

# The Concept of 'Informal Economy' Revisited: A Review of Related Literature

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## Abstract

*The informal economy occupies a centre stage in today's development agenda. It is an avenue for people to put their entrepreneurial ingenuity into fruition – majority surviving through evasion of tax and other forms of enterprise regulation. However, there is no consensus on exactly what the informal economy stands for and what it constitutes. The paper substantiates this argument with literature. Illustrations of the problem are provided with empirical data on 85 Ghanaian manufacturing micro and small enterprises. Evidently, the place of unregistered businesses that pay 'taxes' and the self-employed that offer employment to other people in the formal-informal economy cannot easily be determined. It is concluded that until the present cloud of confusion surrounding the concept is well addressed, the informal economy is less likely to properly function as an ideal pro-poor growth platform for development and poverty alleviation.*

## Introduction

The informal economy is unquestionably important to development. It is viewed with both positive and negative lenses. For instance, developing countries and their development partners have been striving to transform the informal sector into an engine for pro-poor growth whereby the sector serves as a direct point of action for private sector development and poverty alleviation. In other instances, the sector poses serious economic and social threats through tax evasion, non-compliance with work place safety and labour laws, and activities such as street hawking, just to mention a few. Notwithstanding the importance of the informal economy to

development, it has not received consensus in meaning and composition. That is, it means different things to different users.

Over the years, failure to fill the identified gap has seen the concept of informal economy being manipulated to suite the interest of the user. For example, Nustad (2004: 58) claims that 'informality is in the eye of the beholder'. But should it really be the case? The seemingly growing imprecision of what the informal economy is, has also come to the attention of the one who coined it - Keith Hart. According to Hart (as cited in Hansen and Vaa, 2004: 19) the concept is being put to uses it was not meant for – 'by stressing what it was not (not "good form", not amenable to the dominant form of rationality, beyond "management"), the concept appealed to the sensibilities of an intellectual class who could not grasp what the economic activities in question positively represented'.

What then is the informal economy? Hart (as cited in Hansen and Vaa, 2004: 19) after more than 25 years of coining this concept, added his voice to clarify the meaning of 'informal economy' and points out that the informal economy is 'nothing less than the self-organised energies of people, biding their time to escape from the structures of state rule'. Jenkins (2004) admits that formal-informal concept 'has been very useful shorthand' which is generally used to a greater or lesser extent – however finding alternative analytical concepts that are broad enough to cross disciplines and sectors, while being adaptable to complex, real and perceived situations, is a major challenge.

In spite of the challenges involved, it is believed that a move away from constantly modifying the

meaning to clearly defining what the informal economy is as well as developing concepts for the different associated economic compositions will go a long way in guiding economists and policy makers to do a better job of national accounting, policy formulation and implementation.

### **Origin and Meaning of the Term 'Informal Economy'**

The term 'informal economy' is a development concept that originated in anthropology and was taken up by economists. It was first coined by the British anthropologist Keith Hart in 1973 in a study he conducted in Ghana. This study took place precisely in Nima<sup>1</sup>, a suburb of Accra, the capital of Ghana. Over the years, Nima has sprawled so fast that it presently finds itself not so far from the city centre. Although some economic improvements may have taken place in Nima today, it is still one of the poorest suburbs of Accra as was also the case when Hart conducted his study in 1973. At the time of the study, almost a quarter of the population was under the 'not economically active' group while over half of the population was self-employed, non-wage earning, and unemployed (Hart, 1973). It was evident at the time that many economic activities were taking place but a substantial part of these activities happened outside the structures of the state, went 'unnoticed', and escaped analytical categories of economic models. It was these activities that Hart labelled the 'informal economy' (Hansen and Vaa, 2004).

