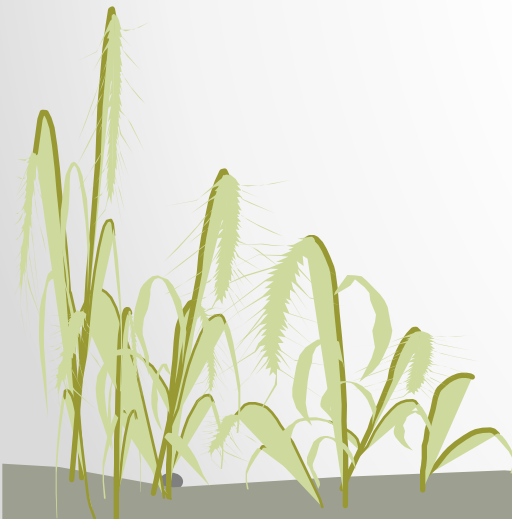


# Formalising the Informal Economy Sector in The Gambia

Sheyi Oladipo

State University of New York

December 15, 2021



# Outline



**BACKGROUND/INFORMAL  
ECONOMY SECTOR**



**DRIVERS OF THE  
INFORMAL ECONOMY  
SECTOR**



**FORMALISATION OF THE  
INFORMAL ECONOMY  
SECTOR**





# The Informal Economy—Conceptual Fragmentation

Shadow economy—underground economy—unrecorded economy—grey economy—black economy...and about 30 different terms\*

- Economic activities that are outside the purview of public authorities.
- Anything related to production; can be goods or services.
- Informal does not imply illegal. It is activity that would be legal but is not accounted for.
- Would be part of GDP normally if it were not “hidden”.
  
- Common themes (emphasis may change)
  - ✓ the part of the economy that is missing or not easily covered in official statistics,
  - ✓ production taking place outside the regulated economy,
  - ✓ the production of households.
- much of the policy discussions—and measurements—are affected by these varied, broad definitions.



# Measuring the Informal Economy

- The informal economy has been defined and estimated based on diverse criteria depending on varying research and policy motivations.
- A framework for measuring the informal economy that is consistent with internationally agreed concepts and methodology for measuring GDP.
- Based on the proposed framework, the informal economy “comprises production of informal sector units, production of goods for own final use, production of domestic workers, and production generated by informal employment in formal enterprises.”
- The framework will facilitate preparation of estimates of the informal economy as a component of GDP.





# The Global Picture

- Globally, about two billion of the world's employed population aged 15 and above are engaged in informal employment.
  - In advanced economies, about 20 percent of GDP and 16 percent of all employment.
  - In EMDEs, about 33 percent of GDP and 70 percent of all employment.
- The proportion of informal sector employment differs across the various regions, with Africa having the largest (86 percent, SSA – 62%), the Arab States (69 percent) and Asia and the Pacific (68 percent), Asia and the Pacific (59.2 percent), the Americas has 40 percent while Europe and Central Asia have 25 percent. (ILO, 2018).
- Significant implications for government revenues. But what is the direction of causality?



