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AN ANALYTICAL FRAMEWORK FOR ASSISTANCE TO THE INFORMAL SECTOR IN THE SAHEL

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EXECUTIVE SUMMARY

The vital role played by the informal sector was first recognized in Africa, and the term itself was coined by the International Labor Organization based on work in Kenya in the early 1970s. Subsequently, assistance to small and microenterprises in the informal sector in Africa has become a common component of development programs implemented by African governments, donors, and private voluntary organizations (PVOs). These programs have generally focused on two activities: (1) research designed to improve our understanding of the scope and activities of the informal sector and (2) project assistance, generally taking the form of a small-scale credit program accompanied by technical assistance and training for borrowers, implemented by a PVO or a state-owned bank. This paper describes several such projects in the Sahel, in Burkina Faso, Senegal, and Mali; similar projects have also been implemented in other Sahelian countries.

These two activities do not constitute an adequate approach to meeting the needs of the informal sector in the Sahel. Programs under way in other regions, notably Latin America, point the way to a more comprehensive and effective attack on the barriers to growth facing the informal sector. Such a strategy would be based on the following principles:

- The strategy would recognize that the informal sector in the Sahel is not limited to microenterprises in the urban areas, as it is in other regions, but includes *traditional and ethnic informals* in both urban and rural areas, operations that have evolved over centuries to meet the unique conditions of the Sahel and that now, faced with the collapse of the modern private sector and perhaps of the State itself, are reasserting their place in the economy and the society.
- The strategy would be based on incorporating informals of all types fully into the national economy, not by forcing them to adapt to the current legal environment — an environment in which even modern firms cannot survive

without recourse to mercantilist behavior¹ — but by reforming the *legal and administrative systems governing relations among firms and between firms and the State* to make these systems consistent with the realities of the Sahel and its business community. Implementation of this strategy would seek to develop and put in place systems of property rights, taxation, labor laws, contracts, and torts that are equally applicable to all elements of the private sector and that make formalization of the informal sector both feasible and attractive.

- The strategy would be based on working through and strengthening *organizational structures within the informal sector*, in contrast to the current approach that deals with informals as atomistic actors in isolation from their social and economic context. Such a strategy would work with the leadership of traditional informal systems, with informal associations such as tontines², and with associations formed by the informals themselves (such as guilds) to develop services and support systems that meet their needs and enable them to play a larger role in both the political and economic systems of which they are a part. This element of the strategy would seek to form linkages between informal financial markets and associations, on the one hand, and formal banking and marketing institutions, on the

1. In his pathbreaking book, *The Other Path*, Hernando de Soto convincingly demonstrates that many of the worst features of the political and economic environment of developing countries — overprotection, excessive regulation of private sector activity, corruption, and rent-seeking behavior — closely parallel the experience of Western Europe during its own transition from a rural-agrarian to an urban-industrial system. He therefore labels this environment *mercantilism*, using the term coined to describe the unhealthy partnership between the State and the private sector elite that dominated politics and economic activity in Europe during the early phases of the industrial transformation. An intriguing question, but hardly one for this paper, is whether mercantilism is a necessary or at least inevitable stage in the transition to a modern economy or whether, given our presumably superior understanding of the transformation, its ills and upheavals can be avoided.

2. Rotating savings and credit associations, also referred to as ROSCAs or by any one of dozens of local names, wherein members contribute a fixed amount on a regular basis, e.g., weekly, and receive the full contribution in turn.

other, while recognizing the extremely weak position of many formal institutions at the present time.

- Finally, the strategy would recognize that *informality is a response to the failure of the system* and that small and medium-scale formal firms as well as many larger firms in the Sahel suffer from the same problems as the smaller informals. An appropriate response lies not in creating special structures to compensate for the lack of functional systems, but in a broad-based effort to build the legal, financial, and administrative institutions on which successful private sector development depends.

The strategy proposed departs radically from that currently in use. It calls into question the use of the formal/informal category as a basis for programming in the Sahel, and suggests instead that the failure of the legal and administrative framework and the absence of functioning formal institutions is the primary barrier to enterprise development for both formals and informals. Recognition of this reality shifts the programming emphasis away from projects aimed at individual firms and toward programs to establish a sound legal and regulatory framework, to strengthen advocacy institutions within the private sector, and to draw on traditional and informal systems to complement and reinforce the formal ones. This shift requires that donors, PVOs, and Sahelian governments change the way they think about the informal sector, that they deal with informals on their own terms rather than imposing models that fail to address the realities of the Sahel.

INTRODUCTION

The work of Peru's Institute for Liberty and Democracy (ILD) has pioneered a rethinking of the informal sector and its role in development. The ILD's analysis demonstrates that the informal sector is much larger than previously believed, and that it plays a role in employment, wealth creation, and production of goods and services that goes far beyond its established function in the absorption of excess labor.

The importance of the ILD's contribution, however, lies not in the measurement of the informal sector's economic importance, but in the detailed documentation of the regulatory and legal barriers that separate the formal and informal sectors and impede the growth of the latter. These barriers, erected and continually reinforced by an unhealthy partnership between the formal sector and the State, have strong historical parallels in the industrial transformation in Europe. Like the current situation in most developing countries, the early stages of European development were characterized by competition-limiting regulations, overprotection, and expansion of corrupt practices in public-private sector dealings. These parallels have led to the application of the term mercantilism to the latter-day reappearance of these same patterns of economic distortion, rent-seeking behavior³, corruption, and restriction of trade.

The European experience holds a valuable lesson for both developing country governments and those who seek to assist them. History indicates that the pattern can be broken and can be replaced by systems of pluralistic and dynamic growth. But history also suggests that the growth-limiting patterns of mercantilism can be broken in one of two ways: peacefully and gradually as in Great Britain, or, as in France, only after a long period of disruption, dictatorship, and violence. The transition from a closed agrarian

3. Rent-seeking behavior is the creation of artificial scarcities which are then exploited for their potential to generate income and status. When a monopolist limits production so that he can price his goods at more than it actually costs to produce them, when a bureaucrat extracts a bribe to perform a service that he is supposed to provide, or when a black marketeer charges an outrageous price for smuggled goods, each one is engaging in rent-seeking behavior.

society to an open, industrialized one creates strong pressures for change, which, if blocked, may find expression in ways that are not consistent with either growth or equity in the short term.

Development of an assistance strategy for the Sahelian informal sector may culminate in a discussion of alternative program designs (credit with or without technical assistance, and so on), but it cannot begin there. On the contrary, such a discussion would beg at least three important questions:

- What is the aim of assistance to the informal sector?
- What level of the system should be the target of assistance?
- What is the best way to achieve change?

Following a brief review of the informal sector in the Sahel in the next section of this paper, the third section will examine selected project experience in assistance to the informal sector in the Sahel and elsewhere. This review makes evident that assistance strategies now in use in the Sahel fail to come to grips with and resolve the three issues above, while drawing on experience in other regions to suggest alternative approaches. These issues are then explored in the fourth section, leading to a discussion in the paper's final section of the appropriate next steps for the Sahel.

THE INFORMAL SECTOR IN THE SAHEL

What is the Informal Sector in the Sahel?

There are nearly as many definitions for the informal sector as there are authors writing on the topic; indeed, discussion of alternative definitions and terminology emerges as a major, if remarkably unproductive, theme in the literature. For purposes of this paper, we will adopt the following definition:

Informal enterprises are enterprises engaged in economic activities that do not comply fully with the regulations governing such activities.⁴

This definition, rather than one based on size or number of employees, captures the full range of Sahelian informal sector activity.⁵ To a greater degree than in other regions, the Sahelian informal sector includes very large and long-established enterprises as well as small, struggling ones.

In the Sahelian situation, lack of compliance typically takes three forms, as identified by van Dijk: (1) the firms are not registered; (2) some or all of their employees receive less than the minimum wage; and (3) their employees are not registered in the social security system. The firms may or may not

4. This definition is similar to that proposed in *The Other Path* by Hernando de Soto and to that suggested by Van Dijk.

5. By this definition, farms are not part of the informal sector, because they are generally in compliance with the regulations governing their activity. With rare exceptions (e.g., tobacco in Malawi), developed countries do not require farmers to obtain licenses, and they are often excluded from paying the taxes charged to firms. In general, the informal activities dealt with here are concentrated in the secondary and tertiary sectors. It should be recognized, however, that most rural households engage in some degree of informal activity meeting the definition.

comply with other regulations governing business activities, particularly in the area of taxes.

The phenomenon of informal enterprise in the Sahel differs from informality in Latin America in one key respect: informality is not exclusively a response to the failure or unworkability of the formal system, but an alternative way of doing business arising out of traditional social structures. These structures existed before the advent of the modern state in Africa, have continued to operate separate from the State and state-sanctioned activities, and have evolved ways of doing business that are different from, and in some cases inconsistent with, the Western model of entrepreneurial activity. These traditional structures exist side-by-side with both informal and formal enterprises hewing more closely to the models in other regions.

Although no classification system can capture the real-world diversity of firms and entrepreneurial activity, the following categories suggest the wide range of economic activity within the Sahelian informal sector:

- *Urban Modern:* Enterprises operated by school leavers, former bureaucrats, and individuals in a similar situation (generally young, urbanized, and well-educated). This subgroup corresponds to many Latin American informals and, if the formal system were operational, would be most likely to shift to the formal sector.
- *Tradespeople:* Enterprises operated by traditional artisans and shopkeepers, primarily in urban areas and secondary cities, but also in market villages. This group is probably more numerous than the urban moderns and constitutes the core of economic activity in the urban informal sector, in terms of value and employment if not necessarily in terms of the number of firms. They generally have a fixed place of business and may have one or more unrelated employees.
- *Urban marginal:* Enterprises operated by the urban poor and recent rural emigrants. This subgroup may be assumed to account for the largest share of enterprises in the urban areas and market towns and to share many characteristics with the smallest informals in Latin America and Asia.
- *Ethnic:* Enterprises operated by members of ethnic groups regarded as having their origin outside of the nation in question (Moroccans, Lebanese, Indians,

Chinese, Moors in Senegal, etc.). Some of these enterprises are large and some operate with one foot in the formal sector and one outside.

