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Report on the
East and Southern African Regional Conference on

The Informal Sector: Issues in Policy Reform and Programs

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Nairobi, Kenya
April 27 - 29, 1989

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The informal sector represents a large pool of entrepreneurial talent in the African national economy. Recognizing the sector's potential for increased contribution to economic development, the Office of Technical Resources within A.I.D.'s Africa Bureau (AFR/TR) was pleased to organize this regional conference on "The Informal Sector: Issues in Policy Reform and Programs", in Nairobi in April 1989. It is our hope that the discussions and resolutions of this conference will assist all participants and those who may otherwise be interested in these conference proceedings, in better designing and carrying out policies and programs to aid this dynamic segment of their national economies.

We would like to thank all those who attended the conference, many of whom came great distances to participate. We are confident that the spirit of open dialogue, which was so much a part of this conference, will be carried over in the participants' ensuing discussions in their home countries with members of the informal and formal sectors, government, donors and non-governmental organizations, as they seek ways to allow informals to participate more fully in the economies of their countries.

We look forward to receiving any comments and questions on these proceedings. This will assist us in our efforts to evaluate what support we might provide, in coordination with other A.I.D. offices and through USAID missions abroad, to facilitate initiatives to develop this sector.

Keith W. Sherper

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Director, Office of Technical Resources
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PREFACE

From April 27 - 29, 1989, the Office of Technical Resources within the Bureau for Africa of the U.S. Agency for International Development (A.I.D.) sponsored a regional conference in Nairobi, Kenya for anglophone African participants that brought together 70 government, business, academic and informal leaders from 11 countries to discuss issues relating to policy and programs for the informal sector in Africa. For the purposes of the conference, the informal sector was defined as those persons who, although operating outside the law, are providing legitimate goods and services, as opposed to those who operate outside the law, but who are involved in criminal activities.

The informal economy is growing throughout the developing world, involving a vast market operating outside of government authority. Despite the size of this sector, it remains very poorly understood and is often regarded as an unemployed, or underemployed, sector with limited impact on the nation's economy. In fact, between 40 and 60% of the workforce and of GDP in most Third World countries, is in the informal sector. In most instances, these informals operate "illegally" because they cannot overcome the barriers which prevent their entry into the formal economy. To channel the energy of this expanding sector and to promote economic growth, reforms in the existing legal, administrative and political systems will be required.

To provide conference participants with a concrete example of the impact of empirical research and advocacy on reforms for informals, Mr. **Hernando de Soto**, Peruvian economist and President of the Institute for Liberty and Democracy (ILD) in Lima, Peru, was invited as keynoter. Mr. de Soto's groundbreaking research on the nature of and the constraints faced by the informal sector in Peru is the subject of his book, El Otro Sendero (The Other Path), published in Spanish in 1986 and in English in 1989, which has become an international bestseller.

According to Mr. de Soto, the existence and growth of the informal sector in Peru is due to the continuing presence of mercantilist structures in the political economy, which distort the functioning of the market and result in excessive regulations protecting privileged interest groups.

The Other Path does not present the informal sector as a solution, but as a symptom of an inadequate institutional and policy environment. It concludes that the high cost of formality results in severe economic losses: low productivity due to inefficient specialization, low levels of productive investment, high taxes which discourage new business creation and disincentives to technological innovation.

De Soto maintains that when laws and institutions ensure effective protection and enforcement of property rights and other contractual arrangements, transaction costs are zero, and markets are efficient. If the legal and institutional framework is inadequate, as in the case of Peru and most Third World countries, transaction costs are high, preventing market-led growth and inhibiting private initiative.

To assist in redressing the situation, Mr. de Soto and the ILD advocate change to open the economy to the informals and have developed major reform proposals

submitted to the government of Peru. Several of these proposals have been adopted, including broad-based reforms to give property rights to informals and to ensure access by informals to the formal credit market.

In **AFRICA**, in the current climate of economic crisis, the informal sector is attracting growing attention. Governments are considering measures to simplify licensing and registration procedures and to decrease harassment of informals. Donors are considering means of intervening to assist this sector through credit, training and technical assistance. The World Bank is examining ways of promoting formal to informal linkages.

To assist in ensuring more effective actions in favor of the sector, this conference was designed to (1) identify policy measures which can promote African entrepreneurship within the informal sector; (2) examine effective programs to support informals; and (3) determine how advocacy programs may be established for pursuing needed reforms.

This report summarizes the presentations and discussions from the two and one-half day conference. Section One contains the opening addresses. Section Two contains the keynote address, commentary presentations and discussion on policy issues affecting informals. Section Three contains the panel presentations and discussion on policy reform in four African countries. Section Four contains the presentations and discussion on three program interventions to assist informals. Section Five includes the panel presentations and discussion on four approaches to advocacy for informals in Africa and the presentation by Mr. de Soto on ILD's advocacy program. Section Six includes the conference conclusions as they were debated and presented by members of four functional groups: government officials, researchers and economists, non-governmental organizations and the private (formal and informal) sector. Closing statements made by representatives from A.I.D.'s Bureau for Africa, Office for Market Development and Investment and Office of Technical Resources are also provided in this section. A list of conference participants and speakers is provided in the last section.

Deborah M. Orsini
Conference Organizer and Editor
Labat-Anderson, Inc.

June 1989

SECTION I

OPENING ADDRESSES

**Ambassador Elinor Constable
U.S. Ambassador to Kenya**

Welcome to Nairobi. We are delighted to be able to offer some hospitality and be with you at the opening of this conference today. The informal sector is a very important one, not only here in Kenya, but in your own countries as well. This opportunity that you have here today is obviously a crucial one. We are all engaged in a process of rethinking in our individual countries, as even in my own, about the way in which the government and the private sector should be dealing with each other. In the United States over the last eight years, there have been numerous changes in the way we address issues involving the private sector, many of which, I think, have been good changes. Accompanying that shift has been a rethinking about the way in which our aid programs could relate to the private sector abroad. It was a process of discovery in individual countries in individual ways by people in those countries who were engaged in an effort to try and get their economies going.

In Kenya, what we have discovered is an informal sector with a vitality that is simply overwhelming, and we have a sense in Kenya that if we, Americans, we, government of Kenya officials, we, representatives of the informal and formal sectors, could together identify means of eliminating constraints and providing incentives, we might unleash this potential, this vitality, in a way which would provide a remarkable boost to the Kenyan economy and remarkable employment opportunities. This can only be accomplished through change, initiative, new policies and new discoveries.

I look forward to learning the outcome of this conference because this is an exciting issue and you have excellent resource persons, as well as yourselves, who know more about what you are trying to do and what the constraints are than any of us do. I think the key to this meeting will be the exchanges and discussions you will have among yourselves or with the experts that have come to share their experience with you. So once again, welcome. We look forward to your conclusions to assist us in our discussions with the government on ways of supporting its emphasis on assisting informals.

**Honorable Professor S.K. Ongeru
Minister for Technical
Training and Applied Technology
Government of Kenya**

It gives me great pleasure to be with you on this official opening of a conference on Issues in Policy Reform and Programs for the Jua Kali (Informal) Sector. I note with appreciation the diverse representation in this conference and look forward to healthy academic brainstorming and resolutions. I am told that the Africa Bureau of A.I.D. is organizing this conference to create a forum for the exchange of ideas on informal sector enterprise development among African representatives from the public and private sectors. This action is in line with the Government's aspirations, and my ministry will consider very seriously the resolutions of this conference's deliberations.

The issue of unemployment is a global one. Governments world over are looking for ways of reducing it. In Kenya, the Government has realized that the Jua Kali enterprises' potential in creating employment and generating income can no longer be overlooked.

Although this sector had been ignored up until the last two years, when His Excellency the President Honorable Daniel T. Arap Moi initiated support to the sector, available evidence indicates that employment opportunities in these enterprises far outweigh those in the formal wage sector in industry and commerce. The primary goal for Jua Kali enterprises as articulated in our Sixth Development Plan is to create employment and security for members of the immediate family. They offer excellent potential for employment to the youth and the school leavers. As reflected in Sessional Paper No. 1 of 1986, firm measures will have to be taken by the Government toward directly assisting this sector as a matter of strategy. During the present development plan period, there will be the need for major rethinking with regard to improving their management, handling of default problems and disbursement of loans, expanding spatial coverage and harnessing the support that the private sector and Government must give to enhance the expansion and performance of this very vital sector.

The success of developing these enterprises will be firmly rooted in policy restructuring and liberalization, covering the pricing structure, trade regime, liberalization of foreign exchange management, wages, and investment policies, and financial restructuring. The Government will amend rules that inhibit the development of the Jua Kali enterprises. The Government is convinced that its role in the development of Jua Kali sectors is necessary. As part of this role, the Government will directly and indirectly change the cost-price relations that will be helpful to the development of these enterprises. Also, where the limiting factor is the availability or scarcity of capital, the Government will intervene to redress the problem.

This sector is expected to create jobs for more than two million Kenyans, promote the degree of indigenous control of the economy, and help improve the distribution of income. It forms the nucleus and the training ground for the nation's entrepreneurs, who are quite innovative. To motivate entrepreneurs, an award scheme to promote innovations and inventions will be developed. Laws and procedures which used to frustrate Jua Kali enterprises from competing on an equal footing with the more established businesses will be re-examined. The Government will speed up the review of local authority by-laws and regulations that have proven restrictive to the sector. The Government's initiatives appear to be in line with this conference's objectives.

The Government will also support programs that reduce the cost of giving small loans while ensuring that banks have adequate liquidity and that they become more actively involved in this sector, both in the provision of start-up finance and short-term working capital. Methods of relaxing the traditional collateral requirement will be worked out while encouraging sub-contracting between larger enterprises and this sector. Joint efforts in

training and counseling entrepreneurs in project formulation, implementation, monitoring, and evaluation will be stepped up. Present training schemes will be expanded and ways and means of using the training levy will be explored to ensure that the skills of existing master craftsmen are not only extended to their age groups but also transmitted to future generations.

I am convinced that some of the issues raised above will form the core of this conference's deliberations. Given the diverse representation and varied experiences of the delegates at this conference, one would have no doubt that the resolutions likely to be passed at the end of the conference will be practical ones. The Government, and indeed my ministry, will keenly await the results of this conference. It is also my hope that those conference delegates from other parts of the world will return home with better ideas for improving this sector.

The days are gone when the informal sector was thought to be totally irrelevant to the mainstream of the economy of the developing countries. Comparing the cost implication of creating one job in the formal sector and that of creating one job in the Jua Kali sector, developing countries have no better alternative but to develop these enterprises if they are to meet the employment demands for their growing populations.

In conclusion, I urge you to find time out of your busy conference schedules and expose yourselves to the dynamic Jua Kali activities in and around Nairobi. The diversity of the items produced and services rendered is a sure testimony of the potential the sector possesses. What you will see in Nairobi is a sample representation of what is happening in other cities, towns, and markets in this country, and hence the need to take this dynamic sector very seriously.

SECTION II

ISSUES IN POLICY REFORM

Moderator: Fred O'Regan, for
A.I.D., Africa Bureau, Office of
Market Development and Investment

KEYNOTE ADDRESS: HERNANDO DE SOTO
President, Institute for Liberty
and Democracy, Lima, Peru

Discussion

Commentary: Donald C. Mead
Professor, Michigan State University
East Lansing, Michigan

Policy in Kenya I.A. Onyango
Kenyan Ministry of Planning and
National Development

IBRD Structural Ephraim Kamuntu
Adjustment IBRD Regional Policy Advisor

Discussion

**Fred O'Regan
for A.I.D.'s Africa Bureau,
Office for Market
Development and Investment**

I would like to give some background on the purpose of the conference. This is, in fact, the second implementation of the same conference. The first was held just before this one, in Abidjan, Cote d'Ivoire. A.I.D. has organized these conferences because we feel that it is important at this time to promote dialogue among experts, researchers, practitioners and donors on policies and interventions affecting the informal sector. The last 10 years have witnessed the first real generation of exploratory assistance efforts for the informal sector and much has been learned on both the intervention and the policy side. It is time to take stock of our efforts in order to plan for future actions.

The importance of the sector has become increasingly evident. Three key factors support this: the informal sector absorbs the bulk of employment and income-generation in most African countries; it reaches women, hence major social gains in regard to children and family income; and it performs well, especially in loan repayments and even under structural adjustment, in contrast to formal sector firms. However, some of our efforts have not mirrored the performance of the sector itself. Having been an implementor myself, I feel free to make that comment.

Given its performance, we now understand that the informal sector should be viewed as a major mechanism for contributing to national economic growth and that it should be able to absorb major new investments. We recognize that a two-pronged approach, involving both policy reform efforts and continued project support, is needed. It is important now to look at our efforts, both on the policy and on the program side, from the standpoint of (a) multiplier effects, i.e., are inputs having a catalytic effect? and (b) graduation effects, i.e., are we promoting the growth of enterprises from informal to formal, through policy and programs?

As regards policy, there have been new insights into the nature of informality which

have given us a much greater understanding of what informality is and how it relates to policy and regulatory regimes that exist in both Third World and First World countries. There is consensus that governments must openly support the sector; that cumbersome licensing, registration and employment regulations must be dropped; that credit policies must be reformed to promote bank lending; and that security of the informal sector must be promoted, especially through access to property rights. However, more work needs to be done to identify in each environment the specific constraints for informals to market access, to credit and to their ability to operate free of administrative interference and harassment.

From the standpoint of programs, there is a great diversity of contexts, targeted enterprises, executing institutions and methods. African projects have not grown to significant size, such as certain Asian mega-projects. This is because projects were started later in Africa, new institutions with little experience are involved and infrastructure and services are weak. While most projects are characterized by good horizontal linkages, they are slow to scale up and continue to have difficulty in achieving sustainability. As we enter the second generation of assistance, we need to carefully examine the uses and applications of programs involving credit, technical assistance and training, and institution building.

Fostering debate on the issue of the economic role of informals is no mean feat, but Hernando de Soto has accomplished just that. As President of the Institute for Liberty and Democracy in Lima, Peru, he has worked for the past five years directly with the informal communities of Lima to understand the dynamics of the sector and what it means in the larger Peruvian economic context. He has authored a book on that subject, The Other Path, which just hit the best seller list of the Washington Post, the first time that I can recall a development book getting such publicity. He has gained a high international reputation for his research in Peru and for his strong advocacy of informals and his pointed critique of existing policy and regulatory regimes. Impelling this type of debate across the universe of social and economic development that takes place in the world community is no easy achievement. We welcome his comments as our keynote speaker.

KEYNOTE ADDRESS:

HERNANDO DE SOTO

[Hernando de Soto is president of the Institute for Liberty and Democracy (ILD) in Lima, Peru. His major work El Otro Sendero (The Other Path), was published in Peru in 1986 (Editorial El Barranco) and in the United States in 1989 (Harper and Row). It became a best seller in countries throughout Latin America, with over 100,000 copies sold, and recently made the Washington Post's best seller list. Mr. de Soto studied humanities at the Universidad Catolica in Lima, and economics at the University of Geneva's Institut Universitaire de Hautes Etudes Internationales. He has served in many capacities, including Economic Affairs Officer in GATT, President of the Executive Committee of the Intergovernmental Council of Copper Exporting Countries in Paris, Managing Director of Universal Engineering Corporation in Geneva, Director of the Central Reserve Bank of Peru and Chairman of a private mining company in Peru. Since 1984, Mr. de Soto has been a member of the United Nations Committee for Development Planning. The ILD is a non-partisan, non-profit foundation which conducts an intensive program of research, publications, seminars and symposia to achieve its goals. It is extremely active in studying and proposing legislation to assist informals in Peru.]