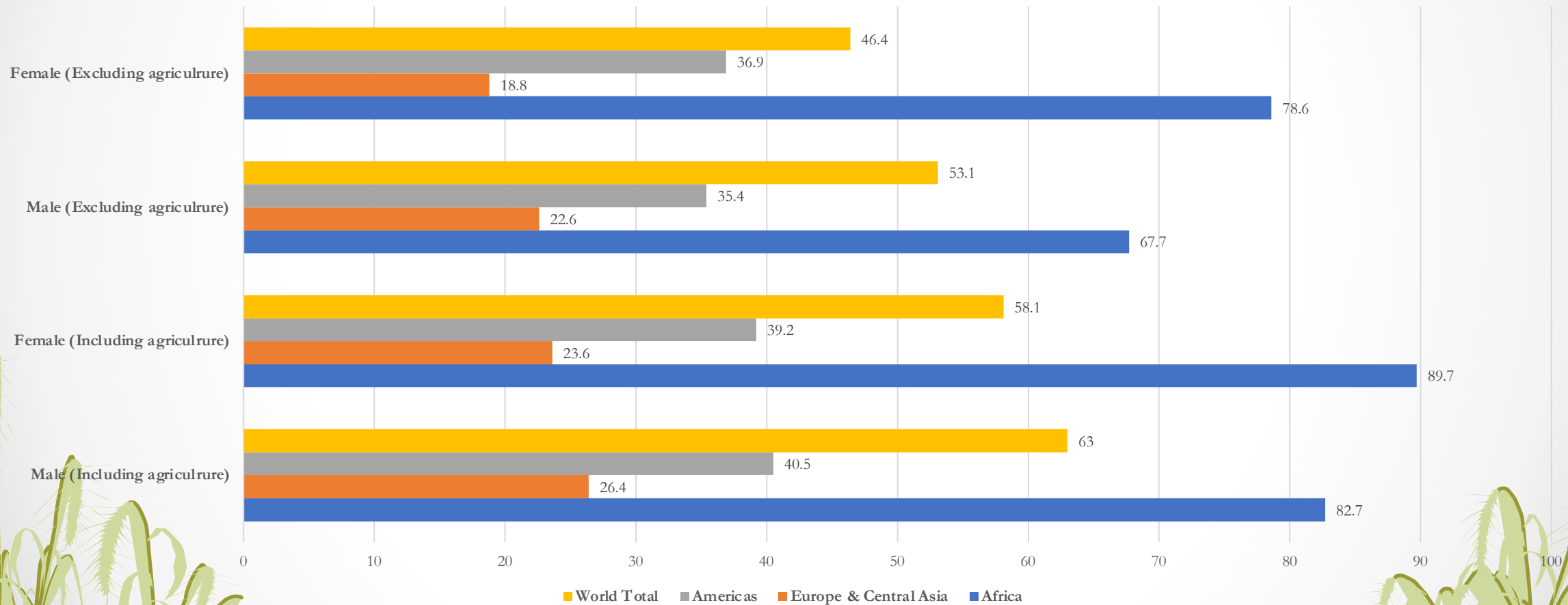
# Informality Levels & Governance: High Correlation

- Significant implications for government revenues. Countries with above average levels of informality had between 5-12 percent of GDP less revenues than countries with below average informality.
- High correlation between incidence of informality and governance, but what is the direction of causality?
- Better governance → higher levels of human capital and financial resources → lower informality
- Higher level of informality → lower government revenue → reduced capacity to govern effectively (build human capital, provide essential services, respond to crisis, etc.)
- Informality highly positively correlated with achievement of SDGs

