmental agenda meet in serious ways. Otherwise we risk losing out on the necessary green transformation and doing collateral social damage in the process.”*

Peter Poschen, International Labour Organization



In **Tanzania** and **Mozambique**, environmental change and degradation — including overfishing, coastal erosion, oil pollution, coral reef destruction and climate change — are threatening the livelihoods of hundreds of thousands of artisanal fisherfolk.

**Sources:** Benson *et al.* (2014) *Informal and Green? The forgotten voice in the transition to a green economy*. IIED Discussion Paper. IIED, London; Peter Poschen, ILO, speaking at 'The biggest private sector' event.

### Three

The informal economy will not vanish any time soon.

Both the SDG indicators and individual donor strategies for green growth place a heavy emphasis on creating jobs. But the formal economy simply cannot generate employment at the scale required to make a real dent on poverty.

## 1 billion jobs

The World Bank estimates that developing countries will need to **create 1 billion more jobs** by 2030 to match their growing young populations



“*Transformation to a waged economy is simply not going to happen in this generation or the next – informal workers are here to stay.*”

Louise Fox, University of California

“*Even during the good economic years, the formal economy has not had enough capacity to create the number of wage jobs needed. People who create their own jobs will be with us for decades to come. There is no conceivable pattern of growth that will take that problem away.*”

Peter Poschen, International Labour Organisation







# 3 ABOUT THE INFORMAL ECONOMY





## There are **official international definitions** of informal enterprises and informal employment. The label “informal” should not be confused with “illegal”.

- The number of people who operate in the informal economy because they are purposefully avoiding being regulated or paying tax (the 'evaders') represent a very small minority of informal workers
- The vast majority of informal workers are the working poor, trying to earn a living. Many pay informal taxes but for most, existing regulations are often irrelevant or inappropriate and formal taxes or tax thresholds generally do not apply
- Those dealing with illegal goods and services are not part of the informal economy and not captured in related statistics.

*“The whole of the informal economy should not be tarred by the same brush as illegals or evaders.”*

Marty Chen,  
WIEGO



*“It is really important that we use these definitions consistently and precisely.”*

Marty Chen,  
WIEGO

### DEFINITIONS

The International Conference of Labour Statisticians (ICLS) provides international definitions of two elements of the informal economy:

#### INFORMAL SECTOR:

unincorporated enterprises that may also be unregistered and/or small

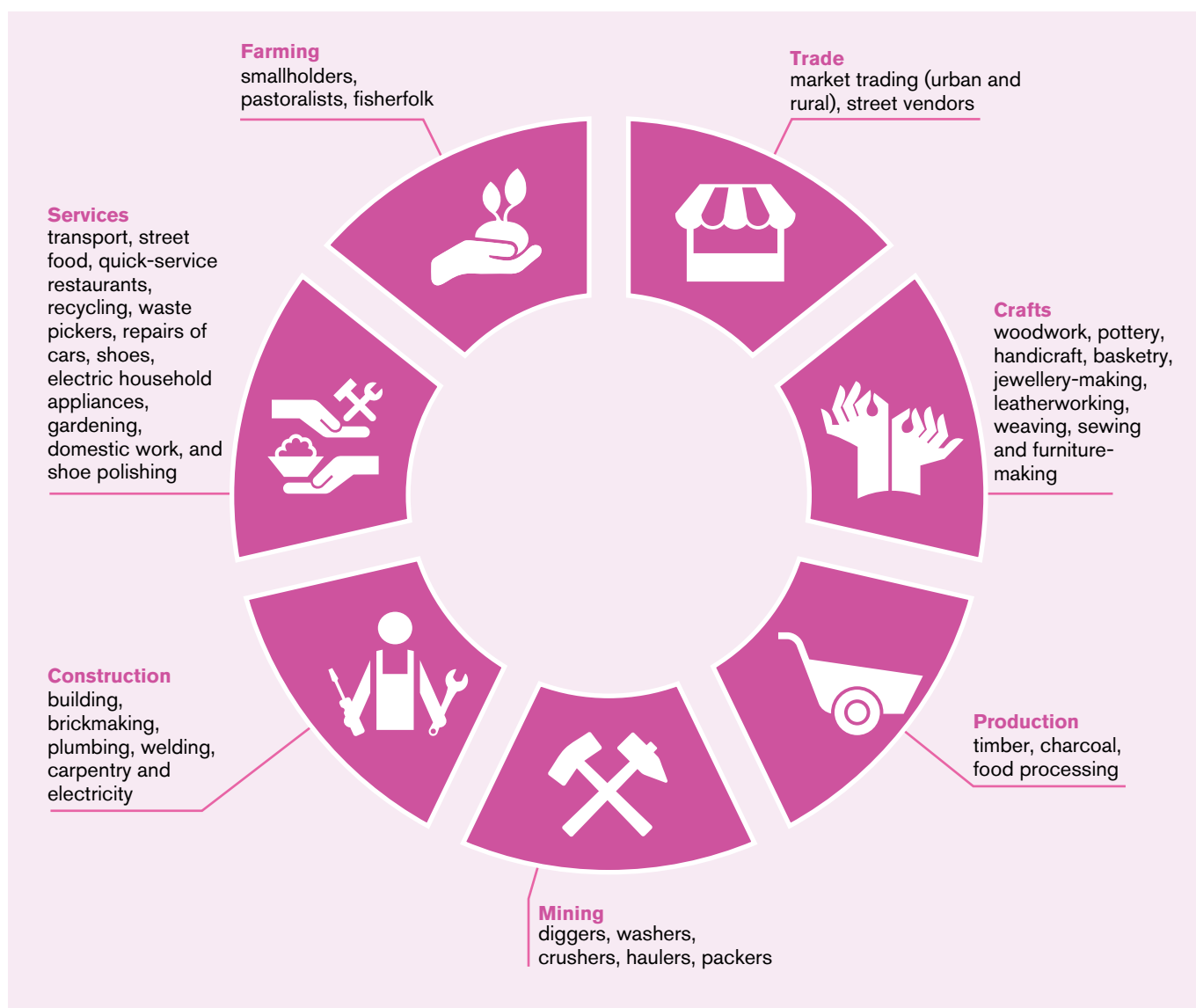
#### INFORMAL EMPLOYMENT:

jobs or work without employment-based social protection in informal enterprises, formal firms or households

**Sources:** ICLS (1993) [Resolution concerning statistics of employment in the informal sector](#), 15th ICLS; ICLS (2003) [Guidelines concerning a statistical definition of informal employment](#), 17th ICLS.



## The informal economy is extremely diverse in terms of **occupation**.



## Add these all together, and the informal economy is worth trillions of dollars.



Men account for 71.3% of the informal economy's contribution to gross value added (GVA)\*;



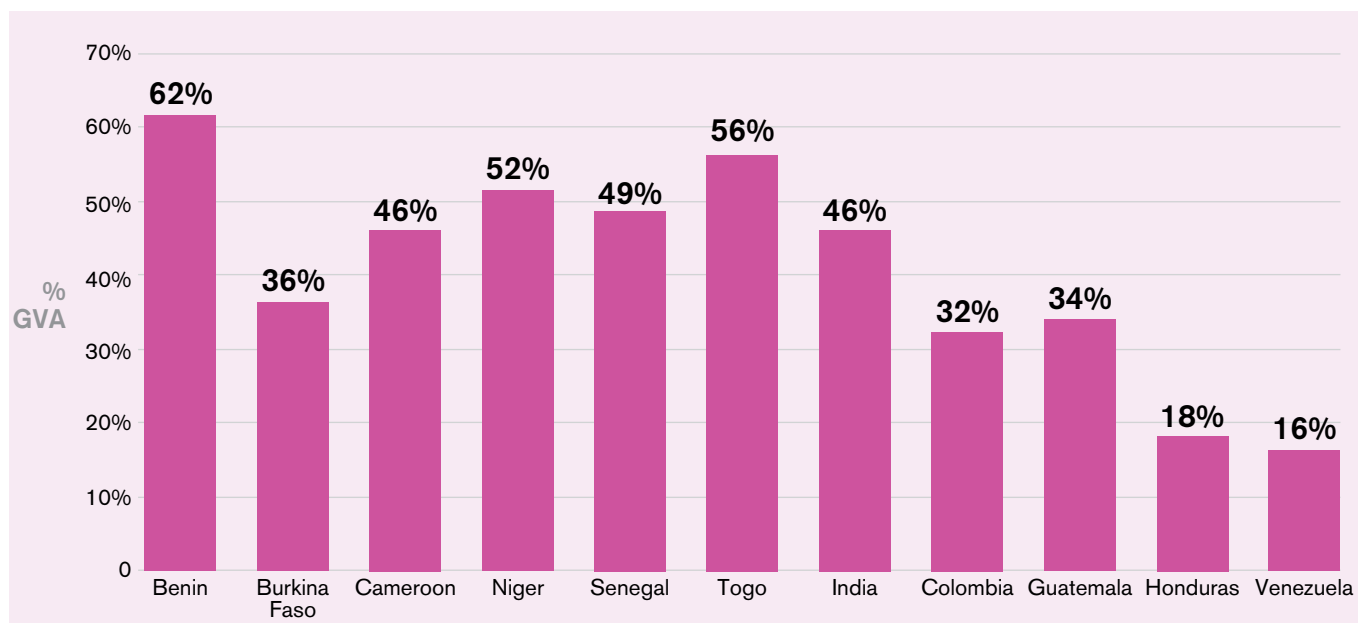
Women account for 28.7% of it.