I would like first to clarify that I am not an African specialist and I did not come here to advise you on the situation in Africa. I am a Peruvian citizen and I have written a book about Peru and its informal sector. Since that book was published, other studies have been conducted in the region, and I now know that I am speaking of a general situation in Latin America. Secondly, I am not a specialist on the informal sector. My concern is poverty and the access to wealth. Research on the informal sector appeared to be the best means of finding out why we are so poor in Peru.

According to the most optimistic estimates, the Gross National Product per capita in my country is \$1,100, and we have been at that level for the last 20 years. In examining development literature, the implication was that Peruvians had not been able to outgrow poverty because there was something culturally or ethnically wrong with us- we were not entrepreneurs and we were not even prepared for democracy, which was why we needed

strong governments. However, when the ILD examined the informal sector, we discovered they are very entrepreneurial and have very democratic organizations, which encouraged us to take a closer look at the sector. Our study was, then, first a means of learning about underdevelopment. Secondly, our study was not a traditional study of informality, that is, of the culture of the descendants of the Inca Empire, or of a class of marginals. We put aside all preconceived notions and found, in fact, that informals are not marginals, because they represent the majority of the population; they are not unorganized, because they have their own internal structures; they are not unemployed, because most are employed; they are not necessarily microenterprises because, when given a chance, they do grow. The definition which evolved from our research is that informal sector firms are those which use illegal means to achieve legal objectives, as opposed to those firms who use illegal means to achieve criminal objectives, such as the drug traders in Peru. Our challenge became one of measuring this sector, which was no easy task because informals try to flee the law. It required special empirical research methods and techniques.

After four years of research and talking with informals, we concluded that 62% of all manhours worked in Peru are worked in the informal sector and that 43% of our cities in Peru are informal. In the construction sector, 47% of the urban population of 21 million persons in Peru lives in houses built illegally, which are worth more than \$18 billion. In all of Peru, seven of every 10 buildings today are being built outside the law. In the transport sector, 87% of the buses in Peru are informal. If taxis and vans are added, informals control 95% of public transport, with vehicles in Lima worth about \$620 million. If spare parts, repair shops and gasoline stations owned by informals are added, they have a \$1 billion industry in the capital of my country. In trade, we found there are 90,000 street vendors in Lima and that of 331 markets, 274 had been built by former street vendors. In totaling informal activities, we calculated that they contribute 38% to our gross domestic product and, in fact, that our GDP is 27% higher than that quoted in official figures. Also, the informal sector is much bigger than organized labor, which represents only 4.8% of the working population, while informals are more than 60%.

We then asked, why do the informals remain outside the law? The implied answer in books

on informality in Peru was that somehow, Peruvians wished to disobey the law. We decided first to look at the cost of the law for Peruvians- not for privileged Peruvians but for the poor. The formal sector claimed that anyone genuinely motivated to go into business could do so in 15 days with the help of a lawyer. To test this claim, we simulated the creation of a small clothing industry, consisting of two sewing machines in a workshop. Working 6 hours a day, one lawyer and four assistants needed 289 days to register that workshop, going through all the red tape required by government in order to operate legally. We conducted the same experiment in Tampa, Florida, and it took us 3-1/2 hours. We next looked at what was required to have government adjudicate land for housing purposes. Again, using simulation, we discovered that a housing association of 100 families would need to visit 52 government offices, fill in 207 documents and work 8 hours a day for six years and eleven months to obtain a legal adjudication.

We also found that, contrary to popular belief, informals pay taxes. In fact, the taxes they pay correspond to their contribution to GDP. They don't pay in the same way. There is no income tax, but they do pay considerable amounts for excise taxes, occupancy taxes for street stands, and property taxes.

When these results were announced in Latin America while my book was being promoted, we began to receive information that the same things were true in Venezuela, in Columbia, in Mexico, etc. We know therefore that this situation is not an unusual phenomenon in Latin Africa, and that it has more to do with government and politics than with culture.

As a result of our studies, we do not argue for doing away with laws, but for creating good law, as opposed to bad law. Good law, such as that protecting property rights, can result in immediate benefits for informals: our comparative study on two shantytowns on the outskirts of Lima showed that property values increase by a factor of nine when property titles are made available. Secure property rights also provide access to credit and insurance, neither of which is available to informals without property titles.

Microenterprise lending programs, which have done much to prove that informals are credit worthy, are supported by the Peruvian oligarchy because that means informals get microcredit, while the oligarchy keeps the big

credit. To get big credit, you must have land reform. Land reform means giving individuals private property titles. The lack of secure property titles in the Third World goes a long way towards explaining credit, towards explaining horizontal rather than vertical growth of cities, towards explaining poverty.

Without access to good law, informals are deprived of all the infrastructure on which developed economies depend: courts, contracts, limited liability, pooling of resources, insurance policies, enforceable guarantees, bankruptcy law, protection of intellectual rights, patents, royalties, etc.

This lack of good law also affects the formal sector, through such more sophisticated legal instruments as differential control and exchange rates, indirect taxes and surcharges on imports, direct taxes on imported goods, licenses, quotas, lists of authorized goods, advance payments on imports, exclusive and inclusive subsidies, tax reimbursements, direct investment regulations and exchange controls. In fact, most formal sector firms feel it is more important for managers to be close to government than to their plants since the high transaction costs come from government.

It is not only the informals who flee the law. Formals also flee the formal sector: flight of capital and brain drain are the ways formals have of fleeing the state. Poor people flee to the informal sector, rich people go North. Everyone leaves a state that does not produce good law.

To determine why we had such bad laws in Peru, we looked at how laws are made. We counted, for the first time in Peru, the number of rules the central government makes. We found that in one year it makes 27,000 rules, or about 111 rules per working day, of which 99% are made by the executive branch of government. This means that only 1% of Peruvian rules are made with representatives of the opposition present.

To determine where Peru had gone wrong in its law-making process, we studied developed countries and found that in the Western world, the executive branch of governments are accountable to the people. Rules must be brought out according to established procedures. In the United States, rules are produced in draft and must include a cost-benefit analysis. This is published, comments are solicited and public hearings are organized. In other developed countries, other systems

apply, but all involve government accountability. We also found out that developed countries provide access to public information. In the U.S., any citizen can ask to have the documents on which a rule was based. In Peru, this is forbidden for reasons of "security" and "national interests". In fact, in Peru, laws are totally divorced from reality. Ergo, the informal sector. Ergo, poverty.

We discovered, however, when we looked at history books of Western economic development, that just 200 years ago, this was the same way the Western world was governed. Going into business required a charter from the king. The system was a mercantilist one in which politics and business were tightly united. Informals lived in "suburbs" and were persecuted. Formals subcontracted to informals under the "putting-out system", putting out production to cottage industries.

This environment was very similar to that in Peru today. The informal sector is, in a way, equivalent to the birth of the Boston Tea party-people who felt they did not have the same economic rights as formals and who wanted some kind of participation, regardless of their political status.

This is why we believe that the informals are more than just the sector of microenterprise. They are a constituency for change. If we can open our country and make it a viable democracy, then we can hope to become a Hong Kong. If we don't, if we repress it, we will get Vietnam.

In Britain, when the large migrations to the cities began, the British gradually opened up the system. They began registering property, calling for municipal elections and a more powerful parliament, making credit available to everyone. They made a peaceful transition from mercantilism to an open democracy. In Russia, the opposite was true. The Czar insisted on the old traditions and he got a violent revolution, leaving the argument of enfranchisement in the hands of radicals, rather than in those of moderate people.

In Latin America, democracy and entrepreneurship have not failed-- they have not been given the same chance as in the West. This indicates the need for empirical research, but not from existing books-- none of the books in Peru told us the things we found out from our empirical research on informals. You must discover the informals, by talking to them. We found out

that their number one enemy is the law. We found that informals are not seeking handouts, but opportunities, and that there is nothing that democracy and equal access to opportunities will not cure in the case of Peru and Latin America.

DISCUSSION

Mr. de Soto's remarks were followed by a lengthy discussion period. Participants readily confirmed that many similarities exist between the situation in Peru and that in Africa.

Mr. de Soto was asked what reforms had taken place in Peru since the publication of his book. He answered that reforms had occurred even before the book was out, since ILD's procedure is to conclude every study undertaken with a legislative or regulatory proposal to change the status quo. The instrument used to push for reform is a public hearing system known as "Everyone's Balcony" (El Balcon de Todos). This appellation is based on the practice of the President of Peru of speaking to the people from his balcony. To have the people speak to him, ILD developed "Everyone's Balcony" in which informal sector representatives as well as public and private sector leaders are invited to public hearings on proposed reforms. ILD consults with the informals on the legal texts of the reforms from beginning to end. Once the texts are produced in draft, they are published in official newspapers. ILD then obtains signatures in support of the proposals and publishes the number of signatures, duly notarized, in the newspapers. Their first reform proposal was in 1985. ILD obtained 300,000 signatures and as a result, private titling became law. ILD has also helped pass laws regarding accessibility of information, administration of adjudication, debureaucratization and deregulation. The most recent reform is that of the formal credit system, allowing people with scarce resources access to credit. Most of these reforms are recent, so there is little information on their economic impact as yet, but the first step of changing the legal environment has been taken.

Another participant asked Mr. de Soto to comment on the need for planned change, as opposed to uncontrolled change, which he felt would occur if informals were left to their own desires. Mr. de Soto noted that half of his book deals with the laws and institutions developed by the informal sector, termed extralegal norms. ILD has studied these and

discovered that each new informal shantytown operates by laws, with voting representation of each block. All the production of rules is done openly and democratically and the community plans their use of public goods. ILD has found that there is middle ground between what people thought was mushrooming and what government thought was planning--there is such a thing as "planned mushrooming." He noted that anywhere in the Western world, where plans work, the plans are not the privilege of the few, but are susceptible to review, comment and adaptation by the people. What is needed is a system of participatory government and democratic rulemaking in which the plans respond to the needs of the majority.

Mr. de Soto was asked how the legal and institutional environment had impacted on the development of countries such as Korea and Japan. He explained that he was on his way to Japan to study just that question, but his understanding from the information available to him to date is that there are two models in Asia. In certain countries, such as Japan, there is a system of accountability, although it is not as open as the Western model. Decision making is done through a multi-layered process of consensus building. In other countries, such as South Korea, economic development has occurred under authoritarian regimes. However, one must ask how long these economies can grow without an open, democratic economy. It appears obvious now that from South Korea, to Taiwan, to Singapore, further growth will require opening the country up. Once people are wealthier and more sophisticated, it is difficult to stop democracy. He noted that while the democratic model of pluralism and general consensus is preferred, he does not deny that other models can produce growth.

The next question was whether there is any evidence that change in regulations or laws could work against informals, in terms of markets and profitability. Mr. de Soto responded that once laws are restructured to ensure operation of free markets, certain informal sector entrepreneurs would probably cease being entrepreneurs. Certain of today's entrepreneurs would become tomorrow's employees. As the informals become formalized, through good laws, the tendency would be towards concentration of activities, with economies of scale, fewer entrepreneurs

and more employees. In that sense, these changes would work "against" informals, but he stressed that informality is not necessarily a model to follow.

Another participant asked Mr. de Soto to share a specific example of his work with informals. Mr. de Soto described his work on Third World debt and structural adjustment, which found a direct application in October 1988 when the bus and truck drivers of Peru went on strike following the government's refusal to increase their maximum allowable fare after a currency devaluation. The striking drivers, 360,000 strong, paralyzed the country. ILD was asked to mediate between the drivers and the government. Working with ILD, the drivers agreed to submit a proposal to the government asking, in lieu of increased fares, for a lowering of the costs of inputs. The government agreed to liberalize the conditions for sale of spare parts, tires and vehicles to the public transport sector by lowering import tariffs from 180% to 15-20%. This program was adopted by President Garcia, who had become famous for refusing the structural adjustment program of the International Monetary Fund. However, the Goodyear tire company, citing defense of national industry and of Peruvian labor, sought an injunction to stop imports of spare parts, tires and vehicles. ILD went to court for the bus and truck drivers and won against Goodyear. ILD refuted on television the arguments of Goodyear, explaining that Goodyear employs only 1000 persons while the transport business employs 360,000. In addition, 400,000 other persons use tires and 5 million people use buses and trucks. ILD further noted that the tires manufactured by this national industry cost two and one-half times more than what imported tires cost.

This situation, which Mr. de Soto calls structural adjustment from the bottom up, was described in a letter to the U.S. Secretary of Treasury Brady. In that letter, ILD argued that the informal sector is a constituency for change and that structural adjustment is acceptable to developing countries, provided the structures being adjusted are those which help poor people.

Mr. de Soto was asked if a manual existed on how to set up institutes like ILD in developing countries. He answered that under a new grant from A.I.D., ILD has accepted, as of 1990, to organize courses in Peru for people from

abroad. Subsequently, some type of manual might be developed.

The final question dealt with linkages between formals and informals. Mr. de Soto indicated ILD has found that the separation between the formal and informal sectors is not as clearly defined as is thought and that in fact they are fairly well integrated. Groups which are mainly informal, e.g., those in the streets-vendors, transport people, construction people, do subcontract with formals both to provide inputs and to ply formal sector wares.

Dr. Donald Mead
Michigan State University

[Dr. Mead is an agricultural economist at Michigan State University in East Lansing, Michigan. He is part of the core staff of the Enterprise and Employment Policy Analysis Project, funded by AID's Bureau for Science and Technology. His paper was prepared under the auspices of that project. He has consulted extensively in Africa on policy reform issues, particularly as regards small enterprises. He is the author of several scholarly works on policy reform in the Third World].

In my presentation I wish to address specific policy issues from the African perspective. It is well known that the modern sector of the economy in Africa, by which I mean that part which has access to special benefits, has been growing very slowly and, as a result, people have been forced to seek employment in the rest of the economy which does not have special access, which is unregulated and which is known as the informal sector. While some of these activities are "dead end" ventures, others are very dynamic, with great potential for growth. To promote this growth, I believe we should concentrate on two goals for policy: to remove constraints and establish an environment which provides incentives for producers to innovate; and to disseminate to all types of producers information about technologies and markets and products, while broadening their access to inputs in order to strengthen their capacity to respond to opportunities.

I would like to examine those two goals in two sectors. The first is agriculture which, to me, is the starting point of all work in Africa. There is considerable liberalization going on in

the agricultural sector, which means basically getting the government out of price controls and out of marketing of both inputs and outputs. How do informals relate to that? Before governments began moving out of monopolies, their inefficient distribution systems were paralleled by private distribution systems which were illegal. Liberalization now means that these activities are being transferred from the informal to the formal sector. The country in which this has been best documented is Mali. Those who have researched the effects of liberalization in Mali have found that while farmers have benefited from liberalization, their capacity to respond to the new opportunities has been severely limited by restricted access to improved technologies, to input supplies and to supporting institutions.

The process of liberalization therefore involves fundamental reallocation of roles between public and private sectors. If liberalization is to lead to improved market performance, it is not enough for the state to withdraw from certain activities, like monopoly marketing systems. The state must also assume other responsibilities, like better public information systems and improved credit markets to allow private traders to respond to new opportunities. The second sector is that of rural non-agricultural productive activities. Here we must ask how the increase in agricultural production produces multiplier effects. The extent of these multiplier effects is a function of the policy environment and of the capacity of those nonagricultural producers to supply the demand that comes forward. In Rwanda, we noted that when poor farmers get extra income because their agricultural production has increased, their first priority is to improve their housing. When they put a new roof on their house, they have two choices: to buy corrugated metal sheets from a local factory that is highly protected and subsidized, or to buy ceramic tiles made by dispersed rural tile makers who cannot compete with the protected and subsidized corrugated sheet manufacturers who import their raw materials and benefit from an overvalued exchange rate. With a more balanced exchange rate, tiles would be cheaper, but even then the tile producers would need technical assistance to produce a standard quality of tile and to be able to evaluate structural effects when the heavier tiles are used on roofs. In summary, macropolicy changes are needed in the foreign trade regime and technical assistance is needed for the tile manufacturers.

