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The Idea of a *Rural* Informal Economy

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John D. Conroy
Visiting Fellow
Crawford School of Public Policy
Australian National University

Abstract

The purpose of this paper is to explore the notion of economic informality and its application in the rural context of developing and transitional economies, applying Keith Hart's (1987) notion of informality as a 'remedial concept'. Some remedy is needed to make sense of the many 'palpable discrepancies' observed between the prescriptions of an economic orthodoxy -- whether of a socialist command economy or a 'marketizing' economy attempting to apply the value chain proposition -- and the 'concrete conditions' of rural life in such economies. The circumstance, that most such economies are only partially 'institutionalized' to whatever economic orthodoxy is being applied in the realm of public policy, throws up the behaviours we recognize as economic informality. In 'marketizing' rural societies the continuing influence of traditional elements, such as household subsistence production, non-market exchange between affines and neighbours, and landholding subject to customary tenure arrangements, may help to explain the phenomenon of *partial* institutionalization. The tenacity of informality in such economies, and the necessarily slow pace at which small farmer households can be incorporated within formal value chains, should urge us to the more careful study of rural informality and its strengths, to enable these to be harnessed. The advice of Hazell (2011), that it will be necessary 'to make food staples markets work better for small farms', seems a good starting point.

Keywords: informal economy, Keith Hart, rural development, value chain, smallholder agriculture, inclusive business, transitional economies, second economy, North Korea, Cuba

JEL Classification: A12, A14, B20, B24, B31, D13, D73, F63, J43, N50, 010, O13, O17, P25, P51, Q10, Q12, Z10, Z13

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Address for correspondence:

John D. Conroy

John.conroy@anu.edu.au

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John D Conroy

Visiting Fellow, Crawford School of Public Policy

Australian National University

<john.conroy@anu.edu.au>

ABSTRACT

The purpose of this paper is to explore the notion of economic informality and its application in the rural context of developing and transitional economies, applying Keith Hart's (1987) notion of informality as a 'remedial concept'. Some remedy is needed to make sense of the many 'palpable discrepancies' observed between the prescriptions of an economic orthodoxy -- whether of a socialist command economy or a 'marketizing' economy attempting to apply the value chain proposition -- and the 'concrete conditions' of rural life in such economies. The circumstance, that most such economies are only partially 'institutionalized' to whatever economic orthodoxy is being applied in the realm of public policy, throws up the behaviours we recognize as economic informality. In 'marketizing' rural societies the continuing influence of traditional elements, such as household subsistence production, non-market exchange between affines and neighbours, and landholding subject to customary tenure arrangements, may help to explain the phenomenon of *partial* institutionalization. The tenacity of informality in such economies, and the necessarily slow pace at which small farmer households can be incorporated within formal value chains, should urge us to the more careful study of rural informality and its strengths, to enable these to be harnessed. The advice of Hazell (2011), that it will be necessary 'to make food staples markets work better for small farms', seems a good starting point.

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The idea of a *rural* informal economy

This paper is concerned with rural economic activity, seen in terms of formality and informality, in the context of market exchange. It also encompasses the extension of rural activity into urban areas, and urban reach into rural areas, by means of rural-urban linkages which effect reciprocal flows of people, information and commodities. While any attempt to partition the rural and the urban is rendered more difficult by such mobility, this paper argues that the extension of the idea of economic informality to rural activities, and the identification of a distinct *rural* informal economy, may be justified by the analytical dividends. This paper is commissioned to accompany a collection of empirical studies of rural informality by other authors, and the writer's brief is to explore the idea of a rural informal economy as background for that collection.

The idea of economic informality derives from Keith Hart, who introduced the concept of an 'urban informal sector' into development studies. This was based on observation of the daily life and livelihoods of the *Frafra,* a rural migrant group in Accra, the capital of newly-independent Ghana, during the 1960s (Hart 1973, 2007). Although Hart gave no more than the occasional hint of rural informal activity involving the *Frafra*, this paper asserts the validity and value of applying his informality concept to rural agricultural economies. Because of Hart's urban focus and the authority carried by his initial formulation, the notion of *rural* economic activity as being either formal or informal is neither as agreed, nor as clearly defined, nor as commonly employed, as in the urban case. Some idea of the complexities encountered in seeking rational bureaucratic answers to such questions is suggested by the experience of the International Labour Organization (ILO) and related agencies (Box 1, below).