GVA is the measure of the value of goods and services produced in an area, industry or sector of an economy. In national accounts GVA is output minus intermediate consumption. Men predominate in the kinds of work in the informal economy where average earnings are highest and women predominate at the bottom of the pyramid (P9). There are some sectors in the informal economy where women are in an absolute majority, notably domestic work and home-based work.

The informal economy is estimated to be worth:

# US\$10 trillion

(About 13% of world GDP)



In many developing countries, the informal economy contributes more than a third of GVA.

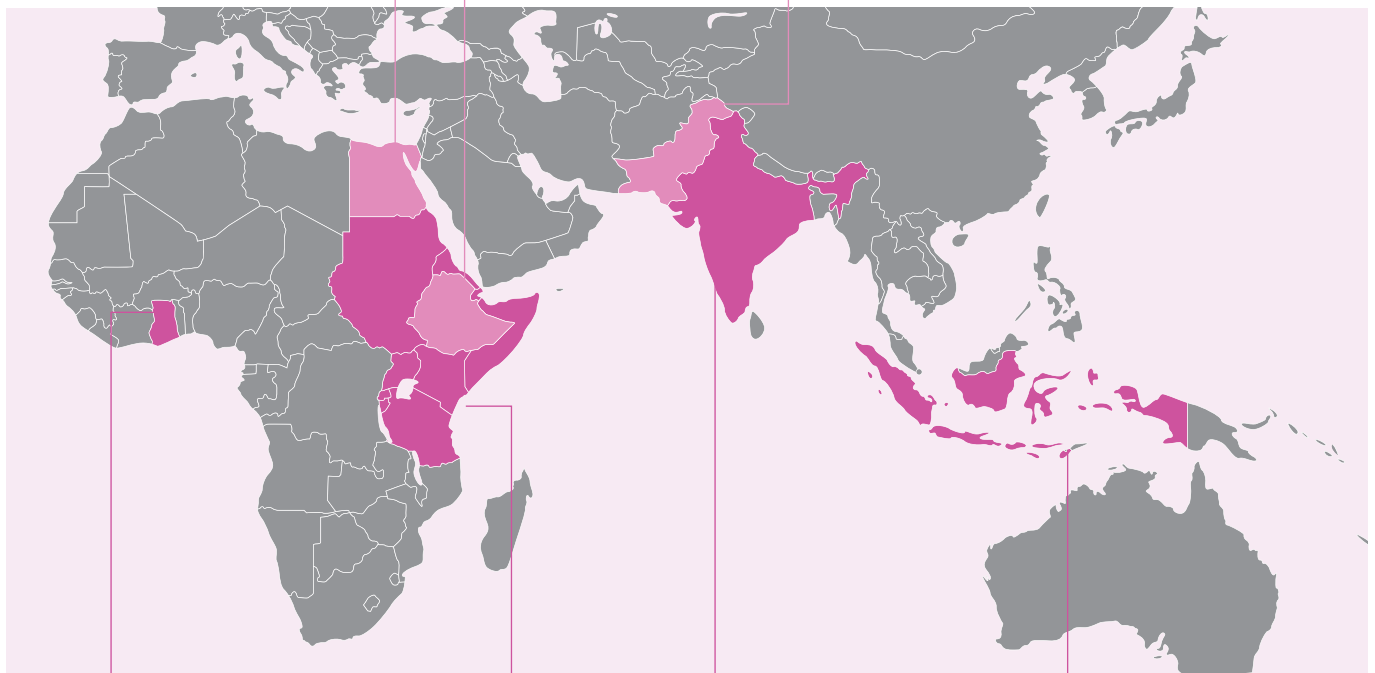
Source: ILO (2013) [Women and men in the informal economy: a statistical picture](#), ILO, Geneva.

## Many of the **goods and services** used by nations, businesses, communities and households are provided by the informal economy.

In **Cairo**, informal waste pickers recover 979,400 tonnes of material (40 per cent of total waste) — compared with just 433,200 tonnes (13 per cent) recovered by the formal waste sector.

**Tanzania's** informal artisanal miners produce approximately 1.3 million ounces of gold each year

**Pakistan** is the largest manufacturer and exporter of match grade footballs, generating more than 80 per cent of world production. More than half (58 per cent) of football stitchers in Pakistan are female informal homeworkers.



In **Ghana**, the informal sector supplies 80 per cent of the lumber used on the domestic market.

In 2013, three million tonnes of staple foods were traded informally across **East Africa**.

An estimated 30 per cent of the waste in **Mumbai** is collected informally.

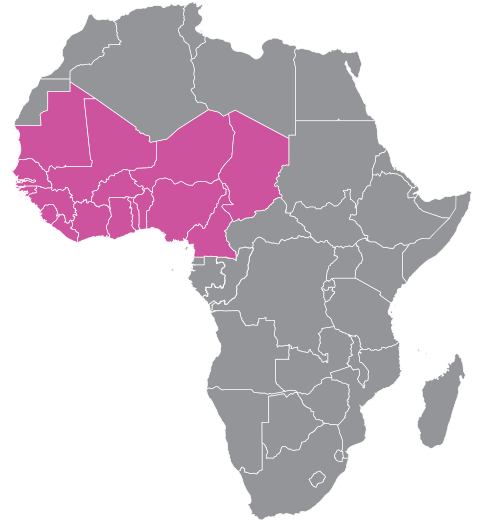
In **Indonesia**, informal chainsaw millers provide the domestic market with approximately 1.4 million cubic metres of sawnwood each year.

**Sources:** WIEGO, *About the informal economy*; Scheinberg, AM *et al.* (2010) *Economic Aspects of the Informal Sector in Solid Waste Management*, GTZ and the Collaborative Working Group on Solid Waste Management in Low and Middle Income Countries (CWG), Eschborn; Presentations at 'The biggest private sector' event (IIED).



**In 2010, the West African food economy was worth **US\$175 billion**. At four times the size of Ghana's GDP, this is the region's biggest informal sector.**

*“In West Africa, the food economy is much more than just agricultural activities. Post-farm activities already make up 40% of the sector's GVA and will increase spectacularly over the coming years. And it's mainly informal.”*



Philipp Heinrigs, Sahel and West Africa Club Secretariat, OECD



Production of food to sell in markets is often informal



Most processing is done by women



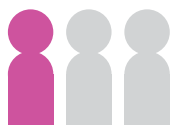
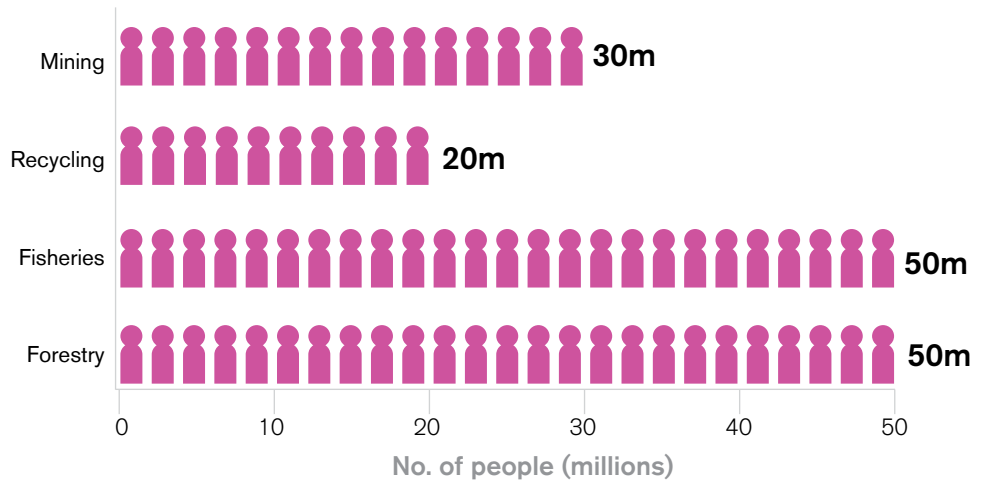
Transforming food employs a growing share of the population and is largely informal

Source: Philipp Heinrigs, Sahel and West Africa Club Secretariat, OECD, speaking at 'The biggest private sector' event.

## Across the world, millions of people live and work in the informal economy.

“The informal economy is not just the bottom of the pyramid. It is the broad base of the economy.”

