LABOUR MARKETS, INFORMALITY, AND STRUCTURAL POVERTY IN DEVELOPING ECONOMIES: AN INTEGRATIVE ANALYTICAL MODEL

BY

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Abstract

This study examines the interconnected dynamics of labour markets, informality, and structural poverty in developing economies through an integrative analytical framework. Drawing on labour market segmentation and dual economy theories, the study synthesises existing literature to analyse how structural labour divisions, productivity disparities, and institutional weaknesses jointly shape poverty outcomes. The findings reveal that informality is not merely a residual employment category, but a systemic feature reinforced by segmented labour markets and limited absorption of surplus labour into formal sectors. The analysis further shows that informal employment contributes to persistent poverty through income instability, lack of social protection, and restricted upward mobility. These effects are compounded by productivity gaps between formal and informal sectors, which sustain wage inequality and limit economic advancement. Institutional factors, including weak governance and ineffective labour regulation, are identified as critical to the persistence of informality and to the constraining of policy effectiveness. The study develops an integrated analytical model that captures the dynamic interactions between labour segmentation, informality, productivity, and institutional quality. By bridging fragmented theoretical perspectives, the model provides a comprehensive explanation of poverty reproduction in developing contexts. The findings highlight the need for multidimensional policy approaches that combine labour-market reforms, expanded social protection, and institutional strengthening to address structural inequality and promote inclusive economic development.

Keywords: Labour markets, informality, structural poverty, labour segmentation, dual economy, institutional quality

Introduction

Across developing economies, labour markets are marked by structural imbalances that shape patterns of inequality, productivity, and income distribution. As Loayza (2016) observes, these imbalances reflect deeper inefficiencies in resource allocation and institutional coordination rather than temporary labour mismatches. Within this context, informality has emerged as a defining feature of employment systems in the Global South, accounting for a substantial share of labour participation and economic output (Alberola & Urrutia, 2020). Positioned outside formal regulatory and social protection frameworks, informal employment continues to reinforce structural poverty while constraining pathways to inclusive growth. From a structural standpoint, labour market segmentation provides a critical lens for understanding these dynamics. Rather than operating as unified systems, labour markets in developing contexts are divided into segments characterised by unequal wages, productivity levels, and employment conditions. Ariza and Montes-Rojas (2017) note that formal employment is typically associated with higher earnings, stability, and institutional protection, while informal work is often defined by insecurity, low remuneration, and limited mobility. These divisions are not merely economic; they are institutionalised through governance failures and regulatory gaps that restrict workers' transitions across sectors. In this sense, segmentation operates as both a structural and systemic barrier to upward mobility, reinforcing persistent inequality (Valodia, 2008).

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The dual economy perspective further deepens this understanding by highlighting the coexistence of modern and traditional sectors within the same economic system. In many developing economies, the modern sector is capital-intensive and relatively productive, whereas the traditional or informal sector remains labour-intensive and constrained by limited access to capital and technology. Canelas (2019) demonstrates that labour surplus in the informal sector exerts downward pressure on wages, thereby sustaining low-income equilibrium conditions. This structural imbalance is further compounded by institutional weaknesses that limit the formal sector's capacity to absorb excess labour (Pham, 2022). As a result, large segments of the workforce remain confined to low-productivity activities, perpetuating structural poverty across generations. At the centre of this debate lies the complex relationship between informality and poverty. While informal employment often provides immediate income opportunities, particularly in contexts of high unemployment, its long-term implications are far less favourable. Poy (2024) argues that informal workers are disproportionately exposed to income volatility, limited social protection, and restricted access to financial resources. These conditions contribute to the emergence of poverty traps, where individuals are unable to accumulate the assets or capabilities necessary for economic mobility. Moreover, as Gangopadhyay et al. (2014) assert, the relationship is not unidirectional; poverty itself can drive individuals into informal employment, creating a cyclical dynamic that is difficult to disrupt.

