

# THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

## The Up and Downsides of Informal Economy: A Review

**Desta Dirbeba**

Lecturer, Dire Dawa University, Dire Dawa, Ethiopia

**Ababayehu Haile**

Lecturer, Dire Dawa University, Dire Dawa, Ethiopia

### **Abstract:**

*Definitional problems and lack of understanding of the heterogeneity of informal economy has made many scholars working on such sector of economy to come out with one-size-fits-all solutions and results that do not sound well. As a result, in this paper an attempt of critically reviewing existing literatures was made so as to support upcoming future studies on the aforementioned economic sector so that the results of such study can address the problem on the ground. Consequently, this paper briefly addresses the different forms of informality lack of understanding of which might lead to ignorance of heterogeneity of informal economy which in turn can potentially cause the results of studies on informal sector of insignificant values. Furthermore, this paper attempted to counterbalance one-sided view (too optimistic) of informal economy by considering both the upsides and down sides of informal economy.*

**Keywords:** Informal economy, forms of informal economy, downsides and upsides of informal economy

### **1. Definition of Informal Sector/Economy**

It has been widely accepted that there is a lack of universal definitional consensus about informal economy which has adversely affected results of studies on such economy. As a result, we first discuss some definitions used in various literatures. Furthermore, we address forms of informality before we turn to our main objectives of this paper.

The term "informal sector" was coined for the first by a British anthropologist, Keith Hart, in 1971 in study of low-income activities among unskilled migrants from Northern Ghana to the capital city of the country who could not find wage employment (Hart, 1973). The 1972 mission of International Labor Organization (ILO) called the Kenyan Mission borrowed the word informal sector (Chen, 2012). According to ILO (2002), term "informal economy" refers to "all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements either in law or in practice. Although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome or imposes excessive costs. This definition includes all types of informal employment which lack labor or social protection both inside and outside informal enterprises including both self-employment in small unregistered enterprises and wage employment in unprotected jobs. Much similar definition of informal economy was explained in the work of Koroma *et al.* (2017). He emphasized that there are numerous definitions of the informal economy, but it can better be defined as "all economic activities by workers or economic units that are in law or practice, not covered or sufficiently covered by formal arrangements", includes legitimately-produced goods and services that do not necessarily follow formal processes such as standards regulations, business registration or operational licenses. Furthermore, Ogbuabor and Malaolu (2013) opined that the informal sector does not have a commonly accepted definition in literature, however, the informal sector has been defined in the literature from several dominant perspectives, namely: government regulations, social security, the number of people employed in an enterprise, source of income, and legal framework. Becker, however, defined informal economy as unregulated non-formal portion of the market economy that produces goods and services for sale or for other forms of remuneration (Becker, 2004).

The three features of an activity that was commonly used to define the informal sector, namely, forms of employment, forms of ownership and types of regulation (Swaminathan, 1991). As mentioned by UNDP (2013), criteria used to define 'informal economy' vary depending on the legal, technical, financial and organizational use to which the term is to be put. Researchers, therefore, typically define the informal economy according to the criteria specific to their research and these criteria may not generally applicable to other studies. There is in fact, no single common definition of the informal economy but the broadest definition covers any economic activity or source of income that is not subject to government regulation, taxation or observation (Schneider, 2002). In reality, this means that the informal economy covers a wide range of activities such as subsistence farming, small-scale enterprises and illegal activity. According to Chambwera, there are different kinds of informal economic activities ranging from illegal to legal activities with deliberately undeclared sources of income to legal activities with transactions that have no legal tax obligation. Illegal activities that operators in informal economy can possible

participate may include monetary transactions involving trade with stolen goods; drug dealing and manufacturing; prostitution; gambling; smuggling and fraud (Chambwera *et al.*, 2011). Schneider *et al.* (2010), as stated in Farazil (2014), defined informal economy as comprising of market-based legal production of goods and services deliberately concealed from public authorities to avoid paying taxes, social security contributions, and to meet legal obligations/requirements and market standards. Participants of informal sectors avoid the burden of taxes and regulations but at the same time, do not get a chance to fully utilize the protection and services that the law and the state provide (Portes *et al.*, 1989).

According to International Classification of Status in Employment (ILO, 2003) informal employment refers to all employment arrangements that leave individuals without social protection through their work, whether or not the economic units they operate or work for are formal enterprises, informal enterprises or households. (ILO, 2003) also defined persons employed in the informal sector to include own account (self-employed) workers in their own informal enterprises, employers in informal enterprises, employees of informal enterprises, contributing family workers working in informal enterprises, members of informal producers' cooperatives.

