



Policy Brief – February 2020

## Bridging the relief to development divide: Leveraging the informal economy’s potential

### 1. Introduction

This policy brief argues that, in post-conflict settings, building on the livelihoods and enterprise that people construct for themselves in crisis can form the seeds for stabilisation and economic recovery. The approach forms an essential bridge between post-emergency relief when humanitarian actors take the lead, and the longer-term economic, political and social development which cements post-crisis recovery, where development agendas predominate.

Three principles are key: adopting a ‘do-no-harm’ approach towards survival enterprises, which are often informal in nature; fostering their potential to fill the gaps in infrastructure provision left by conflict, and strengthening their long-potential through meeting security and space needs to create the building blocks for economic recovery. The recommendations result from comparative research in Hargeisa, Somaliland; Karachi, Pakistan; Kathmandu, Nepal; Cali, Colombia, and Dohuk, N. Iraq.

### 2. The context

Political upheaval or violent conflict is often characterised by a fundamental failure of governance and the destruction of local economies, and yet in the aftermath of conflict, through informal mechanisms of survival and support, people reconstruct their livelihoods and rebuild urban services.

The five cities studied illustrate different facets of violence: **Cali** (internally displaced people (IDPs) fleeing civil war, drug cartels, high homicide rates); **Dohuk** (regional instability, influx of IDPs and Syrian refugees); **Hargeisa** (civil war, bombing); **Karachi** (ethno-political



violence, extreme extortion, drug trafficking), and **Kathmandu** (rural-based Maoist conflict, IDPs, earthquake). In each city, a specific period when conflict abated was identified, to examine how the informal economy then evolved. We distinguish between conflicts that are long term or **slow burn**, and those that are sudden, destructive and **fast burn**.

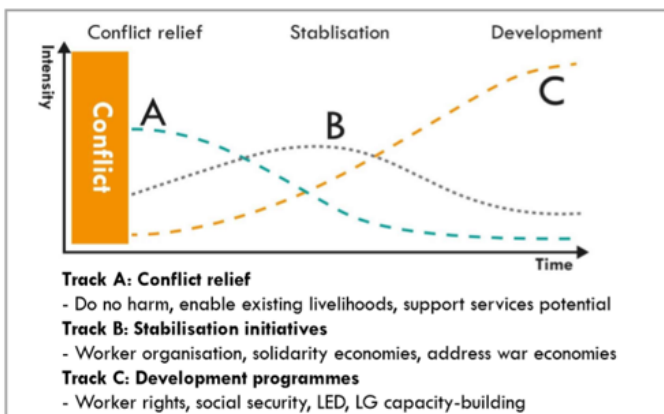
### 3. Drivers of conflict

Five **drivers of conflict** are identified:

- **Economic**, drugs, gangs, intimidation, extortion, militarism (Cali, Karachi: Lyari and Saddar districts);
- **Political**, infighting among political parties, weak or corrupt local governance (Karachi, Kathmandu, Cali);
- **Divisions across ethnic/cultural lines**, including violent control over land, legal and illegal markets (Hargeisa, Karachi, Dohuk, Cali);
- **Territorial conflict**, spatial control over certain districts, neighbourhoods, markets (Karachi: Orangi and Lyari districts, Cali);
- **Displacement**, indirect impact of civil war, refugees and IDPs (internally displaced people) (Dohuk, Kathmandu, Hargeisa).

Although transition from crisis or conflict is never linear and ‘post-conflict’ is difficult to define, all five cities went through a reasonably predictable cycle evolving from war and conflict economies to more robust, regulated economies. The evolution is divided into three periods: **conflict relief, stabilisation and development**, to examine how the informal economy responded.

**Figure 1:** Transitions from conflict relief to development, and intervention tracks



Source: Modified from UNDP, 2013 p9

**Conflict relief:** Economic recovery processes in general, follow a **reasonably predictable cycle evolving** from war/conflict economies providing survival incomes, to more robust and regulated economies that generate prosperity within the informal sector. During this period solidarity networks emerge; flows of migrants, IDPs refugees increase, and criminal activities surface, but new opportunities emerge, e.g. for women.

**Stabilisation:** As the cycle evolves, the **emergence and growth of the informal economy takes place in parallel to the trajectories of rebuilding or reforming government institutions**. Yet, government suffers from political flux, lack of capacity/skills, unclear responsibilities and

corruption. Informal workers are vulnerable to violence, exploitation, harassment and extortion, yet the sector often grows and catalyses broader economic recovery.

