THE INFORMAL ECONOMY IN SUB-SAHARAN AFRICA:
UNRESOLVED ISSUES OF CONCEPT, CHARACTER AND MEASUREMENT

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Above: Mr George, a master-mechanic, with one of his apprentices in Suame Magazine, Kumasi, Ghana, August 2003.
The rapid growth of the informal economy in developing countries, particularly Sub-Saharan Africa (SSA), is evidenced by the increasingly important contribution it has to a developing country's GDP. The informal economy is now directly linked to the main objectives of development; increased production, job creation and combating poverty. Many countries in SSA have recognised the importance of the informal economy and policies to assist it are often included in country Poverty Reduction Strategy Papers.

This paper explores some of the unresolved issues surrounding the concept of the informal economy in SSA. This includes issues concerning origins, conceptualisation, characteristics, ways of measurement and ways to intervene and assist informal economic activities.

I would like to acknowledge the guidance and assistance of Prof. Kenneth King, Centre of African Studies, who has helped by reading draft versions of this paper and providing helpful feedback.
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### ABBREVIATIONS

<table>
<thead>
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<th>Abbreviation</th>
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<tr>
<td>DARE</td>
<td>Deagrarianisation and rural employment project</td>
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<tr>
<td>EARC</td>
<td>East African Royal Commission</td>
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<tr>
<td>EFA</td>
<td>Education For All</td>
</tr>
<tr>
<td>EGF</td>
<td>EMPRETEC Ghana Foundation</td>
</tr>
<tr>
<td>EMPRETEC</td>
<td>An SME support programme under UNCTAD.</td>
</tr>
<tr>
<td>FUSMED</td>
<td>Fund for Small and Medium Enterprises Development (Bank of Ghana).</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<tr>
<td>GPRTU</td>
<td>Ghana Private Road Transport Union</td>
</tr>
<tr>
<td>ICCES</td>
<td>Integrated Community Centres of Employable Skills (Ghana)</td>
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<td>ICLS</td>
<td>International Conference of Labour Statisticians</td>
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<tr>
<td>IDS</td>
<td>Institute of Development Studies</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>ISAs</td>
<td>Informal Sector Associations</td>
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<td>ISSER</td>
<td>Institute of Statistical, Social and Economic Research (University of Ghana)</td>
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<tr>
<td>ISTARN</td>
<td>Informal Sector Training and Resource Network (Zimbabwe)</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IASPA</td>
<td>Jobs and Skills Programme for Africa</td>
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<td>Millennium Development Goals</td>
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<td>NPP</td>
<td>New Patriotic Party (Ghana)</td>
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<td>Non-agricultural rural employment</td>
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<td>PAMSCAD</td>
<td>Programme of Action to Mitigate the Social Costs of Adjustment (Ghana)</td>
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<td>SAPs</td>
<td>Structural Adjustment Policies</td>
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<td>SSA</td>
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<td>STEP</td>
<td>Skills Training and Employment Promotion (Ghana)</td>
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<tr>
<td>SNA</td>
<td>System of National Accounts</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNICEF</td>
<td>United Nations Children's Fund</td>
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SECTION ONE

1.0 INTRODUCTION

The informal sector Heffalump is a rather large and very important animal. She has been hunted by many individuals using various ingenious trapping devices, but no one so far has succeeded in either capturing or accurately measuring her. All who claim to have caught sight of her report that she is enormous, but they disagree on her particulars. Most Heffalump hunters travel long distances to categorise the animal and some have made a career of it. However, increasingly local hunters are involved too, albeit for less reward and on a more ad hoc basis than the big-game hunters of Europe and America.

The informal sector Heffalump is a variegated sort of animal, appearing in different forms in different places. When the informal sector Heffalump was first discovered she was found in an urban area, so thought to be an urban animal, but has since been identified as a native of different habitats. She also appears to have undergone some evolutionary changes or mutations since the first reports of her existence were made public by Heffalump hunters in the past. So it is not surprising that there is disagreement about the nature of the beast.\(^1\)

The rapid growth of the informal economy in developing countries, particularly Sub-Saharan Africa (SSA), has been brought about as a result of the weakness of the formal sector to generate employment and income opportunities (indeed the formal economy in Africa is stagnating\(^2\) as well as the increased rate of rural-urban migration and enlarging labour force (Blunch et al., 2001: 10; Sethuraman, 1997). The associated increase in non-farm employment, 'rural micro-enterprises' and MSEs generally (Jeans, 1999; Kilby 1986 in Livingstone, 1997; King and McGrath, 1999a; Liedholm and Mead, 1999) has led governments, planners, donors and academics to recognise the increasingly important contribution the informal sector has to a developing country's gross domestic product (GDP) (Xaba et al., 2002). In addition the informal sector is now directly linked to the main objectives of development; increased production, job creation and combating poverty (Afrisat, 1997a).

As a concept today, the informal economy encompasses myriad different economic activities, including home-based work, street vending, those entrepreneurs employing other workers, self-employed and seasonal casual workers (Chen et al., 1999) and is usually restricted to non-agricultural activities.

Informal sector activities are typically carried out in small units, micro-enterprises, established, owned and operated by one or a few individuals with little capital; the activities are usually labour-intensive and result in low-quality but relatively cheap goods and services; micro-enterprises tend to have limited

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\(^1\) Adapted and developed from Kilby (1971: 1) and Wilken (1979: xi). See section 5.

\(^2\) As a result of the Structural Adjustment Policies (SAPs), implemented throughout Africa in the 1980s (starting in Ghana in 1983), government spending was cut back resulting in a stagnation of formal sector employment opportunities and the concomitant explosion of informal activities.
This paper will explore the origins and changing conceptualisations of the informal economy concept in Sub-Saharan Africa. It will look at the ways that the concept has been developed and interpreted by researchers, who have for the last thirty years been searching for origins, conceptualisation, characteristics, ways of measurement and ways to intervene and assist the 'sector'.

1.1 Main Research Questions for Paper

This paper has been guided by the following main research questions, which are presented below in roughly the order they are examined in the text:

- What is the prehistory of the informal sector concept?
- How did the early studies of Hart (Ghana) and the International Labour Organisation (ILO) (Kenya) provide insight into the concept of the informal sector that has withstood the test of time, and how were they criticised?
- How has the informal sector been conceived of by different people?
- What is the relationship between the formal and informal sectors?
- What are the general characteristics of informal economic activities?
- Is there a ‘moral economy’ in subsistence entrepreneurship?
- What is the rural informal sector?
- What interventions have been made into the informal sector?
- In what ways is the concept still useful, if at all?
SECTION TWO

2.0 A PRE-HISTORY OF THE INFORMAL SECTOR CONCEPT AND IDENTIFICATION BEFORE HART AND THE ILO

The International Labour Organisation (ILO)/United Nations Development Programme (UNDP) Employment Mission to Kenya in 1972 (ILO, 1972) is widely known to have ushered in the increasingly widespread use of the term ‘informal sector’. However, the British anthropologist, Keith Hart, following his research in Ghana between 1965-68 among Frafra migrants in Accra (Hart, 1973), is largely credited as being the “discoverer” of the ‘informal sector’. These two early pieces on the informal sector are worth briefly revisiting, since the ideas that arose from these two seminal studies had a strong effect in shaping later views of the topic.

However, instead of starting the discussion from the ‘birth’ of the informal sector concept with Hart and the ILO Kenya mission, it would be interesting to first explore some of the pre-history of the informal sector idea. What is the origin of the informal sector concept? Most literature on the colonial economies of Sub-Saharan Africa tends to concentrate predominantly on the activities of British or French firms or individuals, and the indigenous African bourgeoisie that dealt with them. Frimpong-Ansah (1991: 55) rightly notes that the literature “is rather weak on the economic activities of the rest of the population”. It is axiomatic to point out that, even though Hart (1970, 1973) ‘discovered’ the informal economy, as Douglas Rimmer puts it, it “doubtless exist[ed] already” (1992: 36).

While the informal sector concept may have been ‘discovered’ by Hart in Ghana, and brought out on display by the ILO in Kenya, like most discoveries, there were numerous behind-the-scenes ‘assistants’ who have shaped the thinking and theorising of the idea, before Hart, and before the ILO Kenya mission. This section will look first at the origin of the formal/informal dualism in the dual economy literature of the 1950s. It will then examine more closely some of the behind-the-scenes ‘assistants’, from research and reports in Kenya, Nigeria, Ghana and Indonesia who most likely helped to mould the ideas of Hart and the ILO Kenya report.4

It has been claimed, for example, that the informal/formal economy dualism was simply a spin-off of the dual economy literature of the 1950s (cf. Bromley, 1978), with ‘informal’ and ‘formal’ replacing ‘traditional’ and ‘modern’ respectively, albeit with some conceptual adjustment. In 1954, W. A. Lewis published his Economic Development with Unlimited Supplies of Labour, which did much to popularise the existence of a traditional-

4 Some ‘pre-Hart’ studies, made a distinction between formal and informal, such as that made by Charles Nisbet in 1967 between informal credit markets and formal credit markets. Other ‘pre-Hart’ research identified the lack of specialisation, or a preference for diversification, in business activity in West Africa, although Hart acknowledged this in his 1970 article (p. 108) See Bauer, P. (1954) West African Trade, Cambridge University Press, Cambridge. The analysis of pre-Hart and pre-ILO research on the ‘informal sector’ presented in this section is not meant to be a definitive collection. The intention is merely to highlight some of the more interesting pieces of this time.
modem dichotomy of developing country economies.\(^5\) The Lewis two-sector model (Lewis, 1954), as it came to be known, was the dominant theory of the development process of surplus labour in developing countries during most of the 1960s and 1970s. With reference to developing countries, or 'underdeveloped economies', the Lewis model postulated the existence of two distinct sectors. The first being an overpopulated, traditional, rural, subsistence agricultural sector, characterised by zero marginal labour productivity. Lewis classifies those in this sector as surplus labour as, it is postulated, labour can be withdrawn from this sector with no loss to output. The second of this dualistic interpretation is represented by the modern, industrial sector, characterised by high-productivity. In this model, labour from the subsistence sector is gradually transferred to the modern sector (after Todaro, 2000: 84).

2.1 Kenyan origins\(^6\)

In Kenya, the East African Royal Commission (EARC) of 1953-55, commented that the clusters of small enterprise activities on the outskirts of Nairobi, activities that would later fall under the informal sector concept of the ILO, were "important as centres of African trade" (EARC, 1955: 208). Further, the EARC noted that the activities of the African traders "are on a very small scale and, lacking security of tenure, they have no incentive to improve their premises. Yet to clear these areas... would be to destroy what in some urban areas, constitutes the only development of African commercial enterprise (EARC, 1955: 208).

In 1966, came the 'Report to the Kericho Conference in Kenya'. What would soon be termed the 'informal sector' was described by Harbison as a sector where the unemployed "eke out an existence as casual labourers, stall-holders, beggars and petty thieves" (Harbison, 1967: 176-177) with activities also including "petty barter trade and traditional crafts" (ibid.). The report also talks of indigenous apprenticeship systems (Harbison, 1967: 191). Harbison saw operators in this sector as "unemployed or those under-employed petty trade, primitive crafts, begging and other low productivity activities" (1967: 191). This negative view contrasts with the positive view of the ILO a few years later.

In 1971, Marris and Somerset published the African Businessmen, based on fieldwork conducted between 1966-1967 in Kenya on 935 small firms\(^7\). They noted some interesting aspects of African business activities in 'local' markets; lack of differentiation, often sporadic opening of enterprises due to other commitments, multiple-employment – in an enterprise and farming, and that many enterprises appeared to be more subsistence based (Marris and Somerset, 1971: 16).

\(^5\) Earlier work on a traditional-modern dichotomy had been done in Indonesia by Boeke. See Boeke, J. (1953) Economics and Economic Policy of Dual Societies as Exemplified by Indonesia, International Secretariat of Pacific Relations, New York.

\(^6\) The outline for part of this section can be attributed to King, 1996: 4 -10.

\(^7\) This included 87 small businesses supported by the Industrial and Commercial Development Corporation (ICDC) in Kenya and, more interestingly perhaps, 848 small African enterprises from market centres around the country.
In 1972, David Steele, then at the Institute of Development Studies (IDS), University of Sussex, presented his idea of an ‘intermediate sector’ (Steele, 1972: 208) in Kenya at a conference at the Centre of African Studies, University of Edinburgh, in April that year, on ‘Developmental Trends in Kenya’. Steele noted that an unknown portion of service and manufacturing [African business], is not registered in the big towns or the rural areas for factory, social insurance, minimum wage, or statistics collecting legislation. Yet there are indications that it is a significant zone for entrepreneurial activity. Policy does very little to assist and the sector as a whole fits only piecemeal into development theory. (Steele, 1972: 206)

Steele’s colleagues at IDS included the two main authors of the ILO Kenya report, Hans Singer and Richard Jolly. Since the ILO Kenya report was not submitted in draft form until early July 1972, and published until November 1972, it is likely that some of Steele’s ideas filtered into the thinking of the ILO Kenya report write-up.