Hart (1973) describes the informal sector to comprise informal income opportunities that basically escaped state enumeration. He classifies the informal income opportunities into two – legitimate and illegitimate. The distinguishing factor between legitimate and illegitimate informal income opportunities is legality of the economic activity in question. Examples of legitimate informal income opportunities are farming, manufacture of beers and spirits, transport services, petty trading, street hawking, barbering, borrowing, begging, etc. Activities such as hustling, 'pawnbroking' (illegal

interest rates), drug-pushing, smuggling, gambling, theft, and so on, are examples of illegitimate informal income opportunities.

In brief, the term 'informal sector', as noted by Nustad (2004), was 'originally meant to draw attention to the limitations of a certain approach to understanding economic activities: the application of economic models that rested on an understanding of economic activities as rationalised and thereby open to enumeration' (Nustad, 2004). Nustad (2004) explains further that 'informality' is not in itself a characteristic of an activity but only signifies that it has been left out by a definition that is 'formal'. Hence, what is perceived as 'formal' determines the reference to informality (Nustad, 2004). The informal economy therefore embraces a myriad of activities, some of which are legal and others illegal or criminal, which 'escape from the structures of state rule' - tax offices, business registration offices, and labour offices, just to mention a few.

### **Problem Statement**

The concept 'informal economy' has been actively used in discussions and academic writings especially those concerning development issues. Individuals, governments and organisations realised the usefulness of this concept and have since its inception, been using it. The International Labour Organisation (ILO) soon after the development of the terminology, adopted it in championing its course of decent employment for all; and it is still used by the organisation today. The usefulness of this concept cannot be underrated. Nonetheless, a state of confusion is gradually emerging from the use of the concept basically because it has been redefined over and over again to suit particular instances without ever reaching a consensus on what it actually labels in general.

Reimer (2006), for example, asserts that rather than represent the distinction between formal and informal economy as an uncontested description, it is more useful to recognise that the meaning of the informal economy is largely based on the objectives and interests of the person arguing the case, as well as the context in which the activity occurs. Hart (as cited in Hansen and Vaa, 2004) also suggests that

<sup>1</sup>Nima is one of the slums that developed as part of the capital city.



when so much of the economy is 'informal' as he would describe the economy of the Democratic Republic of Congo and Jamaica, we are entitled to ask whether the term has outgrown its usefulness. It is the stand of this paper that the term has not outlived its meaning or usefulness. The underlying problem lies in failure to agree, over the years, on what the informal economy actually is, and thereby fulfil the inevitable need for developing further concepts that adequately describe the various distinct economic phenomena – legitimate, illegitimate, partially fulfilling state obligations or not, and so on – that fall under the general concept 'informal economy'.

Several attempts have been made at filling this gap with terms such as restricted legality, restricted illegality,<sup>2</sup> and use of the term 'semi-informal' as identified in works such as that of Wilson (2003). However, these have not had a good headway and the term 'informal economy' is still, and highly used with various meanings – sometimes as Hart gave it, at other times to refer to just a part of it. One underlying reason may be that attempts at developing these concepts were made in passing; differently put, in a hurry to complete a different agenda – for instance, that of writing an article whose objective was not to necessarily fill the identified gap. Moreover, Cross (1998) explicitly admits that the literature on the informal economy remains 'fuzzy' in terms of the practical and theoretical significance of informality.

It is the argument of this paper that, the present cloud of confusion surrounding the informal economy will be dealt with when all the informed discussions on the concept generated over the years

are put together to make up-to-date, unified decision on what it is, while further concepts are developed to adequately describe the distinct economic activities that make up the concept. The remaining sub-sections provide further insight into the informal economy, and the ambiguity surrounding the use of the term.

#### **Factors that Engender the Informal Economy**

Economic factors such as economic downturns and poor distribution of wealth are among the most commonly cited reasons for the growth and survival of the informal economy. In most instances, economic crisis and consequent unemployment (Hart, 1973; Yükseser, 2003) force people to look for ways of survival. In Ghana, for example, economic crisis in the late 1970s to early 1980s with consequent 'harsh' economic policies led to the expansion of the informal sector (Arthur, 2003). The informal economy therefore becomes a haven where people put their entrepreneurial ingenuity into practice to make a living – majority surviving through evasion of tax and other forms of enterprise regulation.

