



Remaining informal: Exploring the determinants of formalisation within urban markets

Shelley Liu and Alice Xu

- Markets in cities across sub-Saharan Africa experience serve as major hubs for economic activity across socio-economic classes, but formalising markets have faced major challenges. This policy brief reports findings from a study of marketers in Liberia, where the state has attempted to formally register marketers under the Liberia Marketing Association (LMA).
- We find major benefits to formalisation, including assignment to permanent selling locations with shelter, access to conflict resolution and adjudication, and protection from police harassment and crime.
- However, informal marketers value business activity over these benefits. Informal marketers also value pro-sociality, as they often rely on neighbouring sellers for coordination and assistance. Results from a vignette experiment suggest informal marketers are most likely to formalise if formalised marketers are deemed more trustworthy.
- The findings highlight the need to consider social networks and group-based policies for encouraging formalisation among informal marketers.

POLICY BRIEF LBR-22050

MAY 2024

This project was funded
by IGC Sierra Leone

www.theigc.org

DIRECTED BY



FUNDED BY



Introduction

Cities across sub-Saharan Africa experience rapidly-expanding markets, which serve as major hubs for economic activity across socio-economic classes. Despite tax and state-building potential, markets remain primarily within the informal economy amidst the state's various strategies to formalise—either through complete formalisation (i.e. registering the business with the state) or through indirect formalisation (i.e. registering the business with the state's official Marketing Association).

Our study focuses on the informal economy in Greater Monrovia, Liberia—specifically on marketers who make up a significant portion of this sector. Marketers in Liberia are predominantly women who sell a range of goods both inside and outside formal market structures in the country. Formal markets are run by the Liberia Marketing Association (LMA), which runs government-owned market buildings across the country. Marketers must register with the LMA by paying a yearly fee (equivalent to 5 USD); they are then issued an LMA ID card and assigned a table to sell within the market in which they registered. Within LMA-run markets, registered marketers have access to the market leadership, who run day-to-day affairs and engage in dispute resolution.

While the government and LMA consistently attempt to register marketers and provide them with a table indoors to sell, many marketers operate outside of the market buildings and are unregistered. These unregistered marketers do not have access to a permanent place to sell inside the market, and must secure a location external to the market on a daily basis. They often lack a physical table and other infrastructure at which to sell. Because unregistered marketers operate outside of the LMA's jurisdiction and often along the streets, they are frequently victims of crime and police corruption; further, during rainy season, unregistered marketers find it difficult to sell due to lack of shelter.

Overview of the study

Our study aims to understand the array of individual, contextual, and socioeconomic factors the choice marketers face of whether to join the formal economy, defined as whether marketers choose to join the Liberia Marketing Association (LMA). In collaboration with a Liberian survey firm, our study combined qualitative field research with survey data. We first conducted twenty focus groups with marketers and six focus groups with market leadership across Greater Monrovia.

- **Marketer focus groups.** We recruited marketers on-site directly in the markets where they work, including both marketers selling with a formal license/identification card from the Liberia Marketing Association (LMA)

and those who remain informal. Conversations with marketers were wide-ranging, focusing on their experiences and challenges as marketers, how the market spaces have changed in the past five years, climate change, and their perceptions towards migrant marketers.

- **Market leader focus groups.** We recruited market leadership teams from the six markets that we subsequently surveyed, These focus groups identified the LMA's roles and functions from the national to the local market levels, discussed how marketers became part of the leadership, and how market leaders govern individual markets.

We further administered a face-to-face survey with 2,400 marketers selling within, and in the vicinity of, three of the largest markets and three mid-sized markets. Marketers were recruited using a random walk procedure, and we sought an even balance of respondents who were formalised and not formalised. The survey focused on capturing marketer demographics and their experiences selling within these markets. We embed two survey experiments into our survey:

- **Conjoint experiment.** We ask participants to rank profiles for marketers with whom they would prefer to form a susu group. The conjoint experiment was designed to understand determinants of trust in other marketers.
- **Vignette experiment.** We provide informal marketers with eight different benefits of formalisation. Each benefit (treatment) were compared to a control group that listed no benefit. The vignette experiment was designed to understand drivers of formalisation for informal marketers.

Key findings

We document four main findings from our study.

First, there are benefits to formalisation relating to *governance* and *precarity*. With respect to *governance* benefits, formalised marketers have access to sheltered and clean permanent selling spaces, which allows them to build up a consistent customer base and form relationships with marketers around them. Marketers also have access to dispute resolution and adjudication mechanisms within formal markets. With respect to benefits relating to *precarity*, selling within formal markets reduces the incidence of petty crime and theft, as well as harassment and corruption by the police and politicians.

Second, many marketers choose to remain informal because they believe can access more customers, and thus have better business, selling on the streets. To that end, marketers are not swayed by the potential institutional

benefits of formal market governance, nor by the day-to-day precarity faced due to external actors such as police, politicians, and crime.

Third, we show evidence that informal marketers are most likely to engage in formalisation for pro-social reasons. Because informal marketers rely so heavily on their social networks and other marketers nearby when they run into issues day-to-day, they may be more willing to formalise if they believe that formal marketers are more trustworthy.

Fourth, we find erratic climate to also increase the likelihood of formalisation. Liberia's rainy season has become increasingly unpredictable, with downstream consequences for the cost and supply of goods, as well as informal marketers' ability to sell consistently. Our findings suggest that formalisation shields marketers from climate's negative effects by smoothing economic shocks, encouraging cooperation, and providing physical shelter for business activity.

Policy implications

While preliminary, our results point to the importance of considering both business impacts and social network effects when seeking to formulate formalisation policies.

- While marketers may later go on to access and utilise formal market governance benefits upon joining the LMA, informality means accessing—and relying on—people around them for various needs. Future formalisation efforts should therefore consider targeting groups of marketers who sell within the same locations, or who sell similar goods in order to induce higher rates of compliance.
- As climate change introduces greater uncertainty in various ways, the LMA should take seriously the need to identify ways to minimise negative externalities of such shocks.