Berg (2014) defined informal economy, in Canadian context, as non-participation in three broad areas where formal compliance is overtly defined by governments and their agencies. According to the author, the three broad areas in which informal economy lacked participation are Taxation, Social Programs and Regulation. The informal sector covers two groups of labor market activities. It is formed by the coping behavior of individuals during economic downturn and rising unemployment. The informal sector can also be a product of rational behavior of innovative entrepreneurs that seek to escape government regulations and registration of business enterprises (Njaya, 2014). The informal economy or informal sector is a broad term that refers to the many aspects of a country's economy that are not taxed or monitored tightly by any form of government and are not included in the GNP of that country (Ruzek, 2015). The informal sector includes unregistered firms that evade taxes, labor regulations, and environmental regulations as well as registered firms that deliberately engage in some unrecorded activities in product and factor markets alongside their legal or registered activities (Saibal, 2016).

The fact that most of the world's poorest people work in the informal economy leads some observers to use the terms "informal" and "poor" almost synonymously. But not all informal workers are poor, nor are all working poor employed in the informal economy. The tendency to conflate informality and poverty poses several hazards to the study of informal economy. Overlooking hierarchies within the informal economy is one of such problems which in turn lead to ignorance of heterogeneity of the informal economy (Rosaldo *et al.*, 2012).

According to Vanek and co-workers, the concepts such as non-standard or atypical work are often used to refer to employment arrangements in developed countries that would be identified as informal employment in developing countries. The term "non-standard work" includes: own account self-employed workers without employees, temporary workers including temporary help agency and on-call or contract company workers; and some part-time workers (Vanek *et al.*, 2014) As there are always transgressions wherever there are rules, there are deviances from formal rules in the economic sphere too. Every single activity we call 'informal' can only attain that status by breaking at least one formal rule. The possible scope of deviation from rules therefore depends logically on the scope of regulation. Informality has no meaning whatsoever without formal rules. Only when formal rules exist, informality becomes an option (Adriaenssens and Hendrick, 2013).

The term "informal economy" thus refers to all economic activities by workers and economic units that are in law or in practice not covered or insufficiently covered by formal arrangements (Becker, 2004). One central feature of informal economy observed in these various definitions is that it is unregulated by the institutions of a society (Farazil, 2014).

## 2. Forms of Informality

The prevailing type of informality in each country determines the nature of appropriate policy recommendations (ELLA, 2016). As a result, knowing the form or type of informality in a given society may be the first step before embarking on study of other aspects of informal economy. Thus, we attempt to review forms of informality discussed in literatures by various scholars.

In the study of Perry and his co-workers, two major types of informality were mentioned. The first one is exclusionary informality. They illustrated three factors for exclusion: segmentation in the labor market; burdensome entry regulations and excessive tax and regulatory burdens. The second type of type of informality is voluntary informality (exit strategy). Many workers, firms, and families choose their optimal level of engagement with the mandates and institutions of the state depending on their valuation of the net benefits associated with formality and the state's enforcement effort and capability. They implied that voluntary informality is dominant in their continent (Perry *et al.*, 2007). Exclusionary mechanisms may be more important in some and exit may be more important in others. On other hand, Fernandez and co-authors classified informality into three categories: subsistence informality, induced informality and voluntary informality. Subsistence informality describes those informal workers who are insufficiently productive to be successfully employed in the formal sector. Entry into informal employment is involuntary; productivity is low when compared with formal sector employees. Induced informality describes those informal employees who are excluded from the formal sector due to barriers to formality. According to them, induced informality differs from the subsistence informality in that productivity is similar to that of workers in the formal labor market. The third and the one that needs a serious attention is voluntary informality. It describes informal sector workers who choose to work in the informal sector because of benefits to informality including

evasion of market regulation. Actors in such informality do not experience barriers to formality rather they opt informality willingly (Fernandez *et al.*, 2016).