From an accounting and management science perspective, these patterns raise fundamental concerns regarding productivity and efficiency within labour systems. Informal enterprises often operate under significant constraints, including limited access to credit, inadequate infrastructure, and higher relative capital costs, all of which suppress productivity (Loayza, 2016). These productivity gaps translate into wage disparities across sectors, thereby exacerbating income inequality and reducing overall economic efficiency. Moreover, weak labour mobility mechanisms prevent the optimal allocation of human capital, further entrenching inefficiencies within the system (Ariza & Montes-Rojas, 2017). Such distortions highlight the need to reconceptualise labour markets not only as employment systems but also as sites of value creation and distribution. Institutional quality and governance remain central to these dynamics. Effective labour regulation, enforcement mechanisms, and social protection systems are critical in mediating the relationship between informality and poverty. However, in many developing economies, regulatory frameworks are either weakly enforced or poorly aligned with labour market realities. Torres (2020) emphasises that policies aimed at formalisation can significantly reduce poverty, yet their success depends on context-specific design and implementation. Similarly, Sahoo and Neog (2017) caution against uniform policy approaches, noting that informality is highly heterogeneous and shaped by diverse socio-economic factors. These insights underscore the importance of governance structures in shaping labour outcomes and addressing inequality. Despite the richness of the existing literature, much of it remains fragmented, with studies often focusing on isolated aspects of labour markets, informality, or poverty. There is limited integration of these dimensions into a unified analytical framework that captures their interdependence. This gap constrains both theoretical development and policy effectiveness, as it overlooks the systemic nature of structural poverty in developing economies. In response, this study advances an integrative conceptual model that synthesises insights from labour market segmentation and dual economy theories to explain how informality, institutional quality, and labour dynamics interact to reproduce poverty over time.

Objectives of the Study

1. To examine the structural relationship between labour market segmentation and informality in developing economies.

2. To analyse how informality contributes to the persistence of structural poverty and inequality.
3. To evaluate the role of institutional quality, governance, and labour regulation in shaping labour market outcomes.
4. To develop an integrative analytical model linking labour dynamics, informality, and poverty reproduction.

Literature Review

Labour market segmentation theory explains how labour markets in developing economies are divided into distinct segments, most notably the formal and informal sectors, each characterised by unequal wages, job security, and mobility opportunities (Meher, 2021; Adair, 2025). The theory challenges neoclassical assumptions about a unified, competitive labour market by emphasising the structural inequalities that shape employment outcomes. Workers are not freely mobile across sectors; rather, institutional constraints, social hierarchies, and economic conditions limit access to higher-quality employment (López-Roldán & Fachelli, 2022; Arce & Segura, 2016). Early formulations of the theory further highlight the role of internal labour markets and institutional rigidities in sustaining segmentation, particularly in contexts where employment relations are regulated unevenly across sectors (Doeringer & Piore, 1971; Reich et al., 1973). A central proposition of the theory is the distinction between primary and secondary labour market segments. The primary segment, commonly associated with formal employment, offers higher wages, greater job stability, and opportunities for advancement. In contrast, the secondary segment, often associated with informal employment, is characterised by low wages, precarious working conditions, and limited access to social protection (Battisti, 2013; Srivastava, 2019). These differences are not solely explained by worker productivity but are embedded within institutional arrangements, employer practices, and broader socio-economic structures (Fields, 2005; Dickens & Lang, 1985).

Participation in the informal sector is frequently involuntary, as workers are excluded from formal employment due to barriers such as skill mismatches, discrimination, and limited job availability (Günther & Launov, 2012; Mamashokirova, 2025). Structural constraints, such as unequal access to education, weak labour-market institutions, and segmented social networks, further restrict entry into primary-sector jobs (Srinivasan, 2016; Bennett & Rablen, 2015). In many developing economies, these barriers are compounded by demographic pressures and rapid urbanisation, which increase labour supply without corresponding growth in formal employment opportunities (Lewis, 1954; Todaro, 1969). Mobility across segments remains limited and often non-linear. While some workers transition between sectors, such movement is frequently cyclical and does not necessarily lead to improved employment conditions (Maloney, 2004; Bosch & Maloney, 2010). This challenges earlier assumptions that informality serves as a temporary stage in labour market adjustment. Instead, segmentation theory suggests that workers may become trapped in low-productivity roles due to persistent structural barriers. Consequently, wage differentials between the formal and informal sectors persist over time, reinforcing inequality and limiting income convergence. These dynamics have significant implications for poverty and development. Segmented labour markets constrain efficient allocation of human capital and reduce overall productivity, particularly when large portions of the workforce are confined to informal activities. The persistence of these structural divides contributes to enduring patterns of inequality and restricts pathways for upward mobility, thereby sustaining structural poverty in developing economies.