**Development:** The **development phase is affected by economic realities and cultural forces**. Local government’s capacity to regulate, service and tax the informal economy increases, imposing a heavier tax burden on informal enterprises, but strong self-help groups and associations can help establish workers’ rights. Remembering that it is easy to destroy jobs, but hard to create them, a Local Economic Development approach can improve working conditions and social protection for informal workers.

### 4. The informal economy in conflict

There is no universally accepted definition of the ‘informal economy’, but the ILO has established a common conceptual framework that is now widely used: (ILO, 2018<sup>1</sup>).

- The **informal sector** refers to employment and production in unincorporated, unregistered or small enterprises.
- **Informal employment** refers to employment without social protection including: own-account workers and employers in their own informal enterprises; contributing family workers, and employees in informal jobs, referred to in this report at *informal workers*.
- The **informal economy** refers to all units, activities and workers so defined and the output from them.

In many conflict-affected cities, for decades the informal economy has been one of the main sources of jobs. This pattern simply continues through conflict, but the context and type of work are affected by violence, and new economic structures emerge as a result of crises.

What is also clear from this research is that in the aftermath of crises and war, **the economies of recovering states and their cities undergo a reasonably predictable set of transitions**. Broadly speaking they all represent informal ‘livelihood economies’ that begin with survival earnings, and progresses to more stable employment as the security situation improves.

**Solidarity economies:** During conflict and in the immediate aftermath of crises social capital increases, and people share, barter and trade to meet their immediate needs and overcome shortages including, food, shelter, water, transport, electricity and security, often for less than the ‘black market’ offers. We found many examples of how individuals and communities help each other to overcome the lack of regular supplies of goods, services and absence of governance, illustrating the strength of social capital and the resilience of informal economies.

<sup>1</sup> ILO (2018) Women and men in the informal economy: a statistical picture. Third edition [https://www.ilo.org/global/publications/books/WCMS\\_626831/lang-en/index.htm](https://www.ilo.org/global/publications/books/WCMS_626831/lang-en/index.htm)



**Replacement economies:** As supply chains are restored, but formal market economies and government are still (re-)forming, the informal economy supplies essential goods and services. Water, transport, electricity and food are the main supplies, but other sectors also emerge. In Dohuk, informal entrepreneurs replaced the failed electricity supplies with generators. Healthcare and education also became informally privatised. Sometimes organised gangs or ‘mafias’ operate water, electricity and transport sectors, fight over ‘turf’ or unpaid ‘loans’; and suppress or extort small-scale enterprises. Nonetheless, it is generally this stage of economic recovery that establishes the platform from which the ‘survival’ economy transforms into a more developmental trajectory as the institutions of governance begin to recover their roles in delivery of essential public services.

**Refugee economies:** The presence of refugees in post-crisis/conflict cities creates layers of international activity, both through international aid, and through refugees’ own livelihoods and enterprise. The ‘refugee economy’ is the economy created by urban refugees through their livelihood activities, enterprise, need for services and consumption, and through refugee support and diaspora inputs (Brown et al., 2018<sup>2</sup>). Where the informal economy is driven by camp residents for camp residents it is a ‘closed economy’ which depending mainly on aid resources. However, where more ‘open camp economies’ interact with non-camp-based populations, there are opportunities for catalysing both informal and more formal economies.

**Conflict economies:** Conflict economies are often chaotic, unregulated, informal, often violent and criminalised compared to the economy functioning before war, but provide goods and services within the limited capacities and disrupted supply chains available. For example, in Cali many informal security firms emerged over the conflict-affected years which, in the absence of police presence in low-income, gang-controlled areas, presented job opportunities.

In general terms, during and after conflict or other crises, the informal economy transitions through all of the above – conflict (or war) economies, to replacement economies, refugee or ‘camp’ economies where these exist, and sharing or solidarity economies – each with their own set of unique characteristics. Regardless of the recovery trajectory, however, the informal economy generally performs a vital labour-absorbing function. Less widely recognised is the networked aspect of the informal economy, where each worker or enterprise provides very specific services within a complex economic network, and thus supporting growth within part of the network has wide cumulative impact.



## 5. Conclusions

The research highlights that, in fragile and conflict-affected situations, the informal economy provides a **dynamic and systemic response to the challenges and opportunities of conflict and urban violence**. For many informal workers, fruit sellers, waste pickers, *chapte* vendors, or labourers, work continues as before the crisis, but their **challenge is surviving** when violence disrupts transport, supplies or markets.