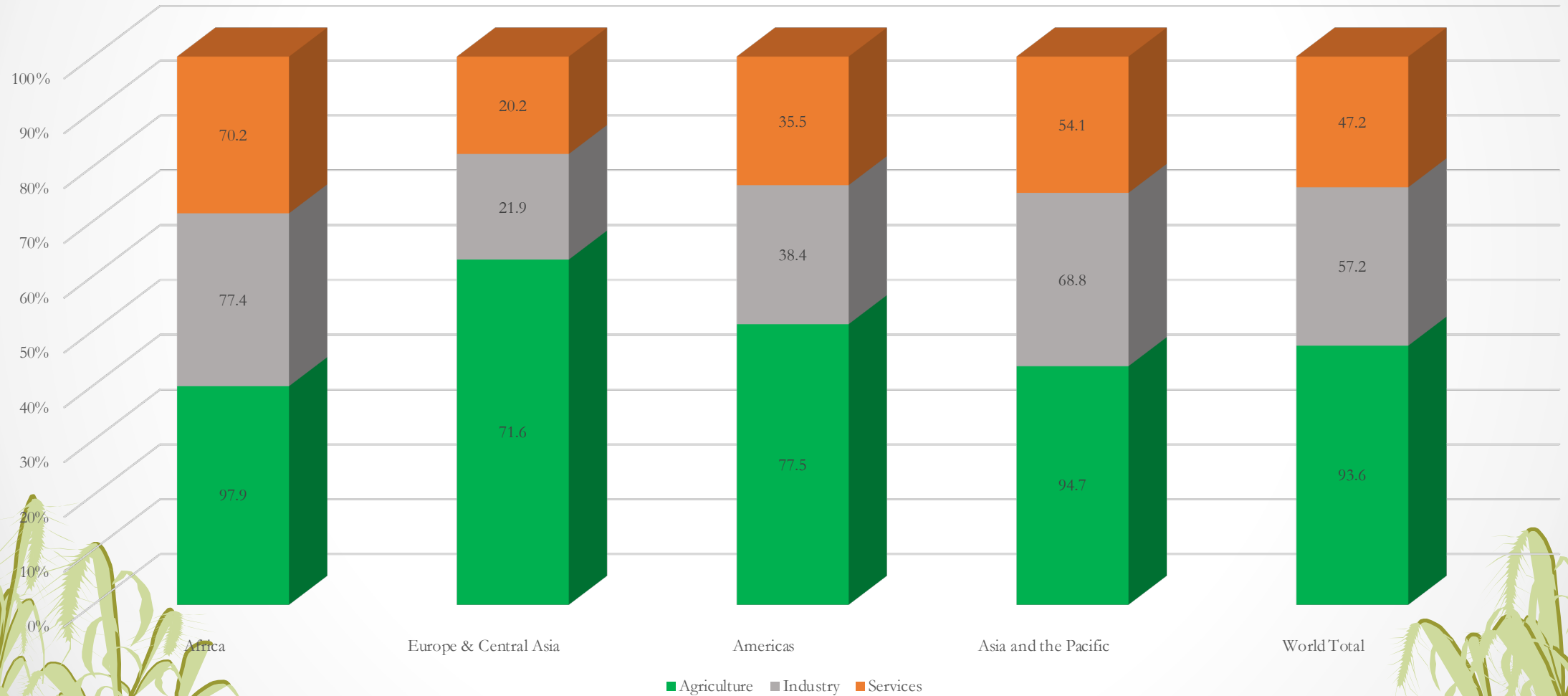




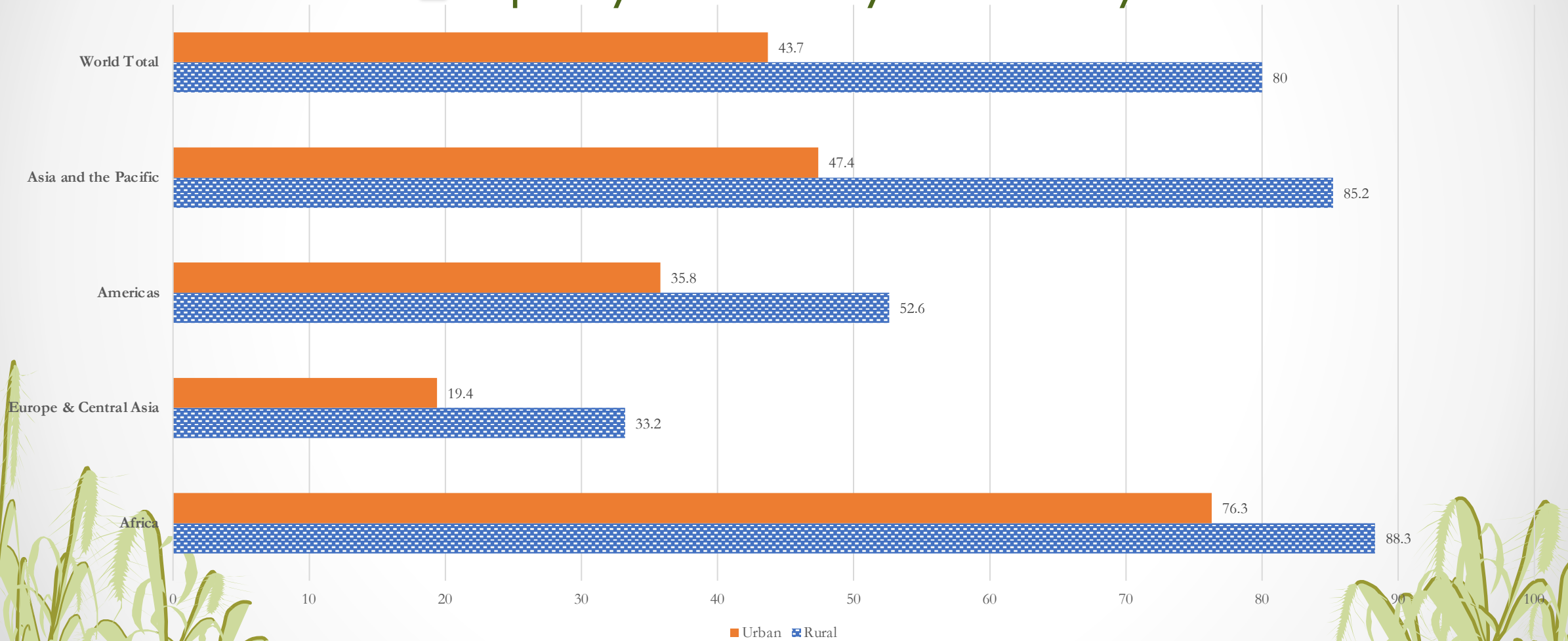
# Share of Informal Employment in Total Employment by Gender (percent)