I would also like to comment on credit. Credit should be looked upon as intermediation, a process where we take savings from one group of people and transfer it to another. As long as this intermediation is not taking place, credit programs will last only as long as someone is injecting credit from the outside. The credit context needs to be one that involves savings mobilization as well as the allocation of that credit to the best users. However, I remain convinced that credit is not the binding constraint, but rather the small and slowly growing markets in which African producers sell; and their lack of information about new products and new markets.

Two types of credit policy interventions have been tried without much success. One is subsidized credit which normally results in the allocation of these limited funds by administrative decision, rather than market forces. The second policy intervention is aimed at the collateral problem. Many informal enterprises don't have legally recognized assets for collateral. A frequently tried solution is to create credit guarantee funds to protect the banks. However, these guarantee funds, which are widespread in Africa, have had only marginal impact on the flow of credit to small or informal borrowers. The limiting constraints on credit expansion are the volume of funds available for lending, the institutional mechanism for dispensing credit and the availability of viable projects, along with the legal constraints outlined by Mr. de Soto.

My final comment is that we must recall the need to expand the knowledge base available to policy makers that informs the policy process. In Africa it is incorrect to say we know what needs to be done and the only thing lacking is the political will to implement it. African officials who make and administer policy are often forced to do so on the basis of poor information about the existing structure of the economy itself or the true impact of policies that are under consideration.

Dr. I.A. Onyango
Director of the Small Enterprise Unit,
Ministry of Planning and
National Development
Government of Kenya

We in Kenya are persuaded that the informal sector has a crucial role to play in our

development. Our government noted the potential of this sector as early as 1972 when we produced a report entitled *Employment, Incomes and Equality in Kenya*. From that time on, issues related to the informal sector have appeared in every development plan for Kenya, but not much was done until 1986 when we published the Sessional Paper No. 1 on *Economic Management for Renewed Growth*, in which the informal sector is given extensive coverage, particularly in recognition of our very rapid population growth rate of 4% per annum. The informal and small enterprise sector must be key players in absorbing this increase. We estimate that the economy must generate six million additional jobs by the year 2000, of which 56% is expected to come from the informal sector.

The government has undertaken to create a more favorable environment since we have noted that the regulatory environment and the administration of policies were actually punitive to the informal sector. In 1987, special units were created in my ministry to engage in policy research, identify policies that penalize informals and recommend reforms. A special task force was also created to identify informal sector problems. The work of these entities resulted in the publication this year of a document entitled *"Strategy for Small Enterprise Development for Kenya to the Year 2000 and Beyond"*. Many of our findings are included also in the 1989-1992 Development Plan.

One policy area we have studied is fiscal policy. As Mr. de Soto pointed out, informals pay indirect taxes. They purchase raw materials and equipment from the formal sector which already include taxes, such as excise taxes. We have studied how our tax structure works and are looking at tax relief programs for informals. Two years ago we also started a program to exempt informals from duty, up to 10 million Kenya shillings, when they buy imported equipment, provided they agree to locate their activities outside large urban areas. We are now evaluating that scheme, including determining how many informals actually shifting the exemption from equipment to raw materials produced locally or obtained overseas.

In credit, we realize our banking and lending institutions do not have sufficient incentives to lend to the informal sector. Our interest rates are low, so that those lending to informals are not encouraged to do so. The problem for informals is not the interest rate itself, but

availability of funds. We are looking at what an appropriate rate of interest might be.

Physical infrastructure is also included in the development plan, e.g., access roads, electricity, water supply and related facilities. We know that not enough electricity is available to informals in the countryside. We also recognize that although we encourage informals to locate outside urban areas, access roads are not good. Our local authorities have been instructed to allocate funds to the maintenance of these roads. With donors we are looking at means of providing central infrastructures for informals in rural areas. We are also constructing industrial parks in selected towns in the countryside. But we must determine if the informals really want these, or if they have other more pressing needs, such as property rights for their sheds.

We are also addressing new technologies and processes. We are endowed in Kenya with an informal sector which is very innovative but their products go unnoticed because there is no protection for their inventions. We have included the issue of intellectual rights in our development plan to protect innovators of new products.

We have also looked at marketing informal sector products. Government tendering systems have favored formal firms, but we are proposing more tendering with informals and we intend to promote this by educating the informals to the requirements. If government tendering levels are too high for individual informals, we are looking at means of grouping 2-10 people to bid for tender. Also, certain rural products, such as milk and cereals, may be sold now in the countryside without going through a marketing board.

The international community has been active in helping informals in Kenya, with over 600 organizations involved. Coordination of their efforts has been a problem. We are attempting to develop a plan to better coordinate all efforts.

I appreciated Dr. Mead's comment on the need for better data. Our unit has been given the task of developing a database on the informal sector in order to make better decisions. We are also relying on assistance from our Central Bureau of Statistics and the universities.

Finally, women are an important group among informals. Women make up about 60% of the informal sector in Kenya. We have begun

studying women's participation in the informal sector because they face particular problems.

We hope that in the next two months we will have a specific program in place to translate the policy initiatives in our development plan into concrete actions for implementation.

DISCUSSION

A first question dealt with how the Kenyan government communicates with informals. Dr. Onyango responded that the Task Force and the Small Enterprise Unit under the Ministry of Planning are responsible for researching and proposing new policy initiatives. Discussion groups on these initiatives are constituted, including government, semi-government institutions, the donor community, and particularly the private sector and informals. Open brainstorming is used to reach consensus of approach.

A second question dealt with measures to assist informals in accessing adequate infrastructure. Dr. Onyango responded that the government, with help from a donor, is launching a rural trade and production center program which will put up infrastructure facilities. Rural programs are emphasized, since 80% of Kenya's population is in rural areas. Other programs include construction of industrial sheds by the Kenya Industrial Estates and rural electrification programs to increase access to electricity in the countryside. Resources are limited but more programs will be developed as more informals move out to rural areas.

Another question dealt with the coordination of program efforts for informals. Dr. Onyango responded that for the present, his unit is coordinating the efforts but they recognize that perhaps this function should be given to the private sector, with the public sector retaining the policy coordination role.

The next question dealt with the reaction of privileged interest groups to these initiatives. Dr. Onyango indicated that both formals and government are supporting informals. The problem is with the way policies are interpreted by those implementing them. When the Ministry examined certain very old by-laws, they saw that the laws were silent on most of the problems facing informals and concluded that the problem lies in how local level institutions interpret the laws.

**Dr. Ephraim Kamuntu
Regional Policy Advisor
World Bank, Nairobi**

[Dr. Kamuntu is a former Minister of Commerce and Finance in Uganda and taught for many years at the University of Nairobi and Makerere University before joining the staff of the World Bank as regional policy advisor.]

The World Bank attaches the greatest importance to the development of the informal sector. Most of the economic activity on the continent is produced by informals. Over 70% of our people live in rural areas, which survive on the informal sector. Since the World Bank is dedicated to economic development, the focus of our lending programs should be on informals.

Structural adjustment is a process of adapting an economy to changing conditions and realities. In Africa in the '80s, all countries have had to look at adjustment as a necessity for the economy to survive, whether or not the IMF or the IBRD were present. Structural adjustment also, by definition, involves resource allocation, under increasingly tight budgets, producing shifts in expenditures and causing increases for some and losses for others. The ultimate purpose of structural adjustment is to increase the efficiency of economic performance through economic instruments and through macroeconomic environments in order to bring out the best in the economic actors, including informals. It means creating a non-discriminatory context so that everyone can compete and thereby increase efficiency. It means liberalization, using certain instruments such as exchange adjustment, and removal of administrative controls which give undue power to those who administer them. We also advocate restructuring the public sector to reduce the burden on the government treasury to finance its institutions. This is not ideological: it is a question of efficiency.

We are also advocating looking at the social dimensions of structural adjustment. In this learning process of adjustment, we have noticed that special groups suffer under adjustment. We must take measures to protect the poor in order for them to survive the transitory effect of adjustment. This is not moralistic, it is pragmatic.

One of the greatest problems on this continent is inflation and its impact on professional and

ethical behavior of civil servants. When inflation erodes the value of wages, corruption results. Structural adjustment to control inflation therefore has a wider issue, because until this is achieved, corruption and government officials engaged in one hundred other activities, will not be avoided.

I will summarize briefly what the impact of these programs is, because since the '80s more than 30 African countries are adjusting their economies. It takes a long time to measure the impact of structural adjustment, especially on capacity building and institutional building. I feel that if structural adjustment aims at creating governments where nondiscriminatory market forces become the order of the day, then informals, who have suffered from discriminatory laws and repressions, will benefit from adjustment. A recent report, entitled "Africa's Adjustment and Growth in the 1980s", gives evidence that those countries who have reformed their economies have performed better than those who have not. There is increased agricultural production, where most informals reside. These countries have been able to attract more international support.

In the morning's discussions, reference was made to informals being a group with political interests. I feel they should be in the forefront, agitating for their countries to adopt structural adjustment programs, because these programs promote nondiscriminatory laws and regulations.

DISCUSSION

The first question dealt with the nature of programs to protect vulnerable groups, especially informals. Dr. Kamuntu responded that the IBRD, UNDP and ADB have set up social dimensions projects aimed at helping adjusting countries to focus on vulnerable groups during adjustment. Ghana, Senegal, Uganda and Tanzania all either have or are discussing one. These projects encourage governments to target measures to increase access of informals to productive assets, including reorientation of credit schemes. Also, the Bank has established a coordinating group of NGOs, to learn from NGO experience in reaching groups in remote areas where public services are limited. There are programs to retrain or provide credit to laid off civil servants so they may establish themselves in the private sector. There are some public

works employment projects. Other schemes attempt to increase the price of assets owned by informals.

A second question dealt with the timing of social dimensions programs which, according to the speaker, came about one and one-half years too late in Ghana, resulting in much suffering for the poor. Dr. Kamuntu stated that structural adjustment had been a learning process for everyone, including the Bank. He acknowledged that the social dimensions aspect had not been emphasized at the outset, and apologized for this, but noted that now there is a shift. He also noted that governments do not have to wait for the Bank to tell them to protect their poor. He encouraged the poor to continue to be vocal about their needs.

A third question raised the issue of whether structural adjustment will produce any real economic impact, given the drop in the prices of primary products from African nations. Dr. Kamuntu noted that the Bank continues to fight for debt relief and improved terms of trade, but stressed that African economies must continue to adjust because prices cannot be guaranteed.

One participant asked how informals can benefit from structural adjustment when they

lack so many skills. Dr. Kamuntu responded that much of what Mr. de Soto had indicated for Peru is true in Africa: the problem is often one of capacity building, of a lack of organization among informals, a lack of pooling of resources. He noted that education is key.

Another participant asked whether structural adjustment would not hurt small informal producers who cannot compete with cheap foreign goods. Dr. Kamuntu stated that some aspects of trade liberalization will hurt informals, but they will gain in other ways. Controls must be removed and countries must face the fact that some national companies are not competitive. These companies employ only a small number of persons. Many more persons stand to benefit from the cheaper imports.

A final question raised the issue of how to help informals work with formals since many informals are illiterate, produce small quantities of goods and have no quality control. Dr. Kamuntu noted that if structural adjustment can serve to remove discrimination, then the two economies will merge.

SECTION III

PANEL DISCUSSION ON POLICY REFORM IN AFRICA

Moderator: Dr. T.O. Fadayomi
Director, Social Development Department
Nigerian Institute for Economic and Social Research

Panel Members:

Mr. Christopher Aleke-Dondo
Economist, Kenya Rural Enterprise Project

Mr. Phineas Dangarembizi
Representing the Zimbabwe Chamber of Commerce

Mr. Robert Ocran
Ghanaian Businessman

Dr. Moses Banda
Chief of Research, Zambian National
Commercial Bank

Discussion

Mr. Christopher Aleke-Dondo
Kenya Rural Enterprise Project

[Mr. Aleke-Dondo is the Research and Evaluation Coordinator of the Kenya Rural Enterprise Project, responsible for tracking project activities and evaluating them over time. Prior to joining REP, he was the Assistant Science Secretary for the National Council for Science and Technology. He also served as senior projects officer for the Industrial Promotion Service in Kenya.]

I will briefly review Kenyan government policies towards informals since independence in 1963 and then look at current policies and their impact on informality. In all of our development plans, and we're now on the sixth, there have been statements calling for assistance to informals. What has been lacking is a detailed methodology on how to assist the sector. The Sessional Paper No. 1 of 1986 on "Economic Management for Renewed Growth" clearly identifies the informal sector as an engine of growth. However, to date, there has been almost no implementation.

As concerns laws in Kenya, the most serious constraint to the informals is the lack of legal access to land. In Kenya there is a Land Planning Act which forbids the construction of anything in, under, or over the ground without permission from the planning authorities. Informals do not seek permission before developing land because they know they would have difficulty obtaining such permission. There are large areas of land which have been occupied by informals for over 20 years. The government should be encouraged to give them title to that land. Without fear of dispossession, they would develop the land much more.

Other issues affecting informals are the bylaws and regulations made by local authorities. Some of these procedures are very complex. The licensing procedure requires that an informal have a license for every activity he engages in. One license should be sufficient to cover all activities an informal might engage in.

Informals were intended to benefit from the government's export promotion policy, but at present they sell their goods to formals who benefit from the export compensation scheme. The scheme should be reviewed to avoid abuses and to make it beneficial to informals as well as formals.

Price controls is another problem area which benefits the large firms and not the small ones who sell in smaller quantities. Price controls now in effect need to be reviewed to remove those covering non-essential commodities.

Informals in Kenya are relatively weak financially and require appropriate tax incentives. The heavy burden of sales tax in Kenya is a disincentive to informals who purchase their raw materials and other inputs from large scale dealers. The Government should consider removing tax on local raw materials and equipment purchases made by informals. The 17% sale tax which goes into effect when a company attains a gross volume above 200,000 Kenya shillings a year also discourages small businesses from growing beyond this volume and should be revised.

Import tariffs should be reviewed by sector, with special attention on how they impact on the informal sector.

As concerns credit, while government programs now in existence are commendable, they are inadequate in face of the huge demand by the sector. Increased lending from the financial sector, especially commercial banks, will only be achieved if it is made attractive for commercial banks to do so. An increasingly acceptable solution to encourage banks to lend to informals is to provide banks with financial incentives. This is not presently possible, due to the controls on the maximum rate of interest that banks can charge on their loans.

Extension services to informals are expensive. Governments should undertake to provide subsidies to credit institutions so that they may provide such services on a selective basis.

Since the Kenyan economy is agriculturally based, all measures to boost non-wage agricultural activity translate into more demand for informal sector goods and services. Improved agricultural technology, along with better marketing arrangements and rewarding commodity prices, will raise returns to the non-wage agricultural sector and help the informal sector.

Mr. Phineas Dangarembizi
Zimbabwe Chamber of Commerce

[Mr. Dangarembizi is an economist at the Old Mutual and is Chairman of the Zimbabwe

National Chamber of Commerce, Economic Affairs and Taxation Committee. He is also Vice President of the Zimbabwe Economic Society. He graduated from the London School of Economics and worked for the Zimbabwe Reserve Bank before joining Old Mutual in 1983.]