In other instances, job loss, low wages, health problems or discrimination may make the informal economy an appealing or necessary alternative for survival and the relatively high level of such crises in the primary sector is likely to increase the extent to which rural people make use of the informal economy (Reimer, 2006).

Likewise, when access to development is denied to many – usually because it is very costly to exploit opportunities, gain official recognition and capitalise on a business idea, foreign or domestic elites can accumulate wealth and invest in impressive buildings, businesses and lifestyles, whereas poorer people with little property and less protection in law can rely only on their own underdeveloped ingenuity and very limited capital to construct their futures (Clever, 2002: 29).

Moreover, state failure and unfavourable state practices such as absence of needed legislation, lax enforcement of regulations, insecure property

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<sup>2</sup>A study of micro enterprises in Mexico City showed that there was continuum of adaptations to formal regulations ranging from "generalised illegality" to "generalised legality". Falling along the continuum was "restricted illegality", in which the enterprise might be formally registered but met no fiscal obligations and evaded labour laws, and "restricted legality", in which most legal, fiscal obligations and evaded labour laws were complied with on paper but not observed in practice (Elizono, as cited in Wilson, 2003). In her study entitled 'Is Semi-Formalised Self-Employment Counterhegemonic?' Wilson (2003) describes Irish jarveys as an example of having "restricted legality" while brickmakers fall into the "restricted illegality" classification.

rights, just to mention a few, are known to be some of the causes of the growth of the informal economy. The case of Ghana is a good example of the state promoting informality through lenient enforcement of regulations. Although business registration is a legal requirement, it is not strictly enforced. As a result, many people begin to operate businesses, be it a shop or factory or petty trading, without having any concrete document to show for the official authority to commence business. Thus, 'rigid regulations in the formal sector, in conjunction with lax supervision and implementation, allow the economy to be characterised by small-scale production based on labour-intensive practices and provide an opportunity for the thriving of the informal economy' (Labrianidis, Lyberaki, Tinios and Hatziprokopiou 2004:1183). De Soto (as cited in Cross, 1998) recognises that by defining the legal basis of 'formality' the state de facto defined what activities would be 'informal' and he argues further that the state actually promoted informality by establishing 'semiformal' administrative rules for many informal actors, such as the informal transport, commercial, and 'real estate' sectors- informal taxis, street vendors, land-invaders.

Other authors extended the argument that economic informality was created in complex relationships among government regulation, semi-regulation, and political power of economic actors. For example, Cross (1998) concludes in his study of informal politics of street vendors in Mexico City that, changes in policy at the state level and changes in the level and form of organisation of vendors contributed to street vending in Mexico. An insecure property right is also one of the identified causes of the informal economy. Heitger (2004) clarifies that if insecure property rights mean there is little access to formal business- as is the case in many developing countries- a large part of business activities can only be done informally.

In a nutshell, the informal economy in many developing countries is mostly caused by underperformance of the economy so that people, who cannot be absorbed into the formal economy due to lack of employment opportunities and

particularly due to their inability to exploit economic opportunities in the most profitable way by being part of the formal economy, decide to exercise their entrepreneurial ingenuity in the most profitable way available- evading tax and other forms of enterprise regulation. The state being aware of the basis of survival - non-payment of tax, non-compliance with labour laws, just to mention a few - of most of the economic actors in the informal economy as well as the importance of the informal economy to human survival, creates room for the operation of legitimate informal income activities for example, through lax enforcement of registration requirement.

#### **Importance of the Informal Economy**

There is much consensus in many writings about the importance of the informal economy than with its definition - i.e. what the informal sector actually is. The informal economy is known to be a national and international phenomenon existing in both developed and developing countries (Yükseker, 2003; Cleaver, 2002). It is also the domain of both the poor and the rich.