- *Traditional:* Productive activities carried out in the context of traditional economic and social structures, often in rural areas and secondary towns, and ranging in scale from very small operations within a single village to large-scale and highly organized activities (e.g., international trading by the Alhazai of Niger).
- *Rural marginal:* Small-scale productive and service activities, generally operated as a sideline to agricultural production within rural households.

These categories do not yield a neat typology. A given enterprise may combine elements from several different categories. Equally important, a given individual or family may be engaged in a range of entrepreneurial activities spreading across these categories. The main value of the categories lies in underlining the diversity of the sector and, in particular, the importance of enterprises that are not small, not urban, and not recently established. While most donor-supported development programs have targeted urban modern and marginal enterprises (both urban and rural), it must be recognized that, in the Sahel, these are not the only or even necessarily the most important groups within the informal sector. Consequently, no program that is directed exclusively at these groups, no matter how effective and broad-reaching, can meet the needs of the Sahelian informal sector.

The typology above also highlights a key distinction differentiating informal sector firms in the Sahel: the degree to which transactions are "modern" in form (labor is paid a cash wage, customers and suppliers are linked to the enterprise only by commercial ties, purchases and sales are generally made for cash, the enterprise is separate from family finances, etc.) versus "traditional" (transactions may involve complex exchanges of obligations, barter is common, labor is bound to the organization by ethnic, social, religious, or family ties, etc.). Traditional transactions are particularly important as an organizing principle for transfers within a given group of ethnic or traditional informals.

Although parallels to all six categories exist worldwide, the third and particularly the fourth categories appear to be more important in the Sahel (and in Africa generally) than in other regions, especially in relation to the others. As noted above, these categories differ from the others in that they are not responses to the failure of the formal system, but may be viewed instead as alternative business cultures that have not been incorporated (or at least not fully) into the Western business culture that accompanied the

colonial experience and development of the State. It remains an open question whether these alternative forms should be replaced by purely commercial structures on the Western model; whether the transition to the Western model is an inevitable concomitant to growth, diversification, and development (desirable or otherwise); or whether these forms constitute viable and appropriate alternatives to the Western model as the basis for growth.

The line between formal and informal is further complicated in Sahelian economies by the importance of informal activities within firms and informal linkages between firms, regardless of whether the firms themselves are formal or informal. Thus, as shown in Figure 1:

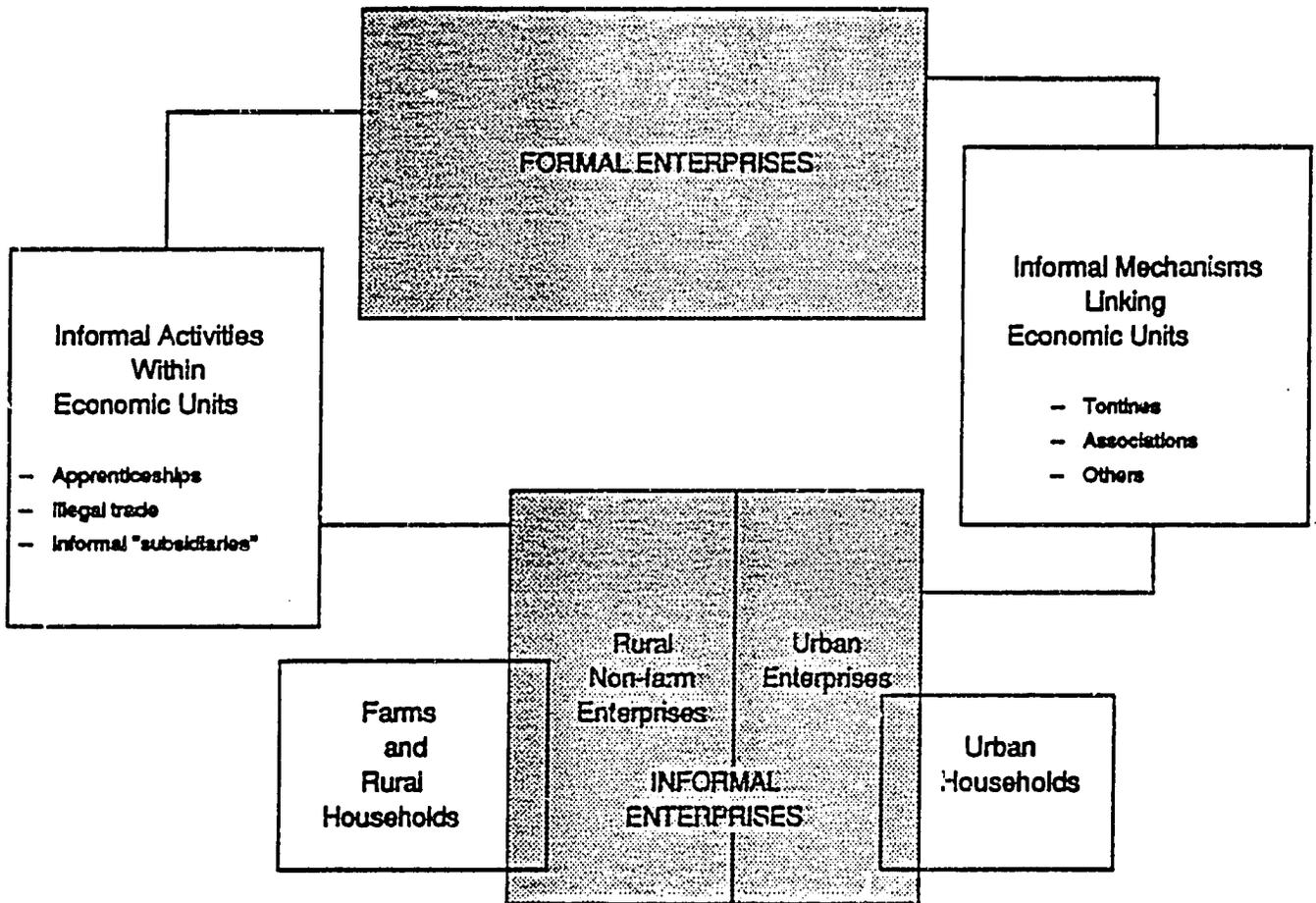
- Both formal and informal enterprises may engage in *informal economic activities*. These activities, defined as economic activities not in compliance with the laws and regulations governing such activities, range from hiring apprentices to smuggling. Formal firms may have informal "subsidiaries" and vice versa.
- Both formal and informal enterprises, as well as farms and even individuals, may participate in *informal or semi-formal mechanisms*, such as tontines, business associations, and informal credit arrangements. Both formal and informal enterprises may take part in a single informal mechanism, such as a particular market tontine.

The distinction between the formality of the *enterprise* on the one hand and the informality of its *economic activities* and *linkage mechanisms* on the other becomes important in developing assistance strategies for the informal sector, many of which may be designed to strengthen or support activities and linkages involving both formal and informal enterprises. In some cases, the size and status of formal firms may make their participation necessary in order to ensure the success of a linkage mechanism such as a trade association or in order to develop sufficient support to legalize an informal activity (transforming smuggling into international trade, for example).

Size and Scope of Informal Activities: A Brief Review of the Evidence

A 1988 ILO survey of Africa estimated that the informal sector employs 60 percent of urban labor on the continent, but that rough figure can only serve as an indicator. The Sahelian countries still lack a comprehensive

Figure 1. Structure of Informal Activities in Africa



survey of the scope and nature of the informal sector, conducted across countries during the same time period with a consistent methodology and sampling technique.

A detailed study of the Ouagadougou area in *Burkina Faso* (1976) estimated that 73 percent of the urban active population works in the informal or unstructured sector. Some recent estimates of the informal sector in *Mali* indicate it employs over 55 percent of the urban active population, with only 18 percent employed by the urban formal sector (state and modern private). In *Senegal* in 1985, the informal sector contributed an estimated 58 percent to GDP. A recent (1988-89) survey of urban informal sector activities identified over 29,000 informal sector enterprises operating out of fixed premises in the Dakar area, employing over 57,000 people.

In 1970, informal urban enterprises in *Cote d'Ivoire* employed 35 percent of manufacturing workers and 58 percent of the commercial labor force, providing an average of 31 percent of all urban jobs. Estimates for 1990 suggest that there will be 1,200,000 informals, compared to 426,000 modern formals (private and state employees). In *Niger*, it is roughly estimated that the informal sector contributes 35-40 percent of annual economic activity, with agriculture contributing another 40-45 percent.

EXPERIENCE IN ASSISTANCE TO THE INFORMAL SECTOR IN THE SAHEL AND ELSEWHERE

Assistance to Informals in the Sahel

As we proposed in the introductory chapter, a discussion of alternative program designs — credit with or without technical assistance, policy reform accompanied by resource transfers, training to informals versus formals — can logically be conducted only after a discussion of some strategic questions. The answers, or perhaps more realistically the range of answers, to these questions allow us to develop an analytical structure within which an assistance strategy may then be formulated and debated.

- What is the aim of assistance to the informal sector?
- What level of the system should be the target of assistance?
- What is the best way to achieve change?

As the following examples from Mali, Senegal, and Burkina Faso will show, the range of project experience targeted at economic operators in the Sahelian informal sector has been quite diverse, although to date not one project has been designed with an *a priori* focus on the informal sector supported by an explicit choice of target group, socio-cultural structure, and rationale. What we have seen is a wide range of microenterprise support programs, including variations with credit, technical assistance, and training, along with a smaller number of private sector support and economic policy reform/structural adjustment programs, supporting a variety of changes in macroeconomic policy in order to facilitate growth from the top down.

Although the concept of an informal sector has been developing in research, literature, and debate since 1971, project design efforts have not yet been focused on a target country's informal sector in a systematic way in order to design a project or program after answering the three strategic questions posed above. However, project experience in the areas of policy reform, training, and small enterprise development/credit, can provide us with some information that can inform donor and government debates and help formulate answers to those three questions.