Marty Chen,  
WIEGO

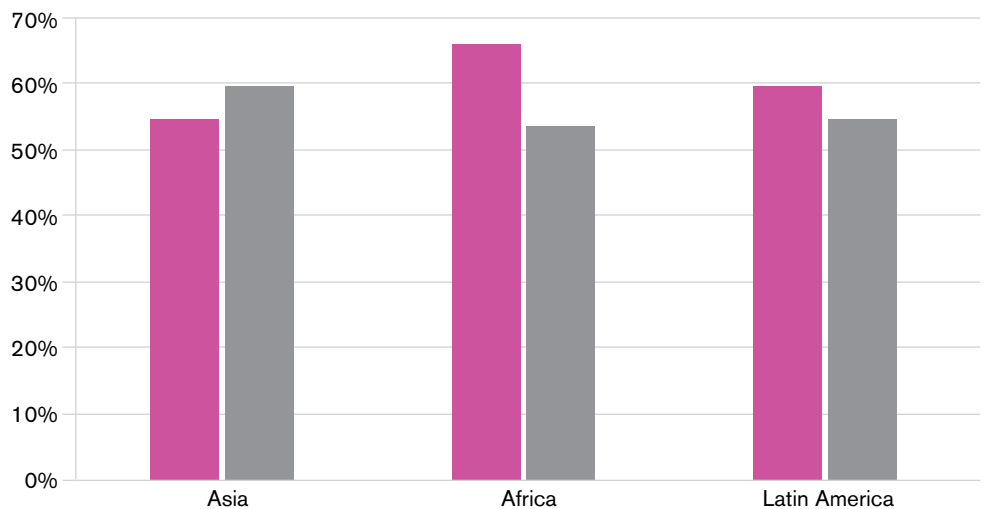


1 in 3 workers in the world

depend on agriculture for their livelihood; most are informal, subsistence farmers

Informal employment as a proportion of total non-agricultural employment, by sex

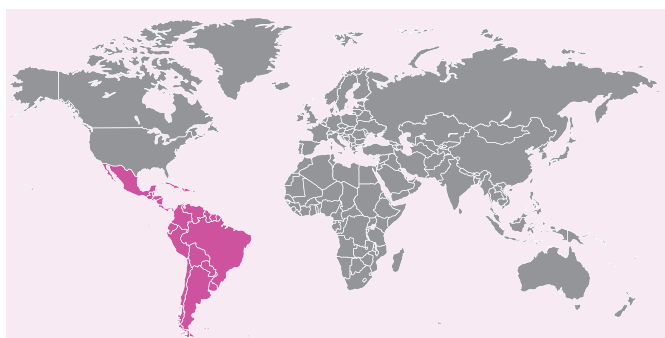
Women Men



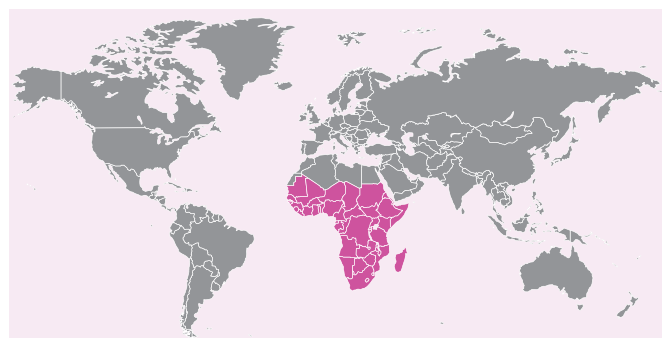
Source: ILO and WIEGO (2013) Women and Men in the Informal Economy: A Statistical Picture.



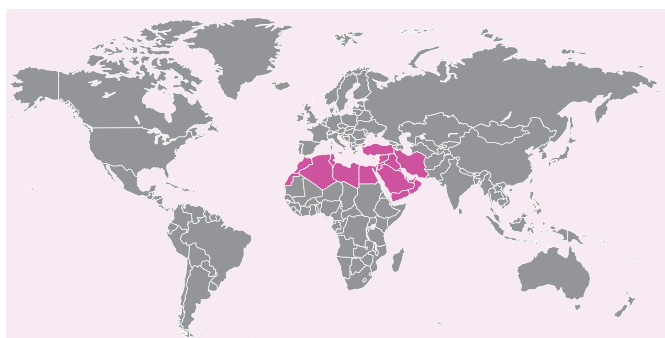
**In many developing countries, the informal economy employs **more than half the workforce.****



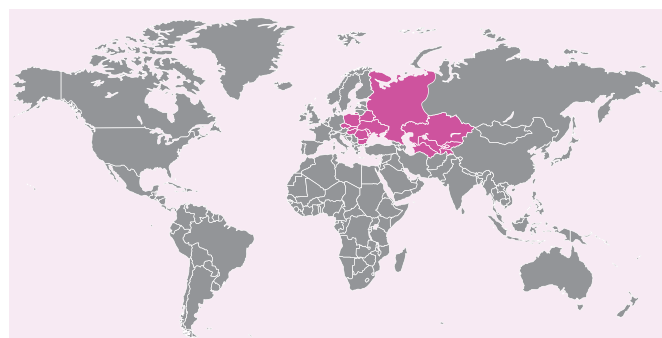
Latin America **51%**



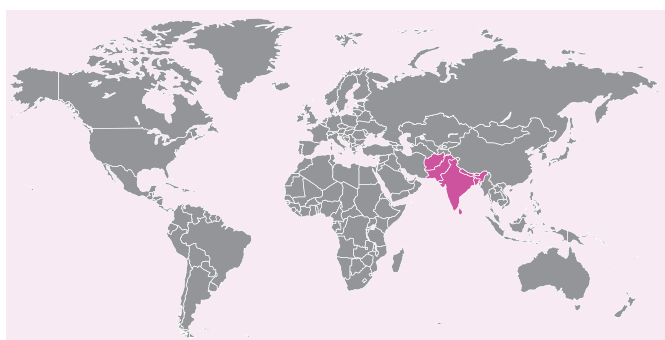
Sub-Saharan Africa **66%**



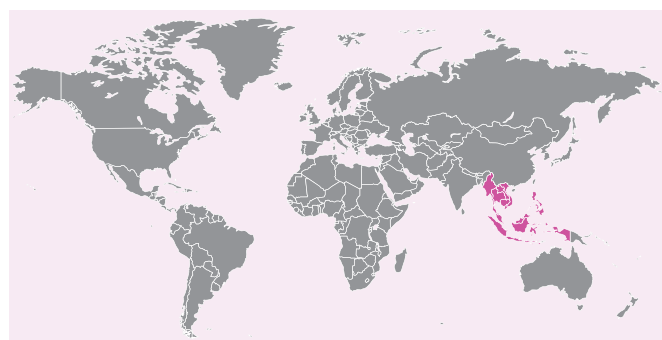
Middle East and North Africa **45%**



Eastern Europe and Central Asia **10%**



South Asia **82%**



East and Southeast Asia **65%**

**Source:** Vanek, J *et al.* (2014) Statistics on the Informal Economy: Definitions, Regional Estimates and Challenges. WIEGO Working Paper (Statistics) 2 <http://wiego.org/sites/wiego.org/files/publications/files/Vanek-Statistics-IE-WIEGO-WP2.pdf>

## For these people, the informal economy is not just a source of income, it is also a key strategy for resilience.

“Labour statistics are based on the primary source of income – add in secondary ones and the number of people engaged in the informal economy will soar.”

Marty Chen, WIEGO

### One

**Secondary stream of income:** even if the main source of income comes from formal employment, research shows that many poor households use the informal economy as a secondary source to boost their earnings and protect against risk.

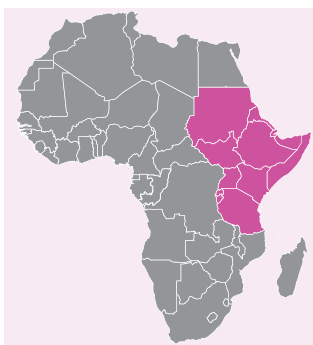
### Two

**Diversified sources of income:** in rural areas, poor households often rely on a non-farm business alongside their agricultural activities to ensure they can cope with shock and stress.

### Three

**State substitute:** in many regions of the world, informal activities are often used to provide a buffer as a substitute for the lack of state social protection.

**50%** of rural households in **East Africa** have a non-farm business as well





## There are lots of examples of how informal activities can and do support a green economy.

### One

Urban waste pickers contribute directly to green growth.



#### *What is a waste picker?*

*Waste pickers extract and reclaim reusable and recyclable materials from mixed types of waste that others have cast aside.*

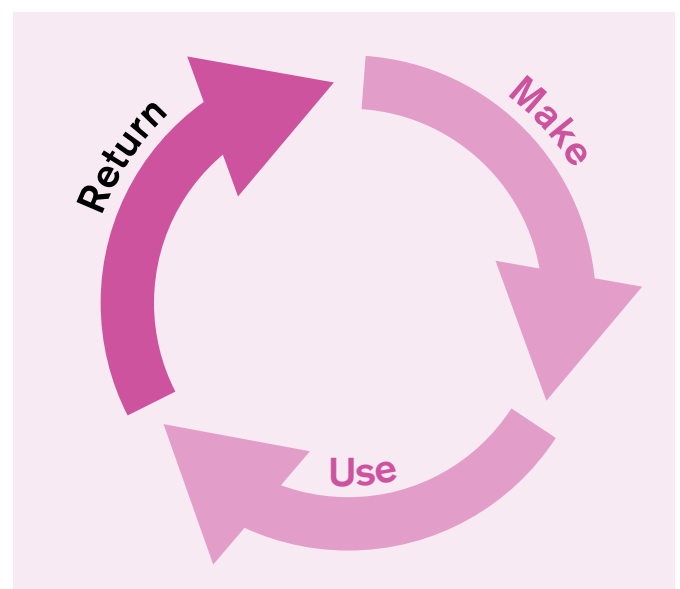
A 2007 study of waste pickers in six cities found that more than

**80,000 people**

were responsible for recycling about **3 million tonnes** of waste each year



Waste pickers support a circular economy by closing the loop in the make-use-return cycle.