In addition, the informal economy and the formal economy meet at a series of interfaces which ought to be considered in policy formulation and implementation geared at finding solutions to economic challenges arising from the sector (Reimer, 2006; Mollona, 2005; Lourenço-Lindell, 2004; Hansen and Vaa, 2004; Nustad, 2004; Cleaver 2002; Cross, 1998). Examples of such interfaces are that labour from the formal economy may also be engaged in the informal economy to supplement income from the former; most of the skills learned in the informal economy are transferable to the formal sector; goods and services are supplied by the informal economy to the formal economy and vice versa; and during economic downturn, the informal economy takes up retrenched labour from the formal economy. Furthermore, by taking up unabsorbed labour from the formal economy, the informal economy maintains social cohesion by providing people with means of livelihood and thereby preventing social misdeeds and associated social costs.



Evidently, when the informal economy is viewed with a positive eye, it offers a lot of benefits to individuals, and society as a whole. However, terms such as 'grey', 'shadow', or 'black' economy, exchanges 'under the table', or 'corruption' highlight the negative evaluation of informal economic activities, most often because they involve some form of tax or regulation evasion. This concern creates considerable pressure to view the informal economy as hazardous to the economy in general, if not to the social order (Reimer, 2006). Nonetheless, neo-Marxists present a genuine argument on shortcomings of the informal economy by explaining that some form of labour exploitation takes place in the informal economy. That is, entrepreneurs in the informal sector are exploited by formal businesses. Likewise, the exploitation could take the form of labour in the informal sector being exploited by entrepreneurs through underpayment of labour, ignoring employee health and safety at work, and non payment of social security, just to mention a few. Although labour may not be protected and may earn less wages as compared with those in the formal economy, the informal economy does provide them with some form of livelihood which otherwise would not be possible.

A second limitation of the informal economy is that, it has been found in some instances to be incapable of providing improved economic empowerment to its actors (Lourenço-Lindell 2004). Further, investments such as heavy machinery and equipment needed for production could be hindered through active informal activity as a result of insecure property rights. Subsequently, investment will take other forms, such as light and flexible machinery and equipment that can easily be removed and hidden from authorities (Heitger, 2004) thereby limiting business expansion needed for economic growth and development.

Moreover, informality undermines the formal economy through impropriety. For example, the growth of street vending has created problems with transportation, tax evasion, potential health threats and other perils (Cross, 1998) as is also the case in Ghana. Cross (1998: 4) provides a vivid picture of the impropriety as follows:

If land can be invaded and defended, the right to property is threatened. If streets can be invaded by street vendors, the ability to control traffic flow, regulate commercial zoning, and administer urban services such as fire protection is compromised. Regulating incidental consequences of informal real estate, commerce and industry, such as urban planning (keeping parks and reserve areas available), public health inspections, and environmental contamination is almost impossible. Thus informality involves a shifting of costs between economic actors or from themselves to society as a whole in ways that either infringe upon or skirt the law because it is relatively more difficult for regulatory agencies to force them to pay their full costs (Cross, 1998: 4).

In spite of the various limitations of the informal economy, it is known to provide several benefits to individuals and society as a whole. The informal economy provides employment and income to people who otherwise would have been a social burden through unemployment in the formal economy. It serves as economic safety net by maintaining labour during economic downturns (Bhatt and Tang 2001). Similarly, Mollona (2005) brings an interesting aspect of the functions of the informal economy – the informal economy can be an economic policy tool used by the state to control economic downturns and upturns.

By drawing boundaries between the formal and the informal economy, the state controls the flow of subcontracted labour between local subcontractors and the steel corporations. In terms of economic expansion hegemonic states interrupt this flow by increasing social and welfare provisions of the wage-workers and their nuclear families and by ossifying the boundaries between wage-work and informal labour and between work and home. In times of economic stagnation so-called 'neo-liberal' states increase this flow by cutting welfare and social provisions, legalising the use of casual labour, medicalising industrial unemployment, and blurring the boundaries between family and work (Mollona, 2005: 527.).



