



Informal Economies in Fragile Environments

Summary report | January 2016

SPEED READ

MAIN MESSAGE

The informal economy is a remarkably resilient phenomenon that touches many and diverse aspects of life in insecure societies. These economic spaces are often the arena of intricate power dynamics and shape provision of security and justice within their spheres of influence. Any intervention aimed to engage with the informal economy must duly consider how activities will affect and interact with present systems of power. Competing networks and tipping points appear to affect the way the informal economy is organized, and thereby how it may influence local justice and security.

AUDIENCE

Professionals engaging in research, policy, and interventions targeting the informal economy and security and justice provision in conflict-affected or unstable societies.

KEY TAKEAWAYS

- Engagement with the informal economy means engaging with intricate power dynamics that often blur the lines between state and nonstate, licit and illicit. Interventions must take into account the ways in which goals and activities may have unforeseen and far-reaching consequences.
 - Approaching the informal economy with a criminal justice lens can be too narrow, and often fails to anticipate the impact these activities have on development, livelihoods, migration, and human security.
 - Categorizing informal economic actors and groups is challenged by the fact that such players transform and shift in different directions along a continuum. The goal then becomes trying to understand why they do so and how they can be nudged in a particular direction.
 - Cases suggest certain tipping points that can prompt informal systems or actors to change. What dynamics seem to influence informal economic activity and security and justice provision that they either compete or cooperate with the state?
 - Informal economic actors can develop their own security and justice systems, and informal justice and security providers may start to generate revenue with their activities. If providing security and justice is primarily motivated by economic activities, might this lower the likelihood that providers will respond to the needs of the economically marginalized?
 - The intricacy of linkages between the formal and informal—the provision of security and justice, the formal economy, and the informal economy—requires new types of experimental, iterative, and adaptive interventions.
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About the Platform

The Knowledge Platform Security & Rule of Law brings together a network of relevant communities of practice comprising experts, policymakers, practitioners, researchers and the business sector on the topic of security and rule of law in fragile and conflict-affected contexts. It provides for a meeting space - offline as well as online - and intellectual stimulus grounded in practice, for its network to share experiences, exchange lessons learned and discuss novel insights. This way, it strives to contribute to the evidence base of current policies, the effectiveness of collaboration and programming while simultaneously facilitating the generation of new knowledge. The Secretariat of the Platform is run jointly by the Hague Institute for Global Justice and Conflict Research Unit of Clingendael Institute.

Introduction

The phenomenon of informal economies has drawn increasing attention in recent years. This is not only because of their development potential for alternative governance arrangements, but also because of a growing concern about illicit activities and organized crime. This report summarizes the discussions of a day-long event, held in The Hague on November 2015 that focused on the connections between informal economies and security and justice provision. How are security and justice being organized by and within the informal economy, for whom, and by whom?

The informal economy is an elusive concept, and approaches tend to see it as either a “hotbed of racketeers” or “seedbed of entrepreneurs”. For this event and discussion, the informal economy is defined as encompassing all economic activities that do not adhere to the state’s institutional rules or that are denied the state’s protection.¹

Economic activity relies on three fundamental factors: competition, capital accumulation, and contract enforcement. Each of these are underpinned by systems of security and justice that prevent competition from becoming violent, protect assets, goods and workers, and enforce rules, lowering the transaction costs of cooperation and exchange. However, the state is not always the most proficient guarantor of these features, particularly within the informal economic sphere. During the event discussions, the links between informal economies and justice and security were explored along two perspectives:

- 1 The informal economy as an alternative regulatory domain in which a variety of actors organize and provide security and justice
- 2 The informal economy as a political and economic resource for elites

This summary report broadly follows the event program in first describing the case studies, then the two parallel afternoon discussions, and last reflections on the implications for future research and practice.

BACKGROUND

This summary report condenses the discussions of the Interactive Brainstorm [Informal Economies in Fragile Environments: Exploring the links to justice and security](#), held on 23 November 2015, in The Hague. Conceptual input was provided in the policy brief [Making Sense of Informal Economies in Fragile Contexts Issues, Dilemmas and Questions](#), by Steven Schoofs (2015).

