

INNOVATION FOR THE INFORMAL SECTOR IN THE ERA OF COVID-19

L'INNOVATION POUR LE SECTEUR INFORMEL A L'ERE DE LA COVID-19

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Abstract

In December 2019, China announced its first case of infection with the new coronavirus (covid-19). Quickly, the infection spread to other parts of the world and more than 170 countries were affected. The world is experiencing a totally unexpected health crisis. However, economically and socially, the impact is considerable. So what if we took the opportunity (Covid-19) to reconnect more closely with the informal sector? Many people have been hit hard by this unprecedented crisis. 62% of the world's workforce cannot afford the privilege of confinement, or more than 2 billion people depend on informal activities (International Labor Organization 2020). We must remember that in many parts of the world, informality is the norm rather than the exception? It covers work or activities in the production and sale of goods and services that are not regulated or protected by the state. Most informal workers do not choose to work voluntarily, but it is for the most part a survival strategy and they are unable to find decent work. The objective of our article is to present the work of some researchers related to innovation and the informal sector in the era of Covid-19 and finally propose an analytical reading in order to remedy the current situation.

Keywords: Informal economy ; informal ; covid 19 ; coronavirus ; innovation.

Résumé

En décembre 2019, la Chine a annoncé son premier cas d'infection par le nouveau coronavirus (covid-19). Rapidement, l'infection s'est propagée à d'autres régions du monde et plus de 170 pays ont été touchés. Le monde connaît une crise sanitaire totalement inattendue. Cependant, sur le plan économique et social, l'impact est considérable. Alors, et si nous profitions de l'occasion (Covid-19) pour nous reconnecter plus étroitement avec le secteur informel ? De nombreuses personnes ont été durement touchées par cette crise sans précédent. 62% de la main-d'œuvre mondiale ne peut se permettre le privilège de l'enfermement, ou encore plus de 2 milliards de personnes dépendent d'activités informelles (Organisation internationale du travail 2020). Nous devons nous rappeler que dans de nombreuses régions du monde, l'informalité est la norme plutôt que l'exception ? Elle recouvre le travail ou les activités de production et de vente de biens et de services qui ne sont pas réglementés ou protégés par l'État. La plupart des travailleurs informels ne choisissent pas de travailler volontairement, mais il s'agit pour la plupart d'une stratégie de survie et ils ne parviennent pas à trouver un emploi décent. L'objectif de notre article est de présenter les travaux de certains chercheurs relatifs à l'innovation et le secteur informel à l'ère de la Covid-19 et enfin proposer une lecture analytique afin de remédier à la situation actuelle.

Mots clés : Economie informelle ; informel ; Covid-19 ; coronavirus ; innovation.

Introduction

According to the research projects of Keith Hart and the International Labour Office (ILO¹), the concept of the informal sector covers a rather diverse reality, which has in common that it does not record income-generating and/or value-adding activities. Different studies (De Herdt & Marysse, 1996; OECD², 2012; Herderschee et al., 2011; ILO, 2014; Fasly H. & Wakach S., 2021) distinguish the following activities: 1) subsistence activities to provide the family with a formal income; 2) small-scale market production by micro-enterprises; 3) for reasons of tax evasion or concealment of the source of crime, a large number of activities of varying magnitude are still hidden. In response to some of the questions raised by the debate on informal employment in the era of COVID-19, we would like to answer two fundamental questions, namely: What are the economic and social consequences of informal employment (e.g. Africa)? What innovative measures have been taken to mitigate these effects?

In order to answer these questions, we will first recall the objective and methodology of the research, and then present the concept of the informal sector. In the third part, we will see how COVID-19 is taking the informal sector by storm. Then, we will analyse how mobile money promotes social inclusion. Then, we will draw attention to a reality that should not be ignored. Finally, we will conclude with a conclusion.

1. Objective and methodology of the research

The research on innovation and the informal sector in the covid-19 era aims to prove the existence of a significant link between these two concepts. In fact, the objective of this research is to reveal existing empirical work that examines the link between innovation and the informal sector in the covid-19 era. To do so, we conducted a rigorous analysis of the literature and documentary information related to this topic.