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Furthermore, the informal economy has the potential for growth. Nasser, Preez, and Herrmann (2003) throw light on this function of the informal economy in South Africa. In their view, the fact that South Africans have succeeded in a 'globalised' world is evident not only by the expansion of its corporate sector into global markets, but also by the quantum leaps in growth of the informal sector. Moreover, the informal economy is well suited to the establishment of trust and information transfer that is essential for the formal economy (Reimer, 2006; Bhatt and Tang, 2002).

In spite of these important functions, the informal economy is bedevilled with limitations as already pointed out. Kamete (2004) rightly draws attention to the fact that the informal economy requires special set of decisions on incentives, rules, regulations, policies and laws and failure to recognise this can be said to be the root of all the problems facing the sector in general and home industries in particular. Nevertheless, it is the stand of this paper that failure to reach a consensus on what the informal economy actually is, and to properly define the distinct economic phenomena that make up the informal economy is the root of policy shortcomings in addressing this particular sector. This is because until policy makers know exactly what they are dealing with, i.e. the informal economy and its compositions as well as the associated problems, they are unlikely to prescribe the right solutions.

#### **Illustration of the nature of an Informal Economy**

With its original definition in many instances ignored, the informal economy has been defined in limited ways which raise pertinent questions for policy formulation and implementation. For instance, confusion arises in terms of defining the informal economy with synonyms. One such controversy can be drawn from Wilson's (2003) and the ILO's definitions. Hart (1973), the ILO as well as other writers such as Cleaver (2002) refer to the informal economy as the informal sector – as synonyms. However, Wilson's (2003) explanation of the informal economy shows that the informal sector is not a synonym but a part of the informal economy. Wilson (2003) defines the informal

economy to comprise informalisation and the informal sector; and asserts that informalisation literature is concerned primarily with labour relations while the informal sector literature is concerned primarily with micro enterprise characteristics and the self-employed.

Furthermore, characteristics of the 'informal sector' developed in early publications of the ILO concerning micro enterprises and still endorsed by the ILO include ease of entry, reliance on indigenous resources, family ownership of enterprises, small scale of operations, labour-intensive and adapted technology, skills acquired outside the formal school system and dependence on unregulated and competitive markets (Hansen and Vaa, 2004; Wilson, 2003). However, writers such as Hansen and Vaa (2004) and Cross (1998) are of the opinion that the distinguishing characteristic of the informal sector is not just one of size or capital intensity but one of structural interest (Cross, 1998) or the associated extra-legality (Hansen and Vaa, 2004).

As much as these arguments hold in some instances, they are not the most relevant issues needed to rescue the informal economy from its deteriorating conditions as can be found in most developing countries. What matters is a consensus on what the informal economy is, clear distinction of the various economic phenomena making up the informal economy and to target each with appropriate policies. For instance, there is the need to distinguish between 'criminal'<sup>1</sup> activities such as drug trafficking, human trafficking, and many others, on one hand and 'non-criminal' activities such as production of textiles on the other hand; further distinction among 'non-criminal' activities on the basis of whether they do not fulfil any of the state regulatory demands or they fulfil just a part, is also necessary in defining concepts that could be well worked with in finding solutions to the challenges facing economic actors under each sub-concept.

Empirical data, used for illustrations, was obtained from a survey on the local Business Climate and

<sup>1</sup> 'Criminal' here implies the activity is not allowed to take place in the eyes of the law.

Access to Market of manufacturing Micro and Small Enterprises (MSEs) conducted in October and November 2006 in two districts (Sunyani Municipality and Berekum District) of the Brong Ahafo Region in Ghana. The study sample comprises 85 MSEs which were sampled out of a population of 227 by following a multi-stage sampling technique (see Benneh, 2007).