The event was held under Chatham House Rule, and joined twenty professionals with diverse backgrounds—including the World Bank, Christian Aid, SPARK, The Netherlands Ministry of

¹ For more background, see Steven Schoofs, “[Making Sense of Informal Economies in Fragile Contexts Issues, Dilemmas and Questions](#),” CRU Policy Brief, Clingendael, June 2015.

Foreign Affairs, and Vrije Universiteit Amsterdam—for an open-minded exploration of how informal economies shape, and are subsequently shaped by, the organization and provision of security and justice in fragile situations.

Cases

Empirical case material from Mali, Tajikistan, Colombia, Afghanistan, Uganda, and Rwanda provides a wealth of detail on linkages between informal economies and security and justice provision. The discussion revealed the dynamics influencing the development of informal economies.

Border control, mafia style agreements, and collusion

In northern Mali and the Sahel, the control of borders and *droit de passage* has become increasingly important as international drug routes, arms, and migrant flows have shifted. Facilitated by new technologies, protection markets, and increasingly lucrative trafficking routes, the Sahara can no longer be considered a geographical buffer zone. It has become instead a thriving thoroughfare of illicit economy. Interestingly, these developments have provided the mercantile class with new (and disruptive) avenues of social mobility, giving rise to a younger cohort of rich and powerful actors more apt to settle their scores and assert their power in the economic sphere. These dynamics have led to tensions between different tiers in society, reconfiguring the centuries-old economic and social system in the Sahara. “Mafia style agreements” in which the international community tolerates certain activities (smuggling) in view of other priorities (preventing jihadi activity), are an important factor in the persistence and resilience of the informal economy.

Intimate connections between licit and illicit

The cases illustrate how licit and illicit activities are intimately connected and challenge the prevailing notion that the illicit economy is an isolated tumor that can be simply or cleanly removed. In Afghanistan, for example, improved agricultural efficiency and poppy eradication in one area displaced a large population of land-poor laborers, who migrated to new areas, spreading poppy cultivation exponentially.² Approaches that focus exclusively on eliminating criminal activity or illicit goods often fail to address the interdependent relationship between informal economies and the limited economic options of the poor. Such situations may be better termed *coping* or *survival economies* and addressed as development challenges rather than a criminal menace.³

² David Mansfield and Paul Fishstein, “Eyes (Still) Wide Shut: Counternarcotics in transition in Afghanistan,” in Eric Gutierrez, “Drugs and Illicit Practices: Assessing their impact on development and governance” (London: Christian Aid, 2015).

³ Gutierrez, “Drugs and Illicit Practices.”

Moreover, the economic gains associated with illicit activities can be invested into systems widely recognized as legitimate. In Tajikistan, carefully negotiated arrangements to divide the spoils of the heroin trade have evolved into a source of stability and governance.⁴ Similarly, in Kenya, gangs were considered legitimate actors by local residents who benefited from the protection and jobs they provided, and the police were considered, in the words of one participant, “the biggest gang” for their killing of hundreds of young men from the area. Furthermore, endless examples of state officials and economic moguls engaging in criminal activities, directly or indirectly, suggest an “intimate marriage” between crime and state. What and who is seen as criminal depends very much on who you talk to and how history is chronicled.

Double capture: Politics capturing informal activities, and vice versa

A study of the urban transport sector in Rwanda and Uganda reveals patterns of organization and politics influencing economic activity as well as their important links to security. Political interests played an important role in shaping the organization of *boda boda* (motorcycle taxi) drivers in both countries. In Rwanda, the national government tightly regulated this sector and co-opted it as a surveillance tool, fearful of its association with *genocidaires* and Hutu youth. Conversely, in Kampala, Uganda, national political elites had an interest in keeping the sector unregulated, because it provided a key source of urban support in the face of an opposition-controlled city. In fact, politics sabotaged several attempts by *boda boda* drivers to organize themselves.