However, while clearly talking about the same sector, or group of people, that the ILO classified under its ‘informal sector’ in the ILO Kenya report later that year, Steele’s ideas differed somewhat in conceptualisation. Steele’s ‘intermediate sector’ was suggested as a third sector, as the intermediate stage “halfway between the two extreme stages” of traditional and modern (Steele, 1972: 208). Steele notes that one reason the term ‘intermediate’ is used, is because it specifically suggests the “evolutionary nature of some aspects of development” (1972: 208). In other words, that he envisaged the ‘intermediate’ sector as a transitory stage for either development itself, en route to a modern economy, or for enterprises themselves as possible stage that might result in access to modern sector status. Steele also suggests that the ‘intermediate sector’ has no real autonomy with respect to independent growth. According to Steele, it’s growth is limited by the growth of cash crop agriculture and modern sector employees using their incomes to support the growth of the ‘third sector’ (Steele, 1972: 208-9, 234).

Steele highlights some “awkward” issues related to policy intervention in the ‘intermediate sector’ (Steele, 1972: 226). Can a programme operated from the modern sector… fit in and assist the already fast growth of the intermediate sector, or would the imposition of an institutional framework do more harm than good?... Given the highly competitive nature of firms within the intermediate sector between themselves and the delicate balance of competition with the modern sector, how far can government go in enforcing profits taxation, factory legislation, health and hygiene laws, minimum wages and social insurance? (Steele, 1972: 226)

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8 This brings to mind Callaway, see section 2.2, who noted the existence of ‘transition’ activities that are “between family subsistence farms and modern industrial units” (1963: 359).
9 See section 12.6.
2.2 Nigerian origins

In Nigeria, in the early 1960s, Archibald Callaway’s research, *Unemployment Among African School Leavers* (1963), highlighted a number of key elements that would later be described as ‘informal sector’.

Firstly, Callaway gives the case of a ‘typical’ school leaver who goes to search for work in Ibadan, Western Nigeria. After exhausting the limited options for entry into the ‘modern’ sector, he then roams the streets, sauntering past the mechanic workshops and the small craft industries – the carpenters, tailors, sandal-makers. If his parents can afford the fees, he can compete to become an apprentice, perhaps to a motor mechanic. (Callaway, 1963: 355)

Callaway is talking here, in 1963, of “traditional apprenticeship” training (1963: 359), or what is now also termed informal sector training.

Secondly, Callaway notes the existence of ‘transition’ activities that are “between family subsistence farms and modern industrial units” (1963: 359). These ‘transition’ activities, presented in a positive light, are exactly the kinds of activities that the ILO talks about nearly ten years later in Kenya. Callaway notes that these ‘transitions’ include the small businesses of traders, self-employed artisans, and craftsmen, and the smaller firms of builders, transporters, and processors of agricultural products... This whole array of indigenous enterprises represents the only really competitive element in these economies as they vie with each other for customers. (Callaway, 1963: 359)

Lastly, as well as pointing out the labour intensive nature of the activities and the informal-type training they provided, Callaway highlighted an issue that has become one of the central questions regarding the informal sector. What is the capacity of these ‘transitions’ to absorb more African young people into profitable work? They take far more workers in proportion to each unit of capital than do the large modern factories; they also often provide low-cost training within the traditional apprenticeship patterns. (Callaway, 1963: 359)

2.3 Ghanaian origins

In Ghana, Foster’s research in the mid 1960s (1965), like Callaway’s in Nigeria just mentioned, brings up the issue of traditional apprenticeship, or informal apprenticeship. Foster notes that A considerable amount of road transport in West Africa is serviced and maintained not by highly trained operators but by “bush mechanics” who themselves have very little formal instruction. Upon this basis has developed a burgeoning system of informal apprenticeship; though most of the instruction is extremely rudimentary, here is an expanding base which can be built upon...

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10 I would like to thank Prof. King for bringing this to my notice.
[and] there are more opportunities for this kind of training than most of the large scale planners are prepared to admit. (1965: 156)

In 1971, Keith Hart first discussed his preliminary findings of informal economic activities, later published as his famous 1973 article (Hart, 1973), at a conference on ‘Urban Unemployment in Africa’ at the Institute of Development Studies, University of Sussex, in September that year. Present at this conference were ten members of the later ILO Employment Mission to Kenya in 1972, including the two leaders of the mission, Hans Singer and Richard Jolly. This early interaction with the concept of ‘informal economic activities’ discussed by Hart in September 1971, will have undoubtedly shaped some of the later ILO findings in Kenya the following year11 (cf. Bromley, 1978; Cruise O’Brien, 1972).

2.4 Indonesian origins12

As an anthropologist, Keith Hart read Clifford Geertz and his dualistic analysis of the economy in Java, Indonesia.13 Geertz categorised the economy as being made up of a bazaar, or pasar, economy and a firm economy (Geertz, 1963), which loosely translates into the traditional/modern economic model of Lewis (1954). The bazaar, or pasar, type economy encompasses the “whole pattern of small-scale paddling and processing activity” (ibid.: 30) and is characterised by inefficiency, under-organisation and overcomplicated procedures (ibid.: 58), resulting in a “marginal or near-marginal level of living” (ibid.: 29). In contrast, the firm type economy is on a larger scale, more effective (ibid.), respected, organised and “dedicated to long-term economic ends” (ibid.: 48). Geertz discusses how those in the pasar economy aim to ‘escape’ into the firm economy (ibid.: 51).

Geertz described a number of features of the bazaar type economy which are comparable to the later discussions of the informal sector by both Hart (1973) and the ILO (1972). For example, Geertz mentions: the small scale of operation (1963: 31); the labour intensive nature of activities (ibid.); the high turnover, but low volume and hence profit per transaction (ibid.); the lack of capital (ibid.: 41); financial lending between enterprises and between supplier and enterprise, based on trust, not a legal framework (ibid.: 36-37); the tendency to spread risk in transactions, by not entering into a single large transaction, but having lots of small ‘deals’ (ibid.: 40); the frequent use of the home for business activities (ibid.: 60); and the use of apprentices (ibid.).

Geertz describes the bazaar economy as a small-scale, day-to-day means of making a living, saying that “the pasar trader is a true marginal businessman; his world is one of a few rupiah here and a few there” (Geertz, 1963: 41).

11 A later member of the Kenya ILO team, John Weeks, also presented at this conference a paper on the 'unenumerated sector', a 'cousin' idea to the informal sector.
12 While Geetz was not researching in Sub-Saharan Africa, his bazaar/firm type distinction would still have been of interest. See footnote 11.
SECTION THREE

3.0 TOWARDS A THICK DESCRIPTION OF THE URBAN INFORMAL SECTOR: HART AND THE ILO

3.1 KEITH HART IN GHANA

Selling tea by the roadside or gin in his room; becoming a knife grinder... (or employing a young relative to do the job); hiring out a bike or two by the day or a sewing machine over longer periods. All these activities share the characteristics of being enterprises which may be started with a minimum of initial stocks and equipment... Premises need not be essential at first; the weather is predictable enough to permit work in the open or under a shade tree, on a verandah or in a room which is also living quarters. (Hart, 1969: 281)

Keith Hart conducted fieldwork in Ghana between 1965-68, exploring the ‘informal economic activities’ of the northern Frafra migrants once they moved to Accra. Hart notes that these Frafra migrants were generally unskilled illiterates, with many ending up in slums like Nima. His second article, Informal Income Opportunities and Urban Employment in Ghana (1973) describes the “economic activities of the low-income section of the labour force in Accra, the urban sub-proletariat into which the unskilled and illiterate majority... are drawn” (Hart, 1973: 61). Hart examines “this world of economic activities outside the organised labour force” (Hart, 1973: 68).

As seen, in sections 2.0 – 2.4, Hart’s work on the formal/informal sector was preceded by a wealth of research that was effectively looking at the same phenomenon, in all but the name (but see Foster, 1965: 156, who discusses ‘informal apprenticeship’ and, Nisbet, 1967, who discusses informal/formal credit markets). Hart would have had access to much of the literature discussed that explored many of the main aspects of the ‘informal sector-to-be’ such as: low-cost apprenticeship (Callaway, 1963; Foster, 1965); enterprise activities (Callaway, 1963b; EARC, 1955; Harbison, 1967); informal and formal finance (Nisbet, 1967); labour intensive activities (Callaway, 1963); diversification of enterprises (Bauer, 1954); not to mention the dual economy literature of the 1950s and 1960s, that brought about the traditional/modern dichotomy (Lewis, 1954). Thus, Hart being attributed the role of ‘discoverer’ of the informal sector seems an exaggeration, and it is most likely, he was in the right place at the right time. His presentation at the conference on ‘Urban Unemployment in Africa’ at IDS in September 1971, where Hans Singer and Richard Jolly were present, is likely to have been a major factor securing his name as the ‘father’ of the informal sector idea.

Nonetheless, Hart’s two early articles on his fieldwork, Small-scale Entrepreneurs in Ghana and Development Planning (1970) and especially his Informal Income Opportunities and Urban Employment in Ghana (1973) were important pieces for a number of reasons. This section will first look at some of the useful contributions that

14 However, in Hart’s doctoral thesis, he also examines the economic activities of the Frafra in rural areas in northern Ghana, see section 11.
Hart made to the informal sector idea, and secondly, critically examine some of the less-useful suggestions put forward in his work.

3.2 THE STRENGTHS OF HART’S RESEARCH ON THE INFORMAL SECTOR

3.21 Identification of productive income generating activities

Hart’s approach to the informal sector was different from the earlier, largely negative, concept of the ‘traditional’ sector, with his identification of numerous income generating activities, and the explicit suggestion that the informal sector served a productive role in the total economy (cf. Hart, 1976: 492). The traditional sector had been classified as comprising unorganised and underemployed workers “shoeshine boys and sellers of matches” (Hart, 1973: 68). Hart’s research findings contrasted with this view (in line with Callaway, 1963b; EARC, 1955), and “stresses the important part played by these workers in supplying many of the essential services on which life in the city is dependent” (Hart, 1973: 68).

3.22 Multiple occupations

Hart discussed the issue of multiple occupations, that most people had more than one job or income-generating activity (Hart, 1970: 107-109; 1973: 78). He noted the crucial issue of ‘straddling’ (although he did not use that term); whereby formal sector employees have informal activities on the side (Hart, 1970: 107).

Informal sector provides opportunities not only for the ‘jobless’, but also for those in waged employment that are supplementing their meagre income by entering into this area. Therefore, Hart noted, the notion of a transition between un- or under-employment to full-time employment is empirically and theoretically absurd (1973: 83).

His research revealed that it was rare to be dependent on one income source and that, not only was it common for wage-earners to have side-line jobs, but “multiple informal employment... [was] almost universal in the economic behaviour of Accra’s sub-proletariat” (Hart, 1973: 78). This taking up more than one job, the duplication of wage employment, was extremely common in Nima (1965-68) where his research was conducted (Hart, 1973: 66).

3.23 The calculation of labour statistics: Who are the unemployed and underemployed?

Hart noted, in a later article reflecting on his original Ghana fieldwork, that the urban poor in his early studies were “certainly employed, if not for wages” (Hart, 1992: 216). His statement refers to the issue of who is officially working, receiving wages, and recognised in statistics as such, compared to those that have always been working, but have escaped official recognition.

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15 See also section 8.1 on occupational pluralism.
16 Although, as Hart noted (1970: 108), this issue had been well documented before. See footnote 4.
From the employment statistics from Nima of the 1960 Census of Population, it was “clear that a very large part of the urban labour force... [was] not touched by wage employment” (Hart, 1973: 62). Hart recognised that those that could not get access to formal sector jobs entered the informal sector as a strategy to generate income (1973: 67). Thus many ‘jobs’ were not recorded in official statistics.

In addition, wage duplication either in the formal or informal sectors, or between the two, Hart notes, has an impact on the calculation of labour statistics, which are produced on the assumption of ‘one man one job’. This assumption is “risky” when low pay and few hours are offered in waged jobs (Hart, 1973: 66). Hart comments that, given the (relative) ease at which to enter into some form of self-employment in the informal sector, it would be expected that few of the officially ‘unemployed’ are likely to be without some form of income, however irregular and precarious (Hart, 1973: 81).

3.24 Typology is suggestive of a continuum between more survivalist and more dynamic elements of the informal sector

Hart’s conceptualisation of the informal economic activities seems to suggest a continuum between more survivalist and more dynamic elements within the informal sector itself. His typology (Fig. 1) provides examples of informal activities varying from hustlers and shoe-shiners to carpenters and transport operators. He notes that, “informal activities encompass a wide-ranging scale, from marginal operations to large enterprises”, (Hart, 1973: 68) or that the informal sector contains “petty enterprises of all types ranging from the most trivial activities to major business” (Hart, 1973: 67). The ‘major business’ element he later described as being largely “entrepreneurial activities in the services sector...[eg landlords, trotro operators who]...represent the apex of informal sector opportunities to the sub-proletariat” (1973: 71).

