

## Mapping Paths to Formalization: An Analysis of the Influence of Commercial Informality on the Quality of Life of Traders in Jazan, Amazonas - 2022

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### Abstract

*The significance of the inquiry highlights the relevance of the study within a rural context, as it addresses a crucial topic for the economic and social development of the region. The objective was to analyze the influence of commercial informality on the quality of life of traders in Jazan, Amazonas - 2022, with the purpose of identifying and charting paths towards formalization that contribute to improving their well-being and economic development. The research design was characterized by a mixed approach, combining non-experimental, cross-sectional, descriptive, and correlational methods, using Spearman's Rho. In-depth interviews and a comparative analysis of secondary data were conducted. The population consisted of 160 traders, with a sample of 88, selected through intentional non-probabilistic technique. A 20-question questionnaire and SPSS v26 software were used for analysis. The research provides a comprehensive view of formalization and its influence on regional well-being and development, validated through Cronbach's Alpha test: 0.885, identified from a pilot test of 15 items. Commercial informality acts as a guiding light that has revealed the complex reality of traders. By charting paths towards formalization, we have explored the transformative potential of this process on the quality of life of those involved. In conclusion, it is demonstrated that formalization not only translates into a positive impact on traders' income and job security but also profoundly influences their emotional well-being and personal development.*

**Keywords:** *Commercial informality, Quality of life, Formalization, Emotional well-being, Development perspectives.*

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## INTRODUCTION

In Latin America, there is a lack of business formalization, especially in micro-enterprises, which represents a temporary way to combat unemployment and poverty. This lack of formalization is reflected in tax evasion, the promotion of informal businesses and business mobility. In addition, the financial system imposes more credit restrictions on microenterprises, leading institutions to lend mainly to individual micro-entrepreneurs, as it is recognized that these resources are used for commercial purposes. (Ramos, 2019).

The first paradox of the informal economy is that the closer it comes to the "true market" model, the more it depends on social links for its effective functioning. Nowhere is the dynamic, called "the problem of insertion" by Granovetter (1985).

In informal exchange, trust is generated both by people's common characteristics and feelings and by the expectation that fraudulent actions will be punished by excluding the perpetrator from social media and future transactions. To the extent that economic resources flow through these types of transactions, the social sanction of exclusion can become a greater threat, and therefore more effective, than other types of sanctions (Granovetter, 1993).

It should be noted that there is a significant difference in this respect between practices defined as illegal and informal. Illegal enterprises, which systematically provide illicit goods or services, always seek to rely on some binding agreement, for which force is generally used (Gambetta, 1993).

Global communication networks have great power, but the financial networks that finance and program them turn out to be even more powerful in the global network society in which we live. There are several types of networks, not all power is accumulated in financial networks. Military power has not ceased to exist, although this book does not deal with it (Echevarría, 2011).

For Castells, the world-scale economy that has developed in recent decades is an "informational and global" economy. It is informational because the production and distribution process depends on its "ability to efficiently generate, process, and apply knowledge-based information"; It is global because production, consumption, circulation, and its components (capital, labor, raw materials, and markets) are organized globally. Therefore, it is informational and global because, at the moment, both production and competition are carried out through a network of links between the different economic agents (Aldana, 2000).

In the new economy, firms do not have production (productivity) as their main motive, but profitability, which they seek in several ways: reducing production costs, increasing productivity, expanding the market, and accelerating capital turnover. Castells affirms that, in the new global economy, another much more important path than the previous ones began to take shape: the struggle for share in an enlarged market (Castell, 1990)

Lomnitz (1988, p. 54) explains it succinctly: "Order creates disorder. The formal economy creates its own informality." The paradox of state control is that official efforts to banish unregulated activities through the proliferation of rules and controls often reinforce the very conditions that generate those activities.

Perry and Maloney (2006) highlight individual motivations that induce entrepreneurs to work in informality in order to measure the costs and benefits of formality; as well as the motivations that may be financial, or tax evasion and social security contributions when the value-price ratio of social security services is low.

De Soto (1987) states that informality occurs when the right to impose rules that exceed the socially accepted normative framework does not protect the expectations, choices and preferences of those who cannot comply with such rules.

Faced with this scenario, it has been concluded that it is essential to regulate informality in order to create a space conducive to the development of commercial activities under established rules, providing equal opportunities and benefits to traders.

Research from academia should tend to study, analyze and present results that help the tax administration to improve the commercial conditions of taxpayers, to encourage them to declare in a timely manner and with the appropriate knowledge to update, declare and contribute to the development of the country, with their active participation, in the progress towards the good life of Ecuadorians (Ordoñez and Gavilanes, 2014).