Hart constructed his idea of informality in relation to notions of bureaucracy. He noted Hegel's belief that 'society … should be managed by an educated bureaucratic elite in the national interest', while Max Weber had subsequently 'recognized such a synthesis in Germany's historical experience of the nineteenth century alliance between Rhineland capitalists and Prussian bureaucracy' (Hann and Hart 2011, 30). Bureaucracy was an essentially positive construct, 'invented as part of a democratic political project to give citizens access to what was theirs by right'. In practice, however, it has often appeared to operate as 'the negation of democracy' (Hart 2006, 23). The emergence of Weberian bureaucracy in colonies and new states was associated with the growth and elaboration of market exchange. Bureaucracy creates rules to give *form* to its own activities and to those of whoever, or whatever, is regulated by it. In this way economic activity becomes liable to enumeration, and its status as being enumerated (or not) becomes a crucial marker of its formality (or informality). There are other criteria, emerging from a diversity of empirical circumstances, but in general it is the nature of bureaucratic frameworks and activity (as informed by a dominant economic orthodoxy) which substantially determines the character, and designation, of economic activity as being either formal or informal. Informality challenges bureaucracy by failing to con*form*.

Box 1

The bureaucratic effort to delineate the rural informal economy

The current international approach to defining informality dates largely from 1993, when a conference of labour statisticians (ILO 1993) resolved that UN member states in which 'the informal sector plays a significant role in employment and income generation and economic and social development' should collect data on informal economic activity. This was intended for planning and policy purposes and to assist in 'the integration of the informal sector into the development process and to its institutionalisation' (cited by Bangasser 2000, 45)[1] -- suggesting a desire to formalize the informal. The definitional concepts agreed for the enumeration were soon adopted into the United Nations System of National Accounts, marking international recognition of informality and an agreement to measure its economic contribution. Enumeration was to focus on the unit of production, rather than on the workers involved, and these 'units' would include households and 'own-account' enterprises, as well as unincorporated 'firms'.

The 1993 resolution had noted that 'the scope of the informal sector should include household enterprises located in urban areas as well as household enterprises located in rural areas' (Bangasser loc. cit.), although it was accepted that, at least initially, many member countries would confine data collection to urban areas. The enumeration of rural *agricultural* household production has been a grey area from the start, because (as it was decided) 'for practical reasons, the scope of the informal sector may be limited to household enterprises engaged in non-agricultural activities'. Elsewhere in the 1993 recommendations, the exclusion of agriculture was more definitively stated: 'Activities excluded from the scope of the informal sector, such as domestic services, nonmarket production and agricultural activities, may be identified as separate categories *outside the distinction between the informal and formal sectors*' (cited by Bangasser 2000, 51, emphasis added)[2]. Following the ILO conference of 2002, the definition of the informal sector was expanded to include individuals, as well as enterprises, 'that are in law or practice not covered or insufficiently covered by formal arrangements'. This is seen as moving 'towards a definition that focuses on individuals informally employed rather than on informal enterprises (EU 2012, note 1) and appears to include casually-employed agricultural labourers, who are now enumerated in some countries. The status of self-employed agricultural smallholders remains ambiguous, however. This ILO event was also marked by the fairly general adoption of the term informal 'economy', rather than 'sector'.

Several aspects of the protocols show the effort to capture the complex reality of formal/informal and agricultural/non-agricultural interactions, occurring when individuals have multiple economic activities and sources of income. For example, it is recommended to record the activities of individuals engaging in both formal and informal occupations, and to record their primary occupation in each such case. In another common situation, where members of agricultural households engage also in informal off-farm (ie, non-agricultural) activities, this latter activity should be recorded, even though the agricultural activity of the household is excluded. In another ruling which could be judged problematic (if the objective were really to understand the full range and complexity of the economic activities and income sources of rural households) any subsistence or 'non-market' production of households otherwise engaged in the informal economy is excluded. Further (and as a corollary) pure 'subsistence' agriculture (the case where households engage exclusively in 'non-market production' for own-consumption) is excluded from both the formal and informal economies (Bangasser, op. cit., 49-50).