Dual economy theory explains the coexistence of two distinct sectors within developing economies: a modern, capital-intensive sector and a traditional, labour-intensive sector (Vines & Zeitlin, 2018; Saikevych, 2012). These sectors differ significantly in productivity, capital intensity, and wage structures. The modern sector is characterised by higher productivity, advanced technology, and greater investment in physical and human capital, while the traditional sector operates with limited capital, low productivity, and subsistence-level activities (Vollrath, 2009; Roy, 2022). This dual structure reflects historical patterns of economic development, where industrial growth coexists with persistent traditional economic activities (Lewis, 1954; Ranis & Fei, 1961). A central feature of the theory is the presence of surplus labour within the traditional or informal sector. This surplus reflects an excess supply of labour relative to productive capacity, often resulting in underemployment or disguised unemployment (Wang & Piesse, 2013; Lei et al., 2015). Unlike in advanced economies, where labour markets tend to equilibrate through wage adjustments, developing economies often experience persistent surplus labour due to structural rigidities and demographic pressures (Harris & Todaro, 1970; Fields, 2011). This surplus labour becomes a defining characteristic of the informal sector. Despite economic growth, the modern sector's capacity to absorb this surplus labour remains limited. Capital-intensive production methods, technological choices, and labour market frictions constrain job creation, preventing large-scale transitions into formal employment (Zenou, 2008; Thakur & Guha, 2019). As a result, economic growth does not necessarily translate into broad-based employment expansion. This contrasts with neoclassical expectations that development will automatically reduce labour surplus and improve wages. The persistence of surplus labour exerts downward pressure on wages within the traditional sector, contributing to income stagnation and reinforcing poverty (Wang & Piesse, 2013). At the same time, wage differentials across sectors remain significant, reflecting disparities in productivity and access to capital. These dynamics sustain structural inequality, as economic gains are concentrated within the modern sector while the traditional sector remains marginalised (Temin, 2016). Consequently, dual economy theory highlights how limited labour absorption, persistent productivity gaps, and uneven development trajectories interact to perpetuate poverty and inequality across developing economies.

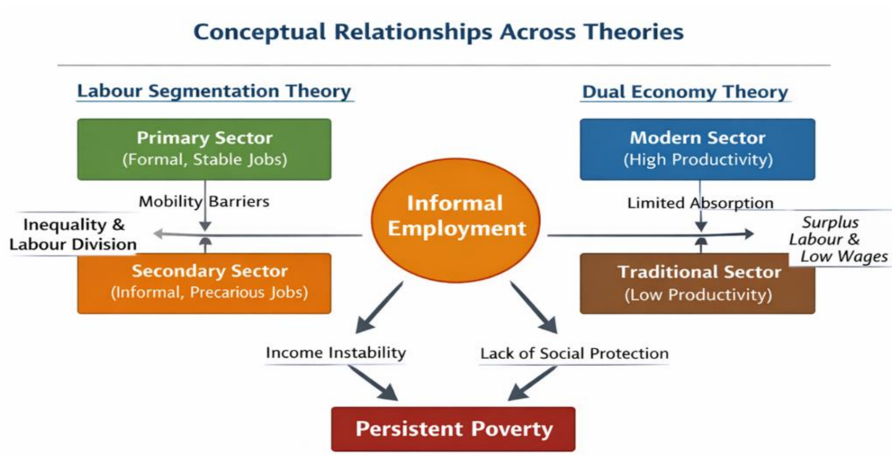

***Figure 1** : Conceptual relationships between labour segmentation and dual economy theories, linking informality to poverty outcomes.*

Figure 1 illustrates how labour segmentation and dual economy theories jointly explain informality and poverty. Segmentation shows barriers between formal and informal sectors, while the dual economy highlights limited absorption of surplus labour into modern sectors. Both pathways converge in informal employment, which leads to

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income instability and a lack of social protection. These conditions ultimately reinforce persistent poverty, underscoring the interconnected structural mechanisms that drive inequality in developing economies.