Taxes are only instruments of a broader public policy and must necessarily be understood within it, the relationship between citizens and the State is the foundation of any interpretation or conception of taxes, therefore the change in the conception of taxes has as its starting point a pact between them, the fiscal pact (Rivadeneira and Carrasco, 2012)

The premise is that, in advanced countries, most of the activities defined as informal occur in smaller firms because they are less visible, more flexible, and more likely to avoid state controls. Larger companies are supposed to be more vulnerable to official regulation and less vulnerable to government regulation.

likely to risk being sanctioned. Therefore, they are more unlikely to engage in activities informal services directly, although they can outsource them to smaller companies that can outsource them. (Portes & Sassen, 1987; Sassen and Smith, 1992).

The ability to see things from different perspectives, allowing them to participate in different learning experiences will be decisive within an innovation process (Polo et al., 2022).

Hurtado (2019), The purpose of this research was to determine the level of informality of small businesses in the city of Chachapoyas. The research is basic, descriptive, explanatory and relevant, using deductive methods. It is made up of micro and small enterprises from the city of Chachapoyas, the sample consists of 371 micro and small enterprises selected through a simple random sampling. Through a structured survey of non-experimental designs, it is possible to analyze the level of informality of small and micro enterprises in this city, therefore, the main reason for informality: excessive bureaucratic procedures, high cost of formalization and payment of taxes. In the same way, the consequence is: limited access to credit in financial institutions, being unable to expand into new markets, causing delays in the economic and social development of the country. The final conclusion is, according to the goals of the workers, it is excessive and the current salary is lower than the minimum wage and there is no access to health services, and it was also noted that a person between 33 and 45 years old is one who works more than 8 hours a day.

From this perspective, local institutions, academia and teachers must promote the use of innovative teaching strategies that adapt to the changes caused by the pandemic and the needs of society. It is essential to value the use of virtual tools to promote collective practices of responsibility and social protection. In this way, an integrative, inclusive university that plays a determining role in all training processes can be promoted (Hinojosa et al., 2022).

## **MATERIAL AND METHODS**

### **Research Design**

The objective of the research was to analyze the influence of commercial informality on the quality of life of merchants in Jazan, Amazonas - 2022, with the purpose of identifying and tracing routes towards formalization that contribute to improving their well-being and economic development, the non-experimental, cross-sectional-descriptive

design was used. The methodology of this study was based on a mixed approach that combines both quantitative and qualitative data collection and analysis. This study was conducted using a cross-sectional, explanatory and correlational research approach. Spearman's Rho correlation coefficient was used to analyze the relationships between variables. This methodology allowed us to obtain a deep and comprehensive view of the impact of the formalization of informal trade in the Pedro Ruiz market and its influence on the quality of life of merchants and regional development. In-depth interviews were also conducted with key stakeholders, such as local authorities and trader leaders, to obtain qualitative information on the factors that have affected formalization and perceptions about their impact.

In addition, a comparative analysis of secondary data and previous studies was conducted to contextualize the findings and establish connections with the economic and social development of the region. Data analysis was carried out through the use of statistical software and qualitative analysis tools.

#### Population, Sample and Sampling

Focusing on Pedro Ruiz Market activity, we identified an average of 160 merchants to star in our research. Strategically and technically, we selected a sample of 88 entrepreneurs, with a confidence level of 95% and a margin of error of 7%. With the criteria of knowledge and determination, we apply the intentional non-probabilistic technique to intervene with a diligent approach.

#### Methods, tools and techniques

In this research project, we have taken a statistical approach to collect and graphically represent accurate data. Our work tool was a survey designed with 20 key questions. With dedication, we apply this questionnaire to all traders. For the data analysis and processing of the information obtained in this research, the SPSS v26 was used, which allowed the quantification of the information, which allows us to make a critical analysis of the investigated variables.

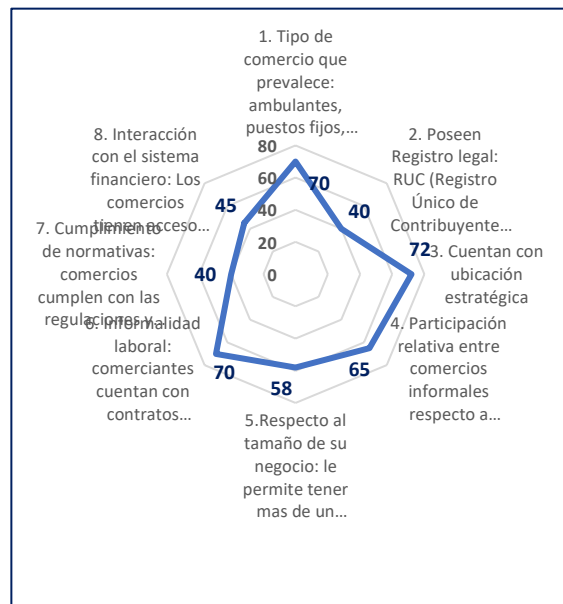
#### Reliability Statistics

Cronbach's Alpha	N of Elements
0.885	15

This methodology provided a comprehensive view of the influence of the formalization of informal trade on the Pedro Ruiz market and its effect on the quality of life of merchants and regional development.