[1] The full text of recommendations from the ILO conference discussed in Box 1 is reproduced in Bangasser (2000, 45-59)

[2] See also Jütting et al (2008, 11n)

While bureaucratic activity is most commonly associated with government, non-state actors may also be capable of setting 'rules of the game', in opposition to which informality is characterized. Government may, for example, leave the bureaucratic ordering of a 'company' town largely to a private operator. Another case arises in retailing, with situations of market power which can allow dominant purchasers to dictate to producers and suppliers. Most obviously this occurs in regard to price, but it may also extend to a range of production requirements and specifications. Suppliers excluded by *fiat* from participating in the formal supply chain of a monopsonist may be obliged to accept relegation to some fringe segment of the market, where they become effectively 'informalized'.

Rural economic activity of an informal character operates beyond the strictures of bureaucracy. To the extent it transgress bureaucracy's requirements this often occurs covertly, or is permitted by default due to limited state regulatory capacity. Such informal activity may avoid certain obligations but must also forgo at least some of the benefits of conformity with bureaucratic norms. In developing countries, however, and especially in rural areas, the capacity of bureaucracy either to render benefit or enforce regulation may be quite limited (though the potential for disruption by rent-seeking officials may nonetheless be considerable). The 'under the radar' character of much rural informal activity may provide a partial explanation for the limited discussion it has inspired -- certainly by comparison with the abundance of attention lavished on *urban* informality. Then again, the demarcation of formal from informal may pose greater conceptual difficulty in rural areas, perhaps because developing country agriculture remains, in varying degrees from place to place, and to a greater degree than for urban economic activity, the joint domain of the 'traditional' and the 'modern'. Although it is often assumed that informality will be eradicated by the forces of 'modernization', in practice it appears that informal economic activity is tenacious in the face of pressures for change.

Urban informality claims attention in the crowded circumstances of cities and towns, where it is visible evidence of social change flowing from rural-urban migration -- a double disruption usually requiring people to change both place of residence and means of livelihood. The engagement with market activity involved in *rural* informality is often the product of less perceptible changes occurring in livelihoods, due to the introduction and elaboration of monetary exchange and technical innovation in agriculture and off-farm activities, in marketing, and in services. Moreover, as implied above, rural informality occurs in households where continuing evidence of earlier modes of production and distribution (such as household subsistence, non-market exchange and traditional land tenure) may be apparent. Such visible reminders of customary social arrangements may serve to mask significant change occurring nonetheless in rural domestic economy.

By contrast, urban informality draws attention to itself, not only by reason of its often boisterous character, but also in a context of political concern about unemployment and (presumed) dysfunctional urban growth. For example, the immediate and largely positive reception given Hart's ideas in the early 1970s was almost certainly due to a panicked climate of opinion then prevailing, among some international agencies and academic economists, concerning a supposed epidemic growth of open urban unemployment. A collection of essays edited by Richard Jolly (Jolly et al. 1973) conveys this climate of opinion to the contemporary reader, presenting somewhat alarmist statements about urban unemployment. Jolly's editorial introduction asserted that

> 'unemployment is increasingly emerging as the most striking symptom of inadequate development in most countries of the Third World. In many countries, open unemployment in the urban areas now affects 15-25 per cent of the labour force and often much higher percentages of persons aged fifteen to twenty-four. Even larger fractions of the labour force, urban as well as rural, are underemployed ...' (ibid*.,* 9).

By contrast, in his contribution to the same collection, John Weeks (ibid., 61-65) deplored the 'tidal wave' of ill-conceived estimates and projections of *open* unemployment then circulating in the international literature. These depended on defining 'employment' exclusively in terms of formal sector jobs.

Hart's contribution to this debate, by pointing to the nature, extent and value of informal economic activity, assisted greatly in reframing the issue. It crystallized a new understanding, expressed in terms of the lack of sufficiently remunerative urban *income-opportunities*, whether formal or informal, as distinct from a notion of 'open' unemployment due to the absence of 'jobs'. It is similarly fruitful, for the purposes of this paper, to view issues of *rural* 'employment' in terms of access to a range of income-earning opportunities, rather than as a matter of the insufficiency of 'jobs' for a presumed number of 'job-seekers'. After this 1970s experience, Hart came to see the concept of informality as arising from anomalies between the conceptions of orthodox economic theory, when applied in developing countries, and the messy reality of those countries. Such anomalies could only be accommodated by introducing the idea of informal economy, for:

> 'As long as there is formal economic analysis and the *partial* institutionalization of economies around the globe along capitalist or socialist lines, there will be a need for some such remedial concept as the informal economy. Its application to concrete conditions is likely to be stimulated by palpable discrepancies between prevalent intellectual models and observed realities' (Hart 1987, italics in original).