Hart (1973) defined the income opportunities available more in terms of the activities of those involved in them, rather than describing the actors themselves. He subdivides the informal economy into legitimate (e.g. artisans, petty traders, money lenders) and illegitimate (e.g. prostitution, smuggling, bribery) income opportunities (Fig. 1).

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17 Nima is a poor area of Accra.
**Formal income opportunities**
(a) Public sector wages.
(b) Private sector wages.
(c) Transfer payments - pensions, unemployment benefits.

**Informal income opportunities: legitimate**
(a) Primary and secondary activities - farming, market gardening, building contractors and associated activities, self-employed artisans, shoemakers, tailors, manufacturers of beers and spirits.
(b) Tertiary enterprises with relatively large capital inputs - housing, transport, utilities, commodity speculation, rentier activities.
(c) Small-scale distribution - market operatives, petty traders, street hawkers, caterers in food and drink, bar attendants, carriers [market porter], commission agents, and dealers.
(d) Other services - musicians, launderers, shoeshiners, barbers, night-soil removers, photographers, vehicle repair and other maintenance workers; brokerage and middlemanship, ritual services, magic and medicine.
(e) Private transfer payments - gifts and similar flows of money and goods between persons: borrowing; begging.

**Informal income opportunities: illegitimate**
(a) Services - hustlers and spivs in general; receivers of stolen goods; usury, and pawnbroking (at illegal interest rates); drug-pushers, prostitution, ponce ('pilot boy'), smuggling, bribery, political corruption, protection rackets.
(b) Transfers - petty theft (e.g. pickpockets), larceny (e.g. burglary and armed robbery), peculation and embezzlement, confidence tricksters, gambling.

### 3.25 Barriers to entry into the informal sector

While Hart noted the relative ease of gaining access to some informal sector activities (Hart, 1973: 81), he noted later that in order to gain access to other activities, particularly the more dynamic, profitable activities would require a person to overcome certain entry barriers. The more profitable activities, falling under the rubric of 'tertiary enterprises' require "relatively large capital inputs" (Hart, 1973: 69) and the essential prerequisite for entry into these activities is that savings have been accumulated (1973: 71). Hart notes that most entrepreneurs of this type combine their activity with a formal job (ibid.).

Other barriers to entry into these informal economic activities might include ethnic specialisation and the strength of a persons' 'informal social networks'. Hart notes that ethnic group concentrations "act as informal rings inhibiting entry into certain commodity trades" (Hart, 1973: 73). His research noted that it was common to find a

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18 See also section 8.13 on 'ease of entry' into the informal economy.
small market niche occupied by one type, group or ethnicity of people. For example, the Frafras specialised (in 1965-68) in fowls, bread and Northern artefacts. The access these groups had to supply sources, information control and trust gave these groups a comparative advantage over others wishing to operate within that sphere (1973: 71). Hart observed that information regarding new ‘jobs’ or openings, presumably within and without the informal sector, tends to travel along “informal social networks” (Hart, 1973: 77), rather than employment exchanges. New migrants do not tend to go for jobs where they do not have a relationship (kin, ethnic, social) already established.

3.3 CRITICISM OF HART’S RESEARCH AND INFORMAL SECTOR IDEAS

3.31 The distinction between wage/formal-employment and self/informal-employment

Hart asserted that, “the distinction between formal and informal income opportunities is based essentially on that between wage-earning and self-employment” (1973: 68). Soon after Hart’s 1973 piece, this distinction between formal and informal economic activities as one based on wage-employment and self-employment respectively, was criticised on a number of grounds, and today it has almost been abandoned (though still used by some for convenience; cf. Blunch et al., 2001).

This distinction excludes the possibility of workers being paid a wage in informal enterprises, as it excludes the possibility of those in the formal sector who are self-employed (Davies, 1979: 88). Further, Scott criticises the wage/self-employment distinction, noting that “no such clear cut dichotomy exists [and] that there are a number of intermediate forms between the two ‘pure’ states which are undetected by the official statistics” (1979: 105).

3.32 Listing of activities as ‘informal’ or ‘formal’ (cf. Fig 1 above)

Hart’s approach of listing informal activities (1973: 69) has been criticised since it does not take into consideration “the overlap between categories” (Davies, 1979: 88), since the same activities can also be found in the formal sector (Bromley, 1978: 1035; Davies, 1979: 88).

3.33 Urban bias

Hart’s presentation of informal economic activities in Nima, Accra, Ghana’s capital, very much orientated the concept of these ‘informal activities’ in the urban locale, and much of the subsequent work on the informal sector, including the ILO’s Kenya study (1972), served to promote this urban bias in informal sector research. Not only did the informal sector be largely seen as a purely urban phenomenon, but Hart’s research in Nima, a poor area of Accra, cast the location of the informal sector into the slums as well.19

19 In fact Hart’s doctoral thesis (1969) makes mention of all manner of non-farm economic activities in the north of Ghana in rural areas (see section 11). It is likely that, with the September 1971 IDS Conference topic set to ‘Urban Unemployment in Africa’, he simply took relevant material from his thesis related to
3.34 Formal/informal links

Hart asserts that the linkages between the formal and informal sectors is not extensive, with "most current expenditures" (Hart, 1973: 86) of goods and services in the informal sector being "internal transactions" (ibid.). However, Hart has been criticised for underplaying the linkages to the formal sector, with "his inability to recognise a net flow away from the informal toward the formal" (Long and Richardson, 1978: 180 original emphasis).
SECTION FOUR

4.0 THE ILO/UNDP EMPLOYMENT MISSION TO KENYA IN 1972 (ILO, 1972)

4.1 The birth of the informal sector in historical context: Universal Primary Education (UPE) by 1980 and the youth unemployment dilemma of the 1960s

Target setting, and re-setting, for UPE is nothing new. The current Millennium Development Goals (MDGs) related to education, set in 2000, have the target of achieving UPE by 2015. The MDGs and IDGs effectively represent a re-setting of already set targets. They were preceded by a UPE target for 2000 set in Jomtein, Thailand, in 1990, which itself was a re-setting of targets.20

Relevant to this paper’s discussion on the informal sector concept, and why it was taken up so quickly in the early 1970s, is the 1961 conference in Addis Ababa on the development of education in Africa, where a target was set to achieve universal primary education by 1980.

A few years after this conference, Callaway noted that “the advance towards universal primary education thus reveals itself as an opportunity – but also a dilemma” (1963: 354). He goes on to say that “only a few parents – most of whom are farmers – want their school children to become farmers” (ibid.). By the mid 1960s the dilemma was apparent as it became clear that an insufficient number of ‘modern’ jobs were being created that were needed to ‘absorb’ the people wanting to fill them (Bangasser, 2000: 4). It was becoming clear that increasingly large numbers of people were obviously economically active; but what they were doing did not appear in the [national development] plan and so, de facto, neither did they. (Bangasser, 2000: 4)

As a response to this problem, the ILO launched the World Employment Programme in 1969 in an attempt to bring the issue of employment creation to the forefront of developmental efforts. Previously, as per the conventional economic wisdom of the late 1960s, the issue of employment was one of the presumed eventual consequences of development itself.

The first employment missions, to Columbia (1970) and Sri Lanka (1971), both recommended a ‘full employment strategy’ involving major structural and institutional reforms, for example with land and fiscal reforms and the development of labour intensive employment schemes. In Columbia, the report noted the necessity to create five million new jobs between 1970-1985, but was soon criticised for being far too unrealistic and only likely to be adopted through ‘revolutionary process’ (Urrutia, in Moser, 1978: 1044).

20 The educational targets set differed marginally, but effectively represented a re-packaging of previous targets once it became obvious that the set targets could not be achieved.
The ILO mission to Kenya, the first comprehensive employment mission to Africa, differed from earlier missions in identifying the key problem not as unemployment per se, but employment of the ‘working poor’ (ILO, 1972: 9). The report positively described a sector apart from the ‘modern/formal sector’, an ‘informal sector’ that was “economically efficient and profit-making” (ILO, 1972: 5) characterised by ease of entry, labour intensive activities and providing skills training outside of the formal system (1972: 6). This interpretation of the informal sector would have fitted well with those concerned with the ‘primary school leaver’ or ‘youth employment’ problems of this time. Further, it would have fitted well with those thinking about the outcomes of UPE, then set for 1980. Since it was clear there were insufficient jobs created in formal employment, this ‘informal sector’ seemed a viable alternative with regards to job creation and employment opportunities for the products of UPE. Indeed the Kenya report explicitly noted this, in commenting that “The [informal] sector can be a source of future growth as an integral part of an employment strategy” (ILO, 1972: 229).

4.2 THE STRENGTHS OF THE ILO KENYA MISSION

The ILO report noted that the problem with employment is that the statistics are incomplete... omitting a range of wage earners and self-employed persons, male as well as female, in what we term “the informal sector”. (ILO, 1972: 5)

Seven important aspects of the ILO Kenya mission are worth discussing in a little more depth. The report

- Contributed to a new approach to the urban ‘traditional’ sector;
- Portrayed the informal sector in a positive light, as an important provider of employment and income;
- Identified characteristics of informal sector activities;
- Noted the significance of formal-informal linkages;
- Identified a ‘working poor’ (cf. Hart, 1973);
- Recognised that the informal sector was not an ephemeral phenomenon;
- Drew upon local researchers from Kenya.

4.21 Contributed to a new approach to the urban ‘traditional’ sector

The ILO mission to Kenya disagreed with the traditional/modern division of the economy, since this usual distinction, that saw the traditional sector as static and non-dynamic, “does not correspond to the reality of Kenya... [and] ignores the dynamism and

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21 See section 4.22.

22 The report devotes much effort towards an analysis of the informal sector in Kenya as well as the role it plays in the employment situation of the country. The whole of Chapter 13 is devoted to the informal sector, there are separate subsections in the introduction and policy recommendations sections and technical paper 22 outlines some of the links between the informal and formal sectors of the economy.

progressive elements indigenous to the... economy” (ILO, 1972: 503). Instead the mission describes “these two urban sectors” as the ‘formal’ and ‘informal’ sectors (ibid.). This formal/informal distinction is used by the ILO to “describe a duality that avoids the bias against the low-incomes sector inherent in the traditional-modern dichotomy. Both sectors are modern” (ILO, 1972: 503-504).

4.22 Informal sector seen in a positive light, as an important provider of employment, income and services/goods to the ‘working poor’

Where some previous research (cf. Geertz, 1963; Harbison, 1967) had seen those who would soon be described as belonging to the informal sector as marginal or unproductive, the ILO Kenya report presented the same actors as productive and the sector as an important provider of employment and income (in agreement with Callaway, 1963; EARC, 1955; Foster, 1965; Hart, 1970; Hart, 1973; Steele, 1972). This positive view of the informal sector, in contrast to some earlier findings, was clearly noted in the ILO report.

The popular view of informal-sector activities is that they are primarily those of petty traders, street hawkers, shoeshine boys and other groups “underemployed” on the streets of the big towns... the report suggest[ed] that the bulk of employment in the informal sector, far from being only marginally productive, is economically efficient and profit-making, though small in scale and limited by simple technologies, little capital and lack of links with the other (“formal”) sector. (ILO, 1972: 5)

The report notes that one reason people have previously not identified informal sector activities as being productive is due to the low wages that most receive in this sector. Further, that the cause of these low incomes was due to the informal sector itself, that it was a “stagnant, non-dynamic... net for the unemployed and for the thinly veiled idleness into which those who cannot find formal wage jobs must fall” (ILO, 1972: 5). However, the ILO report noted that ‘considerable evidence’ suggested that incomes in the informal sector were higher than those in ‘smallholder agriculture’ and that technical change was apparent (ibid.).

The report mentioned that the informal sector provided not only employment opportunities, but also goods and services that would not otherwise be able to be supplied to, or afforded by, most people (ILO, 1972: 229).

While the ILO report presented the informal sector as a dynamic sector, full of potential, it noted that under the present situation (Kenya in the early 1970s) of benign neglect at best and overt repression at worst, the informal sector would be unlikely to develop successfully (ILO, 1972: 505). The report notes that although it has the potential for dynamic, evolutionary growth, under the existing nexus of restrictions and disincentives, the seeds of involutionary growth have been sown (ILO, 1972: 505).