## RESULTS

Table 1 Characterization of commercial informality in Jazan, Amazonas (%).



### Interpretation:

Figure 1 shows the characterization of commercial informality among merchants in Jazan, Amazonas, which would have a significant impact on the understanding of the magnitude and scope of this problem in the region. By knowing the proportion of traders operating informally, policymakers and policymakers will be able to make informed decisions and devise more effective strategies to address this situation.

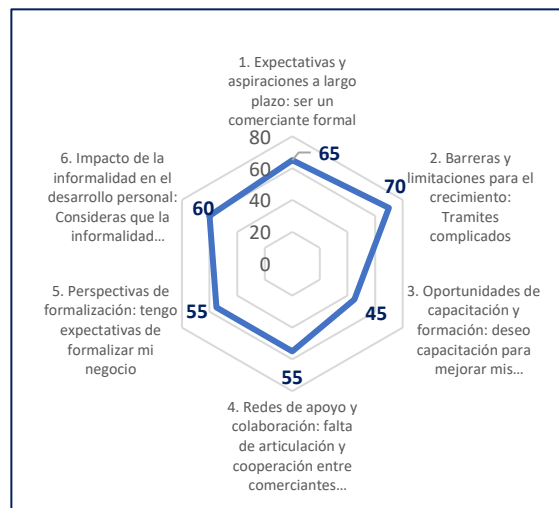


Figure 2 Perspectives on the impact of commercial informality on the quality of life of merchants in terms of emotional well-being (%).

### Interpretation:

Assess the impact of commercial informality on the quality of life of traders in terms of emotional well-being: The aim of assessing the impact of trade informality on the quality of life of traders in terms of barriers, limitations, support and emotional well-being, would have a profound impact on understanding how this situation affects the lives and well-being of traders. The results obtained can raise awareness about the challenges faced by informal traders and provide valuable information to implement measures to improve their socio-economic and emotional situation. The analysis carried out to assess the

impact of commercial informality on the quality of life of traders has revealed that this situation has significant repercussions on various aspects of their lives. Informal traders face considerable challenges in terms of income, as a lack of formality can limit their opportunities to access wider resources and markets. In addition, job security suffers due to vulnerability to changes in economic conditions and lack of adequate labor protections. On an emotional level, informal traders may experience increased stress and anxiety due to the uncertainty of their income and working conditions.



Figure 3 Analysis of the barriers and challenges faced by merchants when formalizing their businesses in the Amazon region (%).

Interpretation:

These barriers allow us to focus on key aspects of the influence of commercial informality on the quality of life of merchants in Jazan, Amazonas, providing a detailed and enriching analysis. Within a critical analysis of these characteristics, it allows us to generate more effective recommendations and strategies to overcome the barriers and challenges identified. In addition, by taking into account the specific context of commercial behavior in the area of Pedro Ruiz district of Jazan, Amazonas region, it will be possible to design more appropriate and sustainable interventions that promote formalization and improve the quality of life of merchants in this area.

Table 4 Perceptions and attitudes of traders towards formalization and its relationship with quality of life in the Amazon region.

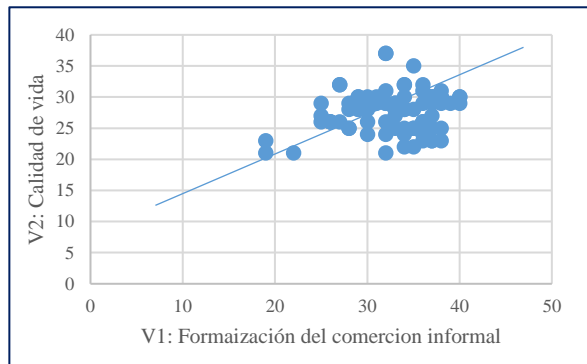
Spearman's Rho		V2 Quality of life	V1 Formaliza tion of informal trade
TV2 Quality of life	Correlation coefficient	1	0.458
	Follow-up (bilateral)	.	0.02
	N	88	88
TV1 Formaliza tion of informal	Correlation coefficient	0.458	1

trade

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Follow-up (bilateral)	0.02	
N	88	88

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Interpretation:

The displayed value of Spearman's Rho correlation was equal to 0.418 and a significance level of 0.02 lower than the decision-making criterion 0.05, so  $H_0$  hypothesis is rejected and hypothesis  $H_1$  is accepted. Explaining that there is a moderate positive correlation, explicitly due to the fact that there is a perspective of improvement in the quality of life and its implication with the process of formalization of informal trade.