Zimbabwe obtained its independence in 1980. It is faced by an urgent need to create employment for its growing workforce. Formal employment is about 1.1 million people in a total population of nine million, with an estimated active population of over four million. About 1.5 million are employed in communal farms and the rest are unemployed or engaged in informal sector employment. Many of the 1.5 million in communal farms supplement their earnings by informal activities.

The question of land is critical in discussing the informal sector in Zimbabwe. Since blacks had been restricted to communal reserves during colonial times, there was an influx of people into the cities after independence. Slums sprang up. People who could not find formal employment joined the informal sector.

The current government policy is to encourage cooperatives rather than informals. In government development plans, there is no mention of the informal sector. The government does encourage small enterprises and set up a Small Enterprise Development Corporation (SEDCO) to identify and assist small firms and provide some training. NGOs are also assisting. However, once the government and the NGOs provide the initial capital, the firms are unable to obtain any working capital. They don't meet financial institution criteria and they lack the necessary technical and management skills.

The government is planning to erect industrial shelters for small enterprises. Debate is going on as to whether these shelters should be sold to the occupants. Housing for low-income persons is another serious problem.

To assist informals, I would recommend revising certain laws we inherited from colonial times, like the Urban Planning Act and the Urban Councils Act, so that mushrooming informal and small firms can be accommodated. SEDCO should relax its loan criteria to lend to informals. Also, formation of cooperatives for capital-raising purposes is needed. Some technical and management training programs should be provided. The government should

assist informals by researching new products and markets.

The Chamber of Commerce wishes to assist the informals to graduate to the formal sector and will encourage purchases by formal sector firms of inputs or goods from informals.

Mr. Robert Ocran
Managing Director
Mankoadze Fishing Co. Ltd,
Accra, Ghana

[Mr. Ocran is the Managing Director of one of West Africa's largest fishing companies, having begun as an informal entrepreneur after Ghana's independence. He has experienced the impact of the policy regimes of all the leaders of independent Ghana.]

Although economic evolution has been going on in Ghana for more than eight years, in the last five years major new changes have been made, including a shift from massive state participation in industry (divestiture), promotion of private sector development and encouragement of informal, small-scale and cottage industries.

The assumption is widespread that in Ghana the economy failed because of entrepreneurial incompetence. This is not true to the extent believed. What is overlooked is that government policies frightened investment capital away through constant changes in the rules, insecurity of tenure and inflexibility of regulations.

In Ghana's history, the post-World War II conditions laid the foundations for organized economic transformation. Demobilized servicemen were unable to penetrate the petty trading business because expatriate companies had monopolies on distribution through their agents. Banks also refused to lend to the ex-servicemen. This led to an uprising against the colonial interests. In the decade preceding independence, the colonial government set up institutions to assist small and microenterprises in agriculture, industry and fisheries. Cooperatives were also encouraged by the British. The entrepreneurial orientation behind these institutions was market economy based. I myself was able to purchase a small vessel and train a crew. With independence, this trend was broken with the advent of state socialism.

From 1957 on, politics and economics became fused in socialism. Agriculture was collectivized. A State Fishing Corporation was created. Those who did not elect to join the state enterprises were forced to relearn informal sector management under socialist conditions. This resulted in the production of shoddy goods and killed people's tastes. With the first military regime in 1966, everything changed again. Certain measures were enacted which exist even today, such as the Industrial Relations Act of 1961, which protects the worker but not the employer. This continues to be a crippling constraint.

Another economic policy was enacted under the Second Military Intervention (1972-1978) which allowed co-existence of capitalism and socialism, but three negative factors remained: (1) Constantly changing policies treated the symptoms but not the disease, i.e., the macroeconomic framework couldn't support microeconomic activities; (2) the Industrial Relations Act was not compatible with a firm foundation for sustained growth; (3) incentives promoted speculative rather than productive activities.

By 1980, the economy was in total disarray. Agriculture was almost dead. Infrastructure had fallen into disrepair. Real incomes had dropped to below survival level. Industry was almost at a standstill. Transport and communications systems had ground to a halt and corruption grew as a means of topping up salaries for individuals seeking to survive.

In 1980 bushfires swept across the country, destroying foodstuffs and livestock. One million Ghanaians were repatriated from Nigeria. Export earnings had dropped and foreign exchange was lacking.

In 1984 the Economic Recovery Program (ERP) was launched to reverse the economic decadence. For the first time, economic priorities were not subordinated to political expediencies. Bitter but necessary measures have been taken since 1984. Results so far have justified the price people paid for them. The cocoa industry has grown. Mining and timber industries have responded well. Government budget deficits have been replaced by modest surpluses. The cedi adjustment has stimulated export activities. Shops are filled with goods again. However, certain stubborn problems remain, especially how to revitalize small scale industry in both the formal and informal sectors to support job creation.

Informals do not have access to the same facilities as the formal sector. Their stock of managerial competence, assets and capital are low. Sources of supply of inputs are unreliable and so is their access to markets. They bear a high cost of production and endure low revenue returns as they sell cheaply. It is critical that inputs, technical extensions, credit and other support reach them at normal commercial costs, to free them from funding at black market levels and to improve their viability, despite their lower unit cost recovery.

The government's program of action to mitigate the social cost of adjustment (PAMSCAD) has programs to help informal industries which provide access to credit, supplies of inputs, tax relief, access to consultancies and entrepreneurship development schemes.

In summary, in the past five years a massive socioeconomic transformation has occurred and for the first time, ordinary people are involved in the planning and execution of policies which affect their operations, especially through the newly created District Level Authorities.

Outstanding problems are the flow of development capital to private enterprises, a lack of distinction between trade and productive loans, the cost of severance entitlements and the high cost of production due to continuing depreciation of the local currency, all in relation to the restructuring required of local industrial firms. Some flexibility in the IMF conditions is needed, especially as regards lending to the productive sector.

Dr. Moses Banda
Chief of Research
Zambian National Commercial Bank

[Dr. Banda is the Chief of Research and Development within the Zambian National Commercial Bank. He has closely followed policy evolution in the banking sector in Zambia and takes particular interest in microenterprises and the informal sector.]

I have tried to use Mr. de Soto's eyes in examining the informal sector in Zambia. He said that he was very ignorant of the African situation, but I can assure you that I found the experiences described in his book on Peru to be almost the same as those in Zambia.

We have found in Zambia that because of the rigidity of the Zambian economy, which relies on imported machines, spare parts and raw materials, and is constrained by the shortage of foreign exchange, industrial output is severely affected and units are producing at very low capacity. In addition, we are severely constrained by what I would call bad policies, rather than bad laws. Price controls are the main example. Because of low production, informals have intervened and have emptied the shops. They then sell the goods on the parallel market, in an attempt to make a living from the shortage situation.

The high cost of living, especially for those who are out of wage employment, has created a market for cheap utensils. People with craft skills-- tinsmiths, coppersmiths, are producing and selling these.

The government has not been able to provide adequate accommodation. This has given rise to the mushrooming of squatter settlements. As the communities expand, some of the residents have begun to provide services. The communities have been enterprising enough to create their own branches of the political party and churches. This encourages city councils to recognize these communities and the government to provide social amenities. However, this runs counter to the announced government policy of encouraging a return to the land.

These illegal settlements have also promoted creation of informal transport services. Public sector transport services have almost collapsed.

The government is not favorable to informal activities. Traders in Zambia are required to operate in designated market centers, obtain necessary permits and observe government price structures. However, it is difficult to get trading space in market centers and without premises, it is difficult to get the permits to trade. Informals operate where they can and obtain supplies from retail outlets.

The government has attempted to encourage a move from trading to small scale manufacturing, especially through the Small Industries Development Organization and the Village Industries Service, the latter being dedicated to rural areas. Both are intended to provide technical assistance to project promoters. However, the efforts of these entities are blocked by the inertia of other support institutions, such as the city councils which forbid backyard workshops, unreasonable

product standards for informals and a lack of access to credit.

The only courses of action the government can take now under the current crisis conditions is to reduce its direct involvement in business enterprises, to provide incentives for the establishment of industrial ancillary services for small scale producers, to promote small transport operators and withdraw its own involvement in the sector, to remove price controls to encourage production and to facilitate licensing and regulation procedures so they are handled by a few, if not one, government agencies.

Dr. Ademola Oyejide
University of Ibadan

[Dr. Oyejide is a Professor of Economics at the University of Ibadan in Nigeria. He is interested in the question of graduation issues relating to the growth of small enterprises and has served as a consultant to the World Bank in this area].

My presentation will summarize a research project proposal to investigate the dynamics of entrepreneurial development in Africa. That proposal is being reviewed by the World Bank, but I can comment on the analytical framework we developed. We assumed that there was no interest *per se* in perpetuating the informal sector and that it should be regarded rather as a springboard towards economic growth and development. We wanted to examine entrepreneurial development, particularly two aspects: how do informals make the transition to become formal enterprises and how do formal small scale enterprises graduate into medium-scale enterprises. The World Bank was interested in this study since it had observed that despite several years of fundamental changes in the macroeconomic environment, African entrepreneurs had not responded as expected. Also, there appears to be a "missing middle" in African entrepreneurship development. There are many Africans in very small firms and then a jump occurs to the very large. We were interested in knowing whether the gap was being created by some policy or institutional factors, or both. We began to look at the enabling environment as a means of explaining this missing middle.

To try to show this barrier, we related the unit costs of firms to the scale of operation and to

the configuration between informal and formal. To make the transition, certain costs must be incurred in going from informal to formal or from small to medium size. We thought that the unit cost might be low at the very small scale end and then it increases until you make it over the hump, at which time economies are possible. We wanted to evaluate the location or size of the hump in relation to unit costs between countries and among sectors.

Clearly, several elements of the enabling environment may be presumed to contribute to the location (i.e., firm type and size) and magnitude of the hump. For instance, financial market distortions may play a role to the extent that access to and cost of credit, through policies which lead to credit subsidization and non-price rationing, favor larger scale enterprises at the expense of smaller ones. Gaining access to formal and increasingly cheaper credit may also require making the transition from informal to formal status, a transition which may, in turn, involve a relatively high up-front cost that, at the beginning, outweighs the eventual benefits of improved access to and reduced cost of credit. Similarly, labor market distortions emanating from minimum wage legislation or standards may also play a role to the extent that the firm's unit labor cost rises sharply as the firm moves from an informal status to a formal one, and/or graduates from small to medium-scale.

Regulatory constraints often constitute entry barriers which may contribute to the sharp rise in the firm's unit cost as a result of the need to obtain various licenses and satisfy other registration formalities which become mandatory as an enterprise attempts to make the transition from informal to formal status and/or attempts to graduate from small to medium-scale size. Such formalities are often a requirement for becoming eligible for certain cost-reducing benefits enjoyed by larger firms. The cost of satisfying the requirements are normally incurred before the corresponding benefits accrue; and, on a per-unit basis, such costs constitute a greater burden for small than for the larger enterprises.

We also wanted to determine how special assistance programs, whether in terms of credit, labor regulations, subsidies and so forth, could be justified on the basis of market failures, or government failures or other distortions, in order to eliminate constraints or compensate for their negative impact. In general, specific assistance initiatives can be justified as compensatory measures (in cases where the

first-best solution of removing existing distortions is, for some important reason, not immediately feasible) or as a means of offsetting externalities emanating from various types of market failure and/or as a means of strengthening desirable multiplier effects. There is thus an important interface between major elements of the enabling environment and the use of special assistance programs to promote the development of entrepreneurship.

DISCUSSION

The first questions were addressed to Mr. Ocran from Ghana and had to do with (1) the type of ideology that is most suited to developing the informal sector and (2) the impact of the structural adjustment program on informals in Ghana. Mr. Ocran responded by describing his own experience: after he had developed his fishing enterprise from 1947 to 1963, Dr. Kwame Nkrumah invited him to his office and told him that he must hand over his business to the government. Mr. Ocran responded that he would give him his first business, but that he would start another and make sure it didn't grow large enough to attract the government's attention. Over the two decades of state socialism preceding the current liberalization period, every businessman feared that if his business grew, the state would take it away.

As for the impact of structural adjustment on informals, Mr. Ocran indicated that the IBRD had put into place a program to deal with the social impact of adjustment, called PAMSCAD. This program provided technical assistance, some credit and entrepreneurship development to small enterprises.

The next question was addressed to Mr. Dangarembizi from Zimbabwe and dealt with the type of ideology prevalent in Zimbabwe. He responded that the declared ideology of the government is Marxism-Leninism, but that practically there have been no moves towards state socialism in Zimbabwe. In fact, the move is towards a mixed economy. He noted that the Chamber of Commerce discusses economic issues with the government and the government has promised to bring forth new investment guidelines, new conditions for foreign investors and to stimulate domestic investment.

The next question addressed the applicability of the de Soto model of free markets and

democracy for Africa. The participant affirmed that Africans want strong government, that Africans should elect such a government and then ensure that the leadership is enlightened, rather than attempting to push democracy which does not always support equal economic development for all. The speaker noted that a strong government can protect the informal sector. The broad consensus of the panelists' responses was that "strong governments" as described by the speaker are oppressive and do not foster economic development for all, but for the few. Mr. Ocran noted specifically that when he began his firm in 1947, he was poor and knew nothing about corporate boards or statutes, but his firm grew to 1000 employees. It was only when the "strong government" proponents took power that he was classified a misfit and his firm taken away from him.

Another question dealt with the difficulty in effecting change in Africa. The speaker noted that, even when good laws have been made, it is often still not possible for informals to grow because of controls exercised by government officials. The speaker felt that adequately educating the executive branch is a very difficult task because Africans lack the knowledge to do what Mr. de Soto has done in Peru in support of informals. Mr. de Soto's knowledge as an academic would be needed to make the case adequately for informals. Mr.

de Soto responded that this knowledge does not have to come from academics, which he said he is not, but can be gained by a process of empirical research and deduction. [He amplified on this in his speech on advocacy, detailed in Section V.]

A final question dealt with whether or not informality is a state to be encouraged. Panelists all agreed that informality is a symptom of a disorder and that keeping people on the fringes is bad, no matter how lucrative those fringes may be. Mr. de Soto added that it is not a "strong government" which allows 70% of its population to be informal, but a weak government that tolerates lawlessness and disorganization. Strong government shouldn't mean repressive government but one which can develop laws that are respected because they are legitimate. He noted that Mr. Gorbachev has realized this and is now trying to open up the system to make the government stronger. Informality should be abandoned, because for the poor it means lack of credit, lack of courts, lack of order. He noted that informality is interesting because it shows a capacity for initiative and production where we thought there was none, but the best situation is one where governments set broad guidelines and the people help themselves.

SECTION IV

PROGRAM INTERVENTIONS

Moderator: Fred O'Regan
A.I.D., Africa Bureau
Office for Market Development and Investment

Speakers: Albert Mutua
Kenya Rural Enterprises Project

John McKenzie
Community and Enterprise
Development Project
Kaolack, Senegal

Israel Skosana
Get Ahead Foundation
Republic of South Africa

Discussion

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Albert Mutua Kenya Rural Enterprises Project

[Mr. Mutua is Deputy Director for Finance and Administration of the Kenya Rural Enterprises Project (REP). Previously he served as Deputy Chief Accountant for the National Christian Council of Kenya, responsible for accounting systems for the council's projects. He has studied enterprise development activities in Holland, Bangladesh, India, Barbados, the Dominican Republic and Jamaica. He has developed small business training materials and credit administration manuals for NGOs.]