**Source:** Scheinberg, AM *et al.* (2010) *Economic Aspects of the Informal Sector in Solid Waste Management*. GTZ and the Collaborative Working Group on Solid Waste Management in Low and Middle Income Countries (CWG), Eschborn.

## Two

## Small-scale farmers keep a landscape of diversity.



In the **Peruvian Amazon**, small-scale agriculture is practised on a wide scale. Smallholders here have a poor public image of slashing and burning their way through the world's largest rainforest and blocking the road to social and environmental development.

But the idea that these farmers do nothing to support inclusive green growth is simply not true.

“*The green growth directive is against smallholders but we need to rethink the idea that they're not about being green, growing or inclusive. Compared to alternative land uses, they might be the best option for green growth.*

Alejandro Guarín, German Development Institute

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**Inclusive** It is true that smallholders are poor and that their activities often promote or sustain a poverty trap. This is a group that systematically lags in socio-economic indicators. But they have little choice: the reach of the state in these remote regions is very weak, with no options to access government support services.

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**Green** Smallholders are cutting down the forest. But compared with palm oil or soya plantations, this is land conversion on a tiny scale. They don't cut down many trees and they maintain a mosaic landscape that is much more diverse than any plantation; and produces much more value than just food.

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**Growth** Smallholders produce things of value. They are feeding the people of the Amazon and also growing cash crops for their families and local communities.

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Source: Alejandro Guarín, German Development Institute, speaking at 'The biggest private sector' event.



## But the association between being 'informal' and being 'green' is not always clear cut.

- In many cases, the green side of the informal economy reflects constraints on access to technology or energy, rather than a deliberate and inherently greener pattern of behaviour
- In many informal sectors, the limited reach of environmental regulations means that pollution rates can be high, and environmental degradation severe
- Hazardous waste sites, poor land, air and water quality, species loss and greenhouse gas emissions are all associated with different informal sectors, and in many cases are worse than those of their formal counterparts.

“*Is the informal economy a deliberate green choice? Too often so-called 'green choices' are driven by poverty rather than being intentionally green.*

Vincent Gainey,  
Department for  
International  
Development, UK



## The informal economy offers a source of good thinking and innovation to inform, and be part of, green growth.

“We shouldn't be debating the footprint of the informal economy but, rather, thinking about how it can help us.

Mao Amis, African Centre for Green Economy



### Collaboration

Collaboration is a key currency in the informal economy: competing traders often work together to forge ahead, for example, pooling resources to bulk order goods, or helping to staff each other's stores. They value building coalitions and social capital — we could learn much in collaborating to achieve the elusive unified narrative on green growth.



### Flexibility

The inherent creativity and flexibility that exists within informal sectors open the door to testing new, more inclusive, business models that can then be applied in the mainstream economy.



### Entrepreneurship

Entrepreneurship is a defining characteristic of the informal economy and the best tool for catalysing local economies: the green growth agenda should be trying to work with entrepreneurs.



### Youth engagement

The green growth agenda can learn a lot from how youth engage in informal economies.

Despite the opportunities, many countries — especially in sub-Saharan Africa — do not include the informal economy in their green growth strategies or reform programmes. For example, Tanzania's next five year development plan (2016–2020) is centred on the industrial economy, aiming at boosting industrialisation for economic development.







# 4 SECTOR INSIGHTS





## 4A URBAN ECONOMY





## Informal workers **play vital roles** in the urban economy and help keep their households out of extreme poverty.



An estimated **80%** of households in ten cities across Africa, Asia and Latin America rely on informal employment as their **principal source of income**

The 2012 Informal Economy Monitoring Study (IEMS) of urban informal workers in ten cities highlighted the realities of **three key groups**:

### Home-based workers

Home-based workers produce a wide range of goods for local, national, and international markets. Most have very low and unpredictable earnings, but these are essential in fending off extreme poverty: more than 75% of the IEMS sample belonged to households where the main source of income is home-based informal work.

### Street vendors

Street vendors make up between 2% and 24% of all urban informal employment. They create jobs for porters, guards and transport operators, and generate revenue for local governments. The majority of street vendors — especially in Africa — are women.

### Waste pickers

Waste picking is typically a highly autonomous type of work, where the worker decides what to collect, where to collect it, how and when to collect it, and whom to sell it to. Around three quarters of the IEMS sample rely on waste picking as their main source of income; and up to 90% do waste picking all year round.

**Source:** Inclusive Cities and WIEGO (2012) [The Informal Economy Monitoring Study](#).



## Urban policies have a huge impact on informal workers, often making livelihoods less safe and less secure.

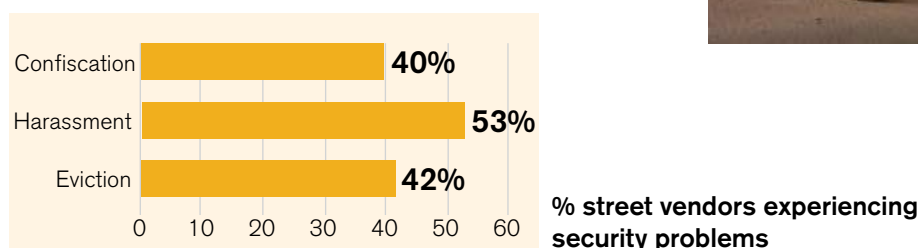
“The way that the label ‘informal’ translates into these groups is in multiple layers of vulnerability.

Sally Roever,  
WIEGO  
Urban Policies  
Programme

Home-based workers are directly affected by policies and practices regarding housing (e.g. slum upgrading or slum eviction-relocation schemes), basic infrastructure services (access to electricity, water and sanitation), and zoning regulations.

Policies governing how public spaces can be used affect vendors and can often lead to insecurity of vending sites.

In many cities, waste picking is banned, leading to insecurity and persecution: 47 per cent of IEMS respondents stated that harassment was a key issue. The lack of infrastructure for sorting, storing, and processing recyclables also affects waste pickers' security and productivity.



Sources: Roever, S (2014) *Informal Economy Monitoring Study Sector Report: Street Vendors*. WIEGO, Cambridge; Chen, M (2014) *Informal Economy Monitoring Study Sector Report: Home-Based Workers*, WIEGO, Cambridge.

## Colombia's waste pickers provide one example of a successful pathway towards inclusion and sustainability.



After decades of campaigning, **Bogota's** waste pickers are officially recognised for their work and included in the city's recycling and waste management processes.



**Today** waste pickers are paid as public service providers, receiving a payment every two months based on how much waste they collect

*“This has led to greater job security and a real shift in incentives for informal workers to invest in their own houses, technologies and workspaces.”*

Sally Roever, WIEGO Urban Policies Programme





## We need a **different policy approach** that enables informal workers to effectively negotiate and engage in urban policy definition.

One approach, tried and tested in Accra and Lima, is WIEGO's 'Focal City Approach', which aims to facilitate productive engagement between cities and urban informal workers through the use of three types of platforms.

### One

#### Information sharing platforms

A space for identifying needs and common interests.

### Two

#### Dialogue platforms

A space for talking about needs and building awareness and understanding.

### Three

#### Negotiation platforms

A space for informal workers and governments to negotiate specific issues and make agreements.

*“This different approach hinges on creating multiple spaces where less powerful interest groups can develop their own policy proposals.”*

Sally Roever,  
WIEGO  
Urban Policies  
Programme

### INPUTS ALL THREE PLATFORMS REQUIRE:

#### Capacity-building activities

to help informal workers strengthen their voice

#### A strong knowledge base

of research, statistics and documentation to support evidence-based decision making at the city level



Source: Chen, M (2016) *Inclusive cities for the urban working poor: Lessons from Africa.*

## What else must be done to improve the lives and livelihoods of urban informal workers and strengthen their contribution to green growth?



### Strengthen recognition

Support a continuum of low-level formalisation that helps informal workers move from association to legally recognised association to cooperative to legally recognised cooperative.



### Map stakeholders

Support communities to map key stakeholders, so they can identify who to negotiate and bargain with for supportive policies, practices and services.





## 4B RURAL ECONOMY



## Informality is also a **rural phenomenon**, particularly widespread in agriculture in developing countries.

In regions like **sub-Saharan Africa**, informality in agriculture reveals itself in different ways:

### One

#### Self-sufficiency

In subsistence farming, households focus on growing enough food to feed themselves and their families; this may be categorised as the household economy rather than the informal economy.