The relationship between informality and poverty is complex and multidimensional, reflecting both structural constraints and survival dynamics within developing economies. Informal employment is often associated with low earnings, job insecurity, and limited access to institutional support, conditions that heighten economic vulnerability. While it provides immediate income opportunities in areas with scarce formal jobs, it often reinforces poverty due to its precarious nature (Poy, 2024; Canelas, 2019). A defining feature of informal work is the absence of social protection. Workers typically lack access to healthcare, pensions, unemployment benefits, and occupational safety measures, leaving them exposed to economic and social risks (Miti et al., 2021; Levitsky, 2019). This exclusion is often linked to weak regulatory frameworks and high compliance costs, which discourage formalisation and limit coverage of social protection systems (Qian & Wen, 2021). Income instability further compounds vulnerability. Informal workers commonly experience irregular earnings and are highly susceptible to economic shocks, with limited bargaining power to improve their conditions (Bocquier et al., 2010; Linh, 2025). In addition, restricted access to credit, education, and productive assets constrains opportunities for skill development and economic advancement (Mitra, 2008; Cojocaru, 2023). These structural limitations reduce upward mobility, trapping workers in low-productivity activities with few prospects for transition into formal employment (Gutierrez et al., 2019; Natarajan et al., 2023). Consequently, informality sustains persistent poverty cycles, as poverty drives individuals into informal work while informal employment reinforces long-term economic disadvantage (Bolarinwa & Simatele, 2023; Pham, 2022).

The persistence of informality in developing economies is closely linked to institutional and policy deficiencies that weaken labour-market governance. Weak enforcement of labour regulations remains a central challenge, as many countries lack sufficient inspection capacity and consistent monitoring systems. Even where legal frameworks exist, limited institutional resources and compliance-oriented approaches reduce their effectiveness (Alvarez et al., 2025; Vosko et al., 2021). This creates an environment in which informal practices operate with minimal oversight. Fragmented regulatory systems further exacerbate the problem. Poor coordination among the agencies responsible for labour standards, migration, and economic policy creates gaps in enforcement and accountability (Murphy et al., 2020). In global production systems, especially in labour-intensive industries, weak institutional infrastructure allows informal arrangements to persist within formal value chains (Ahmed et al., 2025). Policy frameworks often fail to address the structural drivers of informality. Formalisation strategies that rely on incentives or penalties have produced limited outcomes because they do not adequately account for labour market segmentation, demand-side constraints, and low job creation (Adair et al., 2024). In many contexts, informality functions as a survival mechanism rather than solely as a regulatory failure (Danquah et al., 2021). These institutional gaps reinforce structural inequality by limiting access to decent work, social protection, and economic mobility. Strengthening governance, improving regulatory enforcement, and aligning policies with labour-market realities are therefore essential to reducing informality and addressing persistent poverty. Table 1 synthesises the key constructs and dimensions emerging from the literature, highlighting their interconnected roles in shaping informality and structural poverty.

Table 1: Summary of Key Constructs and Dimensions

Construct	Definition	Key Dimensions	Implications for Poverty
Labour Segmentation	Division of the labour market into formal and informal sectors	Wages, job security, and mobility barriers	Reinforces inequality and limits upward mobility
Dual Economy	Coexistence of modern and traditional sectors	Productivity gaps, capital intensity, wage differentials	Sustains surplus labour and low-income conditions
Informality	Employment outside formal regulation and protection	Income instability, lack of benefits, precarity	Increases vulnerability and working poverty
Productivity	Output per worker across sectors	Technology, skills, capital access	Low productivity traps workers in poverty
Institutional Quality	Effectiveness of governance and regulatory systems	Enforcement, policy coherence, labour regulation	Weak institutions enable persistent informality
Social Protection	Systems providing economic security and welfare	Health care, pensions, and unemployment benefits	Absence deepens vulnerability and poverty cycles

Table 1 presents a structured synthesis of the core constructs shaping labour market outcomes in developing economies. It highlights how labour segmentation, dual economy dynamics, and informality interact with productivity and institutional quality to influence poverty. The table shows that weak social protection and low productivity reinforce vulnerability, while governance gaps sustain informality. Together, these dimensions illustrate the systemic and interconnected nature of structural poverty and inequality.