## DISCUSSION

By analyzing the barriers and challenges that merchants face when formalizing their businesses, specific obstacles that hinder the formalization process are identified. This would allow efforts to be focused on addressing the key issues affecting business formalization and designing more effective solutions.

In relation to raising awareness in business formalization. According to Díaz (2017), 10% of microentrepreneurs in the Pimentel region receive continuous training to grow their business, and a total of 54% of microentrepreneurs sometimes and rarely receive training to grow their business and achieve the normalization of their business. The most striking figure is that 36% of companies have never received such benefits, but within a critical thinking that allows the creative axis to be highlighted by proposing a direct stimulation of the interests of the population, where instructors need innovation proposals accompanied by new resources to promote creativity, the aim is to directly stimulate the interests of the population and strengthen the link with society. To achieve this, educators need new ideas and innovative approaches to their classrooms, and this is where the engagement strategy comes into play (Polo et al., 2022).

Existing policy initiatives designed to formalize informal work face significant structural barriers. Moreover, the informal economy is much more widespread than the political discourse suggests, which accentuates the challenge for policymakers (Jones et al., 2006).

Within the perspectives of fostering a responsible business culture: Merchants who adopt responsible practices can positively influence other business actors and foster a more ethical and sustainable business culture in the community (Hinojosa et al., 2022).

In terms of market access, there have been initiatives that have made it possible to generate economies of scale or range through the creation of new commercial capacities, along with others characterized by strong externalities that aim to enhance



the bargaining power of small producers and formalize relationships with customers and intermediaries and access to more demanding markets

With regard to issues related to market access, the work has identified particularly emblematic initiatives, such as those with high appropriability that have made it possible to generate economies of scale or range, or others characterized by strong externalities that aim to enhance the negotiation capacity of small or micro producers and formalize relationships with customers and intermediaries and access to more demanding markets (ECLAC, 2005).

Improvement in marketing conditions through the formalization of customer relations and the reduction of the number of intermediaries (Dei, 2005).

In the context of traders' formalization, training and mentoring programs that take these learning styles into account can be more effective and meaningful (Weepiu et al., 2022).

In particular, our interpretation is that business networks generate benefits that can be appropriated by a limited number of firms, which, by achieving them, experience an effective transformation of their competitive behaviors and capabilities (Albuquerque, 2000).

The need to have didactic skills in this area and the importance of intertwining this process with the theoretical debate that is taking place internationally on the issues of productive integration suggests that higher education institutions could play an important role in these areas, although the need for a link with the business world suggests the importance of a cooperative link with development entities that have direct experience in the management of these projects (Dini, 2017).

## CONCLUSIONS

According to the research carried out, the following conclusions are reached:

It seeks to provide a comprehensive view of the formalization of informal trade in Jazan traders and its impact on the quality of life of these traders and therefore on regional development. It is hoped that the results and recommendations of this study will contribute to informed decision-making and the implementation of effective policies to promote formalization and improve the lives of traders and the community at large.

The purpose of the inquiry is to drive a sustainable improvement in the quality of life of traders. Together, we can reveal patterns and opportunities that will make a difference in the business world.

The preponderance of informal enterprises, especially in the field of micro and family businesses, is due to their reality of subsisting day to day with minimal resources and meager profits. These companies are on the periphery of formality, facing constant challenges to their development and growth. However, it is essential to recognize its importance in the local economy and the livelihood of many families. To boost their formalization, attention is required focused on providing tools and support that enable them to overcome obstacles and achieve sustainable well-being. Only through a comprehensive and strategic approach will we be able to move towards a society where these micro-enterprises flourish and contribute meaningfully to the economic and social development of our communities.

Although awareness has been raised among merchants, their resistance to tax compliance persists, highlighting the need to continue with personalized training. To achieve the formalization of micro-enterprises in the commercial sector, it is essential to explore more accessible and friendly tax options to facilitate the process of paying taxes. Addressing these key aspects will make it possible to move towards greater business formality and strengthen economic and social development in the sector.



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