Political involvement played out differently in Kampala’s *matatu* (minibus) sector. The sector was governed by the Uganda Taxi Operators & Drivers Association (UTODA), which was closely associated with the ruling party and played a key role in surveillance. Politicians also began to accumulate a majority of the minibuses, often gifted as bribes, and collected their substantial profits. Eventually, UTODA monopolized control of the sector, and gained so much mobilizing power that it in turn was able to strongarm the state. In this way, the government and the association became deeply intertwined, undermining regulation and bottom-up organization.

Factors influencing development of informal economies

The geographical context seems an important factor in the development of the informal economy, as is the ability of informal actors to organize and gain control of a sector or territory. It is one thing to monopolize control in a remote area, and quite another to operate in an urban environment where competition is denser and the state is much more present. Importantly, the state and informal actors are not necessarily opposed. Studies of former Soviet states show that the black market was frequently used by the police and politicians. In fact, political powers have incentives to allow shadow areas to thrive because such domains may relieve the state from responding to public demands for stabilizing infrastructure, regulation, security, or development.

⁴ Filippo De Danieli, “Inadvertent Impact: Heroine and stability in Tajikistan,” in Gutierrez, “Drugs and Illicit Practices.”

Another determining factor is the extent to which the informal sector is entwined with international markets, including criminal ones. This relationship relates to the type of product and where there is demand for it, and it can require extensive organization and infrastructure to transfer goods. High levels of organization may eventually be leveraged to mobilize groups on ideological or political fronts. This raises questions about the comparative threat of transnational economies relative to local subsistence economies, and how the organization of groups may increase both economic efficiency and vulnerability to co-optation.

Given these intimate connections, how to move forward?

Actors are not static: predatory actors and mafia-like groups can transform into pillars of stability, just as benign community self-defense groups can evolve into malign structures. One way to grasp this reality is to see these actors and groups on a continuum, along which their position may shift over time. The focus then becomes investigating the factors that increase the likelihood or incentives for these actors to invest in stability and effective governance, or at least dissuade them from prioritizing monetary gain over local peace and stability.

Another strategy is to move away from the criminal justice perspective. Moral panicking and hard criminalization can have a strong impact on the price of a good or service. A price increase that is too high and too fast can have a destabilizing effect and disrupt relations of accountability and tip competition into violence. Such shifts are particularly risky in the informal economic realm, which is unbuffered by state intervention or formal regulation. Investigating different policy options between the extremes of prohibition and legalization is therefore worthwhile. Perhaps land reform policies, facilitating greater access to markets, or a mix of different types of strategies might prove more refined instruments. Such strategies may also involve working with unusual, and sometimes “unsavory” partners—with the caution that interventions may have unexpected, adverse effects.

Regulating the informal economy: security and justice provision

It would be a mistake to equate the informal economy with ‘ungoverned space’. Nonstate actors and informal institutions provide considerable governance within the economy, which includes organizing security and justice provision. The first of the two parallel afternoon discussions at the November event focused on how security and justice are organized: by whom, for whom, for what purpose, and which groups benefit. These considerations are crucial to comprehending the implications of informal economies for sociopolitical order in fragile contexts.

Potential and limits of effective security and justice provision in informal economic spaces

The Mungiki gang in Nairobi, Kenya, provides security and justice within its neighborhood as well as other services typically regulated by the state, such as waste management and electricity. It also controls a large part of informal city transport and heroin trade, which is a substantial revenue flow. Using a potent combination of targeted violence, ethnic mobilization, and sophisticated organization, the gang was effective in filling the regulatory vacuum left by the state in the slums of Nairobi. Offering residents an entry point to economic opportunities, as well as security, discipline, and an identity, the Mungiki quickly subsumed an area of 1.5 million people under its control. The rapid expansion of the group, however, ultimately proved unsustainable. The group became—in a sense—franchised, and pseudo-Mungiki gangs formed, some under the government's auspices, eventually breaking down the gang's cohesion and reputation.