The REP project was started in 1984 by a U.S. PVO known as World Education Inc. The project itself was born from USAID's research on how to work better with NGOs through a study known as PISCES. This study determined that it would be more effective for A.I.D. to have an intermediary organization to channel its funds to NGOs and to provide technical assistance and training to NGOs interested in small scale enterprises. A successful test program was conducted with the National Christian Council of Kenya, which led to the creation of REP.

At the outset, REP only responded to proposals from NGOs who wanted to establish loans programs and would set up their plans, train their staff, advise on better recruitment and institute systems for credit schemes. The project has diversified its activities since, to include extension of credit to group-owned enterprises and NGOs; research to develop new methods of assisting in small enterprise development; and research and information exchanges on credit and government policies.

Over the last 5 years REP has assisted about 21 NGO programs. Out of those, 11 have revolving loan schemes. Some are rural based, some deal with women's groups and some assist members of communities in this country that have no other assistance.

The 21 NGOs have lent 11 million shillings (\$580,000) to 101,327 enterprises, 118 of which are groups and 1,269 are individuals. The 1,327 enterprises that have been assisted by these NGOs have 7000 direct beneficiaries. Over 1,700 new jobs have been created at an investment cost of 6,410 shillings (\$337) per job

and 4281 new part time jobs (3-6 hours per day). We have discovered that 60% of these firms, in the first 6 months after they received their loans, increased their profits by 40%.

About half of the NGOs we were working with made significant strides in the last two years in changing their management style, in reaching more people and in making more loans. At the outset, our NGOs used to lend very small amounts of money, on the average \$100, to tiny businesses. We managed to scale up the loan amounts to about \$10,000, depending on the organization, and without changing the clientele they were working with before.

Among our NGO group, repayment rates are at 85%, including one group whose repayments are based on seasonal crops. Among the others, repayment is 96%.

Our major findings in the project are:

- (1) Given their extensive outreach network and the trust they enjoy from the people they work with, NGOs are well placed to work with informals.
- (2) Given systematic appraisal, technical assistance and monitoring, informal sector entrepreneurs do perform well in terms of repaying loans, generating income and employment.
- (3) Traditionally NGOs have been engaged in providing relief and social support and must now change to a business orientation to implement credit programs. This transition process is a lengthy one. The concept of impact is also new, that is, looking at costs in relation to accomplishments. Performance standards set by donors are difficult for NGOs to meet, particularly within the time frames set by donors.
- (4) Proper choice, technical assistance and training of field staff brings significant improvement in the performance of NGOs.
- (5) Self-sustainability continues to be a problem. We do not see any of our NGOs becoming self-sustainable at the present, nor even in the next 5 years. Self-sustainability on the revolving loan fund alone is very difficult. An NGO would have to have a revolving loan portfolio of about 10 million shillings (\$525,000) to cover the cost of their extension staff. Most of our clients have at most 2 million shillings (\$105,000). We feel that sustainability must be approached in stages and the first is the sustainability of the loan fund itself.

**Mr. John McKenzie
Community and Enterprise
Development Project**

[Mr. McKenzie is the Management Systems International (MSI) Project Manager for the Small Business Program within the Community and Enterprise Development Project in Kaolack, Senegal. Mr. McKenzie has supervised project lending to 234 clients for 384 loans since September 1986 for which the repayment rate is 95.5%.]

I would like to begin by giving you my definition of the informal sector; secondly I will describe our credit program and thirdly I will explain problems we have had in its institutionalization.

About 80% of the active work force in Senegal is in the informal sector. We observed for most of the population in Kaolack, where the project is located, that the informal sector is the only source of retail goods, transport, services, perishable farm products and of many manufactured goods.

My distinction between formal and informal is that formal is modern and run on Western business principles. Indeed, most of the formal businesses in Senegal are owned by French and Lebanese, therefore foreign-owned. In the informal sector, businesses are traditional and African. In these businesses we see little difference between business and family, between the business cashbox and the family cashbox. Management of time, capital and personnel are adapted to the traditional environment. Yet in spite of the non-Harvard business school approach of informal businesses, we see the informal sector expanding and the formal sector visibly shrinking. An example is the transport sector which is totally informalized.

The banking system offers no support for informals. Banks suffer from two major constraints. The first is liquidity. Most banks are technically bankrupt. The second is central bank control over small business lending which fixes the margin at 3% which banks consider insufficient to cover transaction costs, let alone provision for bad debt. In any event, this is irrelevant for informals, since to go to the bank, they must have written accounts, an investment plan, collateral, registration, etc. These are hurdles they cannot overcome.

The Small Business Program in Kaolack was financed in 1985 by USAID for 4 years to provide loans in the peanut basin in Senegal, to help the rural economy. We did a preliminary study of 310 small businesses and found that less than 20% kept books, but their manual and commercial skills were well developed through apprenticeship. Access to credit was very limited. We therefore adopted a minimalist approach, e.g. minimal training and technical assistance because of: (1) the cost involved; (2) although we had not thought through the institutionalization question, it was felt that if the program were successful, a local bank would take over the portfolio and it would not want the extra cost of training services; (3) earlier training programs had not produced significant results; (4) the entrepreneurs we encountered seemed capable of managing their businesses in their own way.

We selected local field officers without high level academic qualifications and gave them training in evaluation and analysis of small businesses. They are entirely responsible for selecting and analyzing loan proposals. The strategy is very decentralized. Loans are usually processed in one month. First time loans are no larger than \$10,000 over 12 months. Interest is 22%, which is over the government ceiling for small enterprise lending. Some collateral is needed: a property deed, a pledge of contract, equipment collateral, or pledge of working capital.

We also tested a bonus scheme to motivate field officers. A bonus is awarded on each loan fully paid back, at the rate of 3% of the principle value per year of the loan. There is also a penalty system on amounts outstanding when loans are closed in default, calculated at 10% of the amount outstanding. This system has been very effective in motivating field officers and in removing temptation towards bribes or assisting family members.

Since September 1986 we have made 384 loans for an average of \$4000 for 9 months. 150 loans have been fully repaid. 234 loans are active. 15 loans have been closed in default and are in court. 30 active loans are paying in arrears. We are presently covering about 65% of all costs, the limiting factor being the size of the loan fund. Average increase in profitability for firms after repayment of the loan is 119%. These results indicate the degree to which the informal sector has been stifled by lack of access to credit in this country.

We have learned the following: Informals are very profitable. They respect their commitments and are bankable. Borrowers don't need to be literate nor do they require training to borrow. Simple offices with field officers without high qualifications are effective. Staff rewarded on the basis of results tend to perform better.

Our problem now is one of institutionalization. After a survey, it is clear that no commercial bank is even remotely interested in managing such an activity. While government financial institutes were interested, they didn't want to adopt the delivery mechanism, and all of them are in Dakar, with no rural offices. No private investors were interested because of the low returns compared to other investments. The employees were not interested in an employee stock option plan because of the uncertain future. Due to the success of the credit program, USAID has committed to funding a second phase and doubling the credit fund. There are plans to create some form of institution to house the fund, possibly a foundation.

Mr. Israel Skosana Get Ahead Foundation

[Mr. Israel Skosana is a Director of the Get Ahead Foundation, a black organization assisting informal and microenterprises in South Africa. Mr. Skosana is responsible for the Commercial Services Section. He is also President of the Black Accountants of South Africa and is only the eleventh black to qualify as a Chartered Accountant in South Africa. He has wide business experience, including working with Deloitte Haskins and IBM in New York, and with the Anglo-American Corporation.]

South Africa has at present a population of 36 million people of whom some 6 million are white. It is this 17% of the population which controls the country. This privileged group owns approximately 83% of the land, is the only group which has any say in the law making processes in the country and through these lawmaking processes has ensured that it enjoys considerable advantages not only in the social but also in the economic sphere. The Apartheid system attempted to keep us out of the economic sectors and to a great extent prevented us from contributing to the economic growth of our land, a land which has been

blessed with mineral and other natural resources. This has resulted in several phenomena which are of interest here, including high unemployment and a stunted economic growth which belies the natural resources available to us.

At present, estimates of the number of unemployed in the country run from 2.4 to six million. At the same time some 300,000 people enter the job market each year. Our economists estimate South Africa requires a growth rate of 5 to 6% in real GDP in order to absorb the new job seekers, without even taking into account the present unemployed. Last year the growth rate was a mere 2.5% and it is not expected to rise above 3% in the next few years. This situation has been compounded by restrictive legislation which inhibits the development of the small business sector.

Despite these restrictions, we have a growing and vibrant informal economy. One of our government-backed institutions, the Small Business Development Corporation, estimates that some three million people are at present employed by the informal sector, and that this sector contributes between 15 and 20% to GDP. Other sources believe that the contribution is closer to 40%.

The Get Ahead Foundation was formed by Dr. Nthato Motlana, a leader in the struggle against Apartheid, and includes among its directors Nobel Peace Prize laureate Archbishop Desmond Tutu, and Advocate Dikgang Moseneke, one of our leading legalist opponents of the system. The activities of the organization are divided into Social and Commercial services. I will describe the commercial activities.

The Foundation provides four types of commercial services:

(1) a Business Loans Program: a typical character-based small loans program where loans between \$500 and \$10,000 are granted to small black enterprises and no security is required of applicants who are unable to provide such security. This program has only been operating for a few months.

(2) Training: We have a department which conducts training seminars for small entrepreneurs. The courses are designed for the educational level of the entrepreneurs and are practical in nature.

(3) **Marketing:** This section assists black entrepreneurs to gain access to markets which they would normally only reach with great difficulty. For example, in areas where hawking is illegal "Trade Fairs" have been organized where businesses have been able to display and sell their products.

(4) **Stokvel Loan Program:** Most of the three million informals in the country are basically self-employed in one- or two-man businesses. Besides these people, there is also a significant number of people who are constantly struggling to start some form of micro-enterprise. As in most countries, one of the primary factors which inhibits the creation or expansion of such enterprises is the lack of access to capital at affordable rates. These people have nothing to offer as security against a loan, they have no "credit rating" and the amounts of capital which they wish to borrow are not a commercial proposition for anyone except the informal money lenders.

The challenge of providing finance to this sector was one of the first projects undertaken by the Get Ahead Foundation. At first we granted loans of \$12.50 to \$300 based on character references provided from members of the applicants' communities. We experienced the problems which similar programs have gone through, but were able to identify the reasons for these failures and redesigned the program as the Stokvel Loan Program.

We opted for a group-based lending design. On a monthly basis a group of people will get together and each will contribute to a central pool. The whole pool will then be given to one member to spend as he may wish. The following month the group, or Stokvel, meets again and once again they contribute to the pool. This time the pool is given to another member. This process continues each month until all the members have been awarded the pool. The normal term that is used is a rotating credit association.

It is apparent the members of a Stokvel must trust one another and if someone defaults on his Stokvel payments, then this form of credit will be cut off to him for as long as he is in an area where he is known. Such a person will also suffer from a certain amount of social rejection for betraying the trust placed in him.

In general, an applicant will approach one of our Field Workers who lives in her township. She will then receive an explanation of the Stokvel Loan Program and will be told that if

she requires a loan of between \$50 and \$150 she will have to form a Stokvel of at least 5 people, all of whom must be involved in business and must also require similar loans. Loans are only granted for business purposes. The applicant will then spend some time in forming her group and will come back to the Field Worker once this has been done. The group will meet on a monthly basis and each member will contribute no less than \$10 to their pool. At the end of each meeting the pool will be awarded to a member.

The Field Worker observes this process and once she is happy that the applicants are committed to one another and that they are involved in business, she will grant individual loans to the members of the Stokvel. The members will each use their loans for their own businesses, but at the same time they guarantee the repayments of all individuals in the Stokvel. Once a loan is granted, borrowers have 12 months to make their repayments.

First loans are limited to \$150 and second loans to \$250. Repayments are made on a monthly basis in units of 11. (If \$100 was borrowed the monthly installment would be \$11, whereas the installment on a \$200 loan would be \$22, and so on). This system is simple. Once all the members of a Stokvel have repaid their loans, they each receive back 10% of the initial capital value of their loan.

Although the scheme is only a year old, at the end of March 1989, we had made some 1130 loans. The total value of these loans was \$160,000. At the same date, some \$67,800 was due for collection, of which \$66,000 or 97.3% had been collected. To date, it has not been necessary to write off any funds.

A very large percentage of women (87%) have received loans. Interestingly, it has not been necessary for us to place any special emphasis on or give preferential treatment to women applicants. From the outset, this scheme has been particularly popular among women. We believe that this is due to the fact that it is ultimately the mother who is responsible for feeding her family and this motivates her to take the risks involved in starting a business.

One of the problems we have identified is that our system of fixed monthly repayments means that we are not able to respond to the rapid growth of a particularly successful enterprise.

Another problem is that many of the borrowers lack the skills to utilize their loans to their

fullest advantage and although our training seminars help meet part of this need, it is not possible for us to provide the level of personalized training that is required, the constraint being one of cost.

We now expect that by the end of this year we will have some 13 Field Workers and that the number of borrowers will be close to 3,000. In order to be able to operate on such a scale, a strong and efficient organization is required. We are presently in the process of building the necessary infrastructure.

DISCUSSION

The first question concerned the need for coordination and an exchange of information among donors and NGOs, due to the amount of overlapping that goes on. Mr. Mutua noted that in Kenya, NGOs had found that certain clients received assistance from several NGOs. Many NGOs commented on the critical need for much more networking among themselves.

Another question dealt with means of minimizing costs for NGOs and small scale enterprise credit programs. Mr. McKenzie indicated that the Kaolack project had been established to prove that informals are credit worthy and to fill the void of credit for the rural sector which the government of Senegal is no longer filling. However, for long term sustainability, training and technical assistance were simply too expensive. Mr. Mutua added that cost ratios will change over time. At the outset REP was spending \$2 for every \$1 lent. Once most of the initial fixed cost investments had been made, the ratio dropped to 1:1.

Another question addressed the issue of the usefulness of training. Mr. McKenzie answered that he had done training before doing credit and had become disillusioned with training, since many programs use Western business school concepts. Also, informals seek to avoid control and will not keep books, even if training is offered. The best uses of training are in demand driven situations, i.e., the client comes and asks specifically for some form of training, for which he is willing to pay.

Mr. Skosana of the Get Ahead Foundation was asked what the repayment schedule is for his borrowers, who had provided funding for the

Foundation and how the program is structured. He responded that members repay monthly, using a factor of 11, with each participant is paying in a small amount as forced savings. Get Ahead is now exploring working with a South African bank to set up savings accounts for the Stokvel members. Although 31% interest is the official maximum interest rate in South Africa, the project charges 22%.

He noted that the program had initially failed as a private sector venture, but additional loan funds were provided by USAID to get the program off to a new start. The program is built on community-based organizations which use local structures, such as churches, and rely on character references to constitute groups.

He described certain special programs to assist informals, including the organization of a Small Business Week where informal goods are displayed in central market areas. Get Ahead is also attempting to build communications between larger white firms and smaller black firms. Since the black firms are located in the townships, their goods and services are not generally known to white firms.

Another participant stressed the point that in assisting informals, it is important not to make them dependent.

Several informal sector participants strongly emphasized the need for consulting with informals during every phase of the design process for program interventions, to ensure that programs meet their needs.

Mr. O'Regan summarized the discussion by noting that a key problem in program interventions is that of the expectations of projects of this nature. Ten years ago when small scale enterprise loans were proposed, it was thought inconceivable that the firms would repay. Now all donors are pushing these loans. African programs are more recent than those in Asia or Latin America and implementers therefore have less experience. Over the next few years, a more holistic approach to projects will be needed, based on a broader understanding of the policy environment, subsectors, growth strategies and advocacy. Commercial banks may never be the answer to credit for informals, since they don't like unsecured credit. Better information exchange among all players will be needed for the next generation of projects.