24 See also section 8.14 on ‘earnings in the informal economy’.
25 ‘Involuntionary’ growth is “growth that turns in on itself. The informal sector has the potential of absorbing labour even if incomes do not rise, because of family ownership of enterprises. If the growth of
The report discusses how the rapid increase in migration following independence in Kenya, led to a rapid expansion of the informal sector, though more in terms of total employed than in output or productivity (ILO, 1972: 94).²⁶

The ILO report mentions that as a result of the “pejorative view” of the nature of the informal sector, the informal sector has had to operate “under extremely debilitating restrictions”, and as a result “there exists an imminent danger that this view could become a self-fulfilling prophecy” (ILO, 1972: 5-6).

4.23 Identified characteristics of informal sector activities²⁷

Unlike Hart, who delimited specific informal economic activities (1973: 69), the ILO report stressed that informal activities are not confined to employment on the periphery of the main towns, to particular occupations or even to economic activities. Rather, informal activities are the way of doing things, characterised by –

(a) ease of entry;
(b) reliance on indigenous resources;
(c) family ownership of enterprises;
(d) small scale of operation;
(e) labour-intensive and adapted technology;
(f) skilled acquired outside the formal school system; and
(g) unregulated and competitive markets. (ILO, 1972: 6 emphasis added)

This identification of informal activities as a way of doing things was an important step forward in the understanding of what the informal sector actually is. Even today, after more than 30 years of research on the informal sector that would probably fill a small library, it is difficult to find a better, more succinct, description of the informal sector.²⁸

On the issue of illegality, the report noted that it was “due not to the nature of the economic activity but to the official limitation of access to legitimate activity” (ILO, 1972: 504).²⁹

²⁶ “Limited resources and continuing restrictions on activities inhibited the expansion of output at the same time as the family base of most informal-sector operations enabled, or... compelled, the informal sector to continue to absorb labour, even if at low incomes. The result was a rapid “involuntary” growth, in which the number of people in the sector increased faster than incomes, adding to the numbers of the working poor” (ILO, 1972: 94).
²⁷ See also section 8 on ‘characteristics’ of informal economic activities.
²⁸ However, see section 4.3 for a critique of the characteristics of the informal sector as suggested in the 1972 ILO report.
²⁹ For a fuller discussion on legality in the informal sector see sections 8.5 and 8.6.
4.24 Significance of developing formal-informal linkages

The 1972 ILO report in Kenya placed "great stress on the pervasive importance of the link between formal and informal activities" (ILO, 1972: 6). The strategy suggested by the ILO involved establishing more links and strengthening existing links between the informal sector and other sectors (ILO, 1972: 505-506).

4.25 Identification of the 'working poor'

Like others before them (cf. Hart, 1973), the ILO team recognised that few people were actually really unemployed, most people were working since, with no state welfare system or unemployment benefit, they had to make an income somehow, no matter how small or unrenumerative. Not only was their work unenumerated and undeclared, but many of those in this position received an income that was insufficient for their basic needs. The ILO termed this group in the informal sector the 'working poor' (ILO, 1972: 9).

4.26 Recognised that the informal sector was not ephemeral phenomenon

On the relationship between the informal sector and the government, the ILO report noted that usually they were simply ignored, "rarely supported, often regulated and sometimes actively discouraged" (ILO, 1972: 6). However, the report went on to note that employment in the informal sector has grown in spite of obstacles and lack of outside support: the evidence suggests that employment has probably increased a good deal faster in the informal than in the formal sector. (ILO, 1972: 6)

The report made it clear that, regardless of government and the policies adopted towards the informal sector, in urban areas at least, the informal would expand for a considerable period of time (ILO, 1972: 228). Expanding for a considerable period of time sounds positive, but the type of expansion that can occur, evolutionary or involuntionary, can alter this positive view of informal sector growth. Whether the informal sector is expanding without growth is still a 'hot topic' today. The ILO report commented that the growth of the informal sector in Kenya in the early 1970s would be involutonary unless there was a change in policy towards it, the formal/informal gap would widen and the problem of employment would become more severe (ILO, 1972: 505).

4.27 Drew upon local researchers

The ILO mission to Kenya in the early 1970s drew upon local researchers that worked alongside the foreign 'experts' in the production of research findings. In the preface to the report it was acknowledged that there emerged a clear need to draw more fully on local expertise. Obvious though this need may seem, its recognition on the part of the international mission was

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30 The ILO report, in 1972, suggested that the informal sector would continue to expand for at least the next 20 years, until the mid 1980s. Clearly, in hindsight, this expansion has gone on a lot longer.

31 For further discussion of the strengths and weaknesses inherent in the methodological approach of the Kenyan, and other, World Employment Missions, see Bangasser (2000: 6-8).
something of an innovation... The full involvement of local residents of the country in the work of the mission added greatly to the report and, judging from this experience, would be a valuable innovation for other international missions. (ILO, 1972: xiii)

Indeed this 'innovation' proved very useful, as is acknowledged in a footnote to the ILO report (1972: 6, footnote 1) that the mission's analysis of the informal sector was 'greatly influenced' by members of the Institute for Development Studies at the University of Nairobi. As Bangasser puts it, "in other words, it was not the ILO which invented the concept of the informal sector. It came out of thinkers and analysts of the Third World" (2000: 10).32

4.3 CRITICISM OF THE ILO'S INFORMAL SECTOR CONCEPT

4.3.1 Urban bias

The ILO Kenya mission described "two urban sectors" as the 'formal' and 'informal' sectors (ILO, 1972: 503 emphasis added), directly placing the informal sector idea into an urban framework, largely excluding discussion of an informal sector in peri-urban or rural areas.33 The urban bias in informal sector studies was noticed early (cf. Bromley, 1978).

However, the initial bias was compounded by the 'urban unemployment research programme' that ran parallel to the World Employment Programmes from the early 1970s. Research by S. V. Sethuraman and Harold Lubell subsequently "cast the notion of informality into an exclusively urban context" (Bangasser, 2000: 11). Consequently, there was much written on the urban informal sector in the 1970s/1980s, and very little discussion of how relevant the concept was to rural areas.34

4.3.2 Unrealistic policies suggested

The ILO Kenya report was criticised for laying too much emphasis on the employment/unemployment problem and not enough emphasis on economic growth, while at the same time making rapid economic growth a necessity for solving the problem (Moser, 1978: 1045). Colin Leys described "the recommendations... as utopian" (1973: 421). He goes on to outline what the ILO report recommendations would mean—redistribution from growth:

To generate productive employment for the masses, the one percent of the population earning over £700 per annum (the rich) would, under the mission's proposals, accept a substantial cut in their real incomes immediately—through

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32 Though it should be noted that in the early 1970s there were many foreign 'experts' working in the Institute for Development Studies (IDS), University of Nairobi. It is not clear in the ILO Kenya report to what extent these foreign outsiders working in IDS in Nairobi influenced the 'real' local researchers mentioned in the report (see ILO, 1972: xiii-xv).

33 However, the ILO Kenya report did state that the informal sector idea was applicable to rural areas, mentioning a dichotomy between official, large-scale plantation agriculture and unofficial, subsistence agriculture (ILO, 1972). This distinction failed to fully discuss other non-farm enterprises in rural areas, but see ILO (1972: 223) and section 11 (this paper) on the rural informal economy.

34 See also section 11 on the rural informal economy.
drastically improved and more progressive tax collection – followed by a complete freeze for five years, and therefore would forego any substantial improvement for a further seven years (to 1985): so that the real incomes of the 'working poor' and the wholly unemployed could be doubled bringing them by 1985 at the latest up to roughly the level of the legal minimum wage adopted for Nairobi in 1966. This is called 'redistribution from growth'. (Leys, 1973: 421)

In other words, the elite, the powerful in Kenya, the MPs, Ministers, and government officials would have to impose on themselves payment of much higher tax combined with a salary freeze, that would result in an overall decline in real incomes for themselves, their families and their clientele base (Leys, 1973).35 Leys asks “what incentive [did] the mission [think] all these groups... might possibly have for making such sacrifices” (1973: 422).

The ILO report recommended massive governmental support to Kenya’s informal sector, for example with training programmes, credit facilities, technical assistance, and an easier licensing process (ILO, 1972: 228-232). Large scale state intervention in the informal sector has been criticised for possibly undermining the strengths the informal sector had in the first place.37

4.33 Labour characteristics ignored: wage work and apprentices in the informal sector

The ILO definition failed to appreciate a number of characteristics, notably that wage labour and apprentices form an important part of the informal sector (cf. Blunch et al., 2001; Leys, 1973: 426).

4.34 Lack of discussion on the prevalence of formal-informal linkages

According to Leys, the Kenya report failed to place the informal sector within the “far larger system of exploitation” (1973: 426). The informal sector produces goods and services at very low costs which enables the formal sector to make a profit by paying a low minimum wage (ibid.). In this view the informal sector subsidises the profits of the formal sector.

The report advocates much greater formal-informal linkages, between both the public and private formal sector and the informal sector. The report is trying to encourage links between formal and informal, where previously they did not exist. Presumably they did not exist because the large scale, mainly foreign owned, formal sector firms did not find it profitable to link in any large way to the informal sector, as suppliers of parts for example. Though the formal sector firms might be persuaded to buy goods and services from the informal sector on the condition that they would get a cheaper rate than they do from their existing suppliers. The effect would be to keep wages and incomes in the informal sector

35 This overall decline in real incomes for the rich was acknowledged in the ILO report, albeit in a footnote. See ILO (1972, 111: footnote 4).
36 For further discussion on this see Leys (1973: 421 - 423).
37 See section 12.6 for a discussion of this – the dilemma of intervention.
very low at the same time as imposing tighter regulations and procedures to govern these new transactions with the formal sector (Leys, 1973: 427).

4.35 Depiction of a sharp formal/informal dualism

The ILO Kenya report has been criticized for depicting the informal sector as the opposite of the formal sector. The report states that “the characteristics of formal-sector activities are the obverse of” (ILO, 1972: 6) informal sector characteristics. As Bromley notes, “the informal/formal division is inapplicable to many people as they work in both sectors at different stages in their life cycle, times of year, or even times of day” (1978: 1035).38

4.36 The ILO formal/informal distinction was ‘nothing new’

The ILO’s division of the economy into two sectors, informal and formal, “effectively reeate[es] and renam[es] W. Arthur Lewis’s dualistic model of the interaction between the modern and traditional sectors in underdeveloped countries” (Bromley, 1990: 336). However, the ILO report seems to have clearly explained this issue, making the criticism rather obsolete.39

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38 For a further discussion on this see section 8.1.
SECTION FIVE

5.0 CONCEPTUALISATIONS OF THE INFORMAL SECTOR

As Mead and Morrison (1996) rightly point out, unless the term 'informal sector' is precisely defined, it is difficult to understand what the author means. However, the conceptualisation of the informal sector remains 'fuzzy' (Peattie, 1987: 851; Blunch et al., 2001: 6). Presumably commenting on this 'fuzzy' nature of the informal sector concept, the Latin American economist, Hernando de Soto once compared the informal sector to an elephant - 'we may not be able to define it precisely, but we know it when we see it' (quotation from Mead and Morisson, 1996: 1611). De Soto's analogy brings to mind Kilby's article, *Hunting the heffalump* (Kilby, 1971), where Kilby used 'heffalump' to describe 'entrepreneurs'. Kilby noted that

The Heffalump is a rather large and very important animal. He has been hunted by many individuals using various ingenious trapping devices, but no one so far has succeeded in capturing him. All who claim to have caught sight of him report that he is enormous, but they disagree on his particularities. Not having explored his current habitat with sufficient care, some hunters have used as bait their own favourite dishes and have then tried to persuade people that what they caught was a Heffalump. However, very few are convinced and the hunt goes on. (Kilby, 1971: 1)

Perhaps de Soto, while making an analogy to elephants, was really thinking of Kilby's 'heffalump'. Regardless, like Kilby's heffalump (and de Soto's "elephant"), there is little agreement over the actual characteristics of the informal sector and academics, policy makers and practitioners have yet to develop a complete understanding of its behaviour. Like the Heffalump, the informal sector is widely known about but remains a mysterious creature.

5.1 Petty commodity production: the Informal sector as subordinate part of the formal sector

Petty commodity production is identified as a transitional mode between feudal and other non-capitalist modes, and the capitalist mode of production. (Marx, 1972: 36)

Marxist writers tend to stress the dominant and subordinate modes of production with reference to the formal and informal sectors respectively. The Marxist approach emphasises the exploitative relationship between the formal and informal sectors, with the

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41 This perhaps led Mead and Morrison to write a paper entitled *The Informal Sector Elephant* (Mead and Morrison, 1996).
42 In 1971, economist Peter Kilby compared those who study entrepreneurship to the characters in the Winnie-the-Pooh children's stories. In one story, the characters go hunting for the mysterious creature the Heffalump. Even though they all claim to know about the Heffalump, none of the characters have ever captured one, and 'they disagree on his particularities'. See Kilby (1971).
former dominant over the subordinate latter (Long and Richardson, 1978: 184). This approach stresses the “‘dominant’ and ‘subordinate’ modes of production as represented by the co-existence of capitalist with non-capitalist forms” (Long and Richardson, 1978: 176). Terms stressing the subordinate nature of the informal sector highlight this: petty commodity production (Davies, 1979; Gerry, 1979; Moser, 1978); small-scale production (Scott, 1979); the peasant system of production (McGee, 1973); the reserve army of underemployed and unemployed; the low-productivity urban sector; the unproductive sector; the subordinate sector; the marginal sector.