Tables for illustrations show summaries of sample characteristics and other data pertinent to discussion on the informal economy. Descriptive statistics were obtained using SPSS version 13. The aim was to present a general picture of the identified 'problem' by describing the Ghanaian situation that substantiates the arguments put up in this paper. Two illustrations are provided in the next two subsections to highlight the diverging angles into which the informal economy has been drawn.

#### **Where Do Unregistered Businesses That Pay Taxes Fit?**

The definition or meaning of the informal economy has been a major point of divergence for several discussions and academic writings thereby throwing the concept into disarray particularly in terms of what the concept actually is, how it is accounted for in national economic data and more importantly ability of policy to make meaningful impact in promoting the informal economy as a potential for growth and decent employment while reducing its rate of growth and size through graduation of more economic activities into the formal economy.

Nustad (2004) explains that 'informality' is not in itself a characteristic of an activity but only signifies that it has been left out by a definition that is 'formal'. Hence, what is perceived as 'formal' determines the reference to informality. This explanation of the informal economy lacks much specificity. In more concrete terms, the informal economy is generally understood to consist of economic activities that evade one or several aspects of existing legislation pertaining to those activities - but not necessarily unregulated or independent from the state (Lourenço-Lindell, 2004). Likewise, Yükseser (2003) agrees that the defining characteristic of the informal economy has always been considered to be the lack

of legal regulation. However, he defines the informal economy in his study as all illicit economic activities that are not regulated by the state and that are taken for economic gain, either in money or in kind; in this way, activities such as drug-trafficking and money laundering are excluded from the informal economy; these illicit activities are, however, part of the informal economy as Keith Hart (1973) originally described it.

From another perspective, the ILO uses the term informal sector to consist of unenumerated self-employed, mainly providing a livelihood for new entrants into the cities (Hansen and Vaa, 2004). Cleaver (2002) defines the informal economy as those economic activities that are neither recognised nor regulated by the state. Reimer (2006) simply puts it as that part of the economy that is unmeasured and unprotected by government and legal agencies.

The two perspectives identified above generate some form of controversy – do enterprises that are unregistered but pay taxes, as depicted in Table 1 below, belong to the informal economy or not? In Table 1, 85 percent of unregistered businesses make official payments to government revenue collection institutions. More so, not all registered businesses make such payments – these represent 4 percent of registered enterprises. This implies these two different sets of enterprises are either regulated in some form or are counted. For definitions like that of Lourenço-Lindell (2004) and Hart (1973), unregistered businesses that are paying taxes are part of the informal sector (because they have evaded business registration) while by definitions such as that of the ILO, they belong to the formal sector because they are enumerated in one way or the other.

A danger lies with the latter stand. Unregistered businesses that are paying some form of tax (and most probably not complying with labour regulations) miss out on a lot of economic incentives by considering them as part of the formal economy.

Thus, when they are considered part of the formal economy, not much attention may be accorded them in terms of fulfilling other regulatory demands such



**Table 1: Categorisation of sample by business registration, legal status and tax payment**

Item	n=85	Percent (%) of n	
<b>Formal Business Registration</b>			
Registered businesses (Reg. bus.)	26	31	
Unregistered businesses (Unreg. bus.)	59	69	
<b>Legal Status</b>			
Sole Proprietorship	66	78	
Private Limited Company	7	8	
Guarantee Company	1	1	
Partnership	9	11	
Cooperative	2	2	
<b>Formal Payment Taxation</b>			
Income Tax	6	7	
Artisan Fee	2	2	
Council Levy	10	12	
Tax & Artisan Fee	8	9	
Tax & Council Levy	10	12	
Artisan Fee & Council Levy	2	2	
Tax, Artisan Fee & Council Levy	37	44	
No payment	10	12	
<b>Formal Payment by Registration Status</b>			
Registered Businesses	25	29	(% of reg. bus. = 96%)
Unregistered Businesses	50	59	(% of unreg. Bus. = 85%)