Indeed, our research is entirely based on desktop and library research methods. In this respect, we searched selected articles from the best academic journals, research papers and diagnostic research reports.

2. The informal sector

The concept and understanding of the informal economy have evolved over time. It is therefore important to present the informal definitions, the informal theories of interpretation and the different characteristics of the informal sector.

¹ International Labour Organization

² Organisation for Economic Co-operation and Development

2.1. Conceptual approach to the informal economy

Since Keith Hart's discovery in Ghana in 1972 and the International Labour Office's discovery in Kenya in the early 1970s, the concept of informal employment itself has carried the seeds of subsequent controversy, and this controversy has never ceased. Keith Hart spoke of informal income opportunities, while the International Bureau initially spoke of informal enterprises. With the adoption of the international definition of the 'informal sector' in 1993 (Mahaman, 2009), the latter concept prevailed. However, following discussions on the concepts of informal employment and informal economy, the debate has resurfaced (Charmes, n.d; Pesqueux, n.d; Hussmanns, 1997). Barthélemy (1998) has neither conceptual unity nor consensus on the estimation of informality. Some definitions emphasise the high labour intensity of informal sector enterprises, other studies consider low productivity as a characteristic of informal enterprises, and still others define enterprises as small, low-tech and with a different logic from the capitalist sector, preferring to work from creation to accumulation (Noiseux, 2000).

In general, the informal sector is defined as all individual non-agricultural and unregistered enterprises that produce goods and services for the market. Informal employment is defined as unprotected employment. In this respect, several characteristics can be taken into account for a precise definition: social protection, written contract, remuneration, severance pay, etc. Therefore, informal employment consists of two different main elements, namely employment in the informal sector and unprotected employment in the formal sector. The informal sector and informal employment constitute what is known as the informal economy (Cling et al., 2012). The informal economy includes the working poor and forced labourers, but their economic activities are not recognised, registered, protected or supervised by the government (Mahamoud, 2008).

Some studies on the informal sector in Europe have confirmed that the informal sector emerged after the rise of unemployment, thus challenging the Lewis 2 model (Charmes, n.d.). At the same time, the International Labour Organisation found in a report on employment in Kenya that the main employment problem in that country is not unemployment, but a large number of 'working poor'. Many of them are engaged in the production of goods and services, but their activities have not been recognised, registered, protected or monitored by public authorities. This phenomenon is referred to as the "informal sector" in the report. Since then, the term "informal sector" has been widely used. Although it's exact meaning is still

somewhat elusive and controversial, the concept has been defined in different forms in different contexts (Mahaman, 2009; Mahmoud, 2008).

In developed countries, the informal economy is limited to economic and commercial activities that can only be carried out by individuals, and therefore goes beyond organisations. These activities account for 15-20% of economic activity in these countries. The informal economy is the duality of the formal economy. Its development has led to the duplication of the formal sector, and each activity is said to be "orderly", responding to some extent to the informal sector. Thus, formal and informal are closely linked (Pesqueux, n.d.). In several so-called emerging countries, although this economy is very important, it has been neglected. The informal economy in developing countries is a subsistence economy and a basic economy of poverty. It is a mixture of social networks, families, small-scale activities, etc. Although there are constant reports from international organisations, it cannot be institutionalised in this way. In these countries, the size of the informal economy is between 50 and 75% of non-agricultural production, and sometimes even more. This will lead to the assertion that it is the formal economy, including the economy of subsidiaries of multinational companies and non-governmental organisations, that constitutes a kind of exception (Pesqueux, n.d.).

A.W. Lewis' "Economic Development with Unlimited Labour Supply" [1954] is based on the economic theory that wage labour is destined to grow and become more widespread with industrialisation and modernisation, because the large-scale rural exodus is due to the low productivity of rural agriculture, which provided cheap labour for the beginning of industrialisation.