Informality in a variety of economic settings

The idea of an informal economy proved useful in understanding the partial or incomplete 'institutionalization' of Ghana's urban economy to the orthodox development agenda of the 1950s and 1960s. After the success of efforts to rebuild the shattered economies of post-war Europe and Japan, and in the era of 'modernization' theory, it had seemed reasonable for the West to turn attention to newly-emerging states, while in the East another set of principles was being applied to the creation of socialist economies. In both cases 'palpable discrepancies' between reality and theory were to become apparent; the discussion will return to this subject below.

One possible explanation for Hart's failure to explore the implications of informality in the rural economy may lie in a belief that discrepancies between messy reality and the predictions of neoclassical economic theory ('those anodyne formulas of an economics wholly innocent of contradiction') were more egregious in the urban context. His own subsequent explorations of rural development employed the framework of classical political economy, represented in the modern era by W Arthur Lewis, rather than extending the implications of informality into rural society (Hart 1982). And yet rural economic activity embodying persistent and significant elements of 'traditional' (that is, pre-market) economic behaviour seems to require for its explanation just such a 'remedial' concept as Hart's informal economy. The continuing influence, in a 'marketizing' rural economy, of such elements as household subsistence production, non-market exchange between affines and neighbours, and landholding subject to customary tenure arrangements, seems to suggest Hart's *partial* institutionalization -- an incomplete accommodation of peasant society to the 'prevalent intellectual model' underlying bureaucratic norms.

Another possible reason for Hart's failure to explore rural informality might lie in the impact on his own career of the 1970s unemployment 'panic'. This caused his 'urban informal sector' to take on a life of its own, diverting him from any more extended and symmetrical ethnographic treatment of the *Frafra*. The World Bank and the ILO, among other international development agencies, adopted 'informality' with gusto for a time, seeing it, if not quite as a panacea, then as a means of looking beyond 'unemployment' as a concern of public policy. Travelling missions from such agencies were soon urging newly-independent governments to consider the potential for income-generation residing within their informal 'sectors', previously unregarded or despised. One such example was the 1972 UNDP/World Bank 'Faber Mission' to Papua New Guinea, whose members included Keith Hart, at the time still optimistic about the value of his ideas for orthodox development planning (Hart 1970, ODG 1973). The Faber mission was despatched to Port Moresby to recommend economic policies for a soon-to-be independent PNG, among which was its suggestion to facilitate increased levels of informal economic activity in that country because of the extent of foreign domination, even to the bottom rungs, of commercial activity[3].

The idea of 'informality' has been applied since, and by many commentators, in a variety of situations since Hart's initial formulation, and the term informal economy has become a modern catchphrase. Hart has noted its use as an alternative to 'epithets' such as 'hidden', 'black' and 'underground' economy in the context of deindustrialization, and its application to activities 'ranging from domestic do-it-yourself to the more criminalized economy of disaffected youth' (Hart 2006, 27). Such contexts are not the focus of this study, which limits itself (as did Hart, initially) to 'development', while attempting to extend the application of the informality construct to the study of *rural* development.

It might be interesting to ask whether the idea of economic informality could be applied properly to quite different contexts, such as those of social formations occurring prior to industrial capitalism. Examples of such earlier social formations might include theocracy, feudalism, or the non-monetized command economies found in parts of the pre-Columbian Americas. Any society with some semblance of administration had its own version of *form*, such that economic activity occurring outside, or deviating from the requirements of, such *form* might then be considered *in*formal. These speculations are unfruitful, however, since they amount to a *reductio ad absurdum* of Hart's ideas. Informality as a concept cannot be applied to pre-market forms of exchange, for it has no salience there. It becomes salient, however, with the introduction of market exchange, and with the efforts of traditional producers to accommodate themselves to the modalities of markets. Hence the need for careful examination of the circumstances of small farmers in the developing world, whose activities are the ultimate focus of this paper.