SECTION V

ADVOCACY FOR INFORMALS

Moderator Ernie Bergins
 Coloured Development Corporation
 Johannesburg, South Africa

Speakers Damas Dandi
 Tanzania Youth Development
 and Employment Foundation

 Wilson Muchiri
 Kenya Small Traders' Society

 V.K. Selato
 Ministry of Commerce,
 Government of Botswana

 Nancy Wilson
 Ford Foundation,
 East and Southern Africa

Discussion

ILD Advocacy Hernando de Soto
 Institute for Liberty and Democracy
 Lima, Peru

Discussion

Mr. Damas Dandi
Tanzania Youth Development and
Employment Foundation (TYDEF)

[Mr. Dandi is the Assistant Labour Commissioner for the Ministry of Labour and is also the Executive Director of the Tanzania Youth Development and Employment Foundation, a newly formed group which is developing projects to train youth for employment within Tanzania's informal sector.]

By the end of the 1970s, the challenge of unemployment in Tanzania increased, especially among youth, due to poor economic performance, structural adjustment programs, and the introduction of compulsory primary education. Since 1977, Tanzania has an annual average of 500,000 primary and secondary school leavers who could not find employment in the formal sector. Also, the total wage employment in Tanzania was estimated to be 748,868 in 1984, or about 6% of the total labor force. The annual growth rate of wage employment was close to zero while the population growth was about 3.3%. These factors convinced the Government that concrete measures were needed to expand the informal sector in order to absorb the unemployed labor in self-employment activities.

In 1983 the Government enacted the Human Resources Deployment Act requiring local authorities to draw up self-employment programs to ensure that all those seeking employment would be covered by such programs. However, local authorities were given no money to enact these programs. In 1984 and again in 1987, the Government invited the ILO to come to Tanzania to study the potential of the informal sector for employment creation. On the basis of these studies, income generation programs were created, but they provided only 1,000 to 2,000 additional jobs for youths.

At the same time, informal lending mechanisms were being developed by and for unemployed youth and women. As the Employment Minister in Tanzania, I travelled throughout the country to evaluate these initiatives and was asked by local groups to help them develop a foundation to assist unemployed youths and women.

The Tanzania Youth Development and Employment Foundation (TYDEF) was founded in December 1987 as a non-governmental and non-profit organization to promote youth and women's employment and entrepreneurship at the grassroots level in rural and urban areas. The loanable resources which come from the youths themselves are supplemented by national and international donations. TYDEF's grassroots organization is intended to enable the Foundation to avoid the lengthy bureaucratic procedures and strict controls governing formal institutions.

The TYDEF founders discovered that despite Government efforts to encourage self-employment, there is a general scarcity of loanable funds to small scale entrepreneurs. There was a need for TYDEF to develop new strategies to respond to the needs of small scale private operators since financial institutions viewed small scale entrepreneurs as high risk customers.

TYDEF and other NGOs put pressure on the Government to lessen the regulatory controls on small scale enterprises, provide adequate infrastructure, improve marketing, provide access to appropriate technologies, provide concessionary loans, and increase skills training opportunities.

Although the Tanzanian Government has done a lot to promote informal sector activities, TYDEF feels there are still areas where the Government can be helpful, including: adopting more conducive policies; facilitating the availability of permanent working sites and services for informal sector enterprises; directly or through financial institutions developing a credit system for low income entrepreneurs in the informal sector; clearly defining and simplifying the licensing requirements and procedures for engaging in informal sector activities; providing technical and management training opportunities for people engaged in the informal sector; promoting the informal sector as a viable, necessary and important economic area that is capable of providing employment to people of all educational levels.

TYDEF will work closely with the Government, the private sector and other NGOs to attain the right policy mix, conducive incentives, adequate

infrastructure and inputs necessary for the growth of this informal sector.

Mr. Wilson Muchiri
Kenya Small Traders' Society

[Mr. Muchiri is a self-made businessman in Nairobi, Kenya. He was unable to finish high school since his family could not pay the school fees. He began as a plant machine operator but has been self-employed for almost his entire professional life. He formed the Small Traders' Society in Kenya in 1985, the first and only national association of small traders in Kenya.]

It is a great privilege to be the first Kenyan informal to address an international conference. The Kenya Small Traders' Society was begun by myself in 1985. Some of the objectives of the society are to promote cooperation among its members who are small scale business people of every description; to assist members to improve their respective businesses; to strengthen members' business operations by providing loans coming from members' contributions, as well as from loans, grants and donations from other sources; to assist members in obtaining raw materials, storage, transportation, services; to promote good business practices via training in business subjects and by offering them one on one business advisory services. Membership is open to all men and women over 18 who are operating a business in Kenya.

We feel the main problems facing the informals are the lack of appropriate business management skills, the lack of know how and the lack of access to credit. We seek primarily therefore to provide informals with appropriate technical assistance in business management and with financial assistance. To do this we rely primarily on members' contributions.

To date the Society has provided training, with ILO assistance, to about 950 members of the 5000 members we have.

In credit we have been able to make some loans and are hopeful other funds will be made available. In Africa, for an informal to be considered for a loan, he must provide two years of audited trading figures, with adequate security and a written proposal. Only the

formal sector is capable of meeting those demands. However, the savings of informals are deposited in commercial banks, yet it is the formal sector which benefits. I strongly recommend that African states consider policies to allow the creation of informal banks.

Other policies which work against informals are those which permit manufacturers to be distributors and retailers as well. This type of chain of activities increases prices. Informals are then forced to rely on scrap materials as a source of raw material, which affects the product quality.

Certain informals are also very innovative and some Jua Kali products are selling better than Japanese imports, but the standards of the Bureau of Standards are not adapted to informal product quality and production means.

From the standpoint of appropriate programs to support informals, I stress the gap which must be bridged between our institutes of higher learning and the informal sector. We hear stories of university graduates who have been looking for employment for 4 or 5 years. We must promote more understanding among graduates and informals. Universities could develop extension programs to help informals. Students could use their experiences with us to write their final papers. They could provide great services to us. Retired civil servants who return to their home areas could also assist us.

I would like to say one word about means of pursuing efforts to achieve needed reforms. Experience is the best teacher, but a very expensive one. Why are informals ignored when others are attempting to learn how to run the informal sector? Things can be very different if the policies which will affect informals are discussed with informals before any action is taken. It is also true that many projects to date have been ineffective. To avoid this, informals must be fully involved in the project design and implementation process. Heads of NGOs and small business units should consult with informals before any decisions are taken.

I would like to close by going on record with a request to the government representatives at this meeting to try and see that what is discussed here is implemented in their respective countries. They can then advise us of what results were attained when we meet again.

Mr. V.K. Selato
Ministry of Commerce and Industry
Government of Botswana

[Mr. Selato is the Assistant Director of the Integrated Field Services Program within the Ministry of Commerce and Industry of Botswana. This program is designed to assist informal sector firms.]

We in Botswana are in somewhat of a unique position in the sense that we are one of the few countries in Africa that practice open democracy. We also believe in free enterprise. Our view is that it is the government's duty to provide a broad framework for the private sector to develop.

At independence in 1966, Botswana was one of the poorest countries in the world. It now ranks among the most rapidly growing economies in the world, with a per capita national income which places it in the World Bank's middle-income category. During the last 20 years, GDP has grown eight-fold, despite an exceptional rapid rate of population growth. This rapid growth since independence has been attributable to Botswana's political stability, the continuity of leadership, the Government's disciplined and careful approach to economic management, and the financial and technical assistance it has received from donor agencies. However, democratic institutions, good Government, and generous donor support do not always create jobs and wealth. Botswana's rapid growth since independence is also attributable to the existence of commercially viable mineral resources, principally diamonds and to a lesser extent copper, nickel and coal, and to foreign private investment in the development of the mining sector. Prudent use of these resources by the public sector in turn stimulated other economic activities.

Botswana's remarkable performance is not without problems. The dominance of diamonds in the country's growth has skewed the economic base. Despite major investments and the generation of 50% real GDP, mining provided only 6% of paid jobs in 1985. Diamonds and other minerals are not a renewable resource and provide a less efficient method of job creation and economic diversification.

The ability of Botswana to expand its cattle sector, which has been one of the country's

major foreign exchange earners, beyond the previous peak, or even to sustain the previous peak is doubtful.

The third major problem is that Botswana's post-independence performance has obscured the fact that rural production is declining partly due to prolonged drought, the damaged ecology, and rapid rural-urban migration.

The fourth problem is the rate of population growth and its impact on Botswana's long term growth prospects or, more specifically, unemployment. In 1987, World Bank Atlas listed Botswana as having the sixth highest population growth rate for the period 1973-85 among countries with more than one million people and the 17th highest fertility rate in the world. Botswana's population growth rate stands at approximately 4% per year and the fertility rate close to 7%.

It is becoming evident to the authorities concerned with employment creation that it is difficult for a country like Botswana to create substantial employment opportunities from the formal industrial and commercial sectors, given the small population, small national market in terms of population of slightly over a million people and low cash incomes, given its locational disadvantages as a land-locked country, and given intense competition from relatively better developed neighbors like the Republic of South Africa and Zimbabwe.

The development of the informal sector is an attractive alternative for Botswana, which has about 80% of its population residing in rural areas. The informal sector must expand more rapidly to provide employment for a significant fraction of those entering the labor market and help reduce the 25% unemployment rate.

Several institutions exist in Botswana which partly address the problems constraining the development of informals. These include the Integrated Field Services (IFS), an extension wing of the Ministry of Commerce and Industry, which assists small scale entrepreneurs in all districts by offering basic bookkeeping, management skills, marketing and technical training.

The Rural Industries Promotion (RIP), a non-profit organization supported by Government through the Ministry of Commerce and Industry, develops and disseminates technologies appropriate for improving living conditions of the rural population through its associated organizations such as the Botswana

Technology Centre, Rural Industries Innovation Centre, and Botswana Food Laboratory.

Tswelelo, a profit making organization, advises and assists entrepreneurs in legal, management, marketing, production, financing, and technical matters.

In addition to these institutions, the Government operates a package of financial incentives known as Financial Assistance Policy (FAP) where small scale industries including informals are provided with financial grants up to P25,000.

For this sector to produce any meaningful results, a clear, proactive and comprehensive policy will have to be developed both in the private and public sectors. The policy will need to address the following:

- (1) A clear action program in respect of severe capital constraints affecting the growth of the informal sector and a means of facilitating the recognition of land allocated to informals by the government for purposes of collateral.
- (2) The deficiency in the distribution network. Bulk purchase arrangements and efficient distribution of inputs and finished products need to be established, especially in view of the size of the country.
- (3) Proper identification and concentration of viable sectors of production of goods and services.
- (4) Development of clear follow up programs for those informals who may have undergone some training, with a view to establishing a link between training and subsequent productive activity.
- (5) Minimizing unnecessary competition among informals.
- (6) Overregulation, such as licensing and stringent health and building regulations. Authorities should make a concerted effort to deregulate some of the economic activities.

**Ms. Nancy Wilson
Ford Foundation**

[Ms. Wilson is a Program Officer for the Ford Foundation Office for Eastern and Southern Africa. Her responsibilities include the

Foundation's program for Livelihoods, Employment and Income Generation (LIEG) and its Women's Program. The LIEG program focuses on informal sector activities in Kenya, Tanzania, and Zimbabwe, generally through NGOs. The Women's Program provides support for national and regional women's organizations that promote scholarship by and about women in an effort to contribute to policy development, and that promote women's greater participation in decision making.]

I will first describe women in the informal sector and then focus on the question of women in advocacy and the women's issue as a whole.

In terms of women in the informal sector, there have been many programs over the years, including a variety of NGOs, which focused on women, beginning often with literacy programs. With the Women's Decade in 1985, the role of women in development was more closely examined. The fact that women produce most of the food that is consumed at the household level was a surprise to a lot of development planners. Development programs began then to focus on women. Most assistance targeted the women's groups that existed in the community, to work through groups rather than through individuals. When people began to talk about the informal sector and increases in household incomes, again we looked to women's groups as the channel for credit or direct training.

What we at the Ford Foundation have learned is that groups don't work, at least for enterprise purposes. This is due to several reasons, one being that for the most part, the groups did not begin with an economic focus. They were social groups. We tried to coopt those social groups into business enterprises and there was no logic to this: the members of the group had no prior knowledge of business and no management skills. They produce very little income as a group, which means their individual takehome is very small. The women soon question why they are doing this. We have learned, in fact, that groups are a good place for training and for learning some basic business skills, but not for successful businesses. The real lesson is that for enterprise programs, we must focus on women as individuals. To reach that audience, we must scale up our activities in a very significant way.

To turn to the question of advocacy, there are really two approaches: one is to assist informals

to operate within the informal sector as it exists, that is, as marginals. This has been the thrust of most program interventions to date. The other approach, which Mr. de Soto described, is one of transforming the environment in which informals operate, so that they can become a part of the whole economy. This entails a major change in the nature of economic and political relationships.

Most programs for women to date have dealt with how to improve women's livelihoods at the family level, instead of saying how can we change the context within which women work, so that the entire community is sharing the responsibility for the community. When we look at the organizations which exist to support women, we find they break down into the two orientations I just described. There are the NGOs that provide services to women on behalf of the party and the government, or whatever organization exists at the governmental level. These groups are working to improve marginally the lives of women.

At another level there are four types of groups involved in the "bigger picture". The first are university and non-university based research and documentation centers which try to collect and analyze information about what women's roles are in the society and in the economy. While the research that Mr. de Soto talked about for Peru has not been done on informality in this region, it has been done at the gender level. There is growing interest in knowing how resources are allocated at the household level and what control is exercised over those resources. The second group are networks of women in various development professions. The third are organizations with national publications that address wide-ranging issues of concern to women. These groups are the most activist. Two examples are the Media Women's Association which publishes a magazine reviewing a variety of women's issues and speaking out as women laborers on family, health and income issues. There is also the Women's Action Group which came together to protest the 1982 roundup of women who loiter on the street. A bond developed among the women and they began to look at a variety of women's issues. They too are publishing a women's magazine, which targets a lower literacy rate. It speaks out on rights and laws. These are small efforts, and can only go so far, but they are a start. We hope to see a growing level of advocacy, although major changes may will take time, particularly since women lack confidence and are not accustomed to speaking for themselves.

DISCUSSION

The first question addressed the issue of whether women's issues should be advocated as such, or whether it would not be best to advocate changes for the family unit or for the community. Ms. Wilson agreed that the broader approach is far better, but noted that what happens is that many programs just target men. For that reason, it has been necessary to draw attention to women's issues so that both will ultimately be considered. The terminology "gender roles" is intended to ensure that both roles are considered.

A participant asked if the Ford Foundation is considering supporting broad based research, and possibly using NGOs for the baseline research, noting that up to now donors have favored funding universities to do this type of research. Ms. Wilson replied that Ford has very limited resources when compared with bilateral or international donors, but that with those resources they attempt to fund small, targeted programs, such as a grant to the Institute for Development Studies in Kenya, a provision in grants for action research, allowing NGOs to bring someone on board to help with research. Ford has learned that impact questions should be built in up front in NGO programs so that research and data collection efforts are part of the program strategy.

Another question dealt with the present economic situation in Botswana and asked if it were a lack of planning or other constraints which had led Botswana to neglect the development of other sectors. Mr. Selato responded that Botswana's economy is like any company, with its strengths and weaknesses. At independence, the economy was very weak and it was built up over time. With the money that was obtained from the diamond mines, Botswana built infrastructure, particularly schools, hospitals, improved roads, and an environment for investment, so that now, even if unemployment is high, the policies should pay off. Botswana is also exploring opportunities in the Far East to attract investment for export projects.