### Two

#### Links to markets

Small-scale farmers often establish trading links to rural and urban markets to sell their produce informally.

### Three

#### Supplementary activities

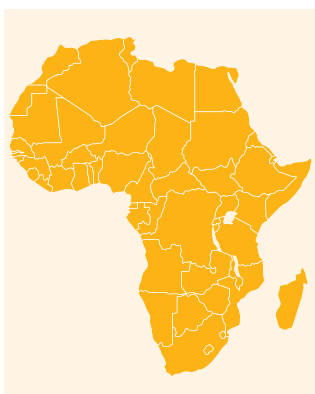
Contracted farmers working in the formal sector may also engage in informal trade to supplement their income.



**1 billion** people in developing countries live on agriculture, and most are informal



## Rural communities also increasingly diversify their income beyond farming; this 'non-farm' work is largely informal.



In **sub-Saharan Africa**, the rural non-farm sector accounts for **40–45%** of average rural household income

In **West Africa**, **25%** of rural dwellers are not engaged in agriculture

In **East Africa**, around **50%** of all rural households have a non-farm business as well

“*Informal non-farm operations are a risk management and livelihood choice for rural households... If agriculture fails, this sector cannot make it because there is a symbiotic relationship.*

Louise Fox,  
University of  
Berkeley

### A ROUTE OUT OF POVERTY

Research suggests that the rural non-farm economy can be a route out of poverty:

- “Non-farm work is associated with higher income and wealth.
- It also presents employment opportunities to the rural youth among whom unemployment is high and livelihood options scarce.” (Weng, 2015)

- The rural non-farm sector includes all economic activities beyond the production of primary agricultural goods. It includes mining, manufacturing, transport, processing among other things
- Across the global South, the rural non-farm sector is growing in significance: it is estimated to provide 35–50% of rural household income in developing countries. In Peru, 99% of this rural business is informal
- Households with little or no land depend heavily on non-farm work to survive. But agricultural households are also reliant on non-farm earnings — as a way of diversifying risk, coping with seasonal changes in income and financing the purchase of agricultural inputs.

**Sources:** Haggblade, S *et al.* (2010) *The Rural Nonfarm Economy: Prospects for Growth and Poverty Reduction*. World Development 38(10); Xiaoxue Weng (2015) *The rural informal economy: Understanding drivers and livelihood impacts in agriculture, timber and mining*. IIED Working Paper. IIED, London.

## The West African food economy is worth **US\$175 billion** and most of the production and value chain is in the informal sector.



In **West Africa**, a combination of urbanisation, population growth and changes in the demand for food have had a huge impact on the size and structure of the region's food economy.

One major change is the rapid development of 'postharvest' activities, such as processing, packaging, transporting and retail. Today, these activities account for 40 per cent of the sector's value added, and they are set to continue to expand. Almost all of it is informal.

*“The success of meeting growing food demand [from urbanisation in West Africa] is largely down to informal domestic and regional trade.*

Philipp Heinrigs,  
Sahel and West  
Africa Club  
Secretariat, OECD

**50%** food in rural areas is bought in markets (more than 90% in cities)

**36%** food consumed in rural areas is processed (41% in cities)



Source: Allen, T and Heinrigs, P (2016) New opportunities for the West African food economy. OECD West African Papers.



## What must be done to improve the lives and livelihoods of rural informal workers and strengthen their contribution to green growth?

---



### Enable investment

Support investment mechanisms — including climate finance through development assistance — that extend beyond the large-scale and formal, to reach informal enterprises.



### Secure representation

Create spaces for representatives of the informal private sector to join government and investors to discuss and negotiate the development of the sector and green economy strategies.



### Strengthen evidence

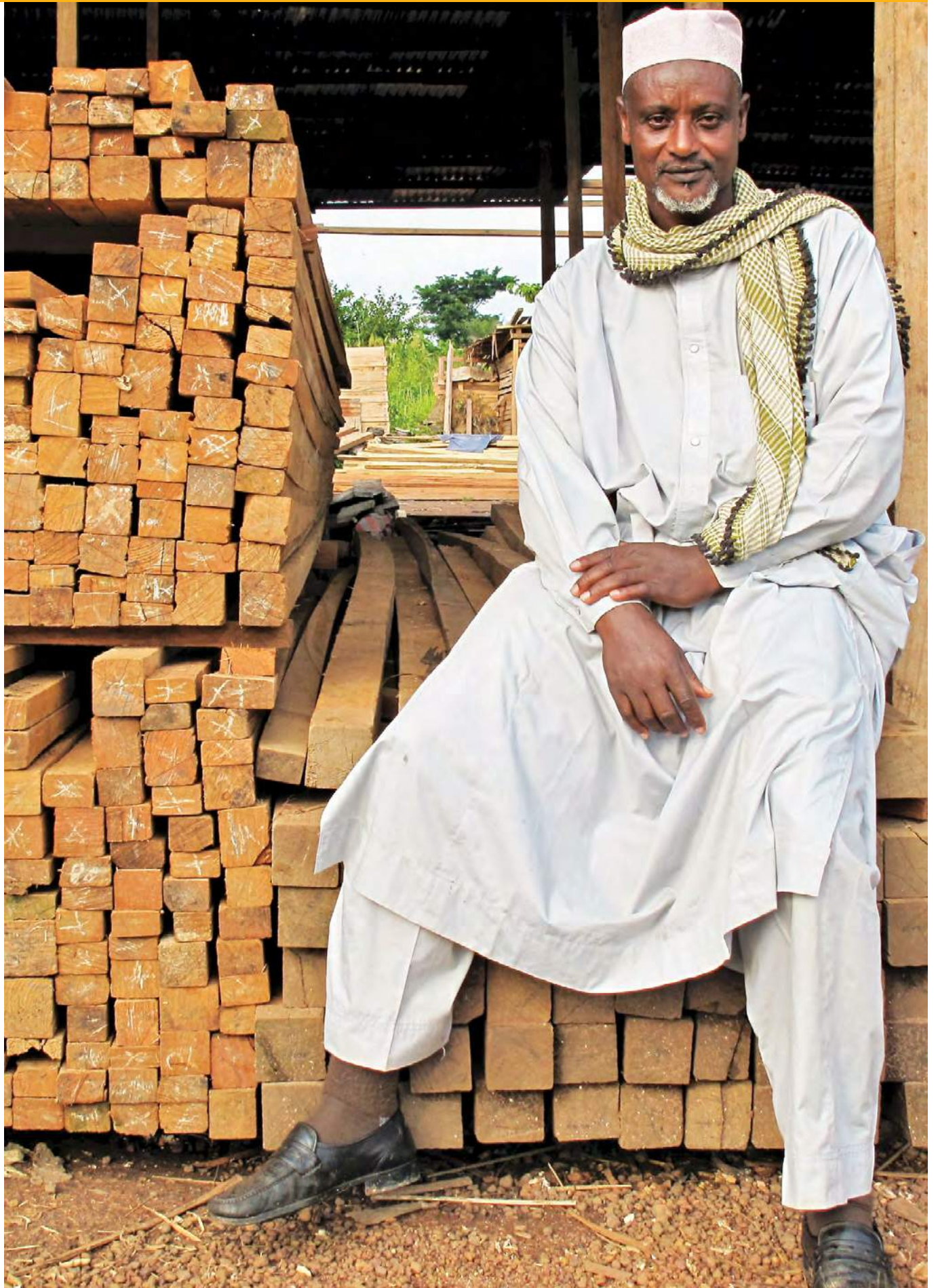
Gather concrete evidence and case studies on the importance of hybrid economies (informal and formal, rural and urban, farm and non-farm) in improving employment, natural resource management, climate resilience and youth aspirations. And collect data on the role of informal trade — both domestic and regional — in achieving food security under rapid urbanisation and economic restructuring.



### Protect against exclusion

Guard against the perverse outcomes of green economy policies and 'greening' strategies, including social and economic exclusion and food insecurity.

# 4C TROPICAL TIMBER





## In many laws, policies and statistics, artisanal loggers **remain invisible** or **are branded criminals**.



The artisanal timber sector is made up of carpenters, cabinetmakers, wood sellers, transporters and loggers.

They operate on a very small scale, cutting trees down at the edge of the forest with chain-saws and loading them and transporting them to open or hidden markets.

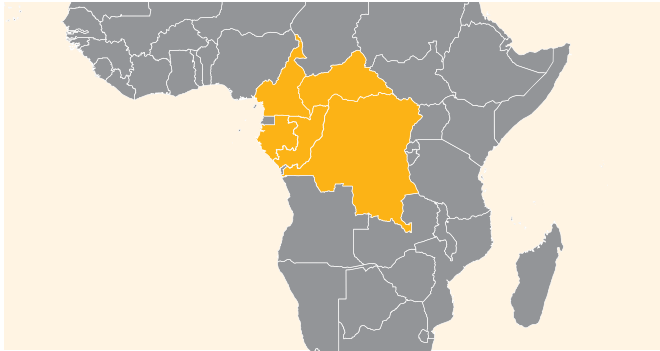
Despite operating on a completely different scale, with completely different motives, means and tools, artisanal loggers are often tarred with same illegality brush as the criminal loggers that are responsible for large-scale deforestation and that should be the real target of the worldwide push for 'legal timber'.