On the issue of the capitalist production and petty commodity production, Marx wrote:

Wherever it takes root capitalist production destroys all forms of commodity production which are based either on the self-employment of producers, or merely on the sale of the excess product as commodities... Capitalist production first makes the production of commodities general and then, by degrees, transforms all commodity production into capitalist production. (in Moser, 1978: 1057)

However, Marx’s view of the transitional nature of petty commodity production, a view based on the emergence of capitalism in 19th Century industrial Europe, has had to be reworked to fit with what is seen in urban areas of developing countries “where there is little indication that the widespread proliferation of petty commodity production is losing momentum” (in Moser, 1978: 1057).

A definition of the informal sector must recognize that it differs from the formal sector because it represents a different mode of production. The formal sector is based on highly-developed social productive forces; the informal sector is not: both its means of production and its techniques of production are non-capital intensive. In the formal sector the means of production is privately owned by a small class, and are operated on by the workers for the benefit of that owning class. In the informal sector the means of production are in general owned by those who operate them. In the formal sector production relations are based on a highly developed division of labour, with hierarchical relations between supervisor and worker, whereas in the informal sector such division of labour... is rudimentary, and horizontal rather than vertical. (Davies, 1979: 88-89; cf. Ninsin, 1991)

The relationship between these two modes of production with the formal superstructure also differs. The formal sector determines the superstructure, whereas the informal sector is determined by the superstructure (Davies, 1979: 89). On the one hand, the mode of production in the formal sector predominantly determines the legal, political and social relations of the state’s superstructure (ibid.). On the other hand, the informal sector “represents a subsidiary, peripheral and dependent mode of production, having to exist within a social formation it cannot directly influence” (ibid.). The formal superstructure defines the limits and boundaries of the informal sector (Davies, 1979: 98-101). The informal sector is not independent of the formal sector, but a dependent and subordinate part of it (Ninsin, 1991: 5). In other words, the nature and very existence of the informal sector depends on the formal sector in a relationship governed by subordination and domination (Davies, 1979: 90-93).
Ninsin sees such informal sector features such as unenumeration, non-tax paying, sometimes illegal as “banal attributes... [that] are not the predominant characteristics” (1991: 2). Instead “the major attribute of such small income generating activities is that they are the direct off-shoot of the pervasive capitalist economy prevailing in a poor developing country” (ibid: 2).

In the Marxist view, the informal sector as petty commodity production is “trapped in an involutionary impasse, able only to reproduce its conditions of existence, often at the expense of its own standard of living and labour remuneration” (Gerry, 1975).

In most countries of SSA, the formal sector has a high degree of foreign ownership and control of industry (Davies, 1979: 90). This is a result of the historical development of the formal sector, developing from a colonial economy that was based on “exploitation... for the capitalist metropole” (ibid.). Conversely, the informal sector is dominated by local ownership of the means of production. The consequence, in Marxist opinion, is that the:

The informal sector constitutes a peripheral or marginal activity in the world system of capitalist production. Its function... is to 'service' the formal sector through its impact on wage structures and labour supplies. (Davies, 1979: 90)

In this view, the informal sector “is an indispensable product of the formal sector of the periphery capitalist economy” (Ninsin, 1991: 5) with the informal sector effectively subsidising, and being exploited by the formal sector.

The informal sector plays an important role in regulating wages in the formal sector, by keeping them low in three ways (based on Davies, 1979: 98-101):

1. The informal sector keeps the costs of labour supplies to the formal sector low, since more are attracted from rural areas to urban areas in search of work, informal or formal.
2. The informal sector has a social security role by offering income generating activities outside the formal sector. In this way, the formal sector has less need to supply workers with formal unemployment insurance.
3. The informal sector provides goods and services at lower cost than the formal sector, and therefore reduces the cost of subsistence. This in turn means that employers are able to pay lower wages.

The fact that large-scale capitalists do not expand into the informal sector, Davies argues, reveals “one of the basic contradictions of capitalism” (1979: 96). This he explains in two ways; first that the technology of such large-scale enterprises (large scale operations in need of large markets) does not fit with the informal sector characterised by small scale operation and constrained markets. Second, that the orientation of many large-scale enterprises is towards foreign external markets, rather than internal domestic ones (ibid.).

5.2 Informal sector dualisms

Given that the concept of the informal economy is over thirty years old, it is not surprising that it has been used to mean different things by different analysts (Mead and 43 See section 6.14 for discussion on involutionary growth.
This is evidenced in the large number of terms that have been used to describe the informal economy, most of which form one side of a dualistic interpretation of developing country economies, for example: the non-monetised economy, and all the unofficial ‘remainder’ outside the ‘real economy’ (MacGaffey, 1991); the unorganised sector (Fapohunda, 1985); the unregulated sector; the unprotected sector (Mazumdar, 1976); the unofficial economy (Clark, 1988a); the unenumerated sector; the shadow economy (Kerner, 1988); the second economy (Bagachwa and Maliyamkono, 1990); the intermediate sector (Steele, 1972) the low profit/low wage capitalistic sector (Brown, 1974); the non-wage sector; the survival sector; the lower circuit (Santos, 1973 in Moser, 1978: 1052); the traditional sector (Harbison, 1967; Williams, 1967 [1963]); the cottage-industry sector; the bazaar type economy (Geertz, 1963); the murky sector. Some have used local country-specific terminology to describe the informal sector, such as the Jua Kali sector in Kenya (King, 1996); while others see the informal sector as synonymous with the micro-enterprise sector (Bagachwa, 1997: 141; Livingstone, 1991: 652; Webster and Fidler, 1996: 5). As Moser noted in 1978, just six years after the Kenya mission:

Since the utility of the informal sector concept was recognized, researchers and policy-makers in a number of different but related disciplines have applied it to a diversity of empirical data, and in many different concepts. What has resulted is complete confusion about what exactly is meant by the informal sector. (Moser, 1978: 1051)

5.3 An informal sector continuum and the formal-informal duality

The traditional view of economic activities was to characterise them into either formal or informal, usually where formal, or ‘modern’, activities were seen as dynamic and growing, and informal, or ‘traditional’ activities were seen as stagnant. In the late 1970s, Bromley noted that to divide all economic activities into either formal or informal “is a very crude and simple classification” (Bromley, 1978: 1034; cf. Blunch et al., 2001: 8; Mead, 1999: 69). Indeed, conceptualising a formal sector versus an informal sector is not a neat dichotomy. The informal sector becomes almost a non-entity when it is only defined as the antithesis of the formal sector. Earlier work (cf. ILO 1973) failed to appreciate the significance of formal-informal linkages as well as the fact that both formal and informal activities often exhibit characteristics of each other. For example, the ILO definition fails to recognise that those engaging in ‘sideline’ informal activities in addition to formal employment will obviously have access to formal capital to assist their informal activities. Indeed the very notion of wage duplication where formal sector employees have informal sector sidelines and that some waged jobs are unrecorded (Rimmer, 1992) challenges the dichotomy. Others note that many informal enterprise workers were trained in the formal sector or that some raw material inputs to informal manufacturing come from the formal sector. Even tracing the origins of so-called informal skills can reveal a formal source. For example, many technical skills practiced by totally indigenous artisans can be traced to the transfer of skills from the early colonial workshops, from those who trained through colonial military service during WW2, or from the formal technical institutes operating in Africa particularly from the 1970s onwards (McLaughlin, 1979: 37). Indeed King, in his African Artisan (1977: 56), argues that for East Africa the distinctions between formality and informality are so blurred that
any rigid delimitation of the two is useless. King (ibid.) asserts that areas such as products, work sites, recruitment, income and training are similar to both the formal and informal sectors.

With respect to what is now called the informal economy or sector, early research sometimes made a clear distinction between different types of enterprise within this sector. For example, Katzin notes that:

It is useful to distinguish between types of African entrepreneurs. We shall use the term “innovating entrepreneur” to designate the person who conceives an idea and introduces a new element into the economy. This may be a totally new product, or one known elsewhere but previously unknown in the area, or a new use for a known product, or new markets for known products, or a new procedure, or a new type of economic organisation. The term “imitating entrepreneur” designates one who adopts a new economic practice after a local innovator has demonstrated it to be practical and profitable. The term “traditional entrepreneur” designates one who follows established practices. (1964: 183)

Keith Hart, in his doctoral thesis, explicated the need to distinguish between those [in trading and self-employment] who look on these activities as a source of subsistence income equivalent or additional to a wage or farming (i.e. full-time and part-time petty traders and small artisans) and those to whom these are small beginnings to a cumulative process (i.e. “entrepreneurs proper”). (1969: 273)

A recent paper, prepared for the World Bank, that recognises the heterogeneous nature within the informal sector, then goes on to discuss, as per previous research, the “duality within [this]... sector” (Blunch et al., 2001: 14). In this case, the paper divides the informal sector into ‘subsistence activities’ on the one hand, and ‘lucrative segments’ on the other (ibid.).

While a step forward from the traditional view that saw activities as either survivalist or dynamic, as per the dualisms mentioned in section 5.2 and above, Blunch et al. (2001), like Katzin (1964) and Hart (1969) before them, fail to appreciate that the informal sector is not made up of ‘segments’, as they suggest, but should be viewed as a continuum from survivalist at one end to dynamic at the other. In Blunch et al.’s view the upper segment of the informal sector, what Fields (1990 in Blunch et al., 2001) describes as the ‘upper-tier informal sector’, is comprised mostly of small and micro-enterprises (2001: 14).

Indeed, the informal sector does not have to be viewed in such an either/or sense, but can rather be seen as comprising both stagnant and dynamic and as being part of a continuum, that runs from informality to formality. This was suggested early in the literature. For example, Bromley notes that:

a particularly attractive approach is to classify enterprises on a continuum between two extreme and opposite poles, the processes of transition along the overall so as to emphasize intermediate categories and continuum. (1978: 1034)

Further, Davies postulates that:

it is likely that a combination of these two views [indigenous capitalist and reserve army of labour] in part explains the formation of the urban informal sector.
It can be a buffer against unemployment; it can also provide a decent living and a means of raising capital. (1979: 95)

Some, more contemporary, researchers now note that, due to its heterogeneous nature, the informal sector is both survivalist and dynamic (Mead, 1999: 69). The heterogeneous nature of the informal economy encompasses both micro enterprises struggling to survive at one end and much better off enterprises (often moving into high-tech business such as internet cafes), showing innovative and expansive tendencies at the other.

The conception of different segments within the informal economy probably arose, in part, out of a need to identify specific groups within the informal economy that could be ‘targeted’ for intervention. In this sense, the idea of more survivalist, subsistence-orientated informal economic activity on the one hand, and a more entrepreneurial, dynamic enterprise with potential for growth on the other, can be useful (when designing intervention for example) – provided they are conceived as being part of a continuum and not precisely defined.

King (1980) also made a distinction between types of employment within the informal sector; in his case between subsistence self-employment and entrepreneurial self-employment. However, in a later co-authored paper, he made it clear that the term ‘the informal sector’ should not be used as a catch all phrase. Instead there is the need to be specific about which group is being discussed at any given time (cf. McGrath et al., 1995: 15). Further, there is the need to be clear, when using the distinction between subsistence self-employment and entrepreneurial self-employment, that this does not imply that “there is something static about the situation” (McGrath et al., 1995: 15). Informal enterprise activities can and do move between these different ‘types’, over the course of the enterprise life-cycle.

However, a word of caution should be added when viewing the informal economy as a continuum between informality and formality, at the same time as recognising the need to discuss different types of enterprise within this continuum to facilitate intervention targeting. The use of a conceptual continuum that will highlight the ‘transition’ of enterprises along it, as Bromley (1978: 1034) noted, suggests that informal operators will graduate to the formal sector, as those such as Meghir (1991), and Liedholm (1991) to a lesser extent, suggest (cf. Palmer, 2004). Evidence suggests that this graduation is uncommon since numerous constraints exist to keep informal operators at the same level (cf. Blunch et al., 2001: 8; Buckley, 1997: 1091; King and McGrath, 1999a: 6). The existence of certain barriers to growth has been highlighted by others (Palmer, 2004: 47-50).