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[3] That episode is relevant to my own longer-term research program, which involves exploring the history of the idea of the informal economy in 'development' thought, and its application in the unlikely setting of the islands of New Guinea and the Bismarck Archipelago as well as to some other contemporary situations. See http://ssrn.com/author=1789610

After a relatively short period during which he examined the idea of informality in the context of conventional 1970s 'development' practice, Hart came (as we have seen) to the view that it should be regarded as a remedial concept to cope with the inadequacies of contemporary theoretical frameworks when applied to real settings. He asserted this as applicable to both socialist and market economies (Hart 1987). Given that formality and informality were described above as occurring in circumstances of *market* exchange, the application of these terms to contemporary socialist economies may appear problematic. But because of the emergence there of 'palpable discrepancies', evidenced by the appearance of informal markets, informality also has explanatory power in a socialist context.

For example, in Cuba and North Korea (the DPRK) it has become impossible in recent times for authorities to ignore the breakdown of processes of production and distribution conducted according to orthodox socialist principles. In the Cuban case this has resulted in reform measures -- the recent exploratory freeing of privately-provided petty services, together with a degree of land reform to stimulate private food production for market, which appear to amount to the legitimation of some informal economic activity[4]. In the North Korean case we have observed a curious situation, in which North Korean authorities ostensibly condemn while lower-level officials connive, permitting the emergence of spontaneous (read 'informal') production and markets for food and other commodities, which fill yawning gaps in official supply chains. The North Korean case, in particular, suggests how rural-urban linkages may operate where the state *Juche* ideology is impotent, to transmit the 'virus' of informal economic activity between countryside and town.

In relation to North Korea, Lankov and Kim (2008, 53) remind us that 'no communist state has ever been able to eradicate private economic activities completely and despite their persistent efforts, all Leninist regimes have had to tolerate the existence of a “second economy”'. The second economy operates outside the planning framework, is conducted for private gain, and/or involves 'knowing contravention of an existing law' (ibid., 54). Entities thus engaged may be households, enterprises (including SOEs) or criminal organizations. The term 'second economy' arose in the Soviet Union, where it referred to economic activity (both legal and illegal) occurring outside 'the plan'. It has been asserted that the growing importance of such economic activity in the late-period USSR 'amounted to an implicit market reform within the Soviet economy', facilitating *peristroika*[5]. The idea of a *second economy*, while specific to command economies, has much in common with Hart's 'informal economy'. It may be seen as subsumed within that more generalized concept, of which it is a special case.

Up to the early 1990s in North Korea strict rationing was in force, private production was discouraged and distribution was controlled by the official Public Distribution System (PDS). In the judgment of Lankov and Kim, 'the growth of private trade began with the collapse of the North Korean economy, which became noticeable in the late 1980s, prompted by the dramatic decrease in the scale of Soviet and Chinese aid. From around 1990 this economic crisis manifested itself in food shortages, which had developed into a large-scale famine by 1995' (ibid., 58). The second economy emerged as a mechanism to cope with the failure of the PDS. Another observer commented that 'the

[4] On reforms announced in November 2010 and early indications of their progress see Cuba Study Group (2011a, 2011b), also The New York Times (NYT 2013)

[5] Gale *Encyclopedia of Russian History;* see also Hann and Hart (2011, 123ff).

marketization of the economy ... over the last 15 to 20 years has essentially been a by-product of state failure'. Under these circumstances, the economy 'marketized, not as any kind of conscious product of state policy, but rather from the bottom up' (Noland 2011, 1). 'Even local government, party offices and military units were forced into commercial activity. Farmers' markets emerged in the countryside, while rice was traded in the cities; state-owned enterprises engaged in barter and cash transactions in order to stay afloat' (Haggard and Noland 2013, 7).