“*Small-scale informal logging is largely different from the rainforest logging done by illegal loggers with criminal purposes.*

Paolo Cerutti,  
CIFOR

## Yet in some countries, the 'invisible' production of timber is **as significant as the formal sector.**



### Proportion of formal/informal timber production in selected African countries

Cameroon  
**25%**

Central African Republic  
**51%**

Congo  
Brazzaville  
**23%**

Democratic  
Republic of Congo  
**87%**

Gabon  
**7%**

“*[Artisanal loggers] don't exist — not in the statistics on the forest sector, or in the laws or policies that affect them. Those laws should be modified and improved.*

Paolo Cerutti,  
CIFOR



**Source:** Cerutti, P (2016) *Domestic tropical timber markets: informal, illegal and unsustainable?* Presentation at 'The biggest private sector' event.



## This sector offers **opportunities** for supporting inclusive green growth.



### Productive jobs

This is a key sector where there is growth potential. Every year, the number of jobs is increasing. And, compared with the large-scale industrial sector, informal loggers make a good living.



### Tax revenue

Many informal operators may not pay formal forest taxes, but CIFOR research suggests that, as the product moves along the production chain, 5–15 per cent of the costs incurred by informal operators are paid in bribes to representatives of ministries, local police, the military and customs officials.



### Sustainable forestry

Uncontrolled harvesting by informal loggers, however small in scale, could lead to deforestation and degradation of forest resources — something of which the operators themselves are often aware. There is a need for light-touch regulation that suits the needs of informal actors to make it win-win for them and the environment.

#### Findings on informal timber production from CIFOR's Pro-Formal project

	Informal jobs	Contribution to local economies	Profit per m <sup>3</sup> harvested roundwood equivalent
<b>Cameroon</b>	45,000	€32m	€5
<b>Gabon</b>	1,000	€1.6m	€6
<b>Democratic Republic of Congo</b>	25,000	€34m	€4–24
<b>Indonesia</b>	1,500,000	€63m	€85
<b>Ecuador</b>	3,600	€9m	€7–183

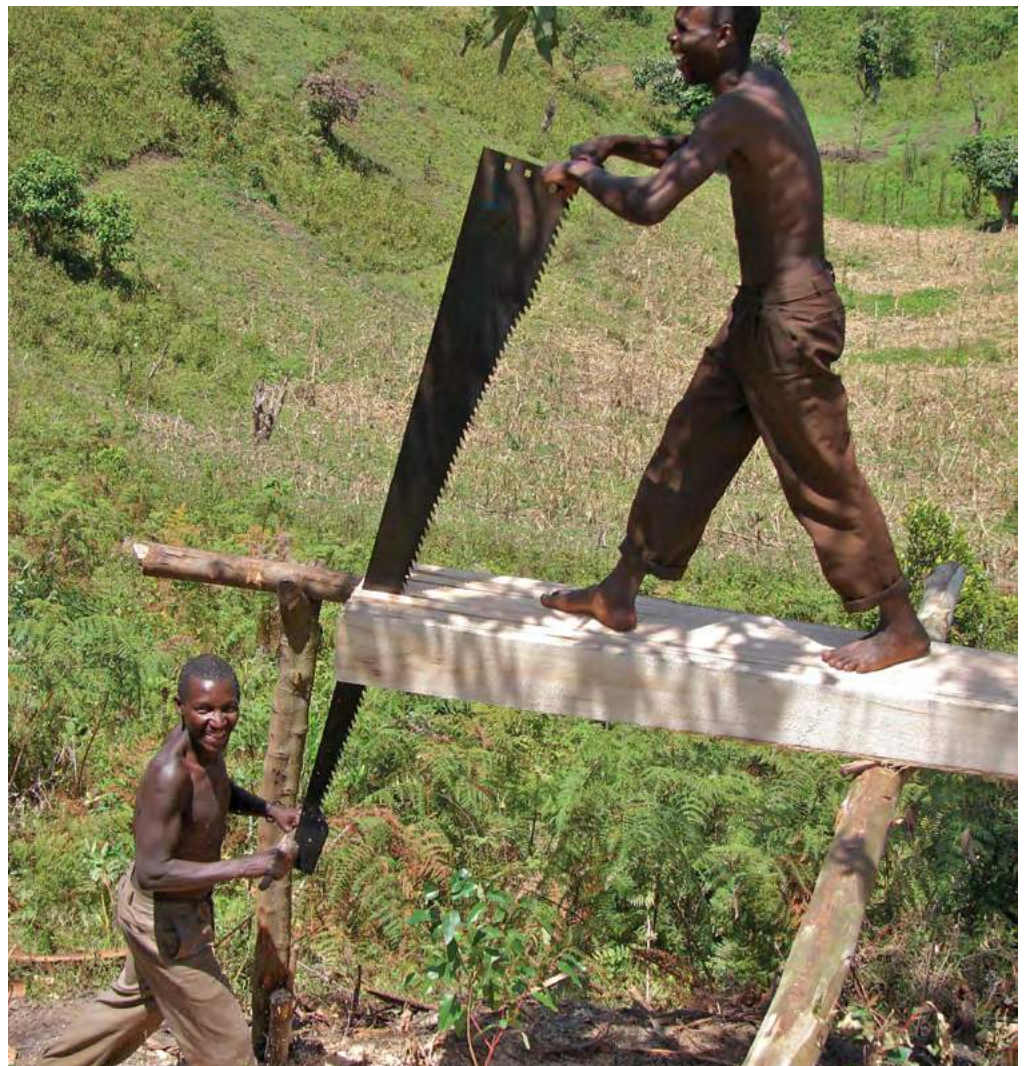
**Source:** Cerutti, PO *et al.* (2014) [Policy options for improved integration of domestic timber markets under the voluntary partnership agreement \(VPA\) regime](#). CIFOR Infobrief.

## Supporting informal operators to get **recognition** is a critical first step.

*“It is often literally impossible to gain a formal licence, so [loggers] become de facto illegal, even if they don't want to be. This leads to bribes which incentivise officials to keep them excluded.”*

Table discussion

- With laws labelling informal operators as criminals, and statistics not collected to prove that they exist, artisanal loggers are unorganised and unable to make their voices heard
- Getting a permit to become 'legal' can be very difficult. CIFOR and others' research has found that in many countries the types of permits and permit-issuing procedures are far too complex and expensive for current users to apply for or comply with.





## In Indonesia, the benefits of certification are unclear and provide furniture makers with **little or no incentive** to formalise.



The Jebara Small-Scale Furniture Producers Association (APKJ) in **Central Java** has 120 members, including representatives from each village and district. In 2013, the association received Indonesia's first collective timber legality assurance system (SVLK) licence; individual members received certificates and became 'legal'.

But three years later, most of these small-scale furniture makers have not bothered to renew their certificate.

### Why did 'formalisation' fail?

#### One

At a cost of more than US\$3,000 for all the different elements, legality in the form of a certificate is **expensive**.

#### Two

The process can be **onerous**, requiring the submission of many documents including a tax payer number, business permit, domicile permit, environmental impact analysis, work safety permit among others. It takes months to complete, and must be renewed every one to five years.

#### Three

There are **few obvious benefits** to certification. APKJ members did not see a difference in their profit margin, or standard of living.



“*If legality is just an added cost, it will never solve the problem of the informal furniture maker.*”

Mohammad Amin Sulthon, Jebara small-scale furniture association

**Sources:** Purnomo, H *et al.* (2009) Governing the teak furniture business: A global value chain system dynamic modelling approach. *Environmental Modelling and Software* 24(12); Mohammad Amin Sulthon, APKJ, speaking at 'The biggest private sector' event.

## What must be done to improve the livelihoods in the informal timber sector and strengthen its contribution to green growth?



### Enable negotiations

Facilitate negotiations through neutral convenors that can build trust between informal loggers and policymakers and pave the way to collaboration.



### Build partnerships

Commit to long-term engagement, institutionalising participation in policymaking and nurturing partnerships for developing and delivering plans.



### Look beyond regulation

Adopt a different support structure for formalisation — one that includes access to information, markets and finance, business development, and the channelling of technical capacity building and investment.



### Support organisation

Ensure representation by supporting loggers to self-organise.