Case Studies: Sahelian Examples

In the earlier discussion of the three strategic issues affecting assistance to the informal sector, we defined four competing but not necessarily exclusive rationales for such assistance: poverty alleviation; generation of middle-sized firms; employment creation; and structural change. In every seminar or forum addressing assistance to the informal sector, fierce debate erupts between partisan discussants over the philosophies and strategies supporting each rationale. Project designers drafting the implementation plans for small enterprise, credit, and training projects in the Sahel have often invoked one or more of these rationales in their presentations, and although most agree that progress on all four fronts is needed, no single country, donor, or multi-donor group has yet coordinated their program in order to delineate which projects and programs, or indeed which donors, are targeting which group, based on which rationale.

Field research conducted in Mali, Burkina Faso, and Senegal over a three-week period in August-September 1989 included observations of a range of projects providing assistance to small enterprises and/or poor informal groups. In the following pages, some summary comments and observation help to place these experiences within the context of assistance to the informal sector developed in the earlier chapters.

Burkina Faso

The Policy Context: Legal, Regulatory, and Institutional Parameters

Burkina Faso lacks a recent comprehensive survey of the scope and nature of the country's informal sector, but a detailed study of the Ouagadougou area in 1976 (Van Dijk, ILO, 1978) estimated that 73 percent of the urban active population worked in the informal or unstructured sector. Some of those economic operators were then, and are now, also formally employed as civil servants, who frequently operate businesses of their own on the side.

Government policy towards this sector lacks a consensual vision on what the informal sector is, what its potential may be, and how it should be treated by the Burkinabe government. Different regimes in the past decade have pursued a range of policies which directly or indirectly affect the different groups of entrepreneurs in the informal sector. Most significantly, during the middle years of Sankara's regime, a dramatic government-managed program was initiated to force informal sub-sectors — such as local taxi transport, beauty/cosmetic services, and food/beverage preparation and service — to organize into groups and observe a new regulated structure. The populace perceived this government effort as controlling and domineering, rather than enabling, and few lasting effects can be seen today aside from a continuing government program which brings rural artisans to Ouagadougou and trains them in modern techniques.

The most recent comprehensive survey of the tax/commercial code in Burkina Faso was a donor-funded study conducted five years ago and cursorily updated after Sankara's rule began. The existing system is in general the same administrative and regulatory system inherited from the French at independence. More than 30 different taxes still exist on the books, applicable to anyone conducting business or commercial activities on any scale. The types of taxes and registration requirements are very similar to those found in other Francophone Sahelian countries: corporate income tax, license tax, business license, tax declaration, payroll/apprentice tax, minimum default tax, turnover tax, customs taxes, sectoral operating license. Burkinabe informals reported a range of experiences with government intervention and the concomitant costs of formality/informality in very concrete terms, and their stories were echoed in the later interviews with Malian and Senegalese entrepreneurs of all sizes.

In general, small informal operators generally avoid any registration requirements except perhaps the "carte de commerce", and evade all taxes except the license tax, or "patente". These two requirements are those most commonly pursued by government tax agents, and often the informal operator who occupies permanent premises (thus attracting the attention of an agent) will (1) keep two sets of sales records in order to lower the estimated value of the business, (2) deliberately maintain an appearance of poverty in the premises in order "not to look too good", or (3) barter with the government agent on the amount of the license tax to be paid.⁶

The next most commonly enforced tax is the turnover tax, which agents find easier to administer than the corporate income tax, since small- and medium-scale businesses rarely compile financial statements for a year's activities, but they often do keep some less formal records of total sales. Owners of businesses, large or small, who do keep records confide that only some of their activities show up on their financial statements or sales

6. A practice not unknown in the developed world.

records: either they under-report, or (even more often) they pursue some activities very formally, especially those whose nature requires frequent contact with authorities or are very visible to government elites, while simultaneously pursuing other activities in a very informal fashion.

Each interview, whether with large or small entrepreneur, business owner or government official, confirmed the vision of Sahelian informal activity as a heterogeneous sector, with large and small operators conducting a wide range of activities. The reports sketch the outlines of a large grey area where formal and informal mix, and this is a *melange* in two distinct senses. A business is frequently partly informal, in that its owner may have a business license and pay the license tax, but not comply with the payroll tax, registration of employees, and other labor/tax laws. In parallel, a business may be fully in compliance with the laws regulating one activity, such as importing automobiles, while simultaneously pursuing another activity in a very informal unregulated way, such as selling spare parts out the back door.

In September 1989 the Burkinabe government imposed a new annual tax that is directed specifically at one sub-group of the informal sector — the urban marginal informal operators. A sum of 6000 CFA must be paid by all mobile/roving street vendors in order to be licensed to sell. This pointed intervention has been seen in other Sahelian countries — periodically and more frequently as increasing urbanization swells the population of urban marginal informals. In a more dramatic move, the Malian President announced in mid-September that there would be an organized police effort to remove the street-side vendors and stands which were "cluttering" public areas in Bamako. Senegal's urban informals in the Dakar area have also had their share of past experiences with a government which periodically decides to "clean up" regulate the petty commerce of the street.

Burkina Faso has had much less recent experience with donor-financed credit and training projects than some of its Sahelian neighbors, and although there is growing interest among both government and private groups in the informal sector and its potential, there appear to be no project interventions planned in the near term to specifically assist entrepreneurs.

*PfP/Association Pour la Productivité:
Project Activities and Results*

The Association Pour la Productivité (AFP) was created in 1978 by Partnership for Productivity International (PfP) as the local agent for implementation of an AID-financed project assisting small economic activities with credit and technical assistance — to both individuals and groups — in rural and semi-rural areas of Burkina Faso. In December 1986, PfP withdrew from all its international project activities, and for six months the project searched for another American PVO to take the management role as USAID-financing tapered off. From mid-1987 to end of 1988, the project continued

with limited strategic management assistance from the Council for International Development, funded increasingly by a range of non-governmental U.S. sources. The primary objectives of these eighteen months of activity included the establishment of a local Burkinabe-managed NGO with a legally recognized structure, local management, and "significant self-financing capability".

As of September 1989, the new national NGO has been operating as a blend of a financially self-sustaining credit/technical assistance program and a traditional development-oriented PVO. While continuing to service and in some cases re-lend to their individual clients, the Burkinabe management team has chosen to focus their new lending activities on groups of entrepreneurs borrowing either for group projects or borrowing together for individual activities. This "new approach" is characterized by the management in three ways — ideologically, they are committed to grassroots, community-motivated development; administratively, they find lending to and providing technical assistance to groups to be much more cost-effective than servicing individual borrowers; and financially, they find that the group pressure applied in the socially cohesive groups to which they lend results in a 98 percent repayment rate, contrasted to 85-90 percent for their older portfolio of individual borrowers.

While not functioning as a minimalist credit lender, APP's credit activities are still the foundation of their program, forming the fulcrum for technical assistance, training, and discussion with village groups regarding developmental needs and community priorities. The APP philosophy and practice stress the use of existing group social structures as the framework for credit, technical assistance, and group development, and they point to their loan repayment rates as evidence of the practicality of this philosophy.

Administrative costs and personnel expenses have been steadily reduced during the three years since the USAID-financed project phase ended, with all expatriate staff now gone and local staff levels cut from 54 at the height of the first phase to the current personnel roster of 23. APP receives specific grant funds from several international PVOs for targeted assistance or lending activities, but the majority of their loan portfolio is supported by the remaining credit fund which is replenished by loan repayments. Currently, revenues generated by the credit operations (fees and interest payments) cover only about 55 percent of the fund's costs.

Because the APP management is committed to their blend of PVO development and credit operations, they are continuing to search for donor and international PVO funds which will allow them to continue their non-minimalist program. Although not conceived as an informal sector support project, the PfP/APP program, especially in the eyes of its current management, is driven by a mandate to assist the rural and semi-urban informal sector at two levels: 1) in rural farm activities, through credit and technical assistance for agricultural inputs, and 2) in rural and semi-urban

non-farm economic activities, expanding microenterprise activities and increasing individual incomes.

Few of APP's activities try to assist their informal clients to become more familiar with the requirements of formality or to reduce the costs of informality through cooperative action. Indeed, because their client base is rural and semi-rural, operating very small activities, APP interest in or experience with government intervention is limited to regional or local tax agents who generally are interested only in extracting payments from the larger shopkeepers. With regards to the primary needs of informal operators it must be noted that the program's credit activities do not seek to help clients establish relationships with the formal financial markets and banking system, although it does provide literacy and numeracy training and basic advice on stock management and recording/accounting techniques.

However, as an autonomous national NGO, the APP program represents an important institutionalization of donor project assistance to a previously non-enfranchised group of informal economic operators. The long-term success of this institutionalization will depend on the combination of increased local revenues through efficiently expanded loan operations, and tightly-managed grants to fund their selected non-credit activities.

Mali

The Policy Context: Legal, Regulatory, and Institutional Parameters

Many individuals in Mali, from government agencies, donor organizations, and private individuals, have begun expressing keen interest in the constraints to and potential of the informal sector. The UNDP/Bamako is currently financing a three-month survey of the informal sector in Bamako and its suburbs, which, when completed in early 1989, should provide a wealth of statistical information that can help inform the discussions on this economic sector. Some recent estimates record the informal sector as employing over 55 percent of the urban active population, with 26 percent of the total urban active age population counted as unemployed and 18 percent counted as employed by the urban formal sector (state and modern private).

Strategic consideration is beginning to be given to the underlying economic rationale for targeting specific sectors through project assistance. A 1988 USAID-financed study of the business climate in Mali (Grant & Hanel, 1988) culminated with an analysis of various scenarios for economic growth, and concluded that "any economic strategy must be targeted not only at the formal modern sector but at the informal sector, most especially at those segments who are likely candidates for entering the ranks of formal enterprises."

As mentioned in the introduction to this chapter, the vast majority of donor-financed assistance to the informal sector population in the Sahel has been provided in the form of project-based credit programs, with a smaller but still substantial chunk of aid given in the form of technical and business training, either in training projects or as elements of other kinds of projects. In the context of the extremely strict credit ceilings imposed by the Western African Monetary Union central monetary authority at the moment, most Sahelian credit programs can generally be viewed as *de facto* assistance to informals (both on- and off-farm activities) in that they bridge the enormous gap between small but economically viable activities and formal sources of financing.