2.2. Characteristics of the informal sector

According to the International Labour Office (ILO), the characteristics of economic informality are: easy access, use of local resources, family resources, small-scale production, simple technology and fewer workers, markets or transactions, without any control or irregularity; fair competition, qualification certificates are obtained outside the formal school system (Husmanns, 1997) Based on observations in Bangladesh, Canagarajah and Sethuraman proposed eight indicators that characterise the informal economy: a workforce of up to 10 people per enterprise, unenforceable laws and administrative rules, employment of domestic helpers, no fixed working hours or days and lack of institutions The promise of credit, less than six years of education and training of workers, in some cases lack of machinery and electricity, mobile or semi-permanent activities (social mobility) (Pesqueux,

Sd). However, in all countries, the characteristics of the informal sector are far from homogeneous.

Based on these general characteristics, the operational definition of the informal sector has been constructed to enable observation (Husmanns, 1997). According to this operational definition, the informal sector is a subset of the institutional household sector in the national accounts. It consists of a small part of sole proprietorships that are part of the family sector of the establishment. The difference between these enterprises and corporations and quasi-corporations is that they do not have full accounting records and are not a different legal entity from the households on which they depend. Regardless of the location of the activity, the degree of use of fixed capital, the duration of the activity (permanent, seasonal or occasional) and the primary or secondary nature of the activity, all belong to the informal sector. The following standards (Husmanns, 1997):

- The family business or 'informal enterprise of people working for themselves'. These are sole proprietorships that do not hire employees on a continuous basis, but may hire domestic workers and/or temporary employees.
- Family micro-enterprises or "informal employer enterprises". These are individual enterprises that employ one or more employees on a permanent basis. This category will include enterprises that meet one or more of the following criteria:
 - The size of establishments below a certain level varies from country to country and industry to industry, and depends on national legislation and the scope of statistical surveys on large units;
 - The enterprise is not registered,
 - Or its employees are not registered.

For practical reasons, the scope of the informal sector can be limited to non-agricultural activities, which obviously does not exclude non-agricultural activities carried out by farmers (common situation). Non-market production is excluded from the informal sector; domestic workers may or may not be included, depending on national conditions. It is recommended that workers be placed in a separate category. However, as long as they meet the criteria of the proposed definition, technology and freelance should be included. Finally, for workers outside the enterprise (working or subcontracting at home), their membership of the informal sector depends on the membership of the unit of which they are composed or on which they depend (Husmanns, 1997).

Having presented the different aspects of informality, it is appropriate to introduce different approaches to the informal sector.

2.3. Explanatory theories of the informal economy

In the economic literature, three main approaches are used regarding the origin and causes of informality (Cling et al., 2012; Hedegaard, 2012).

- The 'dualism' approach draws on the work of Lewis (1954) and Harris-Todaro (1970). This approach is based on a dual labour market model, in which the informal sector is seen as the remaining part of the market and has no link to the formal economy. It is an autonomous economy that exists only because the formal economy cannot provide enough jobs;
- In contrast to the former, the 'structuralist' approach emphasises the interdependence between the informal and formal sectors. According to this Marxist-inspired method, the informal sector is integrated into the capitalist system through subordination. It provides cheap labour and products to formal enterprises, so that the informal sector increases the flexibility and competitiveness of the economy;
- Finally, the 'legalist' approach considers the informal sector to be composed of micro-entrepreneurs who are more willing to operate informally to escape economic regulation (de Soto, 1994). This liberal approach contrasts with the two previous methods, as the choice of informality is voluntary and is linked to the excessive cost of legalisation associated with formal status and registration.

In addition to the dualist school, Djomo et al (2014) have also made a recent classification. For them, it is possible to treat the informal sector as a group of dynamic small businesses. Individuals choose to become informal entrepreneurs because they expect higher profits than employees or contractors. In this approach, much informal self-employment may reflect an efficient division of labour. Although the debate has become polarised in recent years, the integrated approach is currently based on the idea of multiple labour market segments.

This alternative approach considers that the informal sector is composed of different parts. The upper part may be supplied by entrepreneurs who choose to enter the informal sector, while the lower part may be dominated by small households that may have no other business options.

In general, informal activities are more developed in areas with poor populations. It is therefore necessary to analyse the link between poverty and informality.