# Share of Informal Employment in Total Employment by Sector



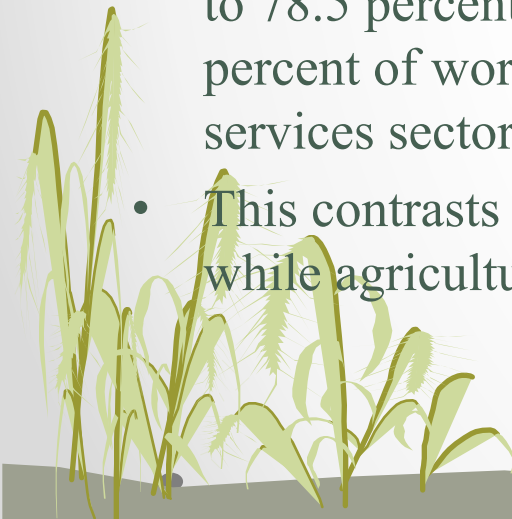
# Share of Informal Employment in Total Employment by Locality



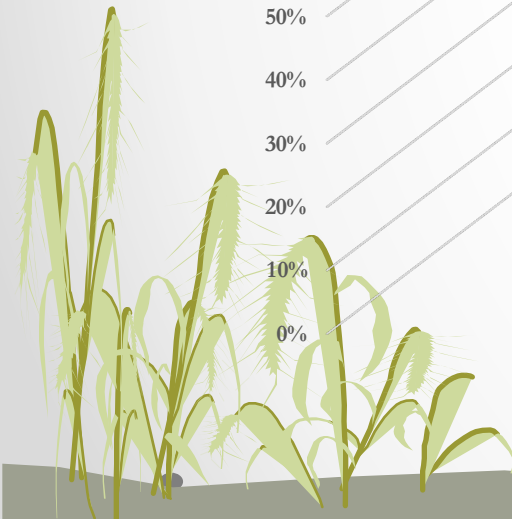
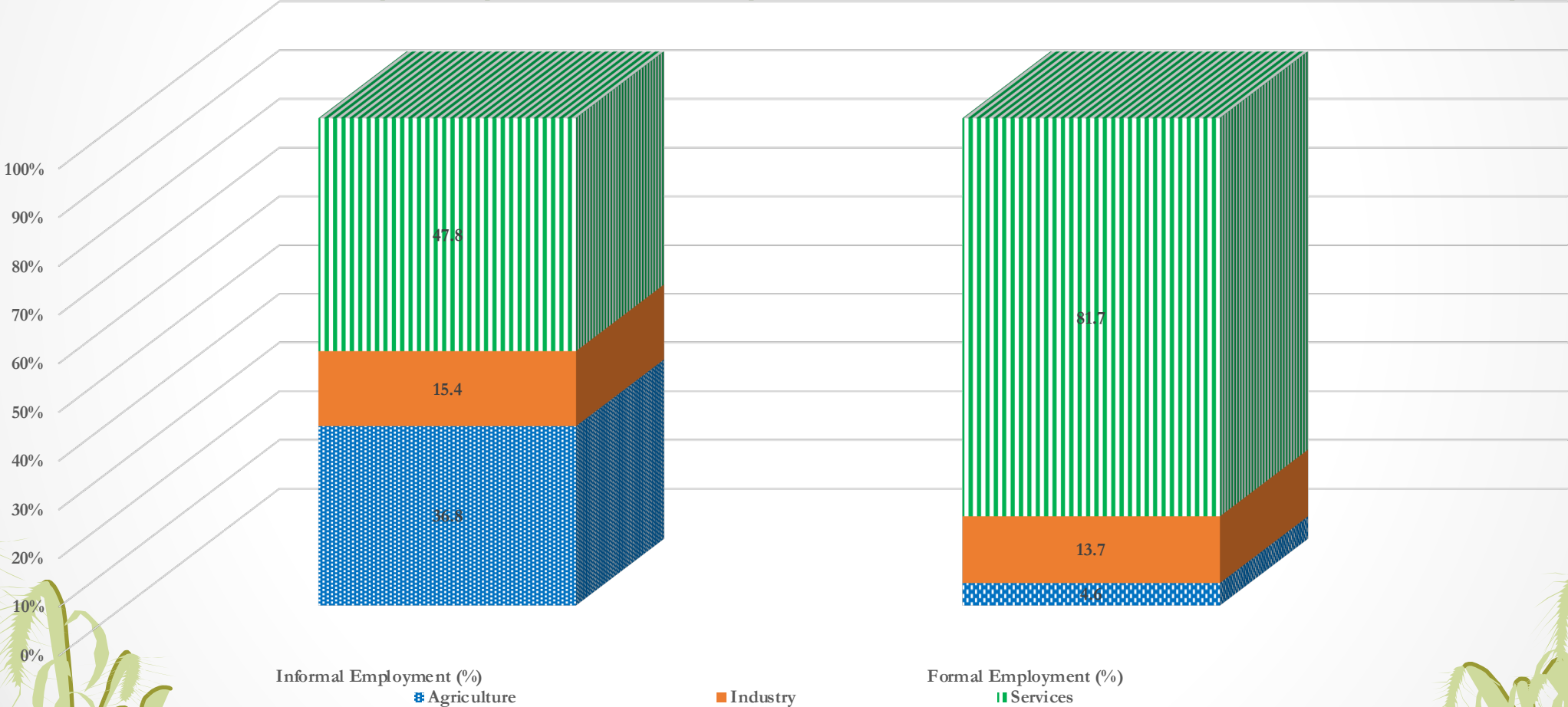