Of additional interest in Mali is the recent experience with donor-leveraged economic policy reform programs which seek to eliminate some of the transaction costs and fiscal/regulatory constraints which impede the growth of the private sector. A brief discussion later in this section of the USAID-financed Economic Policy Reform Project (EPRP) provides highlights of the progress and problems associated with reducing the costs of formality from the top down. In terms of the general fiscal and regulatory structure which constrains informal enterprises, the Malian economy is based on the same set of French-inspired taxes and licenses explained in detail under the earlier discussion of Burkina Faso.

There are a wide range of specific credit and enterprise projects being implemented in Mali, and yet few of them have specified objectives or outputs which specifically address decreasing the costs of informality or formality, or institutionalizing the transition from informal to formal activities. Some of them (such as the EEC Small Enterprise Project in Segou) are specifically focused on microenterprises which are almost always informal, while others (such as the USAID/CLUSA Village Associations Project) are more diffuse grassroots development projects with a credit component which target existing socio-economic groups.

As the general interest in and debate over the informal sector grows in Mali, individual projects are reviewing their experience in relation to the costs imposed on informal sector actors. Both Peace Corps members working with the Chamber of Commerce and the EEC SSE project staff in Segou report an increasingly common dynamic in which the technical advice they give to entrepreneurs, businesses, and clients includes information about the regulations and laws which apply to that business, along with advice/advocacy on negotiating the formal mechanisms.

In other words, a new project element/component, involving dissemination of information and reduction of formal transactions costs, is evolving out of the dynamic of project operations. In a parallel development, village staff members of the USAID-financed CLUSA Village Associations Project have discussed including education, advice, and advocacy on dealing

with government agents and legal regulations as a part of their group training sessions which accompany loans to village groups.

An interesting element of many of the small enterprise and credit projects in Mali has been an evolving emphasis on the group, rather than the firm, as the unit of transaction and training. Although no systematic comparative evaluation has been completed, anecdotal observations and comparisons show that there is a range of approaches used by the different donor and government projects, some focusing on existing socio-cultural groups strengthened by ethnic and family/community ties, and others depending on the economic interconnections of a project activities to help bind *ad hoc* groups together. In all cases, either the design or evaluation of the project stresses the fiscal and administrative ease of dealing with groups in general when compared to managing a portfolio of individual borrowers.

As mentioned earlier in this report, the traditional informals have generally been ignored by the economic literature. Perhaps this has been because their operations, although much older and established than the Western-style business units which accompanied modern colonial and post-independence activities in Africa, do not easily fit into our definition of atomistic nuclear "firms", and the extent to which they merge economic and social transactions confuses our more linear model of economic enterprise growth. Observing the dynamics of projects who attempt to base assistance on indigenous social groupings, compared to the much more common phenomena of projects who form groups as an expedient for project management, may allow us to see these Sahelian traditional informals more clearly. When viewed in the context of the pre-existing business cultures and units unique to the Sahel's "traditional informals", the experiences of these different projects in lending to and assisting groups could become a source of valuable information about alternative models of informal sector support.

IFAD Village Development Fund Project: Project Activities and Results

One of the Malian experiments in group-based lending and technical assistance is a integrated rural development project funded by IFAD and implemented by UNDP and the Government of Mali. Headquartered in Segou, this project is viewed by its designers and funding agency as an innovative experiment in grassroots development. It takes the elements of a traditional integrated rural development project — animal health, human health, ag inputs, production and storage technology, rural infrastructure, literacy and numeracy, income generation and rural employment — and implements technical assistance and credit in these areas through a structure which is designed to strengthen village-level group decision-making, encourage group savings and autonomous financial management of collective funds, and introduce villages and village treasurers to the formal banking system.

The project's design philosophy, which specified the identification of existing highly cohesive socio-cultural groups to be used as the 160 target village units, appears promising as a possible mechanism for assisting traditional Sahelian informals. In actual implementation, however, the project villages were required to form committee groups to participate in the project activities, and only sometimes did those project groups echo the socio-economic decision-making hierarchy. Thus, the project element which we find most interesting within the context of institutionalizing assistance to the informal sector is the mechanism for enforced savings, whereby the villagers are required to deposit an amount in the Segou branch of the National Agricultural Development Bank equal to at least 10 percent of the loan amount they wish to be eligible for under the agricultural credit component of the project.

The groups' treasurers are responsible for the transactions with the bank, and not one of the 153 treasurers had ever had experience with a bank before. Thus far all interactions have gone very smoothly, and so it appears that a bridge has been built between a group of predominantly agricultural rural poor and the formal state banking system. However, it is unlikely that this innovation will result in any institutionalized mechanism or dynamic change in banking patterns. First, the bank branch in Segou was established specifically for the project — all start-up costs and 50 percent of the operating costs are borne by the project; thus, when the project phase ends, the bank will face the true costs of lending to those village groups who chose to seek continued credit.

Currently the bank assumes none of the risks and only 50 percent of the administrative costs, and unless the current restrictive credit ceilings change, it is highly unlikely that the bank would willingly continue to lend to those farmers, no matter how good depositors they were, when the bank could instead lend on short-term low-risk commercial terms to the traders in Segou. Finally, the individuals who have experienced a positive relationship with the bank, who themselves are all older males ranking high in the group's social structure, are not currently including other individuals in the management of the accounts and the transactions with the bank, so it is also unlikely that other individuals would be empowered to seek bank financing as an option to assist them in a non-farm entrepreneurial activity.

In the area of economic growth and diversification of income-generating activities, the project's roots in integrated rural development seem to have prevented its designers and staff from considering non-agricultural activities as a viable project component, and so the only diversification that is pursued is the stocking and management of a village store where a villager manages the purchase (through the project!) of basic necessities so that the villagers do not have to travel so far into a market town to obtain them.

**USAID Economic Policy Reform Project (EPRP):
Project Activities and Results**

The EPRP is an adjustment program of economic, fiscal, and regulatory reforms involving over \$22 million in cash transfer to the Government of Mali, with the objective of promoting an environment favorable to the development of a stronger private sector and of reducing the burden of the public sector on the economy. One of the three components of EPRP, the revision of the Commercial Code, is particularly of interest to our consideration of the informal sector in Mali, as its goal was to reduce and simplify the requirements for engaging in economic activities, thereby reducing the costs of formality. A 1988 evaluation of EPRP found it to have been successful in simplifying and updating the regulatory framework, although a subsequent study of women in Mali's private sector (Lewis and Russell, AYI, 1989) points out that the revised commercial code still contains conflicting and discriminatory clauses constraining female entrepreneurs.

As a cash-leveraged bilateral policy reform program, EPRP represents an attempt to reduce the costs of formally operating in the private sector, which theoretically encompasses all of the informal sector but in a practical sense really touches upon the sub-sector defined earlier as the modern informals — those most likely to move into the formal sector if barriers are reduced enough to make the costs bearable.

Details from the evaluation of this effort provide insights into the difficulty of reforming legal structures and getting practical street-level results.

- Even though the formal requirements under the new Code are more reasonable and less onerous than before, the actual environment in which the formal requirement must be met is still costly, with bureaucratic and sometimes arbitrary intervention and abuse of power by government agents. Interviews with private and government actors indicate that government agents go well beyond their mandate in imposing difficult requirements on businesses seeking to register under the new Code.
- Although the new Commercial Code calls for the establishment of commercial courts, none have been established. In addition, the new Code has not been blended into and harmonized with the existing body of laws and decrees applicable to businesses, and so the impact of the changes have been muted.
- The elimination of the need for a government "agrément" except for three specific activities, and its replacement with a simpler registration requirement, resulted in a dramatic

increase in the registration of businesses in Bamako. Government and private sector officials report that this was largely due to "regularization" of individuals who were already in business, who now chose to register because the more liberal policies made the formalities less cumbersome. This formalization by modern urban informals supports the contention that the decision whether to operate as a formal or informal is based on the costs of formality and can be affected by changing bad law into better law.

Senegal

The Policy Context: Legal, Regulatory, and Institutional Parameters

Of the three Sahelian countries selected for field research under this study, Senegal has by far the most extensive and detailed collection of information available on the size, scope, and structure of the informal sector, especially in the urban and semi-urban areas surrounding Dakar. On the other hand, traditional Senegalese societal structures include some very complex group elements which have always played a significant economic role in supporting and serving the traditional informals, but whose operations and dynamics have eluded donors designing enterprise and credit projects.

Two extensive surveys have studied the scope and structure of the informal sector in Dakar and its suburbs within the past twelve months. If these data were taken along with a comprehensive socio-anthropological discussion of the Senegalese traditional informal group structures (like the Mourides and Talibes), then a rich context could be developed within which projects like those discussed below could be evaluated as true informal sector interventions.

Some basic descriptive information extracted from the two surveys (Zarour, 1989; ABC Consultants, 1988) provides a sketch of the urban informal sector in Senegal. Both surveys targeted business owners operating out of fixed premises, so by and large the urban marginal informals are not captured. The businesses surveyed provided a wide and diversified range of goods and services, but had limited accounting systems (40 percent keep some kind of sales or orders records; only 3 percent had developed accounting systems) and limited relationships with banks (only 40 percent had bank accounts, and less than 5 percent had obtained credit through formal banking system).

Moneylenders are as rarely used as banks, with the major source for business financing coming from personal or family savings or retained profits, along with supplier credits for goods supplied at an average 30 percent premium. Few enterprises surveyed paid taxes: 33 percent paid the

"patente", but virtually no one paid the other labor and business taxes. Most employees (over 70 percent) are non-salaried family members or apprentices; the average annual sales were around 5,000,000 CFA (\$16,000), with over 50 percent of the businesses having been in existence more than 5 years.

The administrative, regulatory, and legal requirements affecting entrepreneurs of any size who wish to legally conduct business in Senegal are drawn from the same set of administrative structures diagrammed earlier in the discussions of Mali and Burkina Faso, and once again the most commonly observed/enforced taxes and requirements are the business license tax, or "patente", and the registration or "carte de commerce". It should be noted that in most projects reviewed, including the USAID Kaolack project discussed here, compliance with legal and fiscal regulations is not a requirement for participation in donor credit programs.