Fransen and Dijk also mentioned two elements of informality like Perry *et al.* (2007). As they stated, exclusionary informality is generally associated with poverty, vulnerability and low labor productivity and such informality takes place when businesses or households use illicit market transactions due to exclusion from affordable legal opportunities (Fransen and van Dijk; 2008). All activities in this form of informal sector are survival strategies. Not all activities in the informal sector are survival strategies. Firms may voluntarily opt to exit the formal sector in order to fall below the radar screen of government and circumvent the regulatory burdens and taxes. As stated by Perry *et al.* (2007) and Fransen and van Dijk (2008), this form of informality is referred to as voluntary informality. Exclusionary informality is common to developing nations while voluntary informality is of all societies. With most informality being exclusionary, formalization will not free up hidden reserves and boost the economy (Fransen and Dijk, 2008). According to Oviedo, informality is a mix of exit and exclusion in all countries to varying degrees. Exclusionary informality arises due to stringent and costly regulations, and lack of opportunities while voluntary arises due to mediocre benefits of being formally employed, individual preference for self-employment, and lack of trust in public institutions. In developed economies, informality involves tax evasion and undeclared labor rather than a significant share of unregistered businesses (Oviedo, 2009). In accordance with ELLA (2015), there are three main elements of informality. The "subsistence informality" which corresponds to a default option for those individuals or firms those are not able to reach productivity large enough to become formal; 'induced informality' that relates to those firms or individuals that would migrate to the formal sector if the entry barriers to formality were removed; and 'voluntary informality' that results from the desire to escape or avoid administrative and/or financial burden of regulation. Though this classification is similar with that of Oviedo (2009), the difference is that the former also includes illegal informality as an element of informality.

### 3. The Upsides of Informal Economy

Barbour and Llanes implied numerous upsides of informal economy. According to them informal economy serves as a source of income to stay out of poverty; improves and fosters development of an entrepreneurial spirit; offers flexibility in where, when and how to work and trade; generates income that is spent in the formal economy contributing to 'official' economic growth, and generates income boosts the demand of formally produced and distributed goods (Barbour and Llanes, 2013). However, it is not difficult to understand that the authors are too optimistic about the informal economy.

Due to its flexible nature, the informal economy is in some ways better able to adapt to difficulties such as the current global recession, providing some measure of support to those most in need. Since it provides employment and income for the most impoverished particularly women it is a key route to achieving the millennium development goals of eradicating extreme poverty and hunger, promoting gender equality and empowering women (Chambwera *et al.*, 2011). The dynamism of the informal sector in creating employment and value addition is particularly strong, representing about 80 % of the total labor force, and contributing about 55% of sub-Saharan Africa's GDP (ECA, 2015). Although measuring such activities is difficult with extreme dynamic nature, it has substantial contribution to general growth of the economy in terms of outputs and employment (Saidu and Dauda, 2014).

In Africa, informal work during 2000s is estimated to have accounted for almost over 60 % of urban employment and over 90 % of new jobs. In Latin America, data shows that urban informal employment as a percentage of total urban employment is about 58 % during 2000s. In Asia, the share of informal workers ranges from 45 to 85 % of non-agricultural employment and from 40 to 60 % of urban employment (Becker, 2004). Informal activities are a major part of the overall economy in developing countries and deserve attention for a number of reasons. The informal sectors in developing countries are estimated to be around 40-50 % of official GDP. This shows that economic agents working in the informal sector contribute extensively to the overall economic activity. Informal economies are also significant in terms of the labor force they employ (Farazi, 2014). According to Koroma *et al.* (2017), informal economy has a share of 70 % in employment in sub-Saharan Africa providing access to domestic goods and services that are not available through the formal economy.

As stated by Koroma, informal economy has a significant socio-economic benefit for those actors in the economy, however, total productivity and global competition are irrefutably in danger with very large size informality.

Informal economies can potentially play a positive role, especially in developing countries where they may be viewed as the nursery of future economic growth in the formal economy (Farazi, 2014). In economies and business environments mired by overly excessive barriers and poorly designed regulations, informality can provide an alternative to entrepreneurs and small firms. In such situations the absence of an informal sector can result in a far greater waste of resources (Loayza *et al.*, 2009). Informal sector can also provide buffers against economic uncertainty and underdevelopment in the formal sector as it can provide livelihood to a large number of people (Era *et al.*, 2007).

Moreover, the incomes generated in the informal sector, insofar they would not have been generated otherwise when spent in the formal sector can provide boost to the formal economy (Schneider, 2000). At present, there is renewed interest in the informal economy worldwide. In part, this is because the informal economy has grown worldwide and also emerged in new guises and in unexpected places. In part, this stem from the fact that informal employment expanded significantly during the recent great recession (Horn, 2009). Today, informal employment is more than half of non-agricultural employment in most developed regions and as high as 82 % of non-agricultural employment in South Asia (Vanek *et al.*, 2012).