Methodology

This study adopts an integrative conceptual methodology designed to synthesise diverse strands of literature into a unified analytical framework. Integrative approaches are particularly suitable for examining complex socio-economic phenomena, as they enable the combination of theoretical insights and empirical findings across disciplines (da Silva et al., 2020; Kutcher & LeBaron, 2022). The process begins with the identification of key constructs central to the study, namely informality, labour segmentation, productivity, and poverty, which are consistently highlighted in labour market and development literature. Following construct identification, a thematic comparison is conducted to examine how these concepts are treated across existing studies. This involves analysing points of convergence, such as the recognised link between informality and low productivity, as well as areas of tension, including debates on the effectiveness of formalisation policies (Adair, 2020; Adair et al., 2024). The review also identifies gaps, particularly the absence of a comprehensive framework that integrates labour market structures with institutional and productivity dimensions. The synthesis stage brings together these insights to generate a coherent analytical model. By aligning overlapping themes and addressing conceptual inconsistencies, the study develops a framework that captures the interrelationships between labour segmentation, informality, and poverty outcomes (López-Roldán & Fachelli, 2022). This structured approach ensures that the resulting model is

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both theoretically grounded and analytically robust, providing a foundation for future empirical testing and policy application.

Results

Key Constructs Identified

The analysis identifies informality, labour dualism, productivity gaps, and institutional weakness as central constructs shaping structural poverty in developing economies. Across the literature, informality is consistently recognised as a dominant labour market feature, yet its interpretation varies. Adair (2020) frames informality as an outcome of policy limitations and ineffective formalisation strategies, while Poy (2024) emphasises its direct association with in-work poverty and economic vulnerability. In contrast, Vera and Canelos-Salazar (2025) conceptualise informality within broader socio-economic networks, highlighting its embeddedness in local and global systems. These perspectives collectively indicate that informality is not a uniform phenomenon but reflects both structural constraints and adaptive responses. Labour dualism is similarly treated with variation across studies. López-Roldán, Semenza, and Salvia (2020) present segmentation as a structured division between primary and secondary labour markets, reinforcing inequality through differential access to stable employment. López-Roldán and Fachelli (2022) extend this view by demonstrating how segmentation operates across national contexts, revealing persistent inequalities in labour market outcomes. While both studies emphasise structural divisions, the latter highlights cross-country variability, suggesting that segmentation is shaped by institutional and economic contexts rather than being universally fixed. Productivity gaps are widely acknowledged as a key differentiating factor between formal and informal sectors. Hawkins (2020) underscores the structural nature of these gaps, linking them to disparities in capital access and technological capacity. This contrasts with López-Roldán and Fachelli (2022), who implicitly connect productivity differences to broader patterns of social inequality, suggesting that productivity is both an economic and social construct. Institutional weakness, as examined by Buitrago, García-Suaza, and Garzón Restrepo (2024), provides a complementary perspective by identifying governance quality as a determinant of informality. Unlike studies that treat institutions as background conditions, this work positions them as central drivers of labour market outcomes.

Thematic Convergence and Gaps

A clear convergence emerges in the recognition of informality as a significant driver of poverty. Poy (2024) provides empirical evidence linking informal employment to in-work poverty, while Amoah (2024) situates this relationship within broader development theories, arguing that informality reflects systemic labour market exclusion. Vera and Canelos-Salazar (2025) reinforce this view by demonstrating how informal economies are embedded within global and local networks, further entrenching inequality. Despite this agreement, the studies differ in their emphasis on causality. Poy (2024) highlights the direct impact of informality on poverty, whereas Amoah (2024) suggests a more complex interaction between structural conditions and labour market dynamics. Labour segmentation also exhibits convergence as a mechanism sustaining inequality. López-Roldán et al. (2020) and López-Roldán and Fachelli (2022) both emphasise the persistence of dual labour markets, yet their analyses diverge in scope. The former focuses on structural divisions within labour markets, while the latter introduces comparative insights that reveal variation across contexts. This distinction highlights a gap in the literature, as few studies integrate segmentation with institutional frameworks that explain these variations. Institutional perspectives introduce further complexity. Buitrago et al. (2024) argue that governance quality directly influences informality, contrasting with Hawkins (2020), who treats institutions as part of a broader political economy context. This difference underscores a conceptual gap between institutional and structural approaches. Similarly, Adair (2020) critiques formalisation policies for their limited effectiveness, suggesting that policy interventions often fail to address underlying structural constraints. This contrasts with Amoah (2024), who implies that theoretical frameworks themselves shape policy approaches, indicating a gap between theory and implementation. Productivity is widely recognised as a critical factor, yet its integration into broader frameworks remains limited. Hawkins (2020) explicitly links productivity disparities to structural conditions, while other studies treat productivity as an implicit outcome of segmentation and informality. This fragmented treatment reveals a gap in connecting productivity to governance and labour market structures in a unified manner.