Kaolack Community and Enterprise Development Project: Project Activities and Results

This USAID-financed community and enterprise development effort has two components: a small scale enterprise component, characterized by a quasi-minimalist credit program with technical assistance and training available if wanted; and a village organization component, implemented by PVOs assisting villages groups formed for the purposes of the project to finance and carry out development projects which they identify as desirable. The original project design involved enterprises and VOs in the rural and semi-rural regions of Kaolack and Fatick, and after the first four years' of operation, the SSE project component had extended over 200 loans at 24 percent interest, creating over 180 jobs and maintaining a 95 percent repayment rate.

In spite of its landmark success, the project's SSE component at the close of 1988 still had not reached the point of financial self-sustainability, and thus a \$2-million 2-year extension was approved to expand the size of the loan fund and extend credit operations into Thies and neighboring towns, seeking a critical mass for the loan portfolio that will turn the operation profitable (not including the costs of past and current expatriate staff). In addition, the USAID/Dakar mission has just extended the project to include the Dakar urban and suburban areas from 1990 to 1993, operating as a separate profit center as the first attempt to replicate the Kaolack model.

The supporting sensitivity analysis identified size of loan portfolio, interest rate, and default rate as the three critical factors in project sustainability (self-financing/profitability), but the project design also points out other socio-economic factors that will face the Dakar project staff as they attempt to reproduce this minimalist enterprise credit model. Those factors include a need for rigorous internal control and accounting, which proved a

substantial problem in Kaolack resulting in two audits and the dismissal of four out of seven loan/extension agents for embezzlement. In addition, the design study for the Dakar extension identifies certain socio-cultural factors which differentiate Dakar from the more rural Kaolack area, and which could play a role in differentiated borrower strategies and payback behavior, but the final Dakar project paper responds to only some of those issues by specifying changes in management approach in serving this distinct clientele.

For example, the design study, conducted by the out-going SSE Credit Director for Kaolack, pointed out that recent surveys and studies indicate that Dakar clients are more sophisticated and will not repay their loans unless they have legally committing guarantees. The design study suggested modifying the Kaolack model, which bases loan approvals strictly on cash-flow project viability analyses, to include a group guarantee system, but the Dakar project paper only lists that action as a suggestion. The design study also pointed out that in Dakar, banking facilities are, although problematic, still much more available than in rural Kaolack, and the final project paper took that into account when specifying that Dakar clients will repay loans directly into a special bank account, eliminating the need for cash payments to agents.

In spite of this project's control and accounting problems, it is a high-profile experiment in minimalist lending to previously inaccessible businesses, and its attempt at self-replication in a more urban economy will be highly instructive. An 1988-89 evaluation of the Kaolack project conducted under the auspices of a worldwide stock-taking study on USAID experience in micro-enterprise assistance provides insights into the progress of this project. Its minimalist credit approach and its diversified loan portfolio (not exclusively agricultural, as was envisioned at first in the design phase) are judged as strong contributing factors in the project's high payback rate and financial viability.

The high number of repeat borrowers served by the project starting early on indicates that there is a large pent-up demand for credit, and post-loan evaluation questionnaires indicate that the vast majority of the loans were used for working capital, which is a lower risk loan item for the lender. Self-reported profits and assets figures for before and after loans, although compromised by reporting errors which are likely due to low level accounting skills, indicate that enterprises in all sectors and most sizes were significantly more profitable after the loan than before.

The most significant question we can pose when faced with a credit program that, by and large, seems to be a success, and is on the verge of replicating itself, is the question of sustainability. Only the next three years will show whether this model can be financially self-supporting if it reaches the necessary size, but an additional issue is implicit when the question of sustainability is discussed. Aside from financial viability, the Kaolack model must find a mechanism and structure that will allow it to be institutionalized within the context of Senegalese banking laws and Senegalese business/social

customs, or the profitability of the Kaolack and Dakar credit projects will not enable the new methodology to be sustained.

Two separate studies have been conducted thus far on options for institutionalizing the credit program after the project funding ends. Now that the Kaolack project is extended until 1992, and the Dakar extension is financed until 1993, the decision is no longer imminent — but it is more important than ever. Perhaps more significant than whether a successful semi-rural credit program can be successfully replicated in urban Dakar is the issue of how a successful donor-financed credit project can be transformed into an institution that is grounded in the socio-economic reality and structure of the country.

Lessons Learned from the Sahelian Experience

Five lessons can be learned from the project experience reviewed above:

- Donors working in the Sahel have shown a preference for the project model in assistance to microenterprises, creating entities that, by virtue of their size and scope of activities, are themselves a form of informal enterprise. By and large, this assistance has not been rooted in an overall vision or country-specific model of economic growth, based either on where the informal sector is now or in which direction national leadership would like it to move.
- The three most common aid mechanisms in the Sahel have been (1) credit programs, designed with variations on the amount and type of training and technical assistance included; (2) technical training activities, designed to improve competence in enterprises and organizations in both the formal and informal sectors; and (3) policy reform/structural adjustment programs, designed to improve the macroeconomic environment in which private economic actors operate.
- Even governments committed to economic reforms to facilitate private enterprise and reduce unproductive government intervention in the marketplace have found it difficult to push implementation through to the lowest level of economic exchange in the informal sector. Even in an atmosphere of reform, there continues to be a wide divergence between the letter of the law and the reality experienced by informals.

- A structural bias against small merchants and commercial operators continues in both donor projects and government attitudes. Assistance programs are most often specifically targeted to the producers of goods (and, to a lesser extent, personal services), excluding the large number of informal operators who engage in retail marketing and petty commerce. One extremely unfortunate effect of this bias is the resultant underrepresentation of women in project-based credit and assistance programs in the Sahel, since women are so extensively involved in small commercial activities.
- Examples from project-based assistance to small enterprises and poor informals in Africa indicate that the fit of project mechanisms within the socio-cultural and legal-regulatory structures of the society's economy, along with the placement of the technical project design in a broader strategy of assistance, will determine the chances of institutionalizing a particular effort and achieving more than transitory change. Thus far the record on both counts is poor.

Experience from Other Regions

The phenomenon of informal enterprises has a different saliency in various regions of the world, resulting in disparate "spins" on the debate about informal enterprises, and distinct proposed measures to deal with those enterprises.

In Latin America, where the sector has the highest profile, dealing with the sector is seen by many as the key to overall economic development. Depending on the country, from 20 to 60 percent of the rapidly growing urban population works in enterprises that are generally unregistered, lacking in legal status, excluded from the formal credit market, and able to avoid much of the tax and social welfare burden registered firms must bear. Financially, as Hernando De Soto puts it they bear the "costs" and reap the "benefits" of informality. By the empirical calculation of researchers the net "costs" are heavy — keeping them from providing their full potential contribution to national production and welfare. The participants in the sector, as De Soto and other analysts point out, are thus alienated from the rest of the private sector and from the broader polity as a whole.

A different group of analysts — including those like Victor Tokman and Alejandro Portes — emphasize rather how the informal sector undermines the economically unsupportable state efforts to force up living standards —

but it is not clear that their prescription for action is very different from De Soto's in the short run. Interestingly, the African (Moser) and Asian (Bose) counterparts to Tokman *et al.* often recommend a different policy line. Clearly, the informal sector is perceived differently throughout the world. For the moment, support for the informal sector, and the modalities for that support, seem one of the points of relative consensus in the ideologically riven Latin American continent.

For De Soto and other Latin American commentators, the essence of the problem is political and the appropriate solution political as well. The political status of informal enterprise must be normalized and the enterprises need to be included in the polity and the economy. This normalization entails a parallel and interactive process of:

- Organization and raising the consciousness of various sections of the informals usually on a trade association basis
- Self organization on a cooperative or collaborative basis to secure the rights and services needed — credit, security of tenure, training
- Response to the organizations by the government — creating the civil order within which they can work

The relative weight of these three elements vary in different Latin American countries.

- The Peruvian situation is described by De Soto in *The Other Path*. His prime example is the Institute for Liberty and Democracy (ILD), which has been designed to "bridge the gap" between the formal and informal sectors. For example, the ILD assists members of the informal sector in gaining access to credit through the simple registration of their households. An individual registers his possession of land with an insurance company, assigns his property rights to it, and in turn receives a guarantee that will give him access to a loan from a local bank.
- In Brazil, after the initially heavily researched UNO project, the government took the initiative with a program to register and provide credit to informal agents. After a considerable efforts by the National Debureaucratization Program to encourage tax exemption for smaller companies, the government took the program a step further and passed two bills at the end of 1983 that greatly eased the regulatory constraints against the informal

sector. The first bill established special legal procedures for microenterprises in such areas as taxation, labor obligations, social security, and official credit facilities. The second bill ensured that states would exempt small companies from being taxed on circulation of goods. The results have been mixed. Although the bills have eased bureaucratic problems and ensured fiscal exemptions for small businesses, the costs of actually formalizing a small company remain very high. However, lines of credit have been opened for these small and medium-sized firms and support systems, such as CEBRAE, have sought to offer advice as well as accounting and technical assistance.

- In Colombia, a large number of charitable foundations, but especially those connected with the Carvajal family, began with programs of credit and training, which have laterally secured some systematic government support. A key unit exists in the Colombian planning commission which conducts research on and feeds into government policy. The Foundation for the Integral Development of the Cauca Valley (FDI) is a private development foundation which has also studied Colombia's informal sector — specifically aggregate economic activity, cost-benefit structures of informality, taxation, and legislation — to consolidate the formal and informal sectors and facilitate the regulatory process as well as the private sector's participation in the public policy process.

It is perhaps no accident that the voluntary-organization-impelled Peruvian and Colombian organizations are generally felt to have more impact than the state-impelled Brazilians.

