

INFORMAL SECTOR IN THE CARIBBEAN  
WITH SPECIAL REFERENCE TO TRINIDAD  
& TOBAGO

**PK Watson**

# Introduction

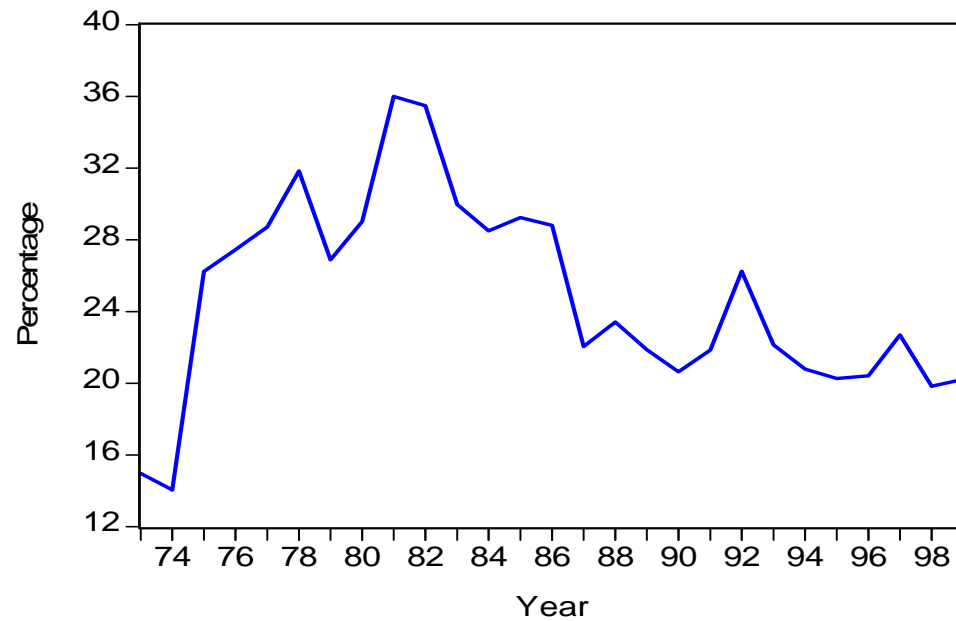
- Many names to describe the same thing, or approximately the same thing.
- Informal sector, informal economy, hidden economy, underground economy, etc.
- At the SALISES we did some work on the Hidden Economy and on the wider Informal Sector in T&T (and St Vincent and the Grenadines)

# Papers published

- 2006. Maurin, A, S. Sookram and PK Watson. Measuring the size of the hidden economy in Trinidad & Tobago, 1973-1999. *International Economic Journal*. 20(3): 321-341.
- 2008. Sookram, S. and PK Watson. Small Business Participation in the Informal Sector of an Emerging Economy. *Journal of Development Studies*. 44(10): 1554-1576.
- 2008. Sookram, S. and PK Watson. The Informal Sector, Poverty, and Gender in the Caribbean: the case of Trinidad & Tobago. *Journal of Eastern Caribbean Studies*. 33(4): 43-68.
- 2009. Sookram, S, PK Watson and F. Schneider. Characteristics of households in the informal sector of an emerging economy. *Applied Economics*. 41(27): 3545-3559.

# Size of Hidden Economy

**Evolution of Relative Size of the Hidden Economy of Trinidad & Tobago 1973-1999**  
(% of Measured GDP)



## Hidden Economy (cont'd)

- We established that the size of the hidden economy rose from a low of about 14% of measured GDP in the early 1970s to a high of 36% in 1981.
- It is clear that a vibrant and sizeable hidden economy exists in Trinidad & Tobago, and probably in the rest of the Caribbean.
- Policy measures which seek, without further information, to punish participation in the hidden economy, may be seen as killing a goose laying golden eggs, if it can indeed be established that there is complementarity between the two economies.

# Motivation for Participation in Informal Sector

- Results suggest that small-business owners are motivated to participate in the informal sector when, among other things,
  - They believe that the risk of detection by the tax authorities is low
  - They believe that government regulations are burdensome,
- There is no evidence that the tax rate itself is an issue.
- Their perception of the risk of detection by the tax authority is determined largely by the time they spend and the income they earn in the formal sector as well as by other socio-economic and demographic indicators such as sex, the area in which they live and the conditions under which they occupy their dwelling.

# Some observations

- Governments and other state agencies may view informal business activity unfavourably if only because, *prima facie*, it deprives the State of revenue.
- To the extent, however, that the sector creates employment and generates income, that itself must add revenue to the coffers of the State, if only because it may dampen demand for State hand-outs.
- The State should therefore be very careful how it treats with informal business activity and should be minded at the very least to consider its potential for positive contribution.
- The government first has to determine the direction it is going to take with regard to the informal sector and then determine which aspects of informal activity will be kept in check and which attempts are to be to be further developed and formalised.

## Some observations (cont'd)

- One of the actions that the State may take to 'formalise' some of the activity is to reduce some of the burdensome regulations which encourage informal sector participation.
- In this case policy prescriptions should focus on simplifying the procedures in place by removing excessive bureaucracy, especially in the case of new and small businesses.
- Instead, the advantages to business owners who join the formal economy can be made obvious.



## Some observations (cont'd)

- One means of encouragement could be to use non-governmental organisations (NGOs) for the delivery of credit assistance to small businesses.
- A small business owner might be more likely to approach such an organisation for credit rather than a governmental organisation.
- Other incentives may be put in place in preference to, or even alongside, a punitive 'compliance' system, which may include an amnesty for a period of time during which they can be incorporated into the formal sector without having to pay taxes for activity previously undertaken in the informal sector.

## Some observations (cont'd)

- Since the results show that business-owners in the distribution sector are the most likely to be involved in the informal sector, such policies probably need to be sector-based and aimed at engendering efficient management, promoting linkages between firms in the formal and informal sectors and ensuring that there is some targeted support, such as assistance with certain aspects of the management of the business.

**Thank You for your attention!**