5.4 The informal sector in country context

While the informal sector concept has usually been described as a more-or-less decontextualised phenomenon, it is now more common for researchers to take into account the specific socio-cultural, historical and political situation of the informal sector in specific countries (Blunch et al., 2001: 8). Kabra notes that
any ahistorical approach to the informal sector would hardly be able to capture its diversity, vary in degrees of cohesion, linkages with the rest of he economy and future directions. (1995: 200)

Understanding the origins of the informal sector in any given country requires an understanding of the wider political economy within which the informal economic activities were born. In Ghana for example, Rawlings' PNDC\textsuperscript{44} was instrumental in forming many of the informal sector associations, such as the GPRTU,\textsuperscript{45} for primarily political ends concerned with gaining support for his party (cf. Ninsin, 1991, 1999). The research implications are that cross-country comparisons need to consider the different socio-cultural, historical and political origins of the informal economy in different settings. Further, that interventions in one country should not be transferred, in a one-size-fits-all sense, to other countries.\textsuperscript{46} Rather, both country-specific research and country-specific intervention can be used as a guide, not a blueprint, for research and intervention in other settings.

5.5 From informal 'sector' to informal 'economy'

Recently, it has become common to use the term 'informal economy', rather than 'informal sector', to signal a shift away from the 1993 international statistical definition of the 'informal sector', towards a broader concept that incorporates "the whole of informality" (ILO, 2002b: 11).\textsuperscript{47}

In the expanded conceptual framework the informal economy is seen as comprised of informal employment (without secure contracts, worker benefits, or social protection) both inside and outside informal enterprises (based on ILO, 2002b: 12):
- Informal Employment in Informal Enterprises (small unregistered or unincorporated enterprises), including: employers, employees, own account operators, and unpaid family workers in informal enterprises.
- Informal Employment outside Informal Enterprises (for formal enterprises, for households, or with no fixed employer), including: domestic workers, casual or day labourers, temporary or part-time workers, industrial outworkers (including homeworkers), and unregistered or undeclared workers.

\textsuperscript{44} Provisional National Defence Council, came to power through a coup on 31 December, 1981, led by Flight Lieutenant Jerry Rawlings.
\textsuperscript{45} Ghana Private Road Transport Union.
\textsuperscript{46} See also section 12.
\textsuperscript{47} See section 10 for a discussion of the 1993 International Statistical Definition, and the Appendix where part of the 15\textsuperscript{th} ICLS definition is reproduced.
SECTION SIX

6.0 RELATIONSHIP BETWEEN THE INFORMAL AND FORMAL ECONOMIES

6.1 CONTRIBUTION OF THE INFORMAL ECONOMY TO THE TOTAL ECONOMY: Dynamic sector or urban labour ‘sponge’?

Does the 'reserve army of urban unemployed and underemployed' really constitute a passive, exploited majority in cities like Accra, or do their informal economic activities possess some autonomous capacity for generating growth in the incomes of the urban (and rural) poor? (Hart, 1973: 61)

The burgeoning informal economy (ILO, 2002a) since the 1970s, with the associated proliferation of micro-enterprise development, led to the debate concerning the position of the informal economy within the total economy.

Contra Blunch et al., who noted that “the initial view of the informal sector was that it was a marginal sector in terms of its place in and contribution to the overall economy” (2001: 6) the informal sector was initially portrayed by both Hart (1973: 68) and the ILO (1972: 5) as an important contributor to economic growth. Soon after, however, this view became tainted and the informal sector was increasingly viewed as more 'miserabilist' as many would argue it still is today (Bangasser, 2000: 10).

6.12 Negative view: The informal sector does not contribute positively to the overall economy

The popular view of informal-sector activities is that they are primarily those of petty traders, street hawkers, shoeshine boys and other groups “underemployed” on the streets of the big towns. (ILO, 1972: 5)

On the one hand, the informal sector was seen as a largely negative phenomenon characterised by low productivity and poverty (Kilby, 1969: 310), and described as a “quasi-sponge for urban unemployment” (Kilby, 1969: 310), or as the ‘ghetto of the economy’ (Ninsin, 1991: 97). Others had real doubts about its development potential and ability to continue to create employment (House, 1984; Simon, 1984; ILO/JASPA, 1985: 41; Preston-Whyte, 1991). Informal sector MSEs were often seen as low-income activities contributing marginally to the economy (cf. Biggs, Grindle and Snodgrass 1988, in Daniels, 1999: 55).

The origin of pessimistic thought that sees the informal sector as a sector of last resort for people without alternatives, or as a residual urban labour ‘sponge’ (cf. Liedholm, 1991;

48 Though it should be noted that, if Blunch et al. were referring to research and opinion on what was soon to be termed the informal sector, i.e. prior to the ILO Kenya report (1972), then some research (e.g. Geertz, 1963; Harbison, 1967; Kilby, 1969; Marris and Somerset, 1971; Steele, 1972) back up the notion of the informal sector as marginal. On the other hand, other early research asserts that it was dynamic (e.g. Callaway, 1963; EARC, 1955). See also section 2.
Meghri, 1991) can be found in the ‘Reserve Army Theory’ that arose as part of the dual economy literature of the 1950s (cf. Lewis, 1954), as well as much neo-Marxist thought that sees the informal sector as the subordinate, exploited sector.

In basic terms, the ‘Reserve Army Theory’ states that, since informal workers are unskilled in formal terms, they can only act as suppliers of unskilled wage-labour to the formal sector, or pursue the life of a subsistence farmer. However, at the same time that the formal economy is unable to supply sufficient employment for these people, agricultural life in rural areas is becoming less viable and unable to support the entire rural population. As a result, would-be wage labourers are forced into temporary income generating activities in the informal sector. This theory sees the informal sector as wage-labourers-in-waiting (Davies, 1979: 94).

However, this view ignores the stratification within the informal sector (Kilby, 1969; Ninsin, 1991). Further, not all informal sector workers are seeking formal employment (ibid.).

Some researchers describe what would soon be termed ‘informal sector’ activities in very negative terms:

Backward in technology and managerial performance, small-scale industries rarely constitute ‘islands of development’ or an effective training school for larger industry. Much of small industry toward the lower end of the scale is characterized by atomistic competition, product dilation and zero profits; these characteristics combine to produce something akin to a low-level equilibrium trap. (Kilby, 1969: 310)

Ninsin (1991: 5) disputes the claims that the informal sector is dynamic and, particularly in the manufacturing sector, capable of continuing to generate employment that will result in poverty alleviation. For Ninsin the term ‘informal sector’ refers to that array of precarious economic activities which have become the haven for people seeking desperately to eke out a living because they are unable to secure wage... employment in the formal capitalist sector. (Ninsin, 1991: 2)

In case the reader was left with any doubt as to his opinion of the informal sector, Ninsin says that it acts as: “the dumping ground for unemployed labour” (1991: 5); the unemployed’s “final destination in the economy” (ibid.: 58); and “the ghetto of the economy from which they [self-employed] can never rise to realise their full worth as workers” (ibid.: 97). Further, that informal sector enterprises have a “very precarious existence” (Ninsin, 1991: 98), that “vegetate in the poverty trap called the informal sector” (ibid: 99).

In a consideration of whether the informal sector can contribute in a dynamic manner to the growth of the economy, it is necessary to consider whether informal micro-enterprises are able to ‘graduate’ (Livingstone, 1991: 662) or ‘evolve’ into enterprises operating in the formal sector, that have expanded to employ more people (Livingstone, 1991: 663).

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49 See section 2.0.
As Livingstone notes, “any search for informal enterprises ‘graduating’ from the ranks of the self employed is largely misdirected” (1991: 665). While “there has been comparatively little growth of individual enterprises” (Livingstone, 1991: 663), the aggregate growth of employment in the MSE sector is high. This growth is not concerned with an enterprise hiring more people, but with an overall increase in the numbers of enterprises (ibid.). In the micro-enterprise sector, “turnover is rapid and many enterprises are ephemeral” (cf. Livingstone, 1991: 665). Therefore, expansion of the MSE sector is through a net increase, which masks the ephemeral existence of many new start-ups (ibid.).

6.13 Positive view: The informal sector does contribute positively to the overall economy

An alternative idea sees informal sector actors as budding (petty merchant) capitalists, where employment in this sector serves as a viable source of income to small traders, and/or as a means to accumulate capital so that workers can eventually enter the formal economy (Blunch et al., 2001; Davies 1978 in Bryceson, 1997; Jeans, 1999; Livingstone, 1997; King, 1996).

The dominant contemporary perspective views the informal sector in a positive, dynamic light (Bryceson, 1997: 14) as an “embryo of economic development” (Webster and Fidler, 1996: xii) that represents a “vital and vibrant sector” (Charmes 2000 in Blunch et al., 2001: 10). Indeed recent empirical evidence suggests that the informal sector in sub-Saharan Africa is important for economic growth (Livingstone, 1997), contributing 20-50% of non-agricultural gross domestic product (GDP) (Charmes 2000, in Blunch et al., 2001: 3; cf. Xaba et al., 2002) (see table 1 below). Informal sector MSEs are now directly linked to the main objectives of development; increased production, employment and wealth creation, and as a key ingredient in poverty reduction (Afrisat, 1997a; Bagachwa, 1997: 141; Livingstone, 1991: 652; Mamman, 2003: 108; Sen, 1980; Webster and Fidler, 1996: 5). In Ghana, the Poverty Reduction Strategy Paper (GPRSP) highlights the importance of the informal sector (GoG, 2003: 73) and the need “to create... employment opportunities for entrants into the labour market” (ibid: 71).

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50 Excluding the Republic of South Africa.

51 Estimates regarding the contribution the informal sector makes to GDP have been available since the adoption of the 15th International Conference of Labour Statisticians (ICLS) in 1993 of an internationally agreed definition of the informal sector (Charmes, 1999b: 71). See also section 10 on measurement.
Table 1. Contribution of informal sector to GDP in selected countries in SSA

<table>
<thead>
<tr>
<th>Country</th>
<th>Year of Survey</th>
<th>Informal sector GDP as percentage of non-agricultural GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>1993</td>
<td>43</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>1992</td>
<td>36</td>
</tr>
<tr>
<td>Burundi</td>
<td>1996</td>
<td>44</td>
</tr>
<tr>
<td>Cameroon</td>
<td>1995-6</td>
<td>42</td>
</tr>
<tr>
<td>Chad</td>
<td>1993</td>
<td>45</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>1995</td>
<td>30</td>
</tr>
<tr>
<td>Ghana</td>
<td>1988</td>
<td>58</td>
</tr>
<tr>
<td>Guinea Bissau</td>
<td>1995</td>
<td>30</td>
</tr>
<tr>
<td>Kenya</td>
<td>1999</td>
<td>25</td>
</tr>
<tr>
<td>Mali</td>
<td>1989</td>
<td>42</td>
</tr>
<tr>
<td>Mozambique</td>
<td>1994</td>
<td>39</td>
</tr>
<tr>
<td>Niger</td>
<td>1995</td>
<td>54</td>
</tr>
<tr>
<td>Senegal</td>
<td>1991</td>
<td>41</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1991</td>
<td>43</td>
</tr>
<tr>
<td>Togo</td>
<td>1995</td>
<td>55</td>
</tr>
<tr>
<td>Zambia</td>
<td>1998</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: ILO (2002b: 24)

In the early 1970s, the ILO Kenya mission was path-breaking in its positive presentation of the informal sector, mentioning recent empirical evidence suggesting the economic importance of the informal sector (ILO, 1972: 5). The following, albeit long, quotation from the ILO report presents this notion clearly. The report suggested that the bulk of employment in the informal sector, far from being only marginally productive, is economically efficient and profit-making, though small in scale and limited by simple technologies, little capital and lack of links with the other (“formal”) sector. (ILO, 1972: 5)

Often people fail to realise the extent of economically efficient production in the informal sector because of the low incomes received by most workers in the sector. A common interpretation of the cause of these low incomes (in comparison to average wage levels in the formal sector) has been to presume that the problem lies within the informal sector; that it is stagnant, non-dynamic, and a net for the unemployed and for the thinly veiled idleness into which those who cannot find formal wage jobs must fall. (ILO, 1972: 5)

52 The difficulty in measurement of informal economic activities means that these percentages should be seen more as a rough guide, rather than precise values (see section 10).
53 See section 4.22.
[However] there exists, for instance, considerable evidence of technical change in the urban informal sector, as well as of regular employment at incomes above the average level attainable in smallholder agriculture. (ILO, 1972: 5-6)

Employment in the informal sector has grown in spite of obstacles and lack of outside support: the evidence suggests that employment has probably increased a good deal faster in the informal than in the formal sector. (ILO, 1972: 225)

The development of the informal sector in Kenya was seen by the ILO Mission not only as a solution to the employment problems in the country, but also as means to increase growth.

Indeed, Keith Hart noted that the informal sector has a positive contribution to play in the overall economy, through its provision of goods and services that the formal sector does not provide, and through its role in employing a large part of the total labour force (1973: 88). Further, he notes that it has been suggested that “informal sector activities contain their own internal dynamics which, if utilised, will lead to higher productivity and overall growth” (Hart, 1973: 88).