Almost every Latin American country now has the following support structure in place:

- *A network of local development foundations* that serve informal units with credit and training. Run and partly funded by local businessmen, they receive extensive funding under grants from a wide variety of foreign donors. The Pan American Development Foundation pioneered support for these efforts — but other international organizations such as Accion International and Solidarios have all taken key promotional roles — and some groups are assisted by two or three of these. Each has 30 or so prime affiliates, but many more unaffiliated groups exist.
- *An even larger network of small business associations*, often divided, unfortunately, on political grounds. Some of them

are attempting to form alliances with others and hone their policy skills.

- In several countries, the associations are helped by a network of variously *funded research foundations*. De Soto's ILD is one such institute, but groups of this sort exist in almost every country in the region now. For example, the Paraguayan Foundation for Cooperation and Development, a foundation focusing on promoting regulatory changes, institutional integration of the informal and formal sectors, and access to training and credit, recently reviewed Paraguay's legal structure and its effects on the informal sector. The foundation drafted a law providing special legal provisions for the informal sector which has received considerable support from Paraguay's Industrial Commission.

The system of research and development institutions is far less developed outside of Latin America, but examples can be found. A North African example is Tunisia's Ideas and Communication, a non-profit, private sector organization that conducts public policy research on the integration of the formal and informal sectors. The organization's work focuses on developing policy recommendations to reduce the legal and regulatory obstacles that restrict the growth of private entrepreneurship. A similar research foundation exists in the Philippines as well.

The growth of associations linking informals (and sometimes formals) in a particular sector or region is accelerating in all regions, although here again the phenomenon has progressed most rapidly in Latin America. These associations make demands on the public authorities, national and municipal, who may respond to them with broad-based legislation as well as by creating special policy and research units to help form general policy with the informal sector in mind. The shoe makers union in Venezuela, for example, has responded to each government crackdown or raising of taxes by generating considerable public support to force the government to negotiate more lenient policies.

The process and dynamics of legislation for the informal sector vary among countries, but three thrusts are present: low cost, simple *registration procedures* to give informal units some legal personality, and the creation of *credit and extension schemes* that can deal with informal units without requiring any specific legal status, and the *removal of restrictions* that penalize the lack of such status. In each case, the problem is to do something to help without creating ratchet effects that the informals will seek to avoid.

In the Asian case the lack of legal personality per se has been perceived as less of an issue, the small and technically primitive nature of many informal enterprise as more of a problem. Nonetheless, the three strategies of organization, service, and policy accommodation are widely practiced — as in the numerous PVO credit and Grameen banks in Bangladesh or SEWA and the Working Women's Forum in India.

How these strategies can be implemented in Africa when the indigenous, voluntary elements on which they build sometimes seem lacking is a focus of this paper. One only notes the efforts chronicled by Seidel and others, that suggest that there are such elements if we will only see them; that the challenge lies in assisting voluntary organizational forms through which they can act. The work of Lewis and others suggests that these may be various responding to the variety of African society; that there needs to be an experimental openness to a variety of forms.

THREE STRATEGIC ISSUES

Three issues were raised in the introduction: (1) what are we trying to accomplish by assisting the informal sector, (2) which level is the appropriate focus for assistance, and (3) how can change best be achieved. The answers to these questions must shape the assistance strategy for the sector and guide the design of specific programs and projects.

What Are We Trying to Accomplish by Assisting the Informal Sector?

There are at least four competing rationales for assistance to the informal sector. While by no means exclusive, these alternative aims imply quite different activities and criteria for success:

- *Poverty alleviation.* If the aim is simply to assist low-income individuals to better their lot, then an approach based on small-scale efforts by PVOs and others is appropriate, although it must be recognized that such efforts currently reach an insignificant portion of informals and that extending them to reach a majority of those who can benefit from them will be nearly impossible in the African context.
- *Growth.* Whereas marginal informals, both urban and rural, are the natural target for poverty alleviation, the other subgroups may be better targets given a growth orientation. Programs with this aim can only succeed, however, if they are accompanied by measures to shift the cost-benefit calculation in favor of formality (by raising the benefits of formality and reducing its cost) and, equally important, away from rent-seeking, mercantilist behavior, to create an environment offering incentives and rewards for growth.

- ***Employment creation:*** It remains an open question whether support to modern informals and tradespeople generates more employment than support to marginals, or under what conditions employment growth is likely to be rapid, permanent, and productive. The role of ethnic and traditional informals in employment creation is not understood at all.
- ***Structural change in the private sector:*** Is the informal sector an expedient but undesirable response to the economic environment, which should be assisted in evolving towards the Western formal model, or an alternative organizational form adapted to the African economic, social, and political milieu, which should be accommodated and supported? In the latter case, which types of informal enterprise offer the best opportunity for growth and what is the most appropriate relationship between these organizations and the State?

In a world of limited resources, these four aims must be viewed as competing rather than complementary. A program designed to encourage the growth of middle-sized firms must of necessity target a very different group of entrepreneurs than a program aimed at alleviating poverty. These differences have not always been recognized in program design or implementation.

Appropriate Levels for Assistance: The Individual, the Group, and the System

Virtually all informal sector programs funded to date have focused on the individual firm, as the case studies in the previous section illustrate. Where groups have been formed (credit groups, for example), the group focus has been adopted as an expedient for project management, rather than as an adaptation responding to preexisting structures in the informal sector. Only one program identified — the Mali Economic Policy Reform Program — attempts to address constraints in the system itself. Is the firm the appropriate focus for assistance in the Sahel?

A focus on the individual firm has three disadvantages as applied in the Sahel. First, this approach may be viewed as an imposition of Western models of individualistic behavior that do not reflect reality in the Sahel. The model of the entrepreneur as atomistic economic actor is presumably most appropriate for the modern informals, whose operation most closely approximates the Western small enterprise, and reasonably applicable to the

urban marginals, but may be less appropriate, or not appropriate at all, for traditional informals and ethnic informals (although the latter are generally excluded from assistance programs in any case). The economic activities of traditional and ethnic informals may not fit the model of a firm at all. What appears on superficial examination to be a firm might more accurately be characterized as a cog in a complex socioeconomic machine, be it the single rural household within which a rural market woman operates or a complex organization linking entire clans. At both ends of the traditional informal spectrum, the intermingling of family and clan business with the enterprise is not an anachronistic carry-over but a fundamental organizing principle underlying the firm's structure and operation.

A focus on the individual firm has the second disadvantage of greatly limiting the scope of project coverage. Small enterprise projects implemented in the Sahel, including those reviewed below, have generally reached only a few hundred entrepreneurs. While estimates of the number of firms served differ depending on who is doing the estimates, the overall record is poor. The CEDP program in Kaolack, for example, is estimated to have reached approximately 240 firms (Boomgard, 1989), compared to an estimated 560,000 persons employed in the informal sector in Senegal in 1983 (Courcelle, 1988), which translates to perhaps 200,000 enterprises. The VITA projects in Chad have reached a similar number. Both of these projects have only an outside chance of establishing an institution capable of maintaining itself, much less of expanding to reach a significant portion of the informal sector. The much larger and generally more successful programs in Asia, such as Grameen Bank in Bangladesh and the BKK program in Indonesia, have reached tens of thousands of entrepreneurs, but their success has been built on a structure of state-owned banks operating in densely populated areas, which has no parallel in the Sahel. The planned extension of the Kaolack program to Dakar, which holds the largest concentration of modern informals and urban marginals in the Sahel, will test whether the Asian model can be applied in Africa, using a PVO rather than a state-owned bank as the base of operation.

A third disadvantage of focusing on the firm is that it deflects attention from inadequacies in the commercial system as a whole.⁷ Work in Latin America has highlighted the importance of the legal infrastructure supporting entrepreneurial activity and the marketplace itself. The analysis of Latin American institutions such as the Institute for Liberty and Democracy demonstrates that firms continually weigh the costs and benefits of both

7. In this regard, it is interesting to note that the discussion of liberalization in Eastern Europe, unencumbered with decades of development rhetoric and programming, has focused immediately on the importance of a working banking system, appropriate regulation for enterprise creation and operation, labor laws, and the like, issues that are only now moving onto the agenda for assistance to developing countries.

formality and informality in deciding on which side of the fence to operate. The costs and benefits of informality may be summed up as follows:

- ***The benefits of informality:*** greater freedom of operation, including flexibility in hiring and firing, reduced need to comply with regulations, less reporting, no delays awaiting official approvals, and freedom to diversify and to operate in areas where private activity is officially forbidden.
- ***The costs of informality:*** little protection from the courts in dealings outside the firm, increased exposure to extortion by tax collectors and others, reduced access to subsidized government services, no access to formal credit, and a "glass ceiling" above which informal operations cannot expand without becoming formal, often at high marginal cost.

The costs and benefits of formality tend to be the reverse of those for informality, with two importance exceptions:

- ***Missing benefits for the many due to dysfunctional institutions:*** Whether formal or informal, entrepreneurs lacking a powerful sponsor may not have access to protection of property rights or to formal credit if the systems necessary to provide these benefits — commercial courts, contract systems, land registries, banks and finance companies — do not exist or do not function. This is generally the case in the Sahel.
- ***Special benefits for the few through mercantilist behavior:*** In collusion with the State, a few privileged formal firms are able to create rent-generating opportunities, an advantage that generally does not apply to small or middle-sized firms moving into the formal sector; well-connected firms may also be able to circumvent the burdens of formal sector operation, such as taxation.

In the Sahel as in much of Africa, the benefits of formality are available only to the small minority of firms that are able to use political connections and financial resources to overcome the failures of the system. Most enterprises, whether formal or informal, operate in a system of hostile

anarchy, where the rules are unknown, cannot be discovered, and change constantly. In this situation, both formal and informal enterprises are thrown back on informal mechanisms of operation in their dealings with other economic actors and are forced to use similar tactics in their efforts to manage their relations with the State.

The unevenness of the playing field symptomized by the missing and special benefits alluded to above cannot be dealt with at the level of the informal sector. Nonetheless, the solution to this problem is arguably a precondition for the development of firms now in the informal sector. The combination of missing and special benefits creates a no-man's-land between small and large firms, explaining at least in part the infamous missing middle. As long as the costs of formality outweigh the benefits unless firms engage in mercantilist behavior, a strategy open only to a minority of the largest firms, the rational entrepreneur will not attempt to grow large enough to be noticed or to move beyond the circle of known clients and suppliers.

