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## DEMAND: THE FORGOTTEN SIDE OF INFORMAL ECONOMY POLICY

by Graeme Young

### Key Points

- Policymakers who seek to support informal economic activity too often rely on supply-side solutions that fail to address the central needs of the urban poor.
- Efforts should instead focus on the alleviation of poverty to ensure that potential customers have the economic means to buy sufficient food to meet their needs.
- Governments must prioritize the promotion of adequate formal employment opportunities to ensure that the urban poor have livelihood options beyond informality.

### Introduction

The informal economy plays a central role in urban food systems in the Global South. As an important source of goods, particularly for households with low levels of food security, and of incomes for vendors, it can no longer be ignored by policymakers seeking to promote urban food security (Crush and Frayne 2011, Skinner and Haysom 2016).

A small number of governments and international organizations – most notably the World Bank – have come to realize the socioeconomic importance of informality and undertaken proactive measures to incorporate it into urban development plans. Common policy approaches to informality focus on supply-side solutions, including improving access to finance and providing business training. These aim to facilitate entrepreneurship and unleash the potential of businesses in the informal economy to contribute to private sector growth, employment creation, and inclusive urban development.

These policies are ill-suited to address the primary challenges that informal vendors face. New data from four cities in the Hungry Cities Partnership (HCP) shows that vendors are primarily constrained by excessive competition, insufficient numbers of customers, and poor sales. Effective support for the informal food sector must therefore address the role of demand in informal economic activity. Doing so requires engaging with the fundamental issues of poverty that lie at the heart of urban informality.



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## Findings

HCP data provides important insights into what informal vendors view as their primary business challenges in cities across the Global South. Table 1 offers a comparison of vendors' responses in Cape Town, South Africa; Maputo, Mozambique; Kingston, Jamaica; and Nanjing, China.

A largely consistent picture of the needs of informal vendors emerges from this data. A lack of access to finance is not seen by informal vendors as a primary business challenge in any of the cities surveyed. Only 26% of respondents in Maputo point to credit constraints as a major business challenge; in Nanjing, this figure is 6%. Poor business training is viewed by vendors as similarly unimportant, with a range of 20% in Nanjing to 35% in Kingston identifying it as a concern.

Four other challenges are instead highlighted:

- Too much competition (ranging from 48% in Kingston to 78% in Maputo).
- Too few customers (from 75% in Cape Town to 90% in Maputo).
- Insufficient sales (from 59% in Cape Town to 88% in Kingston).
- High prices charged by suppliers (from 65% in Nanjing to 79% in Maputo).

If a concern with high prices charged by suppliers can be seen in relation to low revenues, it is the first three that are particularly important.

A lack of customers and poor sales reflect insufficient demand for the goods that vendors sell. This is not, however, because there is no potential market for informal food

**TABLE 1: Informal Vendor Business Challenges**

Business challenges	Africa		Caribbean	Asia
	Cape Town	Maputo	Kingston	Nanjing
<b>Business competition</b>				
Too many competitors	67.3	77.9	47.7	75.7
Too few customers	75.1	90.1	87.7	83.2
Insufficient sales	59.2	85.4	87.7	82.9
Verbal insults against your business	13.0	23.1	43.9	9.7
Conflict with local entrepreneurs	19.6	10.2	8.8	18.6
Competition from supermarkets/large stores	33.6	27.8	9.5	47.9
<b>Business costs</b>				
Suppliers charge too much	65.6	78.9	69.5	65.0
Customers don't pay their debts	37.9	51.7	62.7	22.1
Lack of access to credit	18.3	26.0	16.6	5.6
Lack of relevant training in business skills	29.5	23.2	35.0	19.8
<b>Infrastructure issues</b>				
No refrigeration	14.5	8.4	4.4	11.4
Storage problems	22.3	17.6	10.2	19.8
<b>Victims of crime</b>				
Theft of goods/stock	21.7	34.8	28.1	17.5
Confiscation of goods by police	11.3	13.6	—	—
Harassment/demands for bribes by police	7.8	8.2	—	—
Theft of money/income	13.3	18.5	16.5	5.9
Physical attacks/assaults by police	5.4	3.2	—	—
Arrest/detention of yourself/employees	4.0	1.3	8.7	0.5
Physical attacks/assaults by citizens	7.0	2.2	3.8	4.3
<i>Numerical values indicate the percentage of respondents who identified a given challenge as important</i>				
<i>—: Question not asked</i>				
<i>Source: Hungry Cities Partnership</i>				

vendors' goods as a large share of households remain food insecure in each of the cities. In Cape Town, for example, only 45% of households can be classified as food secure, while 36% are severely food insecure (Crush et al 2018: 27). A clear positive correlation exists between household income and food security, with 92% of households in the highest income quintile classified as food secure compared to just 8% in the bottom quintile (Crush et al 2018: 33).

The disconnect between widespread food insecurity and inadequate numbers of customers and sales for informal food vendors illustrates a fundamental problem that lies at the core of urban food systems: the inability of households to afford food. This is a problem of access that is defined by the conditions of poverty in which a large share of urban residents live.

This problem cannot be solved by improving access to finance and providing business training; indeed, demand shortfalls suggest that a certain degree of caution should be exercised when extending credit in order to prevent informal vendors from accumulating unsustainable levels of debt. Potential customers simply cannot afford to purchase the goods that vendors are selling in amounts that will meet household food security needs and sustain vendors' livelihoods.

Too much competition is also, at its core, a demand problem. First, it again reflects the reality that potential customers have insufficient income to buy the food that they need. Pervasive food insecurity suggests that potential demand exists to support the livelihoods of larger numbers of informal food vendors, but household income constraints mean that this demand is not realized.

Second, excessive competition points to inadequate demand in formal labour markets that exclude large segments of the urban poor, resulting in an oversupply of labour in the informal food sector.

The question of whether engaging in informal economic activities is the result of preference or necessity has long been the focus of scholarly and policy debates, but the HCP data again suggests that survivalist factors and limited job opportunities are primary motivations for engaging in informal economic activity (Young 2019). Boosting the demand for labour in the formal economy would allow those who desire formal employment to exit the informal food sector, reducing competition for those who choose to remain.

## Policy Recommendations

**Adopt comprehensive anti-poverty initiatives to provide the urban poor with the means they need to access food.**

These could include various social security programs or cash transfers. Further research is needed on the relative merits of different options.

**Provide employment opportunities** for the urban poor through targeted job creation programs.

**Prioritize poverty alleviation and employment creation** in fiscal, monetary, and development policy.

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## About the Author

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