# The Gambia: The Informal Economy Sector

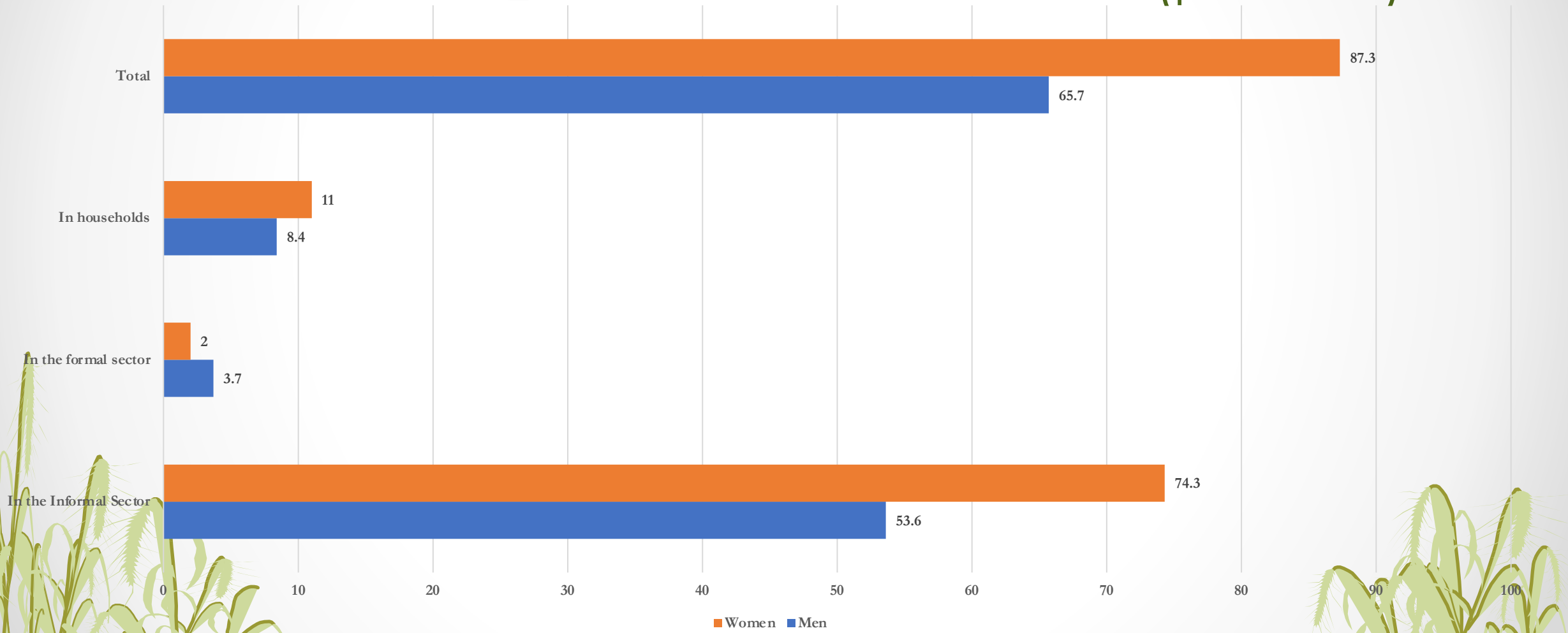
- The contributions of the informal economy sector in The Gambia are significant; it accounts for about 58 percent of GDP and about 76.7 percent of total employment, making it the main source of employment in The Gambia.
- The 76.7 percent share of informal employment in total employment in The Gambia is comprised of 62.5 percent in the informal sector, 7.1 percent in the formal sector and 30.4 percent in households.
- Almost all the employment in the agriculture sector (96.3 percent) in The Gambia is informal, compared to 78.5 percent in the industry sector (78.5 percent) and 65.6 percent in the service sector. About 36.8 percent of workers in informal employment are in the agriculture sector, compared to 47.8 percent in the services sector accounts 15.4 percent in the industry sector.
- This contrasts with the formal sector where over 80 percent of the workers are in the services sector, while agriculture and industry are 4.6 percent and 13.7 percent, respectively.



# Distribution of Workers in Informal Employment and Formal Employment by Broad Sector of Activity



# Share of Informal Employment in Total Employment by Urban/Rural Location in The Gambia (percent)



# MSMEs and the Informal Economy Sector

- 115,068 MSMEs in The Gambia in 2018.
- 98 percent are sole proprietorships. Of these, 21 percent are registered and 77 percent are unregistered.
- Causes of high informality in The Gambia:
  - lack of access to business registration—it is manual, located in two places in The Greater Banjul areas.
  - Reluctance of businesses to formalise because they perceive the costs to be higher than the benefits
  - Lack of relevant skills – finding work in the formal sector is more difficult for unskilled or low-skilled workers

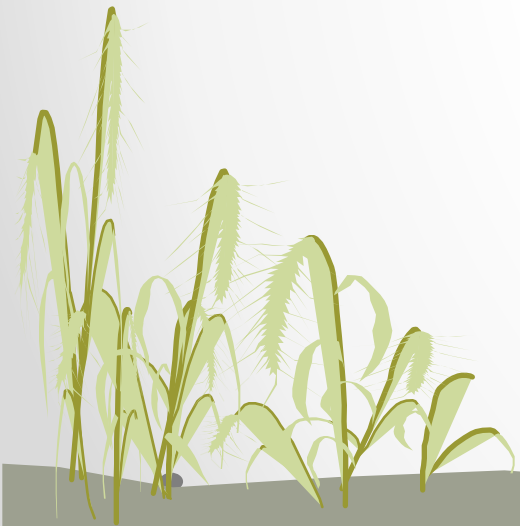






# “What factors are affecting formalisation?”

- Variations of this question can guide evaluation plans that examine how a new policy is affecting indicators, or if the policy is working equally well for the different populations of interest.