A system-wide approach may also be necessary to create a sufficiently large base for sound institution-building: a reduction in tax rates is consistent with generating revenues to meet even minimal needs for services and infrastructure only if the tax base is broadened and enforcement strengthened to include both large and small firms; sound credit institutions require a broad base of both depositors and borrowers to generate loanable funds, spread risk, and bring costs down; functioning courts must provide even-handed adjudication of the rights of all firms, large and small, Western and traditional, foreign and domestic.

Finally, the creation of working systems for property rights, contracts, and torts is necessary to address the concentration of economic activity in the hands of ethnic minorities. Conditions must be created to eliminate this politically and socially unsustainable concentration by permitting other firms to grow up around those held by ethnic minorities. Otherwise forced expropriation of ethnic minority firms and social violence may result, as recently witnessed in Senegal. Where public law is not operational, systems of private law confer important advantages on the individuals operating within them. Within the confines of a small, ethnically homogeneous group, social and commercial ties make it possible to make or take out loans, enter into binding contracts, transfer resources, and engage in the full range of transactions necessary for entrepreneurial growth and development, operations that are not available to those who do not belong to a similar self-policing and self-financing group. The dominance of private sector activity by ethnic minorities is a symptom of the failure of public law.

Two conclusions appear incontrovertible:

- *A focus on support to the individual firm is inadequate* because it does not address barriers in the firm's environment that prevent growth, because

it reaches too few firms to have an impact at the macroeconomic level, and because the unit of analysis — the atomistic firm — is inconsistent with the structure of much of traditional Sahelian economic activity.

- ***Reform of the legal and institutional structures within which firms operate is vital to open opportunities for growth*** and must meet two requirements: it must address legal mechanisms governing relations between private sector entities (contracts, wage law, etc.) and those governing relations with the State (registration, taxes, etc.).

Effective solutions in both areas require a better understanding of traditional economic activity in order to choose between the following alternative approaches (and a range of intermediate positions between these extremes) and then to develop and implement the chosen alternative:

- ***Replace traditional mechanisms with "modern" equivalents*** over time, permitting broad access to institutions based on international business standards. In this model, traditional land-holding systems would be replaced with individual free-hold, for example, to pave the way for a land system providing for individual security of tenure, land as collateral, real estate taxes, etc.
- ***Reform "modern" systems to incorporate traditional ways of doing business***, recognizing in particular the role and authority of familial, religious, and other traditional authorities outside the "firm" in the transfer and management of resources, including land and other forms of wealth. In this model, legal systems of credit, employment, land-holding, taxation, and so on would be modified to make them consistent with a broad range of traditional structures. The laws governing employment, for example, would recognize and permit a variety of apprenticeship and other employer-employee relationships where nominal wages are only part of the compensation package.

Both of these approaches assume that informals should be brought within the ambit of the law, either by speeding up the evolution toward the Western model embodied in the law, or by changing the law to reflect Sahelian society. For larger informals, these are the only real alternatives. For smaller informals, a third alternative would be to formalize their

informality, in effect, by creating a category of economic activity that is simply outside the law, but not illegal. Firms in this group, defined perhaps as those with two or fewer employees unrelated to the proprietor, could either be exempted from all regulation and taxation (and thereby from whatever benefits formality offers) or could have the option of joining the system (and thereby becoming subject to all requirements and eligible for all benefits). Mohamed Yunus of Grameen Bank has made a similar suggestion, calling for a moratorium on regulation of microenterprises.

The deregulation of small-scale economic activity might be viewed as an appropriate response to the very real limits on the State's ability to administer the full range of economic activity. While this approach would be consistent with either of the two alternatives above, it poses potential dangers in three areas:

- ***The dividing line between formality and informality could function as a barrier.*** It might constrain firms within a highly limiting environment, transforming a minor change (adding a third employee, say), into a major change imposing heavy burdens on the firm. This problem could be addressed by phasing in requirements rather than imposing them all at once (e.g., firms with two employees must register, those with three employees must pay taxes, those with five or more must pay the minimum wage, etc.).
- ***Deregulated firms would still have no access to the protections or benefits of formality,*** such as use of the courts to adjudicate disputes or access for formal credit. A dose of realism suggests this is an artificial concern: these tiny firms do not have the resources to take advantage of these benefits anyway, and given that the system is only barely functional, if that, for larger firms, this situation will continue for the foreseeable future.
- ***Deregulated firms would pay fewer taxes, reducing revenues.*** Given the infinite range of possible taxes, and the minor amount of revenue generated from the smallest firms, this problem should be soluble. More information is needed on the type and level of taxes paid by the smallest firms, together with analysis to identify alternatives that would be more transparent, easier to administer, and less onerous.

Regardless of the arguments for and against the above alternatives, continuation of the status quo is simply unacceptable. Sahelian economies cannot grow and diversify with a legal structure that fails to meet the needs of the formal sector and is completely irrelevant to the informal sector. The development of firms in the informal sector, from itinerant peddlers to traditional multinationals, requires the unification of the system, so that the government, the formals, and the informals not only face a level playing field, but are playing the same game.

How Can Change Be Brought About: Competing Models for Change and Their Applicability to the Sahel

Four competing approaches to bringing about change can be identified, including two models corresponding to most donor-funded programs at present and two models that remain to be tested, at least in the Sahel.

The Prototypical Micro-Enterprise Project Model

Virtually every micro-enterprise project funded in the past ten years, including those in the Sahel, fits into the following framework:

- The project provides credit to individual entrepreneurs, sometimes working with self-identified groups of entrepreneurs as well as individual borrowers. Loans are accompanied by some type of business management assistance, which may be extensive (formal training course, etc.) or may be limited to analysis of the loan itself. In practice, interest rates do not cover the full cost of the program, although they may approach or, rarely, exceed the rate charged to larger firms by commercial lenders.
- The project is implemented by a PVO, a government agency charged with assisting small enterprise, or as a free-standing donor project. The project relies almost entirely on donor funds, although mandatory savings tend to be a feature of many successful programs. By contrast, no projects can be identified that work with larger firms or money-lenders, attempting to increase subcontracting, for example, or to expand credit through existing market channels.
- The project is frequently concentrated in a limited geographic area but rarely limits its activities to specific

sectors or focuses on a related group of firms. The emphasis is generally placed on "productive" as opposed to "commercial" activities and on the "enterprise" rather than the larger familial or ethnic group structure of which it may be a part. Despite the focus on production, technical assistance rarely emphasizes the technical aspects of the operation (improving workflow, reducing wastage, etc.).

- The project generally does not become involved in forming or work with associations or other pressure groups except those sponsored by the government (chambre de metiers, etc.). It rarely becomes involved in helping firms to comply with regulatory requirements, much less changing the requirements.

Judged on their own terms, some of these projects have been successful (and some have been disastrous failures). In the better programs, loan repayments have exceeded 90 percent, participating firms have registered expanded sales and employment (although comparisons to non-participating firms are lacking), the implementing agency has been strengthened. Judged in the context of the national economies, however, the projects have accomplished very little. They have reached an infinitesimal portion of the informal sector, providing benefits that cannot be sustained.

In summary, projects following the standard micro-enterprise model may be a useful element in a strategy to promote broad-based economic expansion, but by themselves they constitute an inadequate response. To the degree that they create an illusion of action, diverting attention from growth-limiting restraints in the system as a whole, they are counter-productive.

The remaining three models offer competing (or perhaps complementary) approaches to bringing about change in the system itself.

The Structural Adjustment Model

Four features are common to donor-funded assistance using the structural adjustment model, whether directed at the sectoral or macroeconomic level:

- A reform program is defined by the donors, sometimes in collaboration with host country officials. The program typically combines macroeconomic and microeconomic reforms, such as exchange rate adjustment, scaling down of the public sector employment rolls, and decontrolling agricultural prices.

- Adoption of the program is brought about by dialogue between the donors and the government, generally accompanied by analysis of the benefits to be gained and, more rarely, the costs to be incurred.
- Implementation of the reform program is linked to a transfer of foreign exchange resources, often through periodic assessment of progress in implementing reforms before disbursements are made.
- Technical assistance may be provided during implementation, but it is usually confined to economic analysis to measure impacts and assistance in redrafting regulations. (Management assistance to state-owned enterprises may also be provided.) It is assumed that the State has effective control over its own apparatus, ranging from governors or other local leaders to individual tax collectors, and that assistance is not needed in this area. It is also assumed that central government officials are in a decision-making position, and that efforts to build public support for the reform, mobilize interest groups favoring the reform, or negotiate with the legislature (in cases where the latter is a real force) are either unnecessary or the responsibility of the government.

Structural adjustment programs and other dialogue-led reform efforts have become a mainstay of donor activity in the past ten years. Results have been mixed, but generally positive where real reform has resulted, as shown by recent reviews comparing countries implementing reforms with those that did not (see, for example, the 1988 *World Development Report*). Although nearly all of the countries of the Sahel have participated in a structural adjustment program (and often in several), these programs have generally not addressed reform of the relationship between the State and the entrepreneur (except in the area of international trade). Only the Malian program has emphasized reform of the commercial code and liberalization of registration requirements. Improved tax collection has been a feature of most programs; tax reform to restructure the tax base a component of relatively few.

Equally important, structural adjustment programs have tended to concentrate on the formal adoption of reforms at the macroeconomic level, with less attention to the nitty-gritty of implementation. Discussion and analysis might focus on reduction of tariff rates, for example, without measuring the amounts actually paid by the importer and collected by the

State (equal in theory but not in practice), both before and after the reform. Virtually no attention is paid to parallel actions needed at the provincial, municipal, or local level to achieve effective liberalization. In the control-oriented systems inherited from the colonial era, local authorities exercise considerable authority and autonomy in regulating economic activity. A study by the ILD in Peru found municipal authorities to be responsible for 60 percent of the regulations governing small enterprise activity in Lima, for example.