“  
*Informal loggers are willing and ready to be integrated. But don't just focus on legality... Think of other things that will help us be more efficient.*

Gustav Adu,  
Kumasi Wood  
Cluster Association



## 4D ARTISANAL MINING



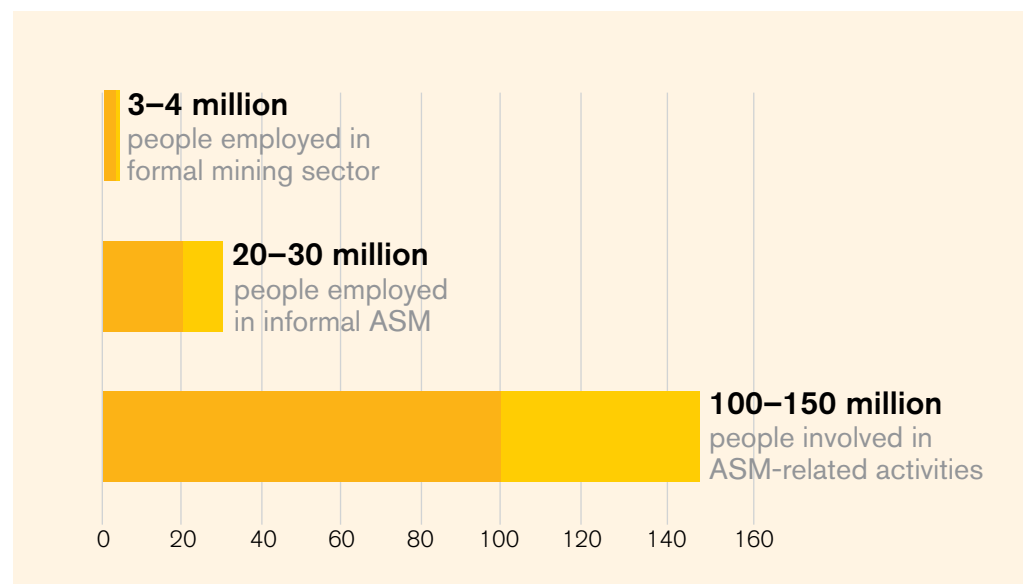
## Artisanal mining is a contentious area of the informal economy but it is also an important one, with **positive contributions** to mineral outputs and jobs.

- Artisanal and small-scale mining (ASM) has long been linked to environmental and social harm, especially for poor communities in developing countries. Pollution, environmental degradation and few lasting benefits for local people are just some of its downsides
- But at the same time, the ASM sector is productive and both economically and socially significant
- ASM miners produce about **85%** of the world's coloured gemstones, **40%** of all diamonds, **50%** of tin and **20%** of gold
- And its mines provide jobs and income for **20–30 million** of the world's poorest people (almost ten times the number employed in the large-scale mining sector) and support the livelihoods of at least five times that number.



# 70

developing and transition countries have documented ASM activity



**Sources:** Hruschka, F and Echavarría, C (2011) *Rock Solid Chances for responsible artisanal mining*, ARM, Medellín; Benson *et al.* (2014) *Informal and Green? The forgotten voice in the transition to a green economy*, IIED Discussion Paper, IIED, London; Hinton, J *Communities and Small Scale Mining: An Integrated Review For Development Planning*, CASM, World Bank.



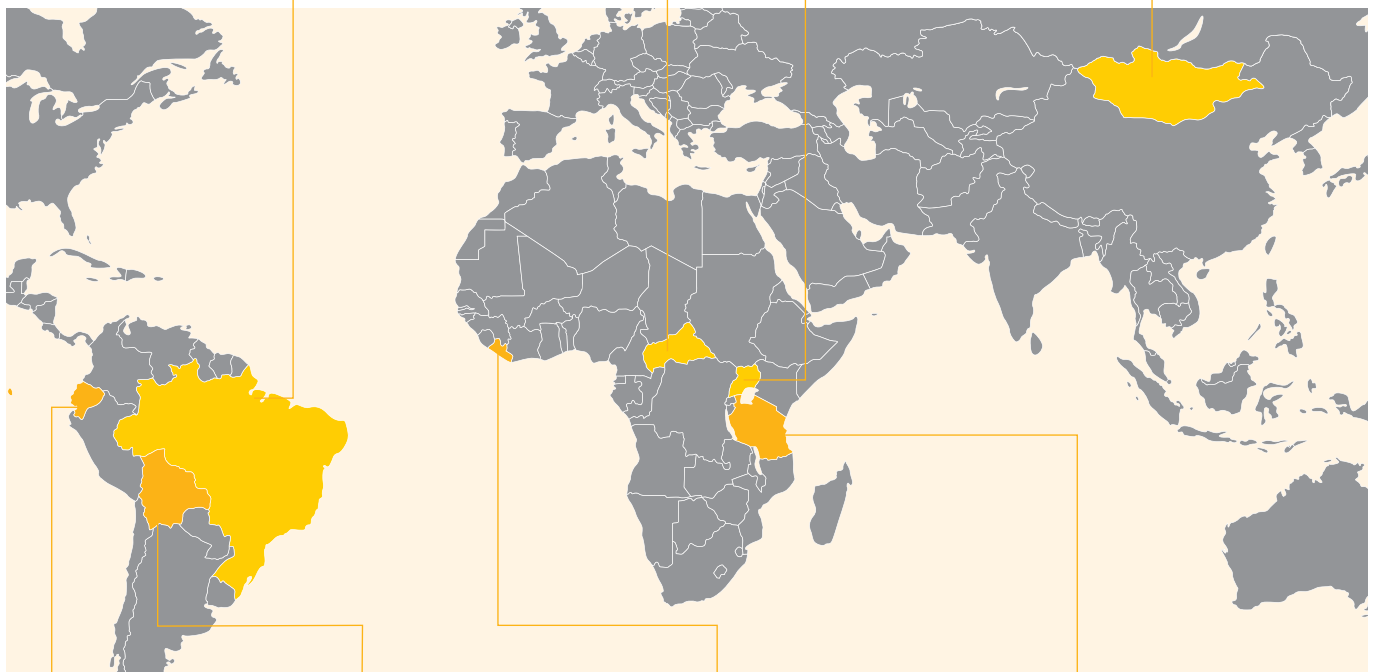
## ASM drives national economies the world over.

In **Brazil**, the ASM sector mines 84 per cent of all construction and building materials.

In the **Central African Republic**, artisanal diamond mining revenues injects around US\$145 million into the economy.

Small-scale miners in **Uganda** contribute 20 times more to GDP than those employed in farming, fishing and forestry.

Artisanal minerals contribute US\$811 million to **Mongolia's** GDP, with an additional US\$505 million spent in local economies near artisanal mines.



In **Ecuador**, ASM produces 65 per cent of all gold.

In **Bolivia**, ASM provides 32 per cent of the income from mining exports.

**Liberia's** 50–75,000 artisanal miners spend an estimated US\$13.5 million on local goods and services.

In **Tanzania**, ASM produces around 1.3 million ounces of gold each year (compared with formal mining, which produces around 1 million ounces per year).

**Source:** Buxton, A (2013) *Responding to the challenge of artisanal and small-scale mining. How can knowledge networks help?* IIED, London.

## ASM is beginning to be seen as a viable way to combat poverty and unsustainability. But **formalisation** is a necessary first step.

- ASM is a recognised livelihood diversification strategy. In sub-Saharan Africa, many smallholder farmers mine in the dry season and use the income earned to support their agricultural livelihoods
- ASM has a big youth engagement and involves a lot of women. Women's roles are often limited to the lowest kinds of jobs such as carrying and transporting ore, or crushing and grinding rocks.



The proportion of artisanal miners that are **women** varies from region to region:



Asia  
<10%



Latin America  
~20%



Africa  
40–50%

### LICENCE TO HELP

The problem is not a lack of support for ASM. The World Bank, UN and several other multilaterals have all pledged significant monies to support artisanal miners.

But that support is only available for licensed miners. And only a very few hold an official licence. The vast majority of artisanal miners are informal operators.



**Source:** Hilson, G (2016) *Artisanal and small-scale mining and agriculture: Exploring their links in rural sub-Saharan Africa*. IIED, London.



## Most systems in sub-Saharan Africa for formalising ASM are **unwieldy, costly and bureaucratic.**



In **Ghana**, obtaining a mining licence is a 14-step process that includes applicants having to pay upward of US\$512 to prepare a site plan; US\$51 for the application form; a US\$128 processing fee; a US\$282 'consideration' fee; US\$384 to the Environmental Protection Agency for an environmental impact assessment; and a number of other fees, including a stamp duty, court duties, and stool land registration.

“  
*We create informality in this sector through bureaucracy — by requiring licenses and then making them impossible to acquire.*

Gavin Hilson,  
University of Surrey



“  
*The process should take three months but some people have waited three years. There's no incentive to go through it.*

Georgette Barnes Sakyi-Addo, Ghana Women in Mining

**Source:** Hilson, G (2016) *Artisanal and small-scale mining and agriculture: Exploring their links in rural sub-Saharan Africa*. IIED, London.

## But some countries are **succeeding in formalising ASM**: Ethiopia's government has supported more than 100,000 artisanal miners to 'formalise'.



**Ethiopia** is home to around 1.3 million artisanal and small-scale miners, almost all of whom are informal operators.

Over the past few years, the country's government has helped more than 100,000 of these informal miners to 'formalise', and operate with a licence.

### How did they do it?

#### One

**Legislative changes** that gave ASM official recognition as a livelihood provided informal miners legitimacy.

#### Two

**Administrative changes** empowered regional government bodies — with better reach into informal communities — to issue licences.