# Solution? Reforms

- Effective policy responses: Very comprehensive, tailored to country's circumstances and embedded in long-term development strategies
- If informality is a choice, prioritize streamlining, provide incentives, then better enforce regulation
- If informality is a last resort, then increase human capital and improve access to resources (broader social safety nets)
- Specific solutions would include
  - Improve access to registration e.g., by introducing an online option
  - Robust business and regulatory reforms including incentives for formalisation (e.g., tax breaks for newly-registered businesses) and penalties for continued
  - Policies to build human capital to improve opportunities for workers



# Policy Framework

- Should formalisation be voluntary or mandatory?
- Are consistent supporting structures in place?
- “The policy objectives for MSMEs should be consistent and supportive with the National Entrepreneurship Policy, the National Investment Policy, Trade Policy, Trade Strategy & Industrial Policy and all other sectoral policies. In particular, it should be consistent with the National Development Plan (NDP), the long-term Vision 2020, which seeks to create a self-reliant, enterprising and middle-income nation that generates growth and alleviates poverty. The alignment of the Policy with NDP 2018-21, other sectorial policies and the SDGs, highlights a national consensus that development can only be meaningful and impactful when it is inclusive, equitable and sustainable.” **National MSME Policy 2019-2024**



# An Analogy: Salads and Outcomes

Policies should be coherent and complementary. These two pictures have similar ingredients. Why is only one a salad?

The difference in ingredients' degree of preparation and integration makes only one image a salad.

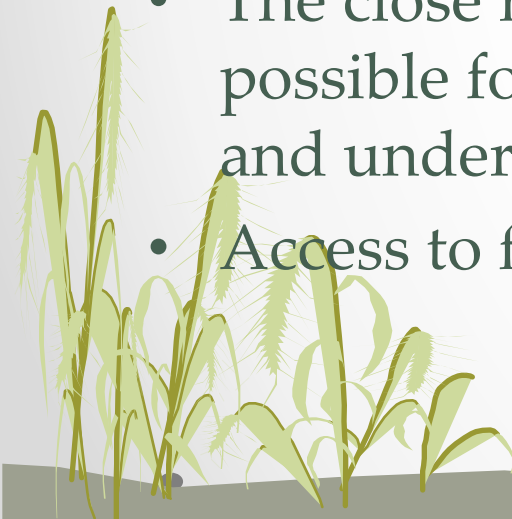


The ingredients contribute to the salad, but a salad is more than the sum of its parts.



# Cooperation between MSMEs

- ILO recognizes that cooperatives have an important role to play in the transition from the informal to the formal economy.
- Members cooperate to solve common problems like low incomes, lack of negotiating power and vulnerable working conditions.
- Help members benefit from economies of scale, reduce costs and achieve a common goal that would be unachievable individually.
- The close relationship between cooperatives and their community makes it possible for informal economy workers and producers to become members and undergo the transition together.
- Access to financial resources: pooling resources and access to credit.



# Rethinking Formalization: Recommendations

- # 1 – Expand **formal employment opportunities**
- # 2 – Create **incentives** for informal enterprises to formalize
- # 3 – Regulate **labour markets** to provide basic worker benefits and rights to informal workers + create incentives for socially responsible **employment practices**
- # 4 – Create mechanisms and financing arrangements, including employer contributions, to provide **social protection** to all workers
- # 5 – Promote participatory **policy processes** and inclusive **rule-setting institutions** that include representatives of informal entrepreneurs and informal wage workers



# Common problems to avoid

- Varied understanding of policy goals
- Disconnect between policy goals and actions
- Lack of regular, systematic data gathering
- Poor documentation and/or follow-through
- Ambiguity of roles and responsibilities
- Low or no real commitment – seeing the monitoring exercise as an imposition
- Inadequate tools e.g. ill-suited personnel or insufficient time and financial resources