Integrated Analytical Model

The integrated analytical model developed from these findings connects labour segmentation, institutional weakness, and poverty reproduction within a unified framework. Labour segmentation, as articulated by López-Roldán et al. (2020), establishes the structural foundation by dividing labour markets into hierarchical segments. This segmentation interacts with institutional conditions identified by Buitrago et al. (2024), where weak governance and regulatory failures enable the persistence of informal employment. In contrast to models that treat informality as a residual category, the integrated framework aligns with Vera and Canelos-Salazar (2025) by positioning informality as embedded within broader economic systems. Informality becomes both an outcome of segmentation and a mechanism that reinforces institutional weaknesses. Adair (2020) supports this interpretation by demonstrating how policy interventions fail when they do not address these structural linkages. Productivity gaps, as highlighted by Hawkins (2020), serve as a reinforcing mechanism within the model. Low productivity in informal sectors limits income generation and restricts economic mobility, while higher productivity in formal sectors remains inaccessible to many workers. Poy (2024) further illustrates how these dynamics translate into persistent in-work poverty, linking micro-level outcomes to structural conditions. The model also integrates contrasting perspectives on causality. While some studies, such as Poy (2024), emphasise the direct impact of informality on poverty, others, including Amoah (2024), highlight the role of broader development frameworks. By incorporating both views, the model demonstrates that poverty is not solely a consequence of labour market conditions but also reflects institutional and theoretical contexts. This integrated perspective reveals that structural poverty is sustained through the interaction of segmented labour markets, weak institutions, and persistent productivity disparities, each reinforcing the other within a dynamic system.

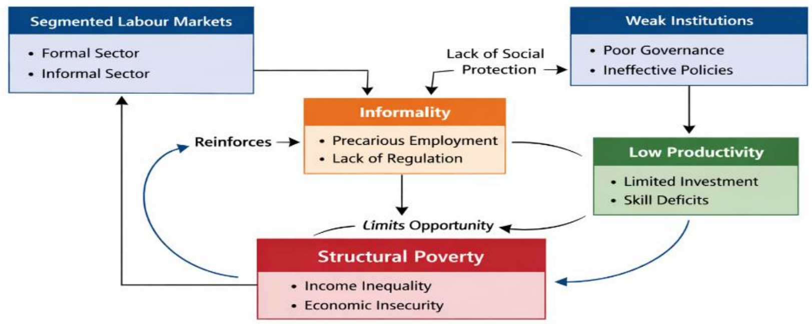

Figure 2: Integrated Analytical Model

Figure 2 presents the unified framework developed from the study, illustrating how labour market segmentation and dual economy structures interact with institutional quality and productivity gaps. It shows the directional relationships linking segmented labour markets to informality, how informality reinforces low productivity and weak social protection, and how these collectively sustain structural poverty. Feedback loops highlight the cyclical nature of poverty reproduction within developing economies.

Discussion

The results support the first objective by demonstrating a strong structural linkage between labour market segmentation and informality, consistent with segmentation theory and prior empirical studies. The findings align with López-Roldán et al. (2020), who argue that labour markets are hierarchically structured, with limited permeability between formal and informal segments. However, while López-Roldán and Fachelli (2022) suggest some degree of mobility across segments, the present results indicate that such mobility is largely constrained and often cyclical rather than transformative. This contrasts with Adair (2020), who frames informality as partly driven by policy inefficiencies, implying that improved regulation could enhance formalisation. The current findings extend this argument by showing that segmentation itself restricts the effectiveness of such policies. Similarly, Ariza and Montes-Rojas (2017) highlight wage differentials between sectors, and the results confirm that these disparities are not only economic but structurally embedded. In this sense, informality is not simply a residual outcome, but a systemic feature sustained by segmented labour markets.