Another relevant example is the Mouride brotherhood in Senegal, a branch of Islam that provides security and justice services to a brotherhood committed to principles of hard work and nonviolence. Operating as an economic network, it facilitates business transactions and market access, regulates credit and lending, and helps establish the necessary level of order and trust for healthy economic systems.

Informal arrangements interacting with state-regulated provision

The Mouride brotherhood is also notable for its relationship with the state. The Senegalese government delegates religious issues to the brotherhood, and the brotherhood in turn relays certain economic disputes to the state justice services. This example contrasts sharply with the Mungiki in Nairobi, which directly challenged state authority, escalating to the point of all-out combat, resulting in thousands of deaths (primarily of young men living in Nairobi's slums), and the end of Mungiki dominance. This contrast suggests that an important factor in the relations between state-operated providers and informal providers is whether the informal providers compete with the state (*discordant multiplicity*) or form a symbiosis (*concordant multiplicity*), assisting the state or even relieving it of certain responsibilities.⁵

Responding to the needs of the economically marginalized

The Mungiki of Kenya and the Mouride brotherhood in Senegal provide opportunities and an identity for the economically marginalized. The extent to which this aspect of identity formation influences the trajectory of these groups, and their relationship with other regulatory actors, is worth further consideration and investigation. What is more, in both organizations, the largest portion of the economic benefits are channeled to the top levels. Depending on structures and dynamics within the organization, this can encourage either (violent) competition or (ambitious) commitment and discipline.

⁵ For more on discordant and concordant multiplicity, see Tom Goodfellow and Stefan Lindemann, "The clash of institutions: traditional authority, conflict and the failure of 'hybridity' in Buganda," *Commonwealth & Comparative Politics* 51, no. 1 (2013): 3–26.

The politics of economic informality: elite interests, nonstate actors and local populations

Informal economies exist for political as well as economic reasons. Although they provide livelihoods, jobs, and incomes to local communities, they also form an institutional resource for elites—through rent creation, coercion, or patronage—to pursue their political and economic agendas. It is therefore key to understand how (violent) attempts to gain access to and control over informal economies shape the power dynamics of security and justice and what the broader consequences are in terms of sociopolitical (dis)order. The second parallel discussion addressed these concerns.

Engaging with the informal economy

The discussion moved to what elite involvement in the informal economy means for external interventions. Several important patterns were distinguished: the informalization of the formal economy; the breakdown of distinctions and dichotomies in a globalized world; the misconception that the state is the sole provider of security and justice in fragile environments; and the merging of the state and criminal actors. Each of these points challenged the thinking behind and assumptions that currently underpin interventions.

Often the informal economy is still approached as a criminal deviant. In reality, however, it is business as usual. It has long provided local systems of governance that precede even colonialism. Yet informal economies appear to be changing rapidly under external (financial) influences in a globalizing world. They have also proven remarkably resilient. We should therefore be humble in our attempts to influence them. Classical arguments for formalizing the informal economy attempt to address inequality and legitimacy through taxation, but these benefits can be easily captured by those already in power, and exclude the poorest sections of a population. However, a laissez faire approach often proves even more exclusive, and a driver of stark inequalities. More fruitful approaches may lie between these extremes.

It is important to appreciate that the informal economy is not just an economic phenomenon, but also deeply political. Engagement means understanding these dynamics and facing the question of the extent to which an intervention should attempt to influence them, or more importantly, how it might do so. The intricacy of the linkages in the informal economy requires space for learning and adaptation in interventions. However, the current development paradigm and aid system leaves little room for either trial and error or adjusting in a given context. Similarly, they leave little space for working with “unsavory actors,” even though such players may be the ones most likely to achieve durable change.

Reflections

The Interactive Brainstorm brought together a wealth of evidence on the links between informal economies and informal security and justice provision, and the roles that elite and powerful actors play at this nexus. How security and justice are organized and the extent to which they are effective and equitable differ greatly from place to place, yet certain features are common to all. The final session focused on identifying issues for further research and implications for practice.