Long and Richardson (1978: 180) mention a number of Latin American studies conducted by the ILO in the mid 1970s in the Dominican Republic and San Salvador. The conclusion was that “jobs in the informal sector... are not peripheral to the economy but central to its operation... [and that]... nearly 90 per cent of [the informal] sector was tied to the modern economy” (ibid.). This report suggests that these informal activities were “not an impediment to development. They do not compete with larger enterprises, instead they compliment them, since they are engaged in the circulation, distribution and repair of goods produced in the formal sector” (Long and Richardson, 1978: 181).

There are two further inter-related questions that arise regarding the contribution of the informal sector to the total economy; a) is the informal sector capable of independent growth?; and b) has informal sector growth been evolutionary or involutionary in nature?

6.14 Is this expansion evolutionary or involutionary?

Expansion without growth?

Livingstone notes that for Kenya, at least, the informal sector has been capable of growing independently of the formal sector and without any obvious change in the level of average earnings. The most important stimulating factor has probably been rising agricultural incomes and urban as well as rural purchasing power. (Livingstone, 1991: 665)

However, he goes on to note that the informal sector cannot go on absorbing additions to it, and growing evolutionarily, without problems that would lead to growth in size, without growth in incomes, or involutionary growth.  

54 With evolutionary growth, as more people enter the informal sector there is an increase in output growth and capital accumulation. With involutionary growth, output growth and capital growth declines.
While the informal sector might contribute significantly to overall GDP in SSA, there are many more people engaged in informal activities than in formal activities. Therefore the formal sector, although shrinking in overall size, is more productive than the informal sector. The informal sector might be increasing in overall size, but if there is not a concomitant increase in productivity or overall contribution to the total GDP, it can be assumed that the informal sector growth is involutionary.

An overall growth in the informal sector's contribution to GDP does not mean that the informal sector is becoming more productive. Evidence suggests that expansion in the informal sector is not the result of individual enterprises expanding (Livingstone, 1991: 665) but rather through an increase in the total number of enterprises. However, as more and more enterprises operate in the same market, saturation occurs and real incomes suffer from diminishing rates of return.

Thus, in this scenario, an increase in informal sector activities as a result of a decrease in formal sector employment opportunities, as occurred with the SAPs in the mid 1980s, would result in "income-sharing" (Livingstone, 1991: 665).

6.2 Linkages between the informal and formal economy

In critiquing the notion of a formal-informal economic dichotomy, some of the linkages between the two sectors have already been mentioned. Since the ILO Kenya report noted the need to encourage formal-informal linkages (1972: 6), analysts began to take note of the form these linkages could and did take. Long and Richardson noted in the late 1970s that "while they may differ in the precise nature of the articulation, most see it as complimentary and non-exploitative or benign" (1978: 180).

Linkages between the formal and informal sectors can "serve as a vehicle for the transmission of skills, resources and markets for the benefit of both the sectors" (ILO/JASPA, 1985).

6.21 Formal–informal links; Inputs to the informal sector

Linkages from the formal sector to the informal sector can occur with manpower, capital and raw materials.

Firstly, manpower, trained in the formal sector, who perhaps found employment initially in the formal sector, and later found themselves working in the informal sector, transfer many of their formal skills and experience to the informal sector workplace.56

55 See section 5.3.
56 On the one hand, transfer of manpower from formal to informal may either occur voluntarily, as formal employees realise they can make more money working outside the formal system. On the other hand, manpower transfer may be involuntarily, as formal employees lose their jobs, for example as a result of the retrenchment of formal public sector jobs as part of the Structural Adjustment Policies of the mid 1980s.
Secondly, movement of manpower from formal to informal employment often results in the transfer of formal capital into informal work. Other formal employees, such as Ghanaian teachers that sell second-hand clothes in the informal economy (personal communication), are using their formal incomes to establish informal employment strategies (cf. Davies, 1979: 95).

Thirdly, informal operators are likely to obtain a certain degree of raw materials from the formal sector (Barwa, 1995: 9). This may take the form of informal traders purchasing stock from a formal enterprise and re-selling the items informally; an informal carpentry enterprise purchasing nails and hinges from a formal sector enterprise; an informal hairdressing enterprise purchasing shampoo and ‘rasta’ hair from formal enterprises and so on. These small-scale formal enterprises often act as middlemen, and are used due to informal sector operator’s “financial incapability to buy in bulk the raw materials/inputs and store them” (after Davies, 1979: 90-91).

Barwa goes on to note that for their raw materials, informal sector entrepreneurs depend largely on local resources, primarily from the formal sector units in the cities. Inputs used by informal sector entrepreneurs can be divided into the following:

- materials that are locally produced and sold (e.g., aluminium sheets);
- inputs that are discarded by public and private sectors concerns (metal scrap);
- inputs that are imported (varnish, glue, dyes). (1995: 9)

6.22 Informal-formal links; Inputs to the formal sector

As noted in this paper later, middle-income formal employees make up a sizeable proportion of the market for informal sector enterprises. There is clearly a demand for the goods and services that the informal sector provides; some goods and services would otherwise be only available at higher cost from the formal sector, while others are exclusive to the informal sector providers (Davies, 1979: 95). Being able to purchase goods and services at lower cost than the formal sector is essential to the majority of rural and urban dwellers.

However, some researchers (eg. Barwa, 1995: 9) following Hart, assert that “most current expenditures” (Hart, 1973: 86) of informal sector goods and services “are internal transactions” (ibid.) within the informal sector. Hart was criticised for “his inability to recognise a net flow away from the informal toward the formal” (Long and Richardson, 1978: 180 original emphasis).

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57 See section 8.4.
SECTION SEVEN

7.0 SIZE AND COMPOSITION OF THE INFORMAL ECONOMY ACTIVITIES IN SUB-SAHARAN AFRICA

7.1 Size of the informal economy in SSA

The sheer size of the informal economy in SSA clearly demonstrates why it has become such an important area of research and policy. For example in Cameroon (1992) 80% of all new jobs were created in the informal sector; in Tanzania about 60% of enterprises operate in the informal economy; in Kenya the informal economy accounts for about 40% of urban employment and is growing by 9% per annum; in Ghana the informal economy employs 89% of the labour force (including 56% in agriculture and 21% in retail trade); and in Nigeria, the informal economy employs a third of the urban labour force (Xaba et al., 2002: 3-10). In SSA it is estimated that the informal economy is responsible for 93% of all new jobs (Chen, 2001).

Table 2. Informal sector Contribution to Urban Employment

<table>
<thead>
<tr>
<th>Country</th>
<th>Year of Survey</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>1992</td>
<td>47.9</td>
</tr>
<tr>
<td>Botswana</td>
<td>1996</td>
<td>19.3</td>
</tr>
<tr>
<td>Cameroon</td>
<td>1993</td>
<td>57.3</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>1996</td>
<td>52.7</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>1996</td>
<td>33.0</td>
</tr>
<tr>
<td>Gambia</td>
<td>1993</td>
<td>72.4</td>
</tr>
<tr>
<td>Ghana</td>
<td>1997</td>
<td>78.5</td>
</tr>
<tr>
<td>Kenya</td>
<td>1995</td>
<td>58.1</td>
</tr>
<tr>
<td>Madagascar</td>
<td>1995</td>
<td>57.5</td>
</tr>
<tr>
<td>Mali</td>
<td>1996</td>
<td>71.0</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1992</td>
<td>24.0</td>
</tr>
<tr>
<td>Morocco</td>
<td>1988</td>
<td>28.2</td>
</tr>
<tr>
<td>South Africa</td>
<td>1995</td>
<td>17.4</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1995</td>
<td>67.0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>1981</td>
<td>38.6</td>
</tr>
<tr>
<td>Uganda</td>
<td>1993</td>
<td>83.7</td>
</tr>
<tr>
<td>Zambia</td>
<td>1993</td>
<td>80.7</td>
</tr>
</tbody>
</table>

Source: ILO (2000: 285)

58 This section, as well as section 8, on the 'characteristics', is based almost entirely on analysis of what researchers have written about the informal sector based on their research in different countries in SSA. It can, therefore, claim to be somewhat representative of the general characteristics of the informal sector in SSA.

59 Again, due to difficulties in measurement (section 10), the percentages should be seen as a rough guide.
Most women in the informal economy in SSA are either self-employed or unpaid workers in family enterprises (Chen, 2001) that operate from the home. Given that MSEs headed by women are most likely to operate from their home and that “home-based MSEs...tend to be overlooked, both in assistance projects and in official statistics, women owners of MSEs are particularly likely to be ‘invisible entrepreneurs’” (Edmunds, 1997: 204).

Chen notes that, in some countries in SSA, nearly all the female non-agricultural labour force operates in the informal economy (2001). For example, Charmes calculated that, in Benin 92.2% of participants in informal retailing are women (2000 in Xaba et al., 2002: 14).

Micro studies in South Africa by Liedholm and McPherson, 1991 (in Edmunds 1997) indicated that women were disadvantaged compared with men in the informal sector. Their enterprises grew more slowly than men's, they employed fewer people and in general earned less than men and tended to concentrate at the survivalist end of the informal sector. This was not because women lacked business ability, as there were several instances of successful women entrepreneurs, but more to do with lack of access to material resources including finance and credit. (Livingstone, 1991: 662)\(^{61}\)

7.4 Rural and urban informal economies

Since the earliest studies of Hart (1970, 1973) and the ILO (1972), there still seems to be somewhat of an urban bias in informal sector research that has continued to persist (cf. Todaro, 2000).\(^{62}\)

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\(^{62}\) This issue is taken up later in this paper in section 11. See also sections 3.33 (on Keith Hart) and 4.31 (on the ILO).
Some idea of the magnitude of the informal economy, can be seen in table 2 above, that gives an example of the percentage contribution the informal sector makes to urban employment.

### 7.2 Composition of the informal economy

Despite the plethora of studies looking at manufacturing enterprises in the informal economy of SSA (for example, Anheier and Seibel, 1987; Boapeah, 1996; Kilby et al., 1984: 269; Liedholm, 1991, 1992; Mamman, 2003), that suggests a great importance of manufacturing enterprises, most people in the informal economy are in fact engaged in trade, not manufacturing.

Livingstone notes the dominance of trade in the informal sector, as compared to manufacturing for example, in numerous studies (for example Kenya, Peru, Brazil, Indonesia, see 1991: 657). For example, see Table 3, below.

#### Table 3. Persons engaged in the urban small-scale enterprise sector in Nairobi, Kenya, 1988

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>17.6%</td>
</tr>
<tr>
<td>Wholesale/retail trade</td>
<td>56.2%</td>
</tr>
</tbody>
</table>


It seems surprising that there seems to have been a preference in research and policy for manufacturing enterprises in the informal economy. Perhaps this bias arose out of a feeling that manufacturing enterprises must be more dynamic than retail enterprises and therefore represented a more fertile ground for interventions promoting growth. Trager notes that, this focus on manufacturing and small industry reflects the view that sees trade and services as essentially unproductive (1987: 240-241).

In fact, the Kenya ILO report, back in the early 1970s highlighted the need not to ignore retail enterprises. The report noted that:

> In recommending policy, it is important not to limit attention to small-scale manufacturing enterprises, especially if the objective is employment creation. This is even more the case if women are viewed as a particular target group, as their employment is especially concentrated in trade and services. (!LO, 1972: 5)

### 7.3 Women and men in the informal economy

Most MSEs in the informal economy are owned and operated by women (Charmes, 1999; Edmunds, 1997). For example, in Ghana 75% of non-farm enterprises are operated by women (Liedholm and Mead, 1999: 5).

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SECTION EIGHT

8.0 CHARACTERISTICS OF THE INFORMAL ECONOMIC ACTIVITIES IN SUB-SAHARAN AFRICA

8.1 Occupational pluralism

The issue of multiple informal employment is nothing new (cf. Bryceson, 2002: 732; Buckley, 1997; Kilby et al., 1984; Long and Richardson, 1978; Palmer, 2004). Most of those working in the informal sector do not simply have one ‘job’, rather their employment portfolio is likely to be made up of two, three, four or more income-generating activities pursued simultaneously, the composition of which changes at different times of the year. Many activities are highly opportunistic, “involving quick responses to market demand and supply” (Bryceson, 2002: 732). Further, those in the formal sector may have informal employment activities on the side-line. Thus while some have multiple activities in the informal sector, some have multiple activities in the formal sector, others straddle the formal-informal divide taking up employment in both. For example, it is increasingly recognised that informal income opportunities play a large role in the income portfolio of many formal sector teachers (King, 2001: 100-101). In Ghana, those that use their formal sector job as a means to access informal economic incomes have been referred to as ‘chopping from their job’ (fieldwork by author, 2003). The informal sector is no longer regarded as being synonymous with self-employment or non-wage employment (but some, like Blunch et al., 2001: 3, still make this distinction to provide some semblance of order), since it was recognised early on that self- and wage-employment can exist in both informal and formal sectors (cf. Bromley, 1978; Davies, 1979).

