



# Mobilising informal businesses to enhance food system outcomes

KB 35\_008-018

2021-2022

March 2022

Project team: Daniel Mekonnen, Emma Termeer, Katrine Soma, Siemen van Berkum and Bart de Steenhuijsen Piters

## Objectives and methods

In this study we explore the question whether and how the contribution by informal midstream agri-businesses can enhance food system outcomes such as healthy diets, resilient livelihoods, and environmental sustainability, can be stimulated. Against this background our aim is to contribute to a better understanding of informal midstream agribusinesses. Through a review of literature, we explore research questions, such as: what is informality and why is it problematic? What are the roles of informal agri-businesses in food systems and where could they enhance food system outcomes? What motivates informal midstream businesses to operate informally? How are they organised and governed? How can informal businesses be reached and stimulated to enhance food system outcomes?

## Results, solutions and contribution to transitions

**Informal businesses** operate outside of the formal economy. They are often not officially registered, do not maintain bookkeeping, pay taxes or own a bank account, and do not hold official employment relations with their workers. The definition of the informal economy includes both informal businesses and informal workers that are part of informal businesses.

### Key messages

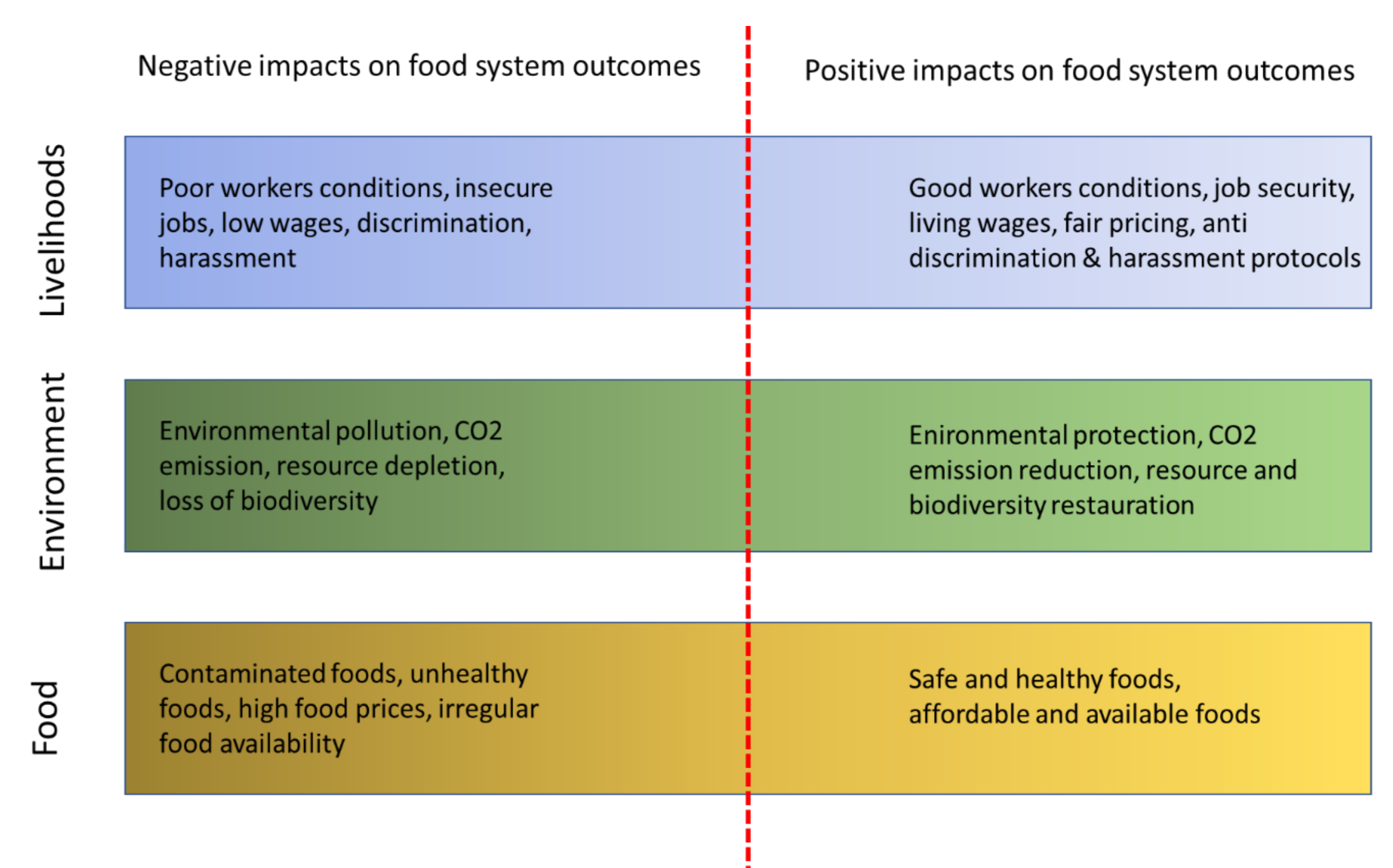
- Informal midstream businesses contribute in many ways to food system outcomes, such as access by poor consumers to affordable food. But they sometimes also constrain such outcomes by, for example, maintaining poor workers' conditions.
- Informality is not a stage in development, which will disappear with modernisation of the economy. Informality is an intrinsic part of the whole economy and therefore to stay.
- Most efforts by governments to formalise the informal economic sectors have failed. Governmental efforts to regulate the informal economy come with significant risks and may have an adverse effect on economic growth and its inclusivity.
- Social capital and trust have significant effects on the performance of informal businesses. This is related to the observation that informal entrepreneurs are often not only driven by economic rationale but also by social goals.
- Governments can support informal midstream businesses by improving infrastructure, but also including them in policy dialogue. Yet, the repertoire by governments of incentives that trigger informal midstream businesses to contribute to public goals is limited. Other actors in the food system, such as retailers, consumer (movements) and investors are better positioned to reach out to the informal midstream businesses.