Source: Benneh (2007)

as labour rights and work place safety. This is so because of the lax attitude that may arise on the part of government if its sole interest was to get businesses, whether registered or not, to pay taxes – what most governments especially in developing countries presently care for is revenue increment. After all, such businesses are most likely to be the major losers since lack of proof of formal registration implies difficulty in having access to several benefits such as access to formal sources of finance – as is currently being experienced in Ghana. Similarly, labour and consumers of these enterprises will continue to be negatively impacted because when these enterprises are in a good stand to comply with relevant regulations, they may fail to do so since 'no eye' is kept on them. By properly drawing the lines between formal and informal economy, and fixing such problematic phenomena as unregistered tax paying enterprises under the right category, will he way will be paved for learning more about these problematic phenomena for better policy action.

In spite of the controversy surrounding the place – formal or informal – of businesses such as those unregistered but paying taxes, there is a positive aspect of the strategy of getting unregistered businesses to fulfil all or part of their tax obligations. As is the case of Ghana, tax collectors are assigned to zones in each city or town to collect taxes from enterprises. Tax payment is evidenced by a valid tax stamp or receipt. Probably, once these businesses realise they are losing doubly by paying taxes, yet having difficulty in accessing certain pertinent benefits such as formal source of finance, then they will be motivated to register their activities; but will further regulation to enforce labour rights such as payment of social security not deter them from registering? Nevertheless, these businesses will have better chances of growth and contribute to development, for example, through employment offer and meeting full tax obligations, if they are identified as a distinct economic group that needs distinct policy for coaching towards integration into

the formal economy.

**Is Self-Employment or Criminality Adequate Defining Characteristic of the Informal Economy?**

Defining the informal economy as comprising the self-employed has already received some fair criticism. Palmer (2005: 261ff.) draws attention to the fact that 'informal self-employment misses out the issue of those who straddle both formal and informal employment or those in the formal sector who are self-employed, and those working for a wage in the informal economy'. Mollona (2005) also argues in the same direction by commenting that although 'means of livelihood' scholars rightly focus on the way in which people actively combine formal employment in the factory and informal work (as a wish and not as a result of poverty) in the household and the community, in so doing they 'problematise' the very distinction between formal and informal economy.

Likewise, a good number of unregistered enterprises (98 percent)<sup>4</sup>, which under normal circumstance will be classified as part of the informal economy, have

<sup>4</sup> In instances where casual and part-time workers were employed, employments totalling 12 months were taken to be one full time employment.

full-time employees who receive wages and salaries (see Table 2 below). Defining the informal economy on the basis of self-employment does not help in this case. Keeping to Hart's (1973) original definition saves a great deal of controversy. Otherwise is there another way out? One way out is to argue that the counting of economic activities is the essence and not the people involved. But can such an easy way out be justified looking at the complexities involved in the various interfaces between the formal and the informal sector?

Moreover, the informal economy is defined to comprise both legitimate and criminal activities (Hansen and Vaa, 2004; Wilson, 2003; and Cleaver, 2002) while in other instances it is either defined solely as comprising illegitimate activities as pointed out by Labrianidis, Lyberaki, Tinios and Hatziprokopiou (2004), or legitimate activities alone (Yükseker, 2003). Besides, terms such as the 'underground', 'invisible', 'secondary', 'irregular', or even 'criminal' economies are frequently found in popular discussions to describe the informal economy while distinctions between 'market' and 'non-market', 'paid' and 'unpaid' or 'legal' and 'illegal' are an integral part of the more academic discourse on the informal economy (Reimer, 2006).

**Table 2: Classification of sample by employment status**

Item	n=85	Percent (%) of n
<b>Employment</b>		
Part-time	1	1
Full-time	83	98
Seasonal	11	13
<b>Employment by Business Registration</b>		
<i>Registered Businesses:</i>		
Part-time	1	1
Full-time	25	29 (% of reg. bus. = 96%)
Seasonal	4	5
<i>Unregistered Businesses:</i>		
Part-time	0	0
Full-time	58	68 (% of unreg. bus. = 98%)
Seasonal	7	8

Source: Benneh (2007)



Reimer (2006) explains that using terms such as the 'grey', 'shadow', or 'black' economy, exchanges 'under the table', or 'corruption' to refer to the informal economy underlines the negative evaluation of informal economic activities most often because they involve some form of tax regulation evasion. However, these terms are usually used by those on the other side of the legal-illegal divide to also refer alone to non-criminal economic activities that are not regulated by the state (Yükseker, 2003). This further blurs the meaning of the informal economy.