A final question was directed at Mr. Muchiri and concerned the nature of the activities of his Society beyond training and credit; his relationship with the Chamber of Commerce and formal traders; and what his organization has done to advocate favorable policies at the

government level. Mr. Muchiri replied that his society is very young and is the only one of its kind in Kenya. It has therefore concentrated on primary needs, i.e., training and credit. The credit component is still small.

Mr. Muchiri indicated that he is very interested in developing a purchasing program but he requires technical assistance to do this. He has asked the university for such assistance.

The Society's relationship with the Chamber of Commerce is not antagonistic. In a joint meeting, they agreed that their respective organizations were not religious organizations, so that traders can be members of both organizations, if they wish. There is no official affiliation, but there is growing recognition of informals by the formals.

On actions to promote changes in policies, Mr. Muchiri indicated that he is working with the Small Enterprises Unit within the Ministry of Planning and also with the Ministry of Local Government, which implements the by-laws, many of which have an anti-informal bias. He recently received correspondence from the Ministry of Local Government stating that they are changing some of their bylaws.

Hernando de Soto Institute for Liberty and Democracy

THE ILD'S ADVOCACY PROGRAM

The Institute for Liberty and Democracy in Lima, Peru, has been involved in advocacy for informals for the past five years. To understand our approach, it is important to explain three assumptions on which we base our work.

First, we firmly believe that informals have strong economic potential and are only held back by bad institutions. Second, we recognize the informals as a class which can be mobilized to effect change. Third, we have seen that knowledge is critical to making the case for informals.

We began to understand the economic potential of indigenous Peruvians when we at the ILD looked at our history. Traditionally, our historians and anthropologists in Peru have said that the Inca Empire practiced collectivism and that anything similar to entrepreneurship

or individual initiative was a non-Peruvian characteristic, foreign and alienating. However, one historian we talked to when we began looking into the question of entrepreneurship, drew our attention to the fact that during the first seventy years after the Spanish conquest of Peru, the Spaniards concentrated on extracting precious metals and established only rudimentary institutions, one of which served to collect testaments from the Incas on their assets in order to protect against theft.

ILD researched a small number of these testaments to see what they contained. We found that there was considerable entrepreneurial activity among the indigenous population. An example is the case of Don Diego Caci who, thirty years after the Spaniards had destroyed the Inca Empire, owned three mule trains, vineyards, distilleries and three galleons to export his goods to Panama and bring Spanish goods back. Other testaments gave further examples of strong entrepreneurial activity. However, when the Spanish bureaucracy was fully developed, not only did the testaments disappear, but indigenous entrepreneurship was also lost. It only surfaced again after a major defeat Peru suffered at the hands of Chile in the 1870's. After that war, Peru's administrative apparatus was destroyed. It took about 10 years to reorganize it. During that time, an indigenous textile industry grew up in Cuzco, with the largest textile facilities in the country. However, once the republic got organized and the bureaucracy was back in place, these facilities disappeared.

These are only a few examples to illustrate why we are convinced that the informal sector has strong economic potential and that its capacity to survive and develop is directly related to the legal and political environment in which it functions.

The second assumption on which we base our advocacy is the notion of class. The notion of class, although developed initially by libertarians, was later amplified by Marx and applied by Lenin, who understood that people will coalesce to defend their objective interests. In examining our situation in Peru, we saw that most Peruvians (over 60%) are entrepreneurs, but informal entrepreneurs. We saw that by addressing their interests in a language that they understand, it was possible to mobilize them as a class to demand change from the authorities.

The third assumption in our work is that knowledge is key to making the case for informals. Our problem was, where do we obtain the knowledge needed, particularly to determine how or if institutions can be changed? We discovered that this knowledge does not have to come from academics. In fact, in our early efforts to advocate for informals, we organized several major conferences around our concept of institutional reform to promote economic growth for the poor, but these conferences had not served to make informality an economic issue. None of the academics had reacted. We were perplexed until we became discovered the experience of a little-known 17th century British doctor named Siddenham who revolutionized medicine in the West. Siddenham was not a trained academic, but drew valid conclusions on treatments for five to six common illnesses from a simple process of observation and deduction. We at the ILD decided to try the same thing, examining the informal sector, using our basic economics and drawing practical conclusions. Although we made selective use of academics and specialists for very specific things, we relied on our own good sense for most of our research.

I will provide one example of our advocacy efforts, from the many issues we have addressed. The example involves access to credit, a major concern of informals. We asked ourselves, why is it that if 62% of the population is informal, producing 38% of GDP, informals only receive 0.2% of total formal credit?

The reply we received was that attempts were being made to provide credit to informals through microenterprise credit projects. We looked at these projects and concluded that while they were serving to break the myth that poor people are not credit-worthy, they had not made any significant change in the proportion of credit accorded to informals. The formal sector still received 99.8%. When we asked bankers why they were not giving credit to informals, we were told that informals have no collateral. Our studies had shown that informals hold more than \$18 billion in housing assets in the urban sector alone, but this property was not registered and therefore could not be used as collateral. We saw that registration was the key and began to seek a process for simple, quick registration.

When we examined registration processes in the West, we discovered they all require very precise measurements of exact boundaries.

These systems would be complicated and expensive in Peru. We decided to devise our own system and noted that in our country, Peruvians establish boundaries based on a traditional system of constructing fences or barriers in brick around their homes. We therefore proposed using photographs of these fences to set property limits. We also proposed formalizing informal registers established by groups of squatters. Using these methods, ILD has embarked on a program to title all informal property. With these titles, informals should be able to break into the formal credit market through mortgage credit, which is the type of credit used to finance more than 80% of new businesses in the U.S.

We expect that this reform will increase the informals' share of the credit market in the first three years from 0.2% to 6.0%, an increase of 3000%.

In organizing this system, we encountered an additional problem: bankers were not interested in the small size of the loans, especially if forced to assume foreclosure responsibilities in the event of default. We discovered that while the bankers might not be interested in such small amounts, insurance companies were very interested: insuring a \$20,000 home was far more interesting to them than insuring a \$200 bicycle. These companies have agreed to provide insurance policies to informals which will, in effect, protect the banks against defaults. The foreclosure system ILD devised for the reform is far more efficient than that set up under Peruvian law since it involves automatic foreclosure after 21 days rather than a 3-5 year process.

To summarize, the reform proposal was based on three pillars: a new land titling and registry system, a mortgage system to provide credit to informals and a mortgage insurance system involving insurance policies and automatic foreclosure which protects the banks against defaults.

Once the proposal had been refined, ILD sought formal support. We obtained 560,000 signatures from informals and the endorsement of all major political parties. The law was passed in 1988 and will go fully into being in July 1989. Left wing parties are claiming a revolution for the poor, while right wing parties describe it as a victory for private enterprise.

As you can see from this example, the informal sector is a powerful instrument which can be

the motor for significant change. In advocating such change, we should bear in mind the three assumptions identified earlier: informals have tremendous economic potential and are only constrained by bad institutions; informals are a class of people with objective interests and can be mobilized to demand change; and knowledge is key - particularly knowledge of three things: first, of the informal sector; second, of the deficiencies of the formal sector, especially formal laws; and third, of those institutions in the developed world which serve the people well, so to adapt those institutions for our Third World needs.

It is not necessarily specialists from the developed world who can best obtain or process this knowledge, since they tend to classify or categorize the Third World according to their own formulas. It is, rather, those persons in their own countries who recognize the potential of informals, who treat them as a class and who seek the three sources of knowledge using an empirical, practical approach. It is those persons who will assist in moving informals towards change, growth and all the good things that exist in today's modern world.

DISCUSSION

Mr. de Soto was first asked if Peruvian informals, once they obtained title to their land, would be required to pay tax on that land. If so, would that be desirable, since not all informals would want to use their titles to obtain loans. Mr. de Soto responded that informals will indeed now be asked to contribute to society and to public services, but that taxation is the logical way for civilized society to organize itself. Informals already pay 50% of their income in bribes to government officials so their land won't be taken away or their business closed. Formal taxation should prove cheaper than bribes.

Mr. de Soto was then asked whether he wanted his ideas, which the speaker characterized as revolutionary, to be fully understood by the left and the right. Mr. de Soto responded that in the beginning, ILD wanted to have the whole philosophy accepted, but they discovered that by pushing the whole philosophy, if one faction bought in, this would alienate other factions. ILD concluded that the best way to approach the philosophy is to sell it as facts. Once the facts are accepted, and if the system becomes democratic, then people

will probably vote for a market economy, because free people have always voted for that. He noted there are many types of market economies. The varieties range from the politically liberal Sweden to the neoconservative Switzerland, but in both cases there are democratic freedoms and the market works. The decision on the political level should be left, in any event, to the people.

Another question dealt with the role of women in the economy of Peru and what ILD is doing to help women take an active role in Peru. Mr. de Soto answered that from ILD's surveys, women are the majority of the street vendors. They play a secondary role in the transport sector and probably an equal role to men in housing. He said ILD recognizes that gender does count. ILD has not yet developed any expertise in this, but will be looking into it.

Another question dealt with Mr. de Soto's suggestion that the developing world look at the history of the developed world for useful lessons. The speaker felt that world economic conditions have changed dramatically in the last 200 years and that they are, in fact, much harsher now. Mr. de Soto indicated that the idea is not to look at the history of the developed world and attempt to repeat it, because many mistakes were made, but to look at the successes and not repeat the failures. He gave the example of the titling system, where ILD had not found any useful Western model, but it had opted for putting all the information on a Western computer system and for using portions of a Western title insurance scheme in its insurance policies.

Mr. de Soto also noted that if the harsh economic conditions not come about, many of the changes he and his institute are advocating would not have been possible. Eight years ago, President Garcia would not have listened to ILD. He would have nationalized the banks and refused structural reform. It is the fact that he has run out of money and that Peru cannot pay its debt that now force him to examine how he can assist the only side of his economy that has any potential for growth.

The next question dealt with the size and structure of ILD, which appeared to engage in a wide variety of activities, and with ILD's relationship to the Peruvian government. The speaker felt that this relationship would be much more difficult in Africa since government control is so widespread and even the media in Africa are government owned. Mr. de Soto noted that the ILD appeared to be

everywhere because it is dedicated to trying to provide legal reforms. By modifying small things in the law, like an interest rate, or a property right, can get one much further in the same amount of time than through individual assistance programs. There are 18 professionals in the ILD at the present and foreign consultants are called in as needed. ILD produces legal reform proposals at a very fast rate because they use examples from developed countries which work. Once the proposal for law is developed with assistance from informals, it is checked out by ILD's foreign consultants and by their own studies, then thrown "on the market" at public hearings.

In response to the question on government relationships, Mr. de Soto noted that Latin American governments appear to have strong executive branches because they turn out 99% of the laws. In fact, they are very weak because they only control the 40% of the population that is formal, and even that population is trying to go outside to put their savings abroad. These governments have the power to repress, but they have no sense of strategy. ILD has a strong sense of strategy.

Mr. de Soto noted that his impression, from talking with the conference participants, is that this sense of strategy has not yet developed in Africa. In discussions before coming to Africa, he had been told that many African leaders are becoming aware that the present system is not working and recognize that they could perhaps conquer a place in history if they produce a change in the system. He also pointed out the example of the "inspired enlightenment" of Gorbachev, where someone who doesn't have to share his power decides by himself to do so in a systematic way.

Mr. de Soto noted that, just as African informals had shown enormous ingenuity in

bringing the spirit of enterprise where no one thought there was a spirit of enterprise twenty years ago, advocates for informals will also discover ingenious means of effecting change in their countries, despite overwhelming government influence.

The final question dealt with the fact that what informals contribute to the national economy does not go back to develop the informal sector, but benefits the formal sector. The parallel was drawn with the way African natural resources benefit the large economies of America and the West. The questioner wanted to know how the Peruvian revolution, lead by the ILD, could be applied globally, so that the resources from developing countries are not diverted to benefit solely the larger economies.

Mr. de Soto indicated that the developed world and the developing world may not have the same relationship as the informal to the formal sector. However, it may be that by emphasizing the informal sector, the relationship of the First World to the Third World may begin to change. It is obvious that much of the funding that was channeled from the First World to the Third World hurt the informal sector by strengthening totalitarian regimes, rather than enfranchising large amounts of the population. Had these populations been present at the time decisions were being made on development projects, the decisions leading to Third World debt and dependency on primary resources might have been different. As the informal sector becomes vocal and enfranchised, it will push for policies that don't harm it, but benefit it. Therefore the question of enfranchisement, and more voices, both on the First World and on the Third World side, identifying the real reforms that are needed should be a key factor in solving the problem of underdevelopment.

SECTION VI

CONCLUSIONS

Introduction Warren Weinstein
Director
Office for Market Development and Investment
Bureau for Africa
A.I.D Washington

Presentations:

Group 1: Government Officials
Group 2: Researchers and Economists
Group 3: Non-governmental Organizations
Group 4: Private Sector (Formal and Informal)

Closing Statement Fred O'Regan
Office for Market Development and Investment
A.I.D., Bureau for Africa

Closing Statement Deborah Orsini
for Office of Technical Resources
A.I.D., Bureau for Africa

**Warren Weinstein
Africa Bureau, Office for
Market Development and Investment**

These conferences have been very useful to those of us from A.I.D. They have begun a process of dialogue which should be continued between yourselves and the USAID missions in your home countries. We will pursue them between our missions and A.I.D. Washington. This will allow also for more informed dialogue with the government. If what we are all saying is based on what people in the country are identifying as requirements, then the officials in the various countries will also begin to see the interest. It goes back to what Mr. de Soto said, which is if you want to change things, you have to go out and do a fair amount of empirical analysis, to find out what the facts are, what people need and what they will support. Those facts and those opinions can be presented to government, which can then no longer fully stay quiet. Our conclusions will not end at this conference, but will continue in action plans upon your return home. We look forward to your comments and advice. Thank you.

**Summary Statement by Group 1
Government Officials**

Our group began by defining the origins of the informal sector. We agreed that entrepreneurial activity existed in Africa well before colonization. Under colonization, rules and regulations were made that excluded indigenous entrepreneurs from what came to be known as the formal sector.

Our group concluded that the laws and policies which exist were designed to protect formal business. Their effect was to institute constraints to indigenous entrepreneurs, forcing them into the informal sector.

In discussing these laws and policies, our group noted they fall into several main areas: legal, political, financial and markets. The legal area includes elements such as licensing, registration, land tenure and access to property. The political area involves questions of accountability and the creation of lobbies. The financial area concerns primarily access to credit. Market concerns include location and transport.

Our comments on these areas are the following:

On the legal front:

1. Red tape, licensing and registration must be carefully examined, in order to deregulate.
2. Questions of land distribution and tenure must be examined to attempt to find a practical solution. Our group recognized that these questions are complicated due to values derived from the past and to the relationship to the political process. Land distribution cannot take place quickly because land must be bought and very few persons have money or access to money. All of these elements tend to perpetuate the status quo. Nonetheless, we must push to facilitate the obtaining of titles and the transfer of property.

On the political front:

1. Governments are not accountable, partly because of values our leadership internalized as they grew up and partly because of the diffuseness of the informals themselves. This situation must be improved.
2. The lack of cohesion among informals stands in the way of their realization of their power as a group, which, as the majority population in most countries, could be considerable. Informals must be aware of the need to incorporate themselves. Lobby groups among informals are needed. They will have to build mechanisms to obtain advice and support from legal organizations.
3. Governments should serve as a catalyzer in efforts to assist informals, but there is no need for more ministries and departments since that only produces controls.
4. Only an organization for informals and by them will lead to empowerment. The organization should be based on an African model, participatory and consultative, and not dictatorial like the governments that have evolved.
5. The question of communications also influences informals' potential power. They do not control the media and often cannot read what is published in newspapers, in any event.