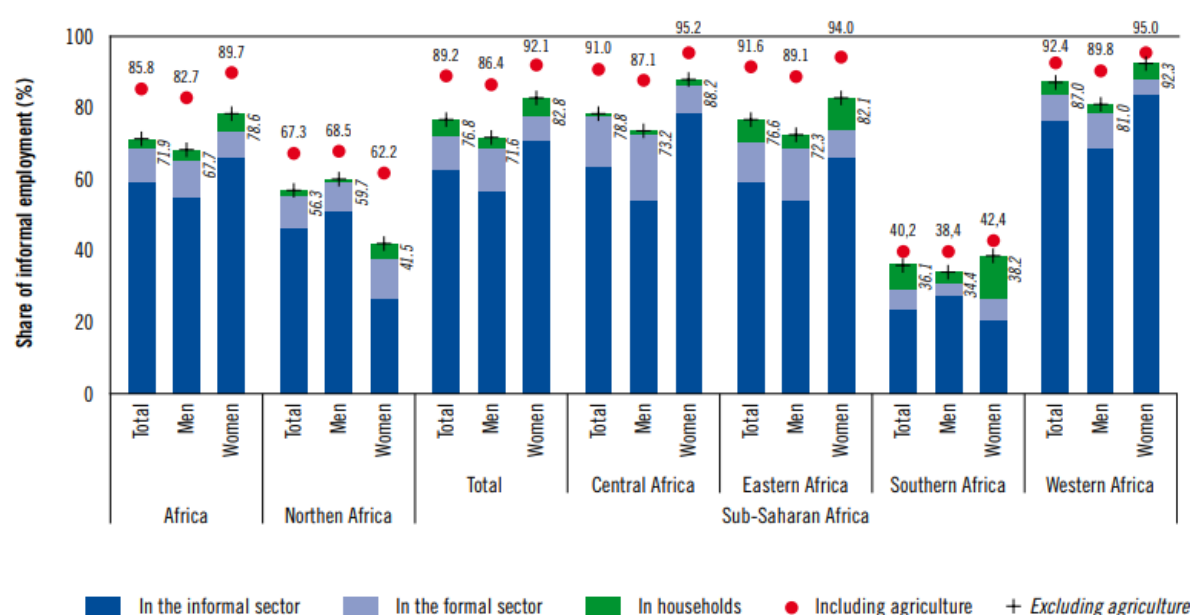
3. COVID-19 takes the informal sector by storm

In Africa, the informal sector remains the main source of employment (85.80% of total employment opportunities), especially for women who depend on it more than men (Figure 1) (International Labour Organisation 2019). The current economic recession has directly led to a decline in income and an increase in poverty. Between 5 million and 29 million people will fall below the extreme poverty line of USD 1.90 per day. According to ECA (2020), informal workers would be the most affected victims. They may fall into poverty in the short term and stay there for ten years or more.

As they often lack savings and social security, most of them have no choice but to use their working capital for consumption. As a result, they are forced to temporarily or permanently stop their informal activities. As the annual number of formal jobs created in 2020 is expected to increase from 1.4% to 5.8%, they are more likely to face unstable employment due to the lack of alternative income (ECA 2020).

It is assumed that on the one hand, these conditions are conducive to an increase in child labour, and on the other hand, they are conducive to a reduction in school enrolment rates, especially the enrolment rate of young girls.

Figure 1. Key indicators on the size and composition of the informal economy in Africa (percentages, 2016)



Source: ILO 2019

4. Mobile money supports social inclusion

At the continental level, initiatives have been taken to help the informal sector. Many countries have used mobile money to distribute the solidarity income. In Morocco, 4.2 billion dirhams (5.8 billion Canadian dollars) have been used to compensate families working in the informal sector. While the first compensation operation supported 3.9 million families, the second operation has just been launched to support 1 million families, especially those living in the most remote rural areas of the kingdom (MEFRA³ 2020). In an attempt to distribute these solidarity incomes, ranging from Dh 800 (\$111.14 CAD) to Dh1,200 (\$166.71 CAD) per month, New York State has created a digital platform for applicants to register and activated mobile payment facilities. In Malawi, a similar mechanism has been put in place for the poorest families; the monthly solidarity income for 172,000 families is estimated at £40 (CAD\$68.03) (BBC, 2020). In addition to these exemplary interventions, the Togolese authorities have also taken the lead. In Togo, 420,000 people working in the informal sector receive a monthly personal transfer (Aït Saïd 2020) of €20 (CAD\$30.32). This innovation shows that many previously unachievable actions are now being implemented in record time.

