

The Informal Economy in Rural Community Economic Development Summary

Though seldom mentioned in rural development policy discussions, there are two sides to the rural economy—the formal and the informal. In this report, researcher Shanna Ratner broadens the concept of rural development by examining the heretofore largely ignored informal sector for ways that it might help alleviate persistent underdevelopment in rural areas.

The informal economy consists of the transactions that go uncounted in the formal economy—things like unreported business transactions, self-provisioning, caring work, barter, sharing, and volunteer activity. This informal economy is often thought of as a kind of safety net for people who do not or cannot participate in the formal economy, but in fact serves a much larger role. Indeed, Ratner finds that the people most likely to successfully participate in the informal economy are the same ones most likely to succeed in the formal. Why? Networks, skills, access to supplies and equipment, and money.

What does this mean for rural development policymakers and practitioners? Ratner highlights three approaches that have met with some success. First, is the so-called “Time Dollars”—a system that offers participants credits for helping others. In turn, those credits can be used to “purchase” assistance. Such programs encourage relationship building, reciprocity and exchange. And they bring in people who otherwise not volunteer to help or accept help.

The second approach revolves around the use of natural resources to help maintain informal economies as part of a conservation strategy. Examples include promoting the harvest of non-timber forest products, and developing non-extractive activities such as tourism in conjunction with resource protection activities.

Third, a barter-based system known as Local Exchange and Trading System (LETS) provides a local unit of currency for use in local transactions. This system is designed to enable people to trade goods and services with each other where the national currency is in short supply.

Whatever the approach taken, Ratner points out the need to help people connect, to come out of the isolation that so often traps the disadvantaged. “Programs must provide the opportunity to link across class, race, gender, place of origin, etc. to foster opportunities for personal development and exchange that will, with encouragement, lead to opportunities for economic exchange and participation.”

Finally, Ratner stresses that informal economic activity should be treated as valid and valuable in its own right and not exclusively as a stepping stone to formal employment. “Practitioners who are willing to recognize and accept the legitimacy of informal livelihood security may find opportunities to assist in overcoming barriers to formality where appropriate and to building a more robust informal sector where formality is not appropriate.”

Ratner’s paper can be found at:

<http://www.rural.org/publications/Ratner00-03.pdf> or you can contact the TVA Rural Studies program at 606-257-1872 or by e-mail tvvars@rural.org.