As suggested by Ruzek, the informal sector will continue to grow and society needs to decide whether to fight and destroy it or embrace and learn from it (Ruzek, 2015). This idea implies that the extent benefit that the informal economy renders to society may vary from country to country or from society to society

#### 4. The Downsides of Informal Economy

Perry viewed informality as a possible drag on growth and social well-being and as a force corrosive to the integrity of Latin American societies. The authors' implied reasons for having such a view on informal sector is long-standing negative connotations of the sector like inferior working conditions, low-productivity firms, disrespect for the rule of law and others (Perry *et al.*, 2007). Although the informal sector is regarded by many researchers and policy makers as a source of employment in developing countries, there is ample evidence that reveals informal firms are less productive, employ unskilled labor, and pay lower wages (Yemaz, 2009).

He argued that this calls for attention to adopt policies to reduce the size of the informal economy so as to increase productivity and to achieve sustainable growth. Farrell clearly put the serious downsides of informal firms. According to him, informal firms evade fiscal and regulatory obligations including value added taxes, income taxes, labor market and product market regulations. In fact, evasion may vary by sector and by the nature of the business. Informal retailers tend to avoid paying value-added taxes, informal construction firms tend to underreport the number of employees and hours worked and informal food processors tend to ignore product quality and health regulations (Farrel, 2004).

According to Perry *et al.* (2007), informal economy eliminates or at least greatly reduces access to formal contract enforcement mechanisms. This may increase the vulnerability of informal firms in their transactions with other private parties as well as with government. As a result, they may be forced to restrict their transactions to the potentially limited set of trading partners that are deemed trustworthy. This has negative implications in terms of social welfare as it leads to forgoing potential gains from increased trade. As stated by Docquier *et al.* (2014), informality is likely to reduce the incentive to acquire human capital. They showed that there is a direct relation between informality and education; countries with high proportions of tertiary educated workers tend to show lower levels of informality than countries with low proportions. Furthermore, they emphasized that the existence of an informal economy allows firms to hire children for work and as result child labor is part of the informal sector. They concluded that the informal sector can prevent the economy from developing as it would in the absence of informality.

As stated in the work Saidu and Dauda (2014), tax evasion is an intentional, willful and illegal behavior or practice involving a direct violation of tax laws to avoid payment of taxes. They asserted that in most cases tax evasion arises in a situation where a taxpayer arranges his financial affairs in a way that would make him not to pay or pay the least possible amount of tax by infringing the legal rules (Saidu and Dauda, 2014). A dramatic increase in the informal economy leads to a decrease in the level of government tax revenue which leads to a reduction in government expenditure on public goods and services. In order to improve expenditure on public goods and services, governments often increase tax rates (UNDP, 2013). Perry *et al.* (2007) found that although incidence of tax and social security evasion varies considerably across and within countries, it is generally higher for small, low-productivity firms that started their operations without a formal registration. An increase of the informal economy can lead to reduced government revenues which in turn can reduce the quality and quantity of publicly provided goods and services. Ultimately, this can lead to an increase in the tax rates for firms and individuals in the formal sector of the economy (Ogbuabor and Malaolu, 2013).

The informal economy reduces government revenues and in turn increases in budget deficit which leads to a decrease in public services or an increase in taxes imposed on taxpayers so as to make up for the lost revenues (Kassem, 2014). Informality may lead to a suboptimal social equilibrium in which many workers go unprotected from health and employment shocks and from poverty in old age because of outright exclusion and market segmentation or massive voluntary opting out of formality (Perry *et al.*, 2007). Finally, although voluntary informality might be beneficial at an individual level due to free-rider benefits, it will have negative implications for inclusive growth at an aggregate level because individuals/firms are operating in a less productive environment (Fernandez *et al.*, 2016).

Governments typically disapprove of informal activity as it results in revenue losses, and the difficulty of regulating such activities can often lead to negative effects on overall economic growth. Informality can often generate inefficiencies in the production process since firms, in order to avoid detection, limit their size to below optimal efficiency scale. They also tend to use less advanced production technologies (Koroma *et al.*, 2017; Era *et al.*, 2007). Large informal sectors can also have substantive fiscal implications regarding erosion of tax revenue. A high degree of informality means that for any given level of public expenditure, incomes and profits generated by the formal sector will be taxed at a higher rate. Also, if public investments in infrastructure have a positive impact on growth then use of already congested public infrastructure for informal activities without contributions towards their replenishment can lower growth (Farazi, 2014).

As approved by many studies, informal firms are less productive than formal ones and are sometimes unproductive at all which lower the overall productivity growth of the economy.