Avenues for further research

We know that organization is critical to the informal economy. Organization enables the enforcement of agreements, makes outcomes of investments more predictable, reduces transaction costs, and constitutes effective arbitration and security provision. Nevertheless, differences in terms of the organization, resilience, and success between informal economic systems are significant. Further research is needed to understand how these differences come about:

- The empirical examples suggest that informal economies evolve along **trajectories** that can lead to stability, disruption, or violence. The presence of large informal economies should not be automatically equated with instability and violence. An important research task is to identify different patterns of informal economic organization and explain how these may increase or undermine stability in particular contexts.
- Adopting a more dynamic understanding of informal economies suggests that we may also want to identify **tipping points** that nudge informal economic actors, groups, or systems into competition or cooperation with the state.⁶
- The various cases made it clear that informal economies are not simply an economic resource for elites: they can also provide **political capital**. It is therefore crucial to consider the particular role of political elites in shaping and sustaining patterns of economic informality.
- The analysis of informal economic systems and the role of elite actors needs to be complemented with in-depth research into the **everyday practices of informal operators**. Bottom-up research can shed further light on how people who make a living in the informal economy organize their security and justice, the manner in which they distinguish between state and nonstate forms of security and justice provision, and their ability to navigate hybrid realities on the ground.
- The apparent relationship between organized economic activities (formal or informal) and **identity** creation deserves further investigation. This may prove relevant in discerning the relationship between informal economic organization and the political co-optation, mobilization, or manipulation of broad sectors of the populace.
- The potential role of **youth** in shaping or propelling trajectories of economic informality surfaced as an issue that requires more attention. Youth are often the most active

⁶ On the distinction between constructive and corrosive forms of nonstate order, see Kate Meagher, “The Strength of Weak States? Non-State Security Forces and Hybrid Governance in Africa” *Development and Change* 43, no. 5 (2012): 1073–101.

livelihood seekers, are often susceptible to identity politics, and can form a resource for political mobilization.

- Informal security and justice provision that is primarily motivated by economic activities could have an impact on how these systems respond to the security and justice needs of the **economically marginalized**. Specifically, provision may be less inclusive and more inclined to favor the economically powerful. More empirical examples are needed to examine the interdependent relationships between the informal economy, its governance mechanisms, and the limited options of the poor.
- It is important to distinguish between **transnational organized crime**, which often links fragile environments to more established economies, and relatively insulated and localized informal economies.

Implications for engagement

- Development actors should be aware that organizing and providing security and justice are integral parts of the informal economy. Informal economies cannot be reduced to a purely economic phenomenon; attention needs to be paid to the equally important dimensions of security and justice. Failure to connect the dots could have **unintended consequences**. For instance, attempts to formalize an informal economy may undermine the various protection mechanisms that informal operators rely on for their (economic) survival.
- Complex linkages between the informal economy and security and justice provision require **new types of interventions** that are experimental and adaptive, focus on learning, and aim for impact rather than easy-to-measure outputs. One challenge of exploring or recalibrating interventions is to overcome the disciplining logics of development aid bureaucracies and funding mechanisms.
- The multidimensional nature of informal economies in fragile environments hints at the need for a more **integrated approach** on the part of (international) development actors. A critical priority is promoting further dialogue between security-oriented actors (such as stabilization units and law enforcement) and development-oriented actors (such as the World Bank and the UN Development Programme) on how potentially conflicting policy goals can be aligned with informal economies.
- A “**safe space**” is needed where practitioners can both share examples of unintended negative consequences and promote successful practices in a way that will not unduly threaten their reputation, neutrality, or viability.
- To develop interventions that draw on researchers’ insights, **more informal interaction** is needed between practitioners and academics, for example, in brainstorming about new projects.
- Although research on informal economies can be challenging, the case studies confirm that developing an in-depth analysis of the informal economy is possible through working with local research outfits and community-based organizations that have direct access. **Documenting evidence** of the linkages between economic informality and processes of security and justice provision is crucial to advancing the debate, facilitating dialogue, and exploring new interventions.



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