For many businesses it is a deliberate and rationale choice to remain informal. This does not imply that operating in the informal economy comes without structure, norms, forms of regulation and governance. On the contrary, informal economies are organised by a pluralism of social networks that interact in a complex socio-economic, political and cultural architecture. Formal and informal governance of food systems co-exist and are strongly related, while firms navigate this landscape and adopt various forms of formality and informality depending on their motivation.

Informal midstream firms can contribute in many ways to enhanced food system outcomes but are sometimes also themselves constraints to such improvements. As such, we consider two sides of informal businesses: providing income opportunities, absorbing unemployed, providing opportunities for unskilled labourers versus being the source of economic insecurity, excluding sections of society that do not belong to well-defined networks, reinforcing unequal power relations. Informal economic networks have both bright and dark sides.

A normative assessment framework helps us distinguish between 'the good, the bad and the ugly', how and where in food systems occur leverages for positive impacts by informal midstream businesses? How do we recognize features of informal businesses that define their potential to contribute?

### A normative framework to assess the contribution of informal midstream businesses to enhancing food system outcomes



This study concludes that formal actors such as governments must adapt their attitude towards informal actors. They will have to be taken seriously when developing food system transformation agendas, more inclusive policies and their roles in implementation. Yet, this will also raise questions about the legitimacy of representation of informal parties, as these not always act on principles of democratic voice or other well-established norms of inclusivity. This issue may well constitute one of the most prominent challenges of more pluriform processes of food system transformation: merging norms and values between very different constituencies while contributing to collective, public goods.

## What's next?

This working paper serves as input to a position paper on how to engage informal midstream businesses in enhancing food system outcomes (in preparation). Various research and development programmes make use of the findings of this study and explore knowledge questions identified by this study.

## Questions for audience

- What is your perception of the informal economy? When is an informal business 'good or bad' according to you?
- Do you agree with the statement that '*governments can only create an enabling environment for informal businesses, and other actors in the food system have to reach out to them, providing incentives to improve their practices*'.