They lack access to formal source of finance, governmental services, proper documentation and infrastructures (La Porta and Shleifer, 2014). They tend to employ unskilled and less productive workers and their output is more labor intensive. Although the negative aspects of informality, informal firms are still growing considerably since they are considered as the main source of income for poor. In developing countries, informal firms account for up to half of economic activity and

provide livelihood for billions of people. Yet their role in economic development remains controversial (Ali and Ajman, 2015). Informality, being as large as it is in some countries, generates a negative externality because informal activities use and congest public infrastructure without contributing tax revenue to replenish it. This results in lower quality or quantity of services provided and/or higher taxes for the formal sector, reinforcing informality (ELLA, 2015). Similarly, if the country has contributory pensions and health, a lower number of contributors might end up with a less resourced system. In addition, high levels of corruption that have been linked to the informal sector reduce the incentives to become formal and pay taxes since the contributor sees no advantage in complying ((Levy, 2008; Mohammad *et al.*, 2012). Perry and his co-workers indicated that firm informality is positively related to the incidence of corruption. He *and* his co-workers also concluded that informality has gained increasing attention as a possible drag on growth and rising social well-being and as a force corrosive to the integrity of societies. As to them, inferior working conditions, low-productivity firms and disrespect for the rule of law are the long-standing negative connotations of informality (Perry *et al.*, 2007).

Human rights abuses are particularly prevalent in informal business environments. Informal working conditions are not subject to official scrutiny and can be inhumane. Furthermore, child labor is almost completely limited to the informal economy. The use of violence became prevalent in the arena of informality. Violence is the only coercive method informal workers possess because of an absence of social justice, dignity and peaceful enforcement mechanisms such as contracts and access to police (Kassem, 2014). The greatest assets for the poorest are often forests and other environmental services. Most environmental business sectors in developing countries fall entirely under the informal economy which has significant contribution to GNP. Contributions came from trading and the consumption of thatch, timber and other forest products such as wildlife, medicine, fruit and honey.

However, it is this area of the informal economy that will be most vulnerable to environmental degradation and climate change (Chambwera *et al.*, 2011). This down side of informal economy has detrimental and enormous adverse impact on environments particularly in developing countries. Informal sector is a means of urban air pollution and also the cause of increase the formal sector payment for pollution imitation tax because they create pollution higher than formal sector due to nature of activity on the other hand non-taxed at all (Sarbjit, 2006).

Street food vendors is a source of unsafely and unhygienic foods, practices of street food vendors in Owerri, Nigeria. Study shows that street foods is unhygienic condition because of preparation dirty in place, reuse oil for frying, handling food with bare hands, handling money while serving food and other unhygienic conditions. This can lead to illegal or unsafe activities with no guaranty for health and safety during on production process, storage and selling. And also lead to leas quality and short expiry (Sarbjit, 2006). According to FAO (2007), over 2.5 billion people eat street food every day. Concerns of cleanliness and freshness often discourage some people from eating street food. With the increasing pace of globalization and tourism, the safety of street food has become one of the major concerns of public health and a focus for governments and scientists to raise public awareness (FAO, 2007). An assessment of some street foods widely consumed in Ouagadougou showed that vendors did not respect hygienic practices. In Accra, Ghana, a study to evaluate the role of street food vendors in the transmission of diarrheal pathogens showed that in 35 % of the vending sites food was exposed to flies while 17.1 % of the vendors handled food at ground level (WHO, 2006).

As stated by Ogbuabor and Malaolu (2013), an increase of the informal economy can lead to reduced government revenues which in turn can reduce the quality and quantity of publicly provided goods and services. Ultimately, this can lead to an increase in the tax rates for firms and individuals in the formal sector of the economy. Blackman and Bannister (1998) also suggested that informal economy participates in many pollution intensive activities such as tanning, brick and tile making, automotive repair, wood finishing, metalworking, electroplating, and small-scale mining in Mexico. Given the sheer number of such firms in developing countries, the aggregate environmental impacts are likely to be significant. The authors opined that controlling pollution created by informal firms is especially difficult for four reasons.

First, informal firms have few preexisting ties to the state. Second, such firms are difficult to monitor since they are small, numerous, and geographically dispersed. Third, intensely competitive informal firms are under considerable pressure to cut costs regardless of the environmental impacts.