The Institutional Catalyst Model

A third approach, as yet untried in Africa, relies on a research institution, such as the ILD in Peru, or other non-governmental organization as a catalyst for action. In this model, the independent organization exerts pressure on government to implement reforms by conducting research to reveal the extent and impact of government's enterprise-hindering activities, builds support for these reforms by publicizing their findings, and mobilizes members of the informal sector to press for reform. The latter activity implies the politicization of the informal sector and of institutions controlled by informals. In the Peruvian case, for example, the ILD worked with the governing associations of informal housing projects (located on land seized from the government on the margins of the urban area) to bring about change in land registration procedures.

This approach derives its success from the mobilization of the latent political power of the informal sector. Because the informal sector is large and concentrated in urban areas, it has the potential to exert strong pressure on the government, once organized to do so. Application of this strategy by the donors in West Africa therefore presents two difficulties:

- *Lack of indigenous informal sector organizations.* In Peru, the ILD was able to take advantage of existing organizations formed by the informals for purposes of self-government. Some of these organizations were already highly-developed organizations when ILD began to work with them, offering services such as insurance to large memberships. It remains an open question whether similar groups exist in West Africa at all or whether alternatives, such as the management structure of large traditional informals, could be mobilized to fill a similar role. Organizations such as the ILD — research institutes with a strong commitment to private sector activity, sound leadership, and sufficient resources for independent action — are also lacking in West Africa.

- ***Politicization of donor programming.*** Whether the donor is a multilateral or a bilateral, the degree of politicization implied by this approach is difficult to reconcile with the donors' position vis-a-vis the local government or their methods of doing business.

Further analysis is needed to determine whether African parallels to the ILD exist or could be brought into being. Currently, a donor-funded pilot training workshop is being held in Lima for African researchers and policy planners, to examine the relevance of the Peruvian institutional reform initiatives and the ILD model for change.

The Pressure Group Model

This model reverses the cause-and-effect chain underlying the previous two approaches. Rather than assuming that change in the policies governing the private sector must precede growth of firms now in the informal sector, this model argues that policy change is the outgrowth of shifts in the balance of power caused by the growth of firms operating outside the mercantilist system. Under this model, it is argued that the informal sector does not have, nor is it likely to have, sufficient power to bring about effective liberalization. Instead, reform depends on the growth of private sector firms that do not rely on rent-seeking behavior for their profits as an opposing force to mercantilism. As these firms grow in economic power, they increase the pressure for political changes favoring free enterprise and the dismantling of the regulatory systems to which the modern and urban-marginal informal sectors are a response. This model most closely approximates the experience in Western Europe.

Under this model, donor support to change takes the form of assistance to existing medium-sized enterprises and to small formal and informal enterprises with the greatest potential for rapid growth, in order to accelerate the development of a pressure group sufficiently powerful to balance the forces of mercantilism. This assistance may be directed to specific firms through enterprise development programs (directed at somewhat larger firms than usually targeted by such programs) or it may be addressed to improving the systems that support the growth of such firms, including business education, infrastructure (both transport and communications), and so on.

Given the early stage of private sector development in the Sahel, this model is not a recipe for rapid change, but it may offer more lasting change built on a stronger base than the preceding two approaches. This model can only succeed, however, if there is sufficient room for growth in the existing system, given its deficiencies, to allow a strong private sector voice to emerge. Whether the current situation meets this criterion in some or all of the Sahelian countries is open to discussion.

WHERE DO WE GO FROM HERE?

Information Needs to Support Future Programming

The current literature generally treats the firms as atomistic actors, which, as argued throughout this paper, is neither accurate nor useful as a basis for planning. It is to be hoped that future analysis takes a more systematic approach to analysis of the sector. A systems approach that goes beyond the individual firm is necessary to clarify both relations between enterprises in the formal and informal sector and relations between the informal sector and the State. In the former area, a systems approach is needed to untangle how:

- *Formals and informals compete* in supplying the same or similar goods and services, with or without the intervention of the State to assist one side or the other;
- *Formals and informals engage in mutually beneficial trade* as customers and suppliers of each other;
- *Formals and informals impede each other*, whether by exploitative exchanges between formals and informals or disruption of each others' markets.

A systems approach is also necessary to understand the relations between the State and the informal sector. Researchers have called attention to the informals' major but unrecognized contribution to tax revenues in the Latin American context, but parallel analysis in the African context is limited. Several works call attention to the high cost of formality, both in terms of taxes and compliance with labor regulations, but few put this discussion in the broader context of relations between the State and private enterprise, formal and informal, and how these relations affect the evolution of the private sector as a whole.

The need for more information cannot be given priority over the need for action, given the desperate need to accelerate development in the Sahel. Nonetheless, action must be guided by an understanding of the clientele to be served. At the present time, our understanding of the informal sector in the Sahel is virtually nil in four areas:

- ***Associations in the Informal Sector.*** The literature on the urban informal sector is silent on the degree of organization within the sector and the potential role of such organizations or associations, if any, in bringing about changes beneficial to their members.
- ***Informal financial markets.*** Anecdotal evidence and common sense suggest that entrepreneurs cut off from formal financial markets must develop a range of alternatives to meet their needs for financial services. Whether these take the form of money-lenders, deposit collectors, rotating credit societies, or intra-familial financing, these structures may offer potential building blocks for integration of informals into the economy and for improved access to financial services.
- ***Ethnic Informals.*** The uneasy truce between the ethnic informals and the rest of Sahelian society has resulted in a virtual absence of research and analysis on these groups and their roles in economy, society, and polity.
- ***Traditional Informals.*** While there is a growing body of literature on traditional informals at the lower end of the spectrum (rural marginals such as market women, for example), analysis of larger traditional structures (the Alhazai and the Mourides, for example) is limited to the anthropological literature, and is hardly complete even there.

In addition, better understanding is needed of the differences between men and women entrepreneurs in the various subgroups of the informal sector. Analysis in this area must address not only how women-operated informals differ from those operated by men, but how entrepreneurial activity interacts with women's roles in traditional society to increase or decrease the opportunities open to women to improve their income, status, and well-being.

Finally, further research is needed to develop alternatives to the Western model for dealings between the State and the enterprise and, equally important, between enterprises. While this statement may call to mind theoretical flights of fancy, what is needed is highly applied and practical

analysis to develop systems of registration, property rights; labor law, contracts, torts, and taxation that would have equal validity for all types of enterprises in the Sahel and would meet the needs of the enterprises, the State, and the people of the Sahel.

Issues for Future Assistance

While a private enterprise development strategy that does not recognize the role and importance of the informal sector does not respond to the reality of the Sahel, an assistance strategy for informals that does not deal with the deficiencies of the broader context in which they operate is equally inadequate. The private sector problem must be treated as a whole, for two reasons. First, the formal sector is merely the tip of the private enterprise sector iceberg, visible but accounting for only a small share of sales, employment, and production. The Sahel does not face a situation wherein formal firms have access to legal protection, credit, and the other requisite for growth while informal firms do not: these systems simply do not function at all, with the exception of mercantilist arrangements negotiated between the State and a favored few.

Equally important, the informal sector is composed of several distinctly different groups, with too great a degree of diversity to develop a single strategy relevant for all. Side by side with informal enterprises fitting the Latin American urban model are informal enterprises following older, uniquely African models. Far from disappearing, these traditional models, developed over centuries to fit the unique environment of the Sahel, are reasserting themselves, while organizations on the Western model, arguably including the State itself in its current form, appear to be collapsing as the artificial support of the colonial environment is withdrawn.

The key issues to be resolved in formulating a private enterprise development strategy may be summarized as follows:

- *What is the appropriate structure for relations between the State and the small-scale informal sector.* Should small informals be regulated? Should they be taxed? What systems for taxation and regulation are consistent with the needs of the enterprises and the State?
- *What is the appropriate structure for relations between the State and the traditional or ethnic informal sector.* Are the differences between these enterprises and firms organized on the Western model an anachronism that should be eliminated or a

reflection of fundamental realities in the Sahel that should be reflected, in turn, in the legal environment governing the firms and their relations with the State?

- *What is the appropriate structure for relations among enterprises, given the diversity of the private sector in the Sahel.* Can systems of property rights, contracts, and torts be developed that are equally applicable to, and by, large-scale modern firms, traditional informals, and marginal enterprises?
- *How can change best be achieved?* If it is agreed that the present system of commercial regulation and taxation does not meet the needs of the formal or informal sector, what is the best way to remedy the situation? What is the appropriate role for the donors in the development and expression of economic interest groups?

Two measures may be suggested as appropriate first steps in addressing these issues:

- *Analysis of private sector mechanisms linking firms in the Sahel* to identify the nature and prevalence of informal, semi-formal, and formal mechanisms that cut across firms, whether in the formal or informal sector or both. Such mechanisms include associations and guilds, community- or religion-based organization, rotating credit societies, and enterprises such as deposit collectors that provide services to private firms.⁸

8. Although the literature on the private sector and the informal sector in the Sahel is fairly extensive, and growing rapidly, this literature focuses almost exclusively on the firms themselves and their relations with the State. Little attention is directed at analysis of formal and informal mechanisms linking firms. This gap is a reflection of the bias toward programs that deal with firms as atomistic actors, which, as argued this paper, is neither appropriate to the Sahel nor the most effective approach to achieve meaningful change. It may also be noted that the (presumed) absence of such linkage mechanisms strengthens the rationale for using outside organizations, such as PVOs, thus reducing the incentive for such groups to focus attention on mechanisms already in place.

- ***Review of commercial codes and supporting structures*** to determine the suitability of existing commercial regulations and institutions (such as commercial courts) for both formal and informal enterprises and to develop alternatives that better reflect the realities of Sahelian enterprises, societies, and institutional capabilities.

Both types of analysis must be conducted on a country-by-country basis to capture the diversity across the Sahelian region.

None of these issues is simple or easy to address, but their resolution is vital to real progress in achieving internal unity in the economies of the Sahel and paving the way for growth. While discussions of how best to organize microenterprise development projects have their place, such issues are marginal to the central questions confronting the leaders of the Sahel and, moreover, pose the danger of distracting attention from the real issues summarized above.

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