On the financial front:

1. The key question is access to credit, usually complicated by lack of collateral which persons who have been excluded from the system for

a long time do not possess. Collateral requirements should be decreased. Efforts like those underway in Senegal to promote character-based lending should be increased.

2. Many in our group felt that interest rates are not a factor which inhibits lending.
3. Taxes should be decreased by reducing duties on products. Tax incentives should be studied.
4. Subsidized credit should be limited since resources are so scarce.
5. Informals must establish informal credit organizations to help themselves.

On the market front:

1. Informals may develop good products but they lack the ability and knowledge to organize themselves to market those products. Access to markets should be facilitated.
2. Informals are often not allowed near the markets where their products could be bought.
3. Many informals are unable to find transportation to bring their products to market.
4. Informals need their own marketing organization for selling products. There should be special markets for their products, as well as fairs and bazaars set up periodically for them.

On the question of advocacy, the group noted that the near term objectives of any advocacy program should be to abolish excessive regulations that are not responsive to the needs of informals.

Our group felt that the best advocacy programs will be those mounted by the informals themselves, with assistance as needed and available from NGOs, government organizations and local authorities. These organizations must communicate better with informals.

To lobby for their interests, informals must consolidate their power and overcome their diffuseness. They must learn how to use the political system.

Summary Statement of Group 2 Researchers and Economists

Our group agreed that existing laws concerning private enterprise have minimized growth. Diagnostic and empirical research is needed to determine the exact constraints. We must do away with bad laws which have evolved, due usually to poor information. Researchers must provide good information.

In the area of policy reform, we felt an independent research organization which could develop various research agenda, either regional or national, should be established.

We agreed that existing program interventions for informals are not effective. They are not based on needs assessments. We must look at the real constraints.

Existing support measures have either limited or no participation by the key players. Along with the informals, banks, NGOs, churches, political parties and ministries should all be involved.

The support institutions are not of the right type. Since their programs will be judged on the degree of development of informals, support organizations tend to do too much for informals in order to move faster.

Our group felt that government support institutions are the least effective. NGOs are better because they are more flexible. Churches in particular have had long term experience with this sector.

In the financial sector, commercial banks will always be reluctant to lend to informals, but they should attempt to identify the positive aspects of the sector, especially group lending, and help organize those groups to provide the necessary collateral.

For advocacy, there is a tremendous lack of information for policy making. It is important to build research efforts to provide better data to develop better policies, similar to the work in Peru.

Summary Statement by Group 3 Non-Governmental Organizations

On the question of policy, our approach was similar to that of Group One, i.e., we felt most of our laws are based on inadapted British and Indian laws. Many of the bylaws have not changed over time.

In many cases the administrators and people in government offices take advantage of some of these laws because it benefits them. Many informals lack knowledge of what these laws are.

Our group felt strongly that governments must decriminalize informals, and support informals as legitimate entrepreneurs. Rather than prosecuting informals, governments should educate.

Registration must be simplified and decentralized and explained so that informals can make the transition to formality. We also need to educate informals since they don't know how to register and fear the process. The government should take a mass media action to inform informals on how to register their companies.

Licensing should be decentralized and some licenses should be abolished, particularly since licenses are costly to administer. Certain standards could also be relaxed, such as permanent structure standards. If these standards were eased, corruption would be less and informals would not have to pay bribes.

Most of our group felt that all businesses should pay some tax, perhaps a small, scaled tax. By paying taxes, informals will gain credibility and will then have a platform to make additional requests.

Informals need to form small credit groups among themselves, as credit is a major problem and access to financial institutions is limited. Banks should agree to devote some resources to development. Character lending should be pursued. As in agriculture and housing, the government could mandate that a certain percentage of loan portfolios must be for informals.

Certain sectors have no market problem while other need assistance, especially for innovative products. NGOs or governments should assist

by holding fairs or linking them with other sectors of the economy.

In the program area, we strongly agreed that NGOs have a lot of isolated experiences which they have been keeping to themselves. This knowledge must be shared.

Also, it is critical that NGOs consult more often with the informals, rather than assuming that we know what they think. We must find out the specifics of what problems they have.

NGOs should meet to determine what information they have already and then bring in the informals and validate or correct our conclusions about their constraints. We can then move to involve other parties.

Programs have been most successful where they are conducted by donors through NGOs and directly involve the recipient groups. Any program that is imposed does not work. NGOs in Kenya have learned a lot, but their performance from the standpoint of cost/benefit is not impressive. There is room for improvement in NGO management style. They must be more businesslike and must scale up their operations. Certain activities should be spun off and others emphasized.

Donors need education also. Their expectations are too high. They must understand that there is room for mistakes in this first generation of programs.

On advocacy, NGOs must network and begin to do research. They should move away from maintenance of their ongoing activities and into the policy arena. They should assist in bringing together government, NGOs and informals.

Summary Statement by Group 4 Private Sector

On policy reform, we have agreed as a group that we will take the three steps as recommended by Mr. de Soto, as our guiding tune. There must be empirical studies undertaken to know what we want to change before we can understand how to change it. We must know what the strengths and potential of the informals are. And we must mobilize the informals to ask for change.

On registration and licensing, we felt that laws must be simplified. No bureaucracy should try to impede entry into the economic mainstream by informals. Tax laws are much too complicated. When laws say you must pay an occupancy tax to use the street, they start by giving you paragraphs and paragraphs which complicate everything for informals. Informals don't have the time or the literacy to understand all of this. Simplification will lessen the number of unwitting criminals.

On credit, government could use its big hand to help, be proactive and reach out. The formal sector, including the private sector, should reach out to informals. Stokvels and other schemes are possible solutions. Innovative approaches to collateral are needed.

As to programs, interventions are still new to informals and must be carefully studied. Donors tend to reduce their assistance to insults. They throw money at a problem and then turn their back on the recipients. They must know why they are helping. We need skills more than funds. It was our impression that programs are often based on First World standards. Local needs must be considered, with direct consultation with the informals.

On advocacy, we were very impressed by the presentation by Group One, which did much to explain to us how government officials see their role. Governments must take into account the needs of informals.

Links between formals and informals are needed, along the lines of a business council, but not to clear formal sector consciences or to stroke their egos, but to be genuinely involved. They must look upon informals as a supplement to their activity, not as a competitor. The emphasis must be from the bottom up.

Our message to this conference is don't do things for informals, but with informals.

CLOSING STATEMENT

Fred O'Regan
Office for Market
Development and Investment

I would like to summarize the statements made here today and the comments made by many of you over the course of the last two days.

I think you'll agree that there has been a great richness in the ideas shared here. I will mention those that particularly impressed me. One is the background statement that we could argue that the informal sector is really legitimate African enterprise that was interrupted by colonialism.

In the policy area, there is a number of interrelated things: land entitlement and incorporation, coupled with the fact that there are too many overly complicated regulations. There seems to be agreement that credit policies simply limit access to credit, and that interest rates should be deregulated. On the markets side, certain pricing policies have wiped out or continue to constrain the development of whole sectors of production.

Decriminalizing informals is important. The idea of a simplified tax that would remove harassment and corruption merits attention.

In terms of program interventions, those who have been involved in this first generation of interventions have concluded that a tremendous amount has been learned about the mix and intensity of credit and marketing assistance. An institutional base has been laid. For the second generation of interventions, we need greater efficiencies, more people reached and a stronger commercial mentality in program management. Donors must be patient and accept that we learn from failures. Also, we must recognize that flexibility in financial instruments and administrative controls are needed if we want to get close to this sector. A different type of relationship with informals is critical, as Mr. Muchiri pointed out.

The establishment of informal sector credit programs through informal sector organizations is clearly an idea whose time has come. NGOs will have a role to play here, as will other implementing organizations.

On the advocacy side, organizing through informal sector organizations seems to be the theme that has cut through what has been said. Informal sector representatives are obviously underrepresented at this conference, and it shows that all of us who have been working in this area probably don't have as good a network of contacts at that level as we should. What I would call action research seems to be the method that is coming out here. That clearly follows what Mr. de Soto emphasized.

NGOs and informal sector organizations should come together first to take the first steps to

find out what information is there. There is a lot, but it is disaggregated at local levels in different organizations. We must consolidate that information and then can move forward with advocacy.

The underaccountability of governments has gone past its time. Governments must catch up and open up participation in the decision making process.

My last point is it is clear that none of the above activities can happen in isolation. Programs must inform policies. The foundation that has been laid by NGOs and the contacts in the informal sector. At the same time, research that has been done is informing programs. It is better understood that constraint removal has to be integrated into program interventions. Lastly, networking among different organizations is critical.

In summary, a truly holistic approach involving networking, research, dialogue and continued program support, is needed to lay a base both for policy reform and for interventions. I would like to say that I have learned a lot from these conferences and I thank you for your participation.

CLOSING STATEMENT

**Deborah M. Orsini
for A.I.D., Africa Bureau
Office of Technical Resources**

I would like to summarize what is intended as follow-up to these conferences. We would first

like to ask each country delegations to draft a post-conference statement on planned follow-up activities in their home countries. These documents should be transmitted to the local USAID mission and to our offices in Washington. Second, the A.I.D. Office of Technical Resources and the Office of Market Development and Investment will be working together to determine what field assistance will be provided in several areas to further projects and research in the area of policy and programs for informals. These activities may include follow-on conferences in targeted countries, technical assistance teams to look at project design, implementation and evaluation, particularly to promote the more "holistic" approach to interventions to which Fred O'Regan referred. Finally, we will be evaluating means of accessing ILD's expertise in Peru to support independent research activities on the African continent.

I believe that we have begun an excellent process of dialogue and networking during this conference. We will seek means of maintaining this network and exchanging information and documentation over time. We would ask that you do the same among yourselves, both on a national and a regional level, and with our offices in Washington. To this end, we are providing each of you with a complete list of participant names and addresses.

I would again like to take the opportunity to thank each of you for your very active participation and to wish you every success in your continued efforts to promote change in your respective countries.

SECTION VII

List of Participants and Speakers

AID Washington:

Mr. Warren Weinstein	AFR/MDI
Mr. Michael Caughlin	AFR/MDI
Ms. Catherine Gordon	PRE

LABAT-ANDERSON, Inc.

Mrs. Deborah Orsini	Private Sector Training Coordinator
Mr. Richard Everett	Assistant Training Coordinator

Speakers

Mr. Hernando de Soto	Institute for Liberty and Democracy (ILD), Peru
Dr. Donald Mead	Michigan State University
Mr. Fred O'Regan	Community Enterprise Corporation, Washington, for AID/AFR/MDI
Mr. Robert Ocran	Managing Director, Mankoadze Fisheries, Ghana
Mr. John McKenzie	Kaolack Project, Senegal
Dr. I. A. Onyango	Senior Planning Officer, Ministry of Planning and National Development
Mr. Albert Mutua	Deputy Director, Kenya Rural Enterprise (REP) Project
Mr. Christopher Aleke-Dondo	Kenya Rep Project
Mr. Wilson Muchiri	National Chairman, Kenya Small Traders Society
Ms. Nancy Wilson	Program Officer, Ford Foundation, Kenya
Mr. Ephraim Kamuntu	Regional Policy Advisor, World Bank, Nairobi

Special Guests

Ms. Eleanor Constable	U.S. Ambassador to Kenya
Mr. Okiki Amayo	Assistant Minister for Technical Training and Applied Technology
Mr. Peter Eigen	World Bank Resident Representative, Kenya

Botswana

Ms. Gloria Tebogo Nkwe Private Consultant
Mr. V. K. Selato Assistant Director of Integrated Field Services, Ministry of Commerce and Industry

Burundi

Mr. Larry Dominessy USAID Burundi

Ghana

Dr. Edmund Abaka Director, Natl Board for SSI's
Mrs. Comfort Engmann Chairperson, Women's World Banking

Kenya

Mr. George Donde National Council of Churches of Kenya
Mr. Alfred Amisi Partners for Productivity, Kenya
Mrs. Elvina Mutua Tototo Home Industries
Mr. Sebastian Nkonge Isiolo, Catholic Diocese
Mr. Jacob Mwangi Voluntary Agencies Development Assistance (VADA)
Mrs. Louisa Owiti General Secretary, YWCA/Kenya
Mrs. Martha Menya Women's Enterprise Development
Mr. John Makilya Technoserve Kenya
Mr. James Philip Mutiso Ass't Director, Jua Kali Training and Applied Technology
Mr. Joseph Karau Deputy Divisional Manager, Informal Sector Project, Kenya Industrial Estates
Ms. Cecilia Murioki ILO - SDSR Project
Ms. Victorine Kpohazounde Program Developer, ACCOSCA
Mr. Joachim Schwach Credit Management Advisor, KIE Informal Sector Project
Mr. James Tomecko German Corporation for Technical Cooperation (GTZ)
Mr. Jonathan Campaigne Council for Intl Development/Kenya
Mr. Don Greenberg REDSO/ESA
Ms. Holly Wise USAID Kenya
Mr. Stafford Baker USAID Kenya
Mr. Justus Omolo USAID Kenya

THE INFORMAL SECTOR: ISSUES IN POLICY REFORM AND PROGRAMS

Mr. Godfrey Cheronu
Peace Corps Kenya

Nigeria

Dr. Ademola Oyejide
Professor, Department of Economics, University of Ibadan

Dr. T.O. Fadayomi
Director, Nigerian Institute of Social and Economic Research

Somalia

Mr. Nur Mohamed Gas
General Manager, Berbera Cement Agency, Ministry of Industry

Mr. Abdullahi Mohamed Yahie
Director of Human Resources Development, Min. of Natl Planning

Mr. Said Mumin Mope
Deputy Director, Technical Dept, Min. of National Planning

Republic of South Africa

Mr. Israel Skosana
Deputy Managing Director, Get Ahead Foundation

Mr. Lawrence Mavundla
Head of African Council of Hawkers and Informal Businesses (ACHIB)

Rev. Michael Mjekula
Minister of Ethiopia Church, Secretary of Natombekaya Mgubas I Foundation for Social Development

Mr. Jeffrey Kleinsmith
Managing Editor of People's Express, grassroots newspaper, and of "Black Book", directory of black businesses

Mr. Jabu Mabuza
Communications Manager of SABTA South African Black Taxi Association

Mr. Ernest Melville Bergins
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Swaziland

Mr. Roger Carlson
USAID Mission Director

Mr. Max Gonson
Private Sector Officer, USAID Swaziland

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Undersecretary, Ministry of Commerce, Industry and Tourism

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Private Sector Consultant

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Mr. Damas S. Dandi
Executive Director, Tanzania Youth Development and Employment Foundation

Mrs. Hilda Mafwenga

Head of Finance and Marketing, Suwata, Economic Wing, UWT, National Women's Organization

Zambia

Dr. Moses Banda

Chief of Research and Development, Zambian National Commercial Bank

Zimbabwe

Ms. Sherrie Shereni

Economist, Reserve Bank of Zimbabwe

Mr. Mervyn Ellis

Chief Economist, Standard Chartered Merchant Bank

Mr. Macmaster Kwaramba

Project Officer, Zimbabwe Development Bank

Mr. Phineas Dangarembizi

Economist, Old Mutual; representing Zimbabwe Chamber of Commerce

Dr. L.E. Munjanganja

Deputy Secretary, Min. of Manpower Planning, Employment and International Organizations

Ms. Margot Biegelson

USAID Harare