Barbour and Llanes (2013) viewed the negative impacts of informal economy from three perspectives. They pointed out that lack of access to credit and financial services; lack of entitlement to labor rights such as minimum wage, sick pay, working hours directives or redundancy rights; and difficulty in expanding a business which cannot be openly advertised are some of the major negative of impacts of informality on its operators. According to authors these are the negative impact of informality from actor's view point. They considered non-availability of contractual arrangements or very labile agreements between the informal traders and their customers as an adverse impact of informality on customers of such business activities. The negative impacts of informality from societal view point are the major and serious adverse effects of informality. According to the authors, tax avoidance; loss of regulatory control over the quality of products and services produced and distributed; wage and cost competition with informal businesses; inaccurate employment and earnings statistics which omit informal workers may adversely affect employment and business support policies implemented by local and national governments (Barbour and Llanes, 2013). The problem of poor working environment in the informal sector has been commonly raised by researchers and surveys. As the bulk of urban informal sector workers live in poor areas, vulnerability to disease and poor health result from a combination of undesirable living and working conditions (ILO, 2002).

The majority of development economists believe that the informal economy is an exploitative system that needs to be eliminated or reduced in some way. Legalist interpretation perceives that the informal economy is not only exploitative, but also leads to economic stagnation and is an impediment to development (Chen, 2005). One obvious complication of countries with large informal economies is the segmentation of markets with capital more available in the formal economy and labor more abundant in the informal. The result is a distorted economic reality where the cost of labor is more expensive in the formal economy and capital more expensive in the informal (Marcouillier and Young, 1995). The most obvious cost of informality is the cost of punishment if the firm is detected, and the probability of detection is likely to increase by firm size so that this fact explains why small firms are more likely to operate informally. Moreover, there are additional disadvantages of informality, like the lack of or restricted access to public services, infrastructure, and public support schemes, limited access to formal credit, lack of legal protection, high transaction costs, etc. These factors may have a detrimental effect on informal firms' performance (Taymaz, 2009).

Informal firms may not benefit from key public goods, enforcement of property rights and contracts. This could increase their transaction costs due to inefficient contractual relations. The lack of access to credit provided by state-owned or private banks may have a detrimental impact on productivity because of two reasons. First, capital constrained informal firms will scale down their capacity, and operate below the efficient scale of production (Perry et al., 2007). Segmentation of markets with capital intensive production in the formal economy and labor-intensive production in the informal economy is one major adverse impact of informal economies. This division of the economy can lead to a distorted economic reality where the cost of labor is more expensive in the formal economy and capital more expensive in the informal (Kassem, 2014). The costs they avoid through noncompliance of regulations and tax evasion may help them stay in business despite their low productivity, potentially generating inefficient competition (Farazi, 2014). Because of potentially negative consequences for competitiveness and growth, incomplete coverage of formal social programs and undermining social cohesion and law and fiscal losses due to undeclared economic activity. For most governments, these concerns outweigh any advantages that the informal sector offers as a source of job creation and as a safety net for the poor (William, 2009).

## 5. Conclusion

This paper reviewed different forms or elements of informality as well as the up and down sides of informal economy. Based on review of several literatures the following conclusion is set forth:

The different forms of informality have often different causes. The voluntary informality which is common to all nations, whether developed or developing, is the most exploitive forms of informality as the operators in it willingly circumvent laws and regulations without any force majeure or external pressure. Thus, the authors believe that stringent policy issues are required vis-à-vis this form of informality so as to foster inclusive growth.

Furthermore, incognizance of the heterogeneity of informal economy has made many research findings on informal economy to create more heat than light. Thus, understanding the prevailing forms of informality in a society is the first critical step before embarking on reviewing literatures on informal economy or criticizing informal economy in a given society. That is why Ruzek (2015) asserted that "it is up to the society to fight for informal economy or to fight against it."

In addition, many scholars working on informal economy seem either too optimistic or too pessimistic about informal economy. However, it does not seem well-trodden to excessively focus on side of the sector and being skeptical of its other side. Cognizant of this, both upsides and downsides of were addressed in this paper.

## 6. References

- i. Adriaenssens S and Hendrickx J. (2013). Institutions, trust and relations: a comparative analysis explaining informal economic activities, HUB Research Papers 2012/33.
- ii. Ali N and Najman B (2015). Informal Competition and Productivity in Sub-Saharan Africa. Université Paris-Est, ERUDITE (EA 437), F-94010, Créteil, France.
- iii. Barbour A. and Llanes M. (2013). Supporting People to Legitimize Their Informal Businesses. Joseph Rowntree Foundation.
- iv. Becker K F. (2004). The Informal Economy: Fact Finding Study. Working Paper, Swedish International Development Cooperation Agency (SIDA), Stockholm.
- v. Blackman A and Bannister G.J. (1998). Pollution control in the informal sector: the ciudad Juárez brick makers' project: Resources for the Future, Washington DC.
- vi. Benjamin N, Beegle K, Recanatini F. and Santini M. (2014). Informal Economy and the World Bank, Policy Research Working Paper 6888.
- vii. Berg NV (2014). The Informal Economy: A literature review.
- viii. Chen MA (2005). The Business Environment and the Informal Economy: Creating Conditions for Poverty Reduction. Rep. Cairo, 2005.
- ix. Chen MA. (2012). The Informal Economy: Definitions, Theories and Policies, WIEGO, Working Paper No-1, USA.
- x. Chambwera M., MacGregor J., and Baker A. (2011). A primer for development professionals on the importance of the informal economy in developing countries. International Institute for Environment and Development (IIED), London.
- xi. De Soto H. (1989). The Other Path: The Invisible Revolution in the Third World. New York: Harper and Row.