Tensions arising from the state's inability to meet basic needs and the societal pushback represented by informal economic activity impelled a transition, 'from a planned state socialist system to a hybrid system in which the state has grudgingly acquiesced to a larger role for the market' (Haggard and Noland 2012, 2). But this has not been a linear process, for 'policy has been ambivalent, sometimes acquiescing to facts on the ground, at other times attempting to reverse them' (ibid., 4). Indeed, the accession to power of Kim Jong-un from late 2011 may be leading to 'ever more erratic swings between tolerance of market activity and efforts to suppress it' (Haggard and Noland 2013, 7). While the evolution of North Korea's economy is a work-in-progress, many ordinary people have discovered a capacity to 'get by', resorting to economic activities which external observers may see as informal (in Hart's terms) by reference to the ideology and norms of the State. Initially this occurred in rural areas, and with respect to food production and marketing. The tendency has subsequently become more widespread, both geographically and in the scope of activities conducted. Evidence of informality is now seen wherever people find it necessary to resolve the discrepancies between *Juche* orthodoxy and the harsh reality of everyday life.

Informal agriculture in a globalizing world

Beyond the DPRK a globalising world is subject to its own food uncertainties. Most recently, these are evident from the price shock of 2007-08 and the aftershock some two years later. Now renewed attention is being directed to agriculture, a sector which has long been neglected[6] and this revival includes a focus on the world's small farmers. This is partly because of the impact of price increases on the poor (including that large proportion of small farm householders who are net purchasers of food). Smallholder agriculture has continuing and even increasing significance: 'Small farms matter because they exist in huge numbers ... There are nearly 500 million farmers today who farm less than 2 hectares of land and ... they are getting more numerous and smaller than ever ... Small farms are home to some 2 billion people, including half the world's undernourished people and the majority of people living in absolute poverty' (Hazell 2011, 3). Moreover, small farms 'have proved remarkably persistent ... The importance of farming in household incomes may have declined, but the number of rural households that use farming as a platform for their livelihood strategies continues to grow' (Hazell, Wiggins and Dorward 2010, 1349). The poor find a 'platform' approach to livelihood increasingly necessary, as mean farm size in the sector declines and the numbers of food-

[6] This is suggested by the global record for ODA. 'The share of agriculture in official development assistance (ODA) declined sharply over the past two decades, from a high of about 18 percent in 1979 to 3.5 percent in 2004. It also declined in absolute terms, from a high of about $8 billion (2004 US$) in 1984 to $3.4 billion in 2004' (World Bank 2007, 41).

deficit households increase, requiring them to resort to off-farm sources of income such as agricultural wage labour, non-farm employment and remittances.

The contemporary vision of a role for small farmers (what Hart would call the 'prevalent intellectual model') is articulated by the World Bank, among other international institutions. The *World Development Report 2008* spoke optimistically of an 'emerging new agriculture', which is to be 'led by private entrepreneurs in extensive value chains linking producers to consumers and including many entrepreneurial smallholders supported by their organizations' (World Bank 2007, 8). Under the rubric of 'inclusive business', the private sector is seen as crucial in integrating smallholder producers into corporate supply chains, opening up markets for small farmers. The World Economic Forum's *New Vision for Agriculture* initiative has enlisted multinational agribusiness companies and other entities to 'develop a shared agenda for action ... to achieve sustainable agricultural growth through market-based solutions'. This *New Vision* includes a particular focus on 'business strategies to enhance food value chains and empower the poor' (World Economic Forum 2009). In this view the future lies in greater resort to urban and export markets, in contract farming with large farmers or aggregators and processors, in the group organization of small farmers, and perhaps in 'fair trade'. It will also be necessary 'to make food staples markets work better for small farms' (Hazell 2011, 7).

Obstacles to such 'market-based' incorporation of the poor are formidable, for 'small farms ... face major disadvantages in accessing modern market chains ... low volumes of produce to sell, variable quality, seasonality and limited storage, high transactions costs, poor market information and contacts, and limited ability to meet the high credence requirements of many high value outlets' (ibid., 9). Many doubt the continuing relevance of small agriculture in an age of *supermarketization*, for it seems only larger and more educated smallholders can possibly meet the requirements of modern value chains for quantity, quality and timely delivery. The argument is not cast in terms of any formal/informal dichotomy, but it is clear that the *New Vision* and allied agendas entail progressive 'formalization of the informal'.

Among other measures, emphasis is to be given to the creation of organizations of smallholders, supporting their integration into value chains by overcoming the scale, financial and information disabilities under which they labour. But it is not clear that such proposals make adequate allowance for the heterogeneity and segmentation of the small farmer universe. Across the world, farm households range at one extreme from near-landless rural families, to subsistence agriculturalists with little cash income, and to small farmers with diversified 'platform' strategies, while at the other extreme commercialized small farmers engage in modern value chains. As will be suggested here, small farm heterogeneity poses formidable barriers to any widespread and early achievement of 'inclusive business' propositions based on formal value-chain-building.