Addressing the second objective, the results confirm that informality significantly contributes to structural poverty and inequality, reinforcing arguments advanced by Poy (2024) and Canelas (2019). The present analysis supports Poy's (2024) assertion that informal employment is closely associated with in-work poverty due to income instability and lack of social protection. At the same time, the findings extend Gangopadhyay et al. (2014), who emphasise the bidirectional relationship between poverty and informality, by demonstrating how this relationship is sustained through structural labour constraints. In contrast to Amoah (2024), who situates informality within broader theoretical frameworks of development, the results provide a more integrated perspective by linking informality directly to productivity gaps and institutional weaknesses. Vera and Canelos-Salazar (2025) argue that informality is embedded within socio-economic networks, and the findings corroborate this view while further highlighting its role in reinforcing inequality. The discussion reveals that informality is both a coping mechanism and a structural trap, thereby complicating simplistic interpretations of its role in development. The third objective focuses on the role of institutional quality and governance, and the results strongly support the view that weak institutions are central to the persistence of informality. This aligns with Buitrago et al. (2024), who identify governance quality as a key determinant of labour market outcomes. However, while Buitrago et al. (2024) emphasise institutional failure as a primary driver, the present findings suggest a more interactive relationship in which institutional weakness both shapes and is reinforced by labour market structures. Adair et al. (2024) argue that formalisation policies often fail due to limited contextual adaptation, and the results reinforce this claim by showing that policy interventions are constrained by segmentation and productivity disparities. Similarly, Torres (2020) highlights the potential of formalisation policies to reduce poverty, yet the current findings indicate that such outcomes depend on broader institutional reforms rather than isolated policy measures. This contrasts with Danquah et al. (2021), who frame informality as a survival mechanism, as the results demonstrate that survival dynamics are embedded within structural and institutional constraints.

In relation to the fourth objective, the findings validate the development of an integrative analytical model that combines labour segmentation and dual economy theories to explain poverty reproduction. The results support the structural insights of López-Roldán et al. (2020) while incorporating the macro-level dynamics highlighted by Canelas (2019) and Pham (2022), particularly regarding labour surplus and limited absorption into formal sectors. Compared to Hawkins (2020), who focuses on productivity gaps, the integrated model situates productivity within a broader system that includes institutional and labour market dynamics. This represents a departure from fragmented approaches in the literature, where productivity, informality, and governance are often analysed in isolation. The model also addresses the limitations identified by Amoah (2024), who notes the lack of integration across development theories. By combining segmentation and dual economy perspectives, the model provides a more comprehensive explanation of structural poverty. It demonstrates that informality is both an outcome and a driver of systemic inequality, shaped by the interaction of labour structures, institutional conditions, and productivity disparities. This integrative approach advances existing literature by offering a unified framework that captures the complexity of labour market dynamics in developing economies.

Conclusion

This study advances an integrated understanding of labour markets, informality, and structural poverty in developing economies by synthesising insights from labour-market segmentation and dual-economy perspectives. The analysis demonstrates that poverty is not solely the outcome of individual or short-term economic conditions but is deeply rooted in structural and institutional arrangements that shape labour market participation and outcomes. The findings show that labour segmentation restricts mobility and reinforces inequality by confining a significant proportion of workers to informal, low-productivity employment. Informality, while providing immediate income opportunities, perpetuates vulnerability through income instability, lack of social protection, and limited access to productive resources. These dynamics are further intensified by productivity gaps between formal and informal sectors, which sustain wage disparities and limit economic advancement. Institutional quality emerges as a critical mediating factor. Weak governance structures, fragmented regulatory systems, and limited policy coordination enable the persistence of informality and constrain the effectiveness of formalisation strategies. The study highlights that policy interventions focused solely on regulation or incentives are insufficient unless they address the broader structural and institutional context in which labour markets operate. By developing an integrative analytical model, the study bridges fragmented strands of the literature and offers a more comprehensive framework for understanding poverty reproduction. The model captures the dynamic interactions between labour structures, institutional conditions, and economic outcomes, emphasising the cyclical nature of structural poverty. The study underscores the need for multidimensional policy approaches that combine labour market reforms, institutional strengthening, and expanded social protection. Addressing structural poverty requires coordinated interventions that enhance labour mobility, improve productivity, and strengthen governance systems. Future research should empirically test the proposed model across diverse contexts to refine its applicability and inform evidence-based policy design.

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