- xii. De Soto, H. (2000). *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books.
- xiii. Economic Commission for Africa (ECA), Contribution to the United Nations Economic and Social Council (ECOSOC) Integration Segment, 2015.
- xiv. ELLA (2015). *Informality and Inclusive Growth: Evidence from Latin America*, Design and Methods papers produced by the Latin American-African research pairing.
- xv. Era DN, Gradstein M and Inchauste G. (2007). "What Causes Firms to Hide Output? The Determinants of Informality", *Journal of Development Economics*, 85(2): 1-27.
- xvi. Farrell D. (2004). *The hidden dangers of the informal economy*, McKinsey Global Institute (MGI).
- xvii. Franssen J. and Dijk MP (2008). *Informality in Addis Ababa, Ethiopia*, A paper prepared for the conference 'Are cities more important than countries?', Erasmus University Rotterdam - IHS, 30-31 October 2008.
- xxviii. Fernandez C., Lilienstein K., Oosthuizen M. and Villar L (2016). *Rethinking the Effect of Informality on Inclusive Growth: Lessons from Colombia and South Africa for their regions*. Fedesarrollo, Colombia and Development Policy Research Unit, South Africa- Caribbean Studies.
- xix. Farazi S. (2014). *Informal Firms and Financial Inclusion: Status and Determinants*, World Bank
- xx. FAO (Food and Agriculture Organization) (2007). *School kids and street food*, spotlight magazine. Agriculture and Consumer Protection Department, United Nations.
- xxi. Gerxhani K (2004). *Informal Sector in Developed and Less Developed Countries: A Literature Survey*, Tinbergen Institute and University of Amsterdam, The Netherlands.
- xxii. Hart K. (1973). *Informal Income Opportunities and Urban Employment in Ghana*. *Journal of Modern African Studies*, Vol. 11, No. 1.
- xxiii. Horn, Z E (2011). *Coping with Crises: Lingered Recession, Rising Inflation, and the Informal Workforce*. Cambridge, MA, USA: WIEGO and Inclusive Cities
- xxiv. Ihrig J. and Moe K S (2001). *Lurking in the Shadows: The informal sector and government policy*, Division of International Finance, 20th and C Streets NW, Washington DC 20551, ph (202)452-337.
- xxv. ILO (2002): *Decent Work and the Informal Economy*; Report of the Director- General; International Labor Conference, 90<sup>th</sup> Session; Report VI; International Labor Office, Geneva, 2002.
- xxvi. International Labor Office (ILO, 2003). *Guidelines concerning a statistical definition of informal employment*, endorsed by the Seventeenth International Conference of Labor Statisticians in Seventeenth International Conference of Labor Statisticians, Report of the Conference; Doc. ICLS/17/2003/R; International Labor Office, Geneva, 2003.
- xxvii. ILO (2009). *Tripartite Meeting of Experts on Strategies for the Extension of Social Security Coverage*. Social Security Department, Geneva, 2009.
- xxviii. Ishengoma EK. and Kappel R. (2006). *Economic growth and poverty: does formalization of informal enterprises matter?* April. GIGA Working Paper No 20. GIGA: Hamburg, Germany.
- xxix. Kassem T. (2014). *Formalizing the Informal Economy: a required State Regulatory and Institutional Approach Egypt as a Case Study*, *International Journal of Humanities and Social Sciences*, 4(1), 27-48.
- xxx. Koroma S., Nimarkoh J., You N., Ogalo V and Owino B. (2017). *Formalization of informal trade in Africa: Trends, experiences and socio-economic impacts*, FAO.
- xxxi. La Porta R. and Shleifer A. (2014). *Informality and Development*. *Journal of Economic Perspectives*, 28(3), 109-126.
- xxxii. Loayza NV., Servén L. and Sugawara N. (2009). *Informality in Latin America and the Caribbean*. Washington D.C: The World Bank Development Research Group, Policy Research Working Paper 4888
- xxxiii. Levy, S. (2008). *Good Intentions, Bad Outcomes: Social Policy, Informality, and Economic Growth in Mexico*. Brookings Institution Press. Washington, DC.
- xxxiv. Lewis, W.A. 1954. "Economic Development with Unlimited Supplies of Labour." *Manchester School of Economic and Social Studies*, Vol. 23, No. 2. Perspectives of Informal Sector.
- xxxv. Marcouillier D and Young L, "The Black Hole of Graft: The Predatory State and the Informal Economy." *American Economic Review* 85 (1995): 367-368.
- xxxvi. Mohammad, A., Singh, A., Sonali, J.C., 2012. *Inclusive Growth, Institutions and the Underground Economy*. IMF Working Papers No 12/47, International Monetary Fund.
- xxxvii. Njaya T. (2014). *Operations of Street Food Vendors and Their Impact on Sustainable Urban Life in High Density Suburbs of Harare, in Zimbabwe*, *Asian Journal of Economic Modelling*, 2(1), 18-31.
- xxxviii. Ogbuabor J.E. and Malaolu VA (2013). *Size and Causes of the Informal Sector of the Nigerian Economy: Evidence from Error Correction Mimic Model*, *Journal of Economics and Sustainable*, 4(1), 85-104.
- xxxix. Olivier M., Masabo J and Kalula E. (2012). *Informality, employment and social protection: some critical perspectives for/from developing countries*, Northwest University, South Africa.
- xl. Peattie L. (1987). "An Idea in Good Currency and How it Grew: The Informal Sector," *World Development* 15(7): 851-860.
- xli. Perry G.P, Maloney W.F., Chanduvi J.S., Omar S, Arias O.S., Bosch M., Fajnzylber P., Mason A.D. (2007). *Informality: Exit and Exclusion*, World Bank Latin American and Caribbean Studies.

