

Insights into Circular Economy and the Puzzle of Formalization

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Background and Workshop

The formalization of the informal economy for an effective and inclusive circular economy is a complex puzzle—especially in developing nations. The Circular Economy working group ([CE WG](#)) for the Systems of Sustainable Consumption and Production Knowledge Action Network (SSCP KAN) sponsored a [professional development workshop](#) (PDW) held at the Academy of Management International Conference in August, 2022.

The conference offered virtual, hybrid, and in-person sessions. We held a virtual PDW. The purpose of the workshop was to raise awareness of the concerns of the informal economy in developing nations. The participants, as is the CE WG, were from a variety of countries in our attempt to maintain inclusiveness in understanding, research direction determination, and co-creation of solutions.

We set out an ambitious agenda—one which was to continue the work and conversation on this topic. We summarized this in a recent perspective piece for *Resources, Conservation and Recycling*.

Initially, two speakers [Valentina De Marchi](#) and [Jonatan Pinkse](#) discussed global value chains and organizational innovation, respectively. Their work and insights set the stage of the roles of various theories and approaches that can help understand and solve the puzzle of formalization of CE.

The initial catalyst questions posed included:

How do we combine environmental sustainability with economic growth and social justice in regions where poverty, informality, and addressing illegal activities are major governmental concerns?

What is the role of indigenous knowledge systems in adaptive CE strategies of grassroots communities, and how might these strategies be replicated elsewhere?

How to encourage ethical consumption and production that supports vulnerable livelihoods while also protecting biodiversity and other ecological sensitivities?

What role do major multinational corporations, global supply chains, civil society, and governmental agencies play, and how can they interact with informal actors to develop CE ecosystems?

Do formalization processes that embrace circular principles lead to more resilient societies?

Many insights and perspectives emerged. Although the conference was based in the business and management scholarly community, the realization that the issues are complex was not lost.

To help dig a bit deeper into the questions three 'cases' were discussed in the breakout group to help set the stage for understanding and knowledge development requirements.

The cases and breakout groups included:

- Circular agro-forestry and fisheries and biodiversity in the Amazon
- Circular waste picking in South Africa
- Circular ocean plastics in the Philippines and Indonesia

We sought coverage of developing economy locations and particular circular economy issues that cut across a number of industries and environmental concerns. These examples not only provide evidence of the geographic dispersion of issues, but the global prevalence and concerns associated with CE.

For those not familiar with the Informal Economy, we recommend this introductory [video](#). In this video, Prof. Alison Brown, from Cardiff University, provides a number of sobering statistics showing that a large percentage—in many cases the majority—of *Global South* countries predominate with informal employment. It highlights that employment in these economies can be precarious, with acute gender implications, and health and safety concerns.

General Insights

One of the primary concerns was whether formalization is even needed. We did not get to the bottom of this, but the discourse is clearly important. In theory, formalization offers poverty alleviation: increased earnings, stable income; improved work conditions and access to welfare. It also offers - in contexts where it is relevant - de-stigmatisation, recognition and respect in the eyes of the authorities and society. But processes of formalization are context specific. Some related processes - such as 'privatization' and 'integration' - may include official support but fall short of addressing specific legal and regulatory requirements. In some cases - notably waste picking in South Africa - these initiatives have been seen to cannibalize the activities of informal workers, threatening to lead to greater inequalities and higher vulnerabilities of informal agents. In any process of change, dignity and respect for the agents is paramount. [As Samson and colleagues](#) (2022, p2) noted in a recent World Development article, informal agents should not be seen as a "*human wrinkle to be ironed out of...closed circular systems*".

Some major concerns that arose during the Workshop which lend themselves to further discussion and development include:

- What does formalization and CE mean in the Global South context? How could the process of formalization go hand-in-hand with circular outcomes to reduce net environmental burdens and improved social measures for informal agents and their communities?
- What does the transition path look like? Getting from an informal to a more formal system in any case will start with a description of the CE informal practices and what motivates those practices; next, an assessment is needed of how should practices be evaluated and impacts determined; a third step should consider how to overcome barriers associated with scaling up informal circular practices and linking them to global value chains and formal economic agents.
- Geography matters, especially in connecting urban areas with various biodiversity and environmental concerns—this was especially true for the Amazon context.

- Co-creation of solutions may be difficult due to the dispersion and size of the many actors and enterprises that characterize the informal economy. The role of civil society organizations (such as NGOs, charities) to help project the voice of these organizations will be important. In previous cases of successful formalization, we have seen the importance of collectives. Through these member-based organizations, agents can gain access to different types of assets that can potentially support both a transition to formality and circularity. For example, collectives can facilitate access to new knowledge, new technology and scarce resources (e.g. separate at source, in the case of waste picking); to shared equipment and infrastructure, to reduce health and safety risks and optimize resource use; to collective bargaining and increased representation to enter formal markets; to education and skills building for the informal agents and their communities. The collectives can help overcome the limitations of scale (for example, knowledge, capital, technology) and scope (for example, stigma, discrimination, exploitation)
- Many circular practices have been around for a long time. To some extent, discussing circular practices is like 'old wine in new bottles'. The intriguing prospect of using traditional global south knowledge to replace linear and efficiency based industrial innovation arose in the discussion.
- Context issues related to labor costs of developing economies and their comparative advantage may be a major aspect in formalization, but also a limitation. The advantageous aspect of CE practices currently being relatively manual means that labor advantages may exist.

Overall, from an understanding perspective, we need to realize that these issues and CE informal practices are not occurring in a void, that there is an existence of some circular practices, that different degrees of formalization are present where materials - be they products or wastes - interact with the formal formal system. This aspect gets into the thorny issue of system boundaries. It also reminds us that any innovative practices and new organizations must compete with the existing way of doing things; they must grapple with locked-in, path dependent routines and practices of the existing system. Here, the role of multinational corporations and global supply chains to come together with civil society and governmental agencies to interact with informal actors to develop CE ecosystems becomes paramount.

Finally, it is worth emphasizing the complex relationship to innovation in northern, industrialized systems. Innovations in formalization of recycling and chemistry may be useful, but they also are causes of pollution in the Global South. [Plastic product sachets](#) in the Philippines case spoke to northern innovations for branding and convenience of product designs that overtook traditional reusable containers for products. To support this issue, and maybe take advantage of informal agents linking more effectively to formal economy players, a product stewardship perspective is useful —especially as it requires major global brand companies to be responsible. To progress processes of formalization, systems could be created in collaboration with informal collectors. This issue has arisen and been addressed by companies such as [Tetrapak](#)—where formal sales and informal recycling work together such that brand products are not given a bad image.

Continuing the Conversation and Future Action

Overall, the Professional Development Workshop raised many issues, of which these are only a short summary. Significant effort and collaboration is still needed to progress our understanding

of this topic, and to start affecting action on the ground. We look forward to future discussions and developments. We will be continuing the conversation and discussion in our CE WG meetings (the next one in Autumn of 2022). We will also be following up this work in a session on (Bio-) Diversifying Circular Economy Research and Innovation at the “Transitioning to Systems of Sustainable Consumption and Production - from Knowledge to Action Symposium” in November, 2022. The session will involve both academic and non-academic contributors discussing the relationship between circularity and biodiversity from both a research and practice perspective. The session will include a brainstorm session, undertaken in small breakout groups, where research and innovation projects can be pitched and collaborations sought. These projects will continue with support from the Future Earth KANSSCP Circular Economy Working Group.