Furthermore, two major diverging stands on the informal economy have evolved with time. On the one hand the informal economy is regarded with a positive eye whereby good can be made out of it for the purpose of development. The ILO is one such organisation that champions this course with programmes aimed at enabling countries to create appropriate policy and institutional environment to favour growth of output and employment in the informal sector (Hansen and Vaa, 2004). On the other hand, neo-Marxist literature rejoined with the same criticism it had levelled at marginality theory, arguing that the 'entrepreneurs' in the informal sector were really 'disguised workers' who were being exploited in a variety of ways by formal businesses and ultimately international capital. In general, their argument was that conditions in this sector could not improve since it was locked into an exploitative relation with the 'formal sector' (Cross, 1998).

There are elements of truth in each of these stands depending on the angle from which the argument arises particularly in terms of what the informal economy is in the 'eye of the beholder'. These stands would not have sharply arisen had it not been the modifications of the original meaning of the informal economy, failure to agree over time on what the informal economy actually labels and more especially failure to recognise it as a general concept and as such address the need for developing appropriate concepts for the distinct economic phenomena that make up the informal economy which necessitate separate definitions for clearer analysis and policy direction.

## Conclusion and Implications

The foregoing discussion draws attention to the absence of a unified meaning for the informal economy. Some writers (for instance Nustad, 2004) believe that the concept of informal economy should be used to refer to what is not 'formal' while avoiding a rigid definition of the 'informal' as a sector separate from the formal, and instead examine those social processes that are external to formal analyses. There is no doubt that retaining the dichotomy at a neutral level is useful, but is it not time to put generated discussions into perspective and come to a consensus on what the informal economy is, and what it entails?

This paper argues that the term 'informal economy' has not outgrown its usefulness. It has rather been manipulated for too long into meanings that Hart (1973) did not give it at the time of developing it. A good number of development writers in anthropology and economics sought a quick way of expressing their ideas and in so doing, caused this harm to the term 'informal economy' by tuning it to their own tones. The various definitions presented under preceding sub-sections serve as evidence.

Exact definition of terms is critical to development issues especially when it bothers on finding economic solutions to deteriorating economic situations. Interested researchers are called upon to give utmost attention to developing a unified meaning of the informal economy for effective and efficient national accounting, policy formulation, implementation and control that will spur growth and development for poverty alleviation. Otherwise, policy will continue to be put in a state of confusion with a cloud of uncertainty on what the actual problem is, eluding the development and implementation of appropriate solutions, while national economic data could be under-stated or over-stated according to the whims and caprices of politicians. Moreover, failure to address the issue at stake implies lack of common basis of accounting for the sector; difficulty in cross-country comparisons; and possibility of exclusion of pertinent activities from development programmes, just to mention a

few.

### Limitations and Future Research

Empirical data used for illustrations exclude information on large enterprises as well as other pertinent and interesting dimensions such as compliance/non-compliance with labour laws, and workplace safety. Moreover, the data was collected for another study which required the setting of strict parameters for the definition of the study population. As a result, a large number of enterprises especially micro and small enterprises were not captured in the study. These limitations are indirect sources of further research.

Furthermore, a challenge is put up through this paper that, more research and discussion be generated to find a unified meaning (not necessarily one definition) of the informal economy. More so, adopting and developing concepts that adequately define the distinct economic phenomena that make up the informal economy is inevitable. The basis for developing these new sub-concepts of the informal economy could be the focus of further research and discussions.

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