Numerous schema of segmentation have been proposed to describe the heterogeneity of the small farm sector, and for a range of analytical purposes[7]. One of the simplest, a dualistic structure, appears in the most recent *World Development Report* on agriculture. This suggested 'market-oriented farmers' and 'smallholders engaged in subsistence farming' as appropriate categories (adding that 'only a very small share of all marketed agricultural products is produced by the subsistence-oriented households') (World Bank 2007, 78). Other attempts at categorization have

[7] Christen and Anderson (2013, 6-8) provide a useful discussion of recent attempts at such categorization, their objectives, and the principles underlying them. See also Vorley et al. (2012, 9).

introduced several levels of commercialization. For example, Christen and Anderson (2013), whose analytical focus was the financial service needs of smallholders, used an explicit value chain framework. Their findings, concerning the applicability of value chain finance at various levels of smallholder agriculture, are also broadly applicable to the range of other specialized services and inputs necessary to the functioning of the idealized agricultural value chain. Assuming some 500 million small farms, they started from a base consisting of 300 million farm households, described as 'non-commercial smallholders'. These households cultivate staples primarily for subsistence and sell occasional small surpluses into local informal markets. 'They are generally buyers of food (supplementing their own production) and sellers of labor, which limits their ability to produce'.

At the next level up, a somewhat less poor group of 'commercial smallholders in loose value chains' numbers perhaps 165 million households. These produce some higher-value crops in addition to staples. They generate more reliable surpluses for sale in informal local or regional markets, though (reflecting the heterogeneity of the sector) their household incomes come from a diverse range of agricultural and non-agricultural activities, among which agriculture may not be the most important. Finally, at the apex of the structure sits a group of 'commercial smallholders in tight value chains'. These number some 35 million households (just 7 per cent of small farmers in the developing world) whose members derive a significant part of their agricultural income from higher-value 'specialty crops', while continuing to grow at least part of their staple food requirement. Distinguishing them from the lower segments is the circumstance that 'due to their place in relatively more structured value chains [they] have access to buyer-provided bundles of improved seeds, inputs, agricultural and weather information, finance, and secure markets and prices'. This top group is marked by 'the capacity to generate reliable, high-quality outputs that are sold on a contract basis'. These commercial farmers often employ farm labour, including from the lower two farm segments, and are more attractive customers for financial service providers (Christen and Anderson 2013, 9-11).

These three smallholder groups (whose characteristics, it must be emphasized, are generalized across an extremely diverse small farmer universe, in many countries) all have financial service needs. For our purposes the important finding is the quite limited application to that universe of value chain finance, which 'tends to be largely irrelevant to non-commercial smallholders'. Members of this largest group of small farmers are able to meet neither contract farming quality standards, nor the necessary volumes (without costly aggregation and processing). The same applies for commercial smallholders in loose value chains, largely producing undifferentiated staples sold in a wide variety of markets, mostly informal. Contractual arrangements with such producers are of little interest to commercial aggregators, who are generally free to enter the same markets for spot purchases, unconstrained by the need to support a cadre of dedicated suppliers. Certain forms of value chain finance, such as warehouse receipts, may have application to some growers of higher-value crops at this intermediate level, but little scope exists for formal contract farming. By contrast, 'commercial smallholders in tight value chains ... are the natural targets for highly structured value chain finance approaches, as they have the capacity and resources to grow high-value crops' (ibid, 18).

The circumstances which Christen and Anderson described as limiting the relevance of value chain finance also apply, by and large, to other value chain inputs. These are supplied profitably to only the top seven per cent of smallholders. In addition, some promising producers, 'below the line' but in transition to formal commercial operations, may also benefit from access to such inputs. In the logic of corporate value chain agriculture, however, there is little business case for assistance to the bulk of smallholders below this level. Despite the rhetoric of 'inclusive business', effort is directed to incremental expansion at the frontier. This is not to criticise such efforts, but rather to question the time-frame required for extra-marginal changes benefiting the bulk of small farmers, and to ask whether additional, complementary, measures are necessary. Perhaps we need to reconsider the potential for constructive change among the majority of middle-level smallholders unlikely to benefit any time soon from the extension of formal value chains.