- xlii. Portes A., Castells M, and LA. Benton (1989). *The Informal Economy: Studies in Advanced and Less Developed Countries*. Baltimore, MD, USA: John Hopkins University Press.
- xliii. Rodrik D. (1997). *Has Globalization Gone Too Far?* Washington, DC: Institute for International Economics.
- xliv. Rosaldo M, Tilly C, and Evans P. (2012). *A Conceptual Framework on Informal Work and Informal Worker Organizing*, UC Berkeley Department of Sociology Ukraine Vol. 14, No. 1 (2009) 59-71, United Kingdom.
- xlv. Saidu S. and Dauda U. (2014). *Tax Evasion and Governance Challenges in the Nigerian Informal Sector*, *Journal of Finance and Economics*, 2(5), 156-161.
- xlvi. Saibal K (2016). *Do economic reforms hurt or help the informal labor market?* *IZA World of Labor*, ISSN 2054-9571, ISS. 263, <http://dx.doi.org/10.15185/izawol.263>
- xlvii. Sarbajit C, (2006). *Pollution of informal sector, theoretical analysis* 21(2), 363-378
- xlviii. Schneider F and Dominik, HE. (2000), "Shadow Economies: Size, Causes, and Consequences, *Journal of Economic Literature*, 38, 77-114.
- xlix. Schneider F. (2002). *Size and measurement of the informal economy in 110 countries around the world*. Department of Economics, Johannes Kepler University of Linz, Austria.
  - I. Swaminathan M. (1991). *Understanding the "informal sector": a survey*, Centre for International Studies, Cambridge, Massachusetts 02139, Working Paper 95.
  - li. Taymaz E. (2009). *Productivity Differentials between Formal and Informal Firms in Turkey*, Country Economic Memorandum (CEM). Turkey.
  - lii. UNDP (2013). *The Informal Sector in the Jordanian Economy United Nations Development Programme (UNDP)*, , united nation University, Jorbdan.
  - liii. Vanek J, Chen MA, Françoise Carre F, Heintz J and Hussmanns R. (2014). *Statistics on the Informal Economy: Definitions, Regional Estimates & Challenges*. WIEGO Working Paper (Statistics) No2.
  - liv. World Health Organization (2006). *Street food vending in the region. Food Safety Challenges*. AFRO Food Safety Newsletter.
  - Iv. William S. (2009) *Evaluating the Motives of Informal Entrepreneurs: Some Lessons From Ruzek W. (2015).The Informal Economy as a Catalyst for Sustainability, Sustainability*, 7, 23-34; doi: 10.3390/su7010023.
  - Ivi. WIEGO(2012). *Informal Economy: History and Debates*. <http://wiego.org/informal-economy/history-debates>.