For informal workers, the **transition to managing** requires more security, stability of markets and operating space, so that capital investment in supplies and equipment – in water coolers or a cart – is not wasted. This means rebuilding the complex networks which sustain informal workers – the suppliers, transport, mobile phones, middlemen, and relationships of trust and credit – that enable them to operate.

Some informal enterprises and workers find **capacity for thriving**, particularly in the development stage of the recovery process, in the hostile business environment of crises. These may be transport operators supplying aid goods, skilled workers in (re)construction, or migrants, IDPs or refugees with access to diaspora networks to support trade and investment, as has been so important in the emergence of Somaliland.

<sup>2</sup> Brown, A., Mackie, P., Dickenson, K. and Gebre-Egziabher, T. (2018) *Urban refugee economies: Addis Ababa, Ethiopia*. IIED Working Paper, Urban Crises series, <http://pubs.iied.org/10850IIED/>

Our key findings are that:

**Solidarity and conflict economies** emerge as products of conflict, but differ in their role, dynamic and lasting effect. **Solidarity economies**, if harnessed, **can become the force for co-production of basic services**, and building trust and leadership. **Conflict economies**, such as drugs, prostitution or arms trading, if not addressed, **can linger long after the conflict**, negatively impacting the transition to recovery and development.

The informal economy **retreats into survivalist mode during conflict** and its immediate aftermath, **reemerges as a livelihood strategy during stabilisation**, and **grows into an indispensable part of the local economy during development**. This evolution is shaped by local context, and the nature of conflict. Supportive interventions (e.g. shelter, land rights, a safe environment, basic services, and support for livelihoods), while beneficial across all phases, require calibration for the local context and stage in the transition.

**Conflict and displacement** affect different ethnic, gender and social groups differently. **Recovery and development** also impact informal economy sectors differently. Thus, while supportive interventions are beneficial to informal economies across the transition phases, they should be complemented by interventions targeted at informal workers in lagging sectors, and social groups most disadvantaged by conflict. This makes temporal and cross-sectional data by sector and social groups an essential policy tool for fostering peace, governance and development in post-conflict transitions.



## 6. Recommendations

A three-track approach is recommended, based on multi-stakeholder partnerships between civil society, local and national governments and donors (see Figure 1). Each track operates at different intensity through the recovery process.

**Track A Conflict relief:** The core approach is to ‘do no harm’, to enable existing livelihoods to continue and support their **capacity to cover gaps in basic service provision**. Partnerships between informal enterprises and workers, local governments, NGOs and humanitarian agencies can support, and not undermine, existing employment.

**Track B Stabilisation initiatives:** Here the focus shifts to **providing basic infrastructure** and supporting **worker organisations and solidarity economies**. Emphasis should be on enabling informal worker associations to negotiate with authorities and promote business development; building local government capacity to understand the informal economy’s potential, and addressing the legacy of harmful ‘conflict economies’.

**Track C Development programmes:** Priorities are for building the framework for **workers’ rights and social security, enabling local government to adopt a Local Economic Development approach** to economic inclusion, e.g. through strengthening worker associations, providing technical assistance to local authorities and the police, and drawing lessons from the data-driven and participatory approach adopted in Cali. Development interventions require improved **shelter; land rights; a safe environment, and basic services** for livelihoods as well as for living accommodation.

**Elements of resilient recovery are present in all five case studies, but all remain fragile.** Cali has achieved significant reductions in homicide rates through a cross-agency data-driven approach, but local drug dealing and extortion remain a problem. In **Dohuk**, authorities are working to integrate the large-scale refugee population. **Hargeisa** has recognised the challenge and opportunities of informal work in its new national micro-enterprise policy. **Karachi** has reduced homicides through paramilitary intervention, but local government remains emasculated. The informal economy of **Kathmandu** remains weak under continued political uncertainty.

For resilient recovery to be achieved, **humanitarian actors** must recognise and support the informal economy in the immediate aftermath of crisis, **local government** should adopt a Local Economic Development approach, and **informal economy leaders** need associational capacity to lobby for workers’ rights and managed space.

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The full report, *Surviving, Managing, Thriving: the Informal Economy in Post Conflict Cities* is available at: <https://unhabitat.org/surviving-managing-thriving-the-informal-economy-in-post-conflict-cities>