#### Three

**Extension services** (including access to geological data, expert advice and better technology) offered as part of the formalising process provided a strong incentive.

“

*Once formalised, it's easy to give mining extension services.*

Jikssa Kidane, Ministry of Mines, Petroleum and Natural Gas, Ethiopia





## Formalising artisanal and small-scale miners depends on ensuring a **simple and affordable process** with **strong incentives**.



### Ingredients for success

#### Simple and affordable

Schemes must be simplified, adequately decentralised, and stripped of unnecessary costs.

#### Clear advantage

Schemes need incentives beyond a 'piece of paper' — for example, access to geological data, training, business skills, finance.



## What must be done to improve the lives and livelihoods of informal miners and strengthen their contribution to green growth?

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### Simplify formalisation

Make it cheaper and easier to register and obtain a licence.



### Strengthen evidence

Gather evidence, including examples of successful public and private initiatives — to improve understanding of ASM.



### De-stigmatise ASM

Build government and public confidence in ASM as a legitimate and positive livelihood; and attract investment.



### Improve geological data

Improve both the quality of, and access to, geological data to effectively allocate and manage land for ASM.







# 5 VISIONS OF SUCCESS





## What do these facts, figures and sector insights tell us?

### One

#### Informality is all around

The links between the formal and informal economy are everywhere.

### Two

#### Informal ≠ illegal

Illegality and informality are not the same thing.

### Three

#### Terms of inclusion matter

The idea of 'inclusion' must address the *terms* of inclusion: in benefits, decision making, social protection, distribution of income etc. — so that plans are designed *with* the informal sector, rather than *for* it.

### Four

#### Formalisation can be done

With the right facilitating policy, formalisation can be achieved.

### The working poor

Any type of production unit (formal business, informal business or household) can be engaged in any type of activity — legal, underground or illegal. In developing countries, most informal activities are neither underground nor illegal. Rather, they are a survival strategy for the working poor.

### The transition to formal

The International Labour Organization, at its annual conference in 2015, adopted [Recommendation 204](#) on the transition from the informal to the formal economy. R204 provides strategies and practical guidance on the policies and measures needed to move from an informal to a formal economy. The recommendation takes a broad view of formalisation, not assuming it to be a simple act of registration or payment of taxes. Neither does it assume that all informal workers will suddenly get formal jobs. Rather it calls for a gradual transition, during which informal livelihoods are preserved.

Source: ILO (2015) [R204 - Transition from the Informal to the Formal Economy Recommendation, 2015 \(No. 204\)](#).





## These **visions of success** can be described as a change in seven dimensions.

	<b>From...</b>	<b>...to</b>
1	backward-looking myths and prejudices	forward-looking views of realities
2	exclusive language that serves the formal economy	inclusive language that is respectful of the informal
3	assumption that the formal economy has all the answers	evidence of the strengths of the informal economy and its values that can help define a resilient future
4	a 'non-thing' (unmeasured and unmanaged)	a 'thing' (visible and dynamic)
5	dialogue that is confused and paralysed by complexity	dialogue that is evidence-based and uses clear and agreed definitions
6	disconnects and boundaries	connections and bridges
7	top-down formalisation	seeking out constituencies, and co-designing new institutions and policies



### **Success story: micro-businesses in Brazil**

In the past five years, around 5.5 million micro-businesses have been formalised by volunteering for a package of incentives that includes simplified tax assessments and access to social protection, business development services and public markets.

## Recognition is the first step.

---

Despite the significance of the informal economy and its many links to formal sectors, it remains largely invisible in national and international policies, plans and statistics.

Recognising and acknowledging that the informal economy is there, that it is large and that it makes social and economic contributions to communities and countries is the first step towards valuing that work, and those engaged in it, and recognising their dignity and basic rights.





developing of  
alternatives to  
timber products  
(e.g. rattan/bamboo  
furniture)

PRIVATE +  
PUBLIC SECTOR

BOTTOM up  
resilience &  
entrepreneur-  
ship

Incentivising big  
banks etc. loans  
to smaller enterprises

- good practice in Brazil  
is linking small-scale  
farmers to public procurement  
to govern - (see schools/  
hospitals (MST case-study))

CSR is a limited  
framework -  
needs to work with  
not for informal  
networks

Greater use of resources  
in informal sector is



# 6 A NEW POLICY AGENDA





## Six principles emerged from the discussions that could guide the development of a new policy agenda on informality and green growth.

“  
*We need to move away from arguing about definitions [of what is or isn't informal] towards finding the connections [between the formal and informal] and asking how they can be made to work for the informal sector.*

Hubert Schmitz,  
 Institute of  
 Development  
 Studies



### One

#### Use positive language

There's a clear need to move away from prejudiced narratives on the informal economy towards language that is upbeat and helps the powers that be realise the dynamism that can be found in the informal sector.



### Two

#### Build platforms for exchange

If informal workers are to identify their needs, talk about them and engage governments to shape policies that address them, then they need access to platforms where they can come together. Sally Roever from WIEGO suggested supporting three types that have already been tried and tested in the Focal Cities approach:

1. information sharing platforms
2. dialogue platforms
3. negotiation platforms.



### Three

#### Support self-organisation

The starting point for any new policy agenda should be to support informal workers to self-organise. From waste pickers in Colombia that have won government contracts to 5.5 million micro-businesses that have been formalised in Brazil, every success story of integrating the informal economy begins with self-organisation.

“  
*Legality can be anti-poor if there are no safety measures in place.*

Xue Weng, IIED



#### Four

### Design from the bottom-up

In economic and policy planning, a seat at the table for informal workers — irrespective of income, ethnicity and gender — can ensure that terms of inclusion are designed well from the start.

“  
*Just being included is not necessarily good for informal operators.*

Kate Meagher,  
London School of  
Economics



#### Five

### Use evidence

There are many excellent examples of best practice. These should be captured and used to drive learning and exchange across countries and contexts. At the same time, there is a need for hard evidence on the scale and contribution of the informal economy, which is often unmeasured and invisible in official statistics.



#### Six

### Look beyond regulation

Legality will never persuade small-scale producers to formalise if it is bureaucratically cumbersome, expensive and comes with no benefits. Achieving regulation that isn't punitive means looking beyond regulation to include support mechanisms for building skills and accessing information, markets and finance as part of any formalisation effort.



# List of speakers

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**MARTY CHEN** WIEGO and Harvard University

**EMILY BENSON** Green Economy Coalition

**PETER POSCHEN** International Labour Organisation

**MAO AMIS** African Centre for a Green Economy

**PHILIPP HEINRIGS** Sahel and West Africa Club Secretariat, OECD

**ALEJANDRO GUARÍN** German Development Institute

**LOUISE FOX** University of California, Berkeley

**PAOLO CERUTTI** CIFOR

**MOHAMMAD AMIN SULTHON** Jepara small-scale furniture association, Indonesia

**GUSTAV ADU KUMASI** Wood Cluster Association, Ghana

**GAVIN HILSON** University of Surrey

**JIKSSA KIDANE** Ministry of Mines, Petroleum and Natural Gas, Ethiopia

**GEORGETTE BARNES SAKYI-ADDO** Ghana Women in Mining

**SALLY ROEVER** WIEGO Urban Policies Programme

**ALEXANDRE FERNANDES** EPEA Brazil with Tearfund

- » See the [event programme](#) for more details of individual sessions.
- » Speakers' presentations from the event are available on [IIED's Slideshare](#) account.

# Find out more

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## Read more about the event at:

### EVENT WEBPAGE

[The biggest 'private sector': what place for the informal economy in green and inclusive growth?](#)

### PHOTO EXHIBITION, IIED

[Photo exhibition highlights varied and vibrant informal economies](#)

### BLOGS, IIED

[Green grows the informal economy](#)

[Formalising the informal](#)

[Lessons from the informal sector](#)

[Does green growth miss the majority](#)

[The other half of the future—business' informal sector](#)

### EDITORIAL, SCIDEV.NET

[Invisible workers need recognition](#)



Hundreds of millions of people – including most of the world’s poorest and most vulnerable citizens – live, work, trade and produce in informal markets. Some people link this informal economy with lost revenue, unfair competition, low productivity, human rights abuses and environmental degradation. But others associate it with entrepreneurship and flexibility; and there is growing recognition that informal workers can also be more innovative, resilient and resource-efficient than their formal counterparts.

In February 2016, IIED and partners hosted a conference to help build a new policy agenda for integrating the informal economy into inclusive green growth and sustainable development. Speakers and participants demonstrated the variety and vigour of informal economies around the world, shared lessons and benefits, explored challenges for formalisation and highlighted success stories. This document captures some of the evidence and insights presented at that event and summarises the key discussion points made on the day.

IIED is a policy and action research organisation. We promote sustainable development to improve livelihoods and protect the environments on which these livelihoods are built. We specialise in linking local priorities to global challenges. IIED is based in London and works in Africa, Asia, Latin America, the Middle East and the Pacific, with some of the world’s most vulnerable people. We work with them to strengthen their voice in the decision-making arenas that affect them — from village councils to international conventions.



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Products



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