5. Beware, a reality not to be ignored!

Although these measures have mitigated the economic and social consequences of Covid-19, they are still not very inclusive. Nagla Rizk, Director of the Center for Knowledge Acquisition for Development and Professor at the American University in Cairo, pointed out that most informal participants in Egypt cannot obtain the solidarity income allocated by the government. First, the cash income target is 2.5 million informal workers, which represents only 12.5% of the 20 million workers employed in the informal sector (Saafan, 2020). Second, although information on the process and forms to be filled out are published online, the digital infrastructure is underdeveloped and internet cafes are expensive, and more than half of Egyptians cannot access the internet. These challenges are compounded by low banking rates and illiteracy. To ensure that this aid is drawn in the most sanitary conditions possible, the government has been transferring money through ATMs. However, only 32.8% of the Egyptian population has a bank account, indicating that 67.2% rely on cash (World Bank, 2018). In Egypt, the illiteracy rate is 26% for women and 14.4% for men (Al-Youm, 2017). As a result, these forms are filled in by neighbours and associations, which intervene to help potential beneficiaries. Finally, due to the lack of data on informal actors, some

³ Ministry of Economy and Finance - Kingdom of Morocco

marginalised groups are excluded from government initiatives (Rizk, 2020). Only citizens with an informal worker function on their identity card are eligible, and the unemployed are not. Citizens who live on borrowed electricity from slums do not receive the water and electricity bills needed to support the government. The same applies to divorced or separated women who live in houses registered in the name of their former partners. To make matters worse, on the form to be filled in, only the traditional transactions of men can be verified. There is no mention of traditional female occupations. It is clear that these gender biases further exclude women (Rizk, 2020).

Conclusion

The objective of this study was to establish a link between innovation and the informal sector in the Covid-19 era. Through this study, we wanted to know if innovation has helped the informal sector in the Covid-19 era. To achieve this objective, this work was divided into five points. The first presented the objective and the research methodology followed, the second explored the literature related to the informal sector, the third point of this research was dedicated to the discussion of how COVID-19 is taking the informal sector by storm, the fourth point presented an analysis on the fact that mobile money promotes social inclusion, the fifth and final point drew attention to a reality that should not be ignored.

As a matter of fact, Since Hart (1973) stated that the informal economy is not an incidental phenomenon but should be seen as a social sector with its own functions and mechanisms, many visions, theories and explanations have been developed to highlight the true nature of the informal economy. Noting that each method has its own value, and that one method does not necessarily exclude the others, some of the visions that dominate the debate can be grouped together. The trade union view, expressed in all ILO recommendations, is that informal employment - which exists in both the informal and formal sectors - is rather a condemned violation of everything that constitutes decent work, including working conditions and the environment, as well as the right of workers to assemble. Although many informal sector workers are self-employed, unions are more likely to assume that they are in fact bogus self-employed and have no choice but to take all the risks associated with their activities. Another 'anti-informal' view, which can be described as legalism, assumes that if all participants play by the rules and pay taxes, the economy will not grow. This is necessary to establish a common lever for investment and economic growth. (Vision, for example at the McKinsey Global Institute). Therefore, the informal economy through tax and regulatory

evasion is a flaw in the economic system. In the end, there is no doubt that all the initiatives developed on the African continent are commendable. However, informality requires new, more appropriate and more complex methods of data collection. The time has come for scientific research to clarify public policies and strategies.

This study is particularly original in that it exhaustively analysed the link between innovation and the informal sector in the covid-19 era. Moreover, its methodology, which consisted of a rigorous analysis of the literature and documentary information on this subject, gives it exceptional scientific importance. However, this study suffers from certain shortcomings. The research methodology used to measure the link between innovation and the informal sector in the covid-19 era requires data availability and accessibility. Furthermore, the review of the literature and data consulted showed a significant link between innovation and the informal sector in the covid-19 era. It should also be noted that this study did not take into account all the facets that innovation and the informal sector may have. Thus, an empirical study along these lines would make the results much more reliable. Moreover, a study that classifies the informal sector in its relationship with innovation would give the most refined results.

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