These thoughts are prompted by a recent critique (Vorley *et al*., 2012) asserting that value chain orthodoxy underestimates the capacity of small farmers to exercise independent *agency*. Instead, 'much of the market-based approach to development focuses on how small farmers and their organizations can be "included" in value chains and "empowered" in markets as "beneficiaries" of external initiatives' (ibid., 4). In Vorley's account, smallholders display agency by 'working and trading outside or at the edges of formal economic and political institutions', that is, resorting to informal economic activity (ibid., 3). In fact, 'informality is the space of human agency. It is the realm of practice where individuals and groups playing the "game" use the inevitable space around the rules to make them work in their favor' (Bennett 2002, 16). In Hart's terms, 'rules' are prescribed by bureaucracy, and in the world of 'inclusive business' that authority extends also to private entities controlling participation in value chains.

In terms of the formal/informal distinction, we might view as 'formal' those smallholder farmers subject to the disciplines of contract or independent commercial farming, recipients of all or most of the 'package' of commercial inputs, and con*form*ing with the requirements of private and public bureaucracy for agricultural production, processing, distribution and marketing. This is the territory of the 'tight' value chain, whereas the very idea of a 'loose' chain suggests informality, with greater smallholder agency and less bureaucratic influence. This group of 'formal' smallholders corresponds fairly well with Christen and Anderson's cadre of farmers in 'tight value chains'. It seems reasonable, in addition, to regard some 'below the line' farmers -- liminal households with the potential for fuller commercial engagement -- as also being formal. These numbers are consistent with the claim (Vorley et al. 2012, 9) 'that "inclusive business" schemes based on formal value chains benefit mainly a narrow minority of farmers -- perhaps 2-10 per cent -- who are more capitalised, educated, closer to urban areas and infrastructure, and strongly oriented toward commercial agriculture'[8].

For Vorley and his colleagues the formal/informal conundrum is to be resolved by observing the contrasts between formal value chains and what has been called here the 'messy reality' of much smallholder economic activity. They believe that while official development agendas may focus on modern, formal and global markets, governments often fail to appreciate

> 'the reality of a thriving informal sector, the diversity of smallholder livelihoods combining formal and informal, farm and off-farm, urban and rural activities, or the traditional or local institutions and structures many farmers use for economic cooperation and to shape the rules of their markets' (ibid., 3).

[8] See figure 2.2 (loc. cit.) for the schema of segmentation for smallholder farmers proposed by Vorley *et al*.

Empirical studies of the operation of rural informal economies in several continents will be presented in the collection of papers of which this essay forms a part. Good fieldwork is important, for comparatively little is known about their operation or how they relate to formal value chains. As an experienced observer has remarked, with some humility:

> 'Agrifood markets are often qualified as "not organized". However [in west-central Africa] local, provincial and capital city markets are full of products, trucks, vendors and customers. There is a high level of organization, which is indeed largely informal. It is often "us", development experts, who fail to understand how domestic/local markets are organized and regulated and how transaction risks and costs are reduced through trustful relations and informally provided ‘chain-embedded’ services' (Schrader 2012).

Conclusion

The purpose of this paper has been to explore the notion of economic informality and its application in the rural context, applying Hart's (1987) notion of informality as a 'remedial concept'. Some remedy is needed to make sense of the many 'palpable discrepancies' observed between the prescriptions of an economic orthodoxy -- whether of a socialist command economy or a 'marketizing' economy attempting to apply the value chain proposition -- and the 'concrete conditions' of such economies. The circumstance, that most such economies are only partially 'institutionalized' to whatever economic orthodoxy is being applied in the realm of public policy, throws up the behaviours we recognize as economic informality. In 'marketizing' rural societies the continuing influence of traditional elements, such as household subsistence production, non-market exchange between affines and neighbours, and landholding subject to customary tenure arrangements, may help to explain the phenomenon of partial institutionalization. The tenacity of informality in such economies, and the necessarily slow pace at which small farmer households can be incorporated within formal value chains, should urge us to the more careful study of rural informality and its strengths, to enable these to be harnessed. The advice of Hazell (2007), cited above, that it will be necessary 'to make food staples markets work better for small farms' seems a good starting point.

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