It is noted in the literature that “a characteristic of rural dwellers is occupational pluralism... [in other words] many have more than one job” (Mureithi, 1973: 130). Hart, the first to bring the ‘informal sector’ into the public academic discourse with his research in Ghana, commented on the “widespread incidence of multiple income sources” (1973: 83). Buckley added that “different activities... coexist or follow one another [according to] input availability and agricultural seasons” (1997: 1089). With these multiple commercial activities (Kilby, Liedholm and Meyer, 1984: 267) “it is not always easy to delimit a specific business activity to which the entrepreneur is fully dedicated, which is an essential assumption of most credit projects” (Buckley, 1997: 1089).  

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63 While it is difficult to generalise a number of characteristics of ‘informal economic activities’ due to the heterogeneous nature of the ‘sector’, this section tries to pull out some of the main ideas about characteristics in the literature. In many cases, the sub-sections distinguish between different types of informal activity. Where the sub-sections do not do this, it is considered that the characteristic discussed can relate to the majority of types of activity.

64 Stephen Kerr, at the Centre of African Studies, University of Edinburgh, is writing his Ph.D. thesis on teacher’s livelihoods in Tanzania. This will provide insight into the effect multiple sources of income may have on teaching and school quality. See Kerr, S. Teacher’s Sustainable Livelihoods, Ph.D. thesis, University of Edinburgh, forthcoming (cf. King, 2001).

65 The rest of this sub-section on ‘occupational pluralism’ is taken from Palmer (2004: section 5.7).
Occupational pluralism itself might, in part, arise as a result of the disincentive to expand an existing enterprise, due to the risk of failure (cf. Palmer, 2004: section 3.12.7; Buckley, 1997: 1091; Long and Richardson, 1978: 201). An alternative strategy adopted in some cases is diversification into other enterprises. In other words, enterprises might expand not by increasing investment in their successful enterprise, but by investing in the start-up of another enterprise or in farming activities.66

It is also noted that, particularly in rural areas, households and enterprises are one and the same (Meghir, 1991: 107; Rhyne and Otero, 1991, 1994). Thus, in the same household someone might be a carpenter, while at the same time raising poultry or grass-cutters, meanwhile the wife and children tend to the farm, with the wife also having a part-time activity selling *akpeteshie* (local alcohol) to the neighbours at night. Many such cases like this exist and it should be plainly clear that micro-enterprises do not operate as autonomous units. Table 4, below, shows the results from the questionnaire administered in Nkawie-Kuma (a rural town in Ghana) by Palmer (2004: Appendix C, Q.12), asking about other full- or part-time income-generating activities in addition to the main enterprise activity. Clearly, there is a high degree of occupational pluralism within a household, with 86% indicating that their household is involved in one or more additional income-generating activities. 67% indicated that farming was one of their additional activities67, with 39% of this indicating that farming and another activity were carried out in addition to their main enterprise. This, obviously, underlines the importance of farming in rural areas. This figure of 67%, representing those working in both farm and non-farm activities, is higher than other estimates. Haggblade, Hazel and Brown (1989: 1185), for example, estimate that in rural Africa between 20-40% of the labour force works in both farm and non-farm activities. The Nkawie-Kuma data also highlights the widespread nature of income diversification from multiple enterprises in rural areas, with 58% of households engaging in at least two non-farm enterprise activities overall. Note that only 14% of respondents in the survey indicated that they operated only one, their main, enterprise.

In this sense, it might be argued that there is an additional element in both of the proposed 'ceilings' to growth proposed by Palmer (2004: section 3.12.7), that of the 'self-imposed ceiling'. Entrepreneurs may wish to have a number of lower-performing enterprises, rather than invest more money in one particular enterprise, to break through the 'growth ceilings' proposed. This might be seen as a strategy to minimise risk in the face of economic uncertainty (Long and Richardson, 1978: 201). This figure of 67% is likely to be an under-estimate since, although the questionnaire specifically stated that 'farming' should be included as an enterprise activity, some respondents may have not considered that their farming was significant enough to mention.
Table 4. Households in Nkawie-Kuma, a town in rural Ghana, engaging in income-generating activities in addition to their main enterprise activity.

<table>
<thead>
<tr>
<th>Activity Description</th>
<th>MSE respondents</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No income-generating activities in addition to main enterprise</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Farming activities in addition to main enterprise</td>
<td>30</td>
<td>28</td>
</tr>
<tr>
<td>Farming activities and other activity* in addition to main enterprise</td>
<td>43</td>
<td>39</td>
</tr>
<tr>
<td>Other activity* in addition to main enterprise</td>
<td>21</td>
<td>19</td>
</tr>
</tbody>
</table>

109  100


* ‘other activity’ included; 1] Waged-employment: security work, teacher, nurse, prison office, mining, logging, police, agricultural officer, clerk, accountant, cooperative agent, government driver, forestry; 2] Self-employment: any other informal sector enterprise, such as carpentry or retail.

In most households, the income from farming is mixed, for example, with a carpentry enterprise, which is mixed with raising grass-cutters and so on. In most cases, people might try to keep the incomes separate, in that they want to be able to raise more grass-cutters when the older ones are sold, or buy more akpeteshie once the bottle is finished, or buy more wood once a table is sold. However, the competing demands of enterprise and family life mean that this is frequently not possible. Therefore the financial needs of the enterprise are inseparable from those of the household.

The evidence from the research in Nkawie-Kuma (Palmer, 2004: sections 3.62, 3.64) indicates that a significant percentage of enterprises cross-finance each other (including cross-financing from farming), particularly at the start-up phase, but also with respect to working capital needs. This concurs with other research (Rhyne and Otero 1994). Indeed, the ILO Kenya report also noted the cross-financing of farming and non-farm activities (1972: 192). As Kilby et al. point out, “the demand for external finance associated with an enterprise is affected by its synchronization with the household’s other cash-generating activities” (1984: 269). Fig. 2, below, gives a simplified account of the different kinds of ‘household type’ that exist in rural areas. Type A] assumes 100% productive time spent in year-round farming activities, while Type D] assumes 100% time spent on commercial manufacturing activity. Types B], C], E] and F] are variations, of which there are numerous others.
The make up of enterprise activities within a given household will effect the financing of the enterprises. Kilby et al. note that:

In contrast to specialized households (Type A and D), it is virtually certain that two or more simultaneous enterprises (Type B and E) will have non-identical time patterns of cash flow and hence provide internal cross finance. (1984: 269)

It would be interesting to have more research looking at how the make-up of a household’s enterprise activities effects its financing activities.
8.2 Smallness of size

Muskin, based on research in northern Cote D'Ivoire, notes that informal sector occupations are characterised by their relative smallness of size in many different aspects (1997: 269):

- Usually only one income-earning individual, the owner-operator;
- Smallness and often ephemeral nature of structure;
- Little working capital;
- Few customers;
- Small stock;
- Low output.

Research in Accra, Tema and Kumasi (Ghana) revealed that informal sector enterprises are generally individually-owned and operated, and were established less than five years ago (Yankson, 1992). The small-size of most informal sector operators relates to a whole series of reasons, some of which are explored in more depth in the following subsections. For example, since informal operators are much less likely than their formal counterparts to get access to formal credit, the scale of their operation is limited. This is because any growth of informal activities has to be financed by internally generated funds, while formal activities have easier access to formal loans.

Davies notes that the semi-legal status of many informal activities results in no incentive to expand since the activities would not be protected by law (1979: 93). Further, that legal informal activities that do not have access to formal risk-aversion strategies, such as insurance, would likewise have little incentive to expand (ibid.).

8.3 Operating within geographically-constrained markets and often in saturated markets

Especially in rural and peri-urban areas, the market for informal sector operators tends to be geographically constrained, with enterprises mainly serving clients in local market areas. This small market size within which most informal enterprises operate results in often severe competition between businesses. The market soon gets saturated with many similar enterprises competing for too-few, too-income poor, customers. Livingstone notes that, "in the basic trades, intense competition is particularly evident in tailoring, reducing the level of earnings" (1991: 665), and also among "women's cottage industries such as beer brewing or mat making" (ibid.).

Palmer, based on research of 109 MSEs in the rural informal sector of Ghana, concluded that "thirty percent of the... sample indicated that too much competition from other enterprises represented a major current problem for the operation of their enterprise" (Palmer, 2004: 58). He cited the example of a battery charger who mentioned that he has meetings with the other battery chargers in the town to set a common price. He indicated that because of them he is forced to charge lower prices "or

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68 See, for example, sections 8.3, 8.4, 8.5, 8.7, 8.10, 8.12, 8.13, 8.14.
people will desert me [and] sometimes I don’t make anything koraaa! [at all]... I starve myself”. (Palmer, 2004: 59)

Kenyan tracer studies (Caplen, 1981; Keter, 1988 in Livingstone, 1991: 665) point to an over-supply of carpenters and other common trade graduates from the village polytechnics, “with leaver’s unemployed or on their parents’ farm, not using acquired skills” (Livingstone, 1991: 665).

8.4 Operating in income-constrained markets

The market for informal sector goods and services is predominantly low- to middle-income groups. The informal sector provides a vast array of inexpensive goods and services for the majority of the population who cannot afford goods and services produced in the formal sector. The market for low-cost informal sector goods and services includes not only others in the informal sector, but it has been suggested that the demand also derives from the generally low wages paid in the formal (especially public) sector. Barwa notes, for Ghana, that “informal sector goods are primarily patronized by the poor individuals” (1995: 9). The fact that the majority of customers in the informal sector are income-poor, having a low purchasing power, causes problems to informal operators. For example, in order to make a sale or to keep loyal customers, informal sector operators often have to provide credit to customers. This ties up valuable working capital for enterprise owners, something which few can afford to do (Palmer, 2004: 46, 64).

The 1990 IFAD Mission in Kenya observed the importance of middle income households’ purchasing power and that they constituted an important market for informal sector MSE goods and services (in Livingstone, 1991: 667). This importance of middle income earners was also reflected in the rural areas, where, the Mission noted, “civil servants, teachers and the like provide a significant market for whatever rural enterprises exist” (ibid.). Billetoft (1989: 128 in Livingstone, 1991: 667) observes that:

As just a minor fraction of the peasant households is capable or willing to buy desirable and other more costly consumer goods, teachers and other public employees account for an over-proportionate share of the real purchasing power... it is the middle income clientele which at present make up the major market for rural tailors, shoe-makers, carpenters, etc. Products from the rural informal sector substitute formal sector products at lower prices for the middle and low income groups. But the middle income groups weigh most due to the little purchasing power of low income consumers.

If this is true, then it means that the market for rural MSEs is relatively constrained (Livingstone, 1991: 667). Thus, where there is a decrease in middle income groups, as there was as a result of the SAPs in Ghana, there will be a decrease in the market demand for rural MSE goods and services. This highlights “the importance of rural purchasing power in determining the scope of non-farm activity” (ibid.).
8.5 Legal status and lack of regulations

Any discussion of legality and illegality of informal sector activities has to recognise that, since notions of legality vary from country to country, this discussion has to be country-specific.

While Hart's initial conceptualisation of the informal sector (1973) included illegal activities (according to Ghanaian law), such as drug-dealing and prostitution, it is more usual now to distinguish between informal activities and illegal activities.

However, as Davies notes, "many informal activities involve some degree of illegality" (1979: 93), but this is largely administrative illegality deriving from legal institutions embodying the values of the dominant class and designed to serve their interests. These might not be shared by the members of the informal sector, who would... regard such activities as legitimate. (ibid.)

Whether an enterprise is consider illegal or not usually depends on: whether they have an official license or not; whether they pay official tax or not; whether they are located on land officially owned by them or not; or any combination of these factors. These factors aside, "property and working relations may be virtually identical" (Clark, 1988a: 5) to formal sector enterprises.

By bypassing these official regulations, informal sector activities are able to meet the demand for low-cost goods and services that would otherwise be unavailable to many. By not having to pay tax, abide by regulations or buy expensive licenses, many informal income-generating activities become financially viable projects for income-poor groups.

The Kenya ILO mission noted in 1972, that official "regulations ensure a high quality of services and commodities for the wealthy few at the expense of the impoverished many" (ILO, 1972: 504).

In the informal sector there are no true professional, technical standards to impose or encourage uniformity in products or services. Essentially, "the market serves as the regulating agency, 'authorising' a particular artisan to operate by providing him/her with an adequate clientele" (Muskin, 1997: 269).

As mentioned, there is usually, in practice if not in government rhetoric a general consideration of informal sector activities as alega (Blunch et al., 2001; Hugon, 1990: 73) being tolerated by government. "Activities such as theft, extortion, corruption and bribery are usually conceptually distinguished from the illegal or extralegal trade and production, not least by traders themselves" (Clark, 1988a: 5).

As Clark put it the boundary between legal and illegal trading sometimes shifts so rapidly and reversibly that legal status seems to function as a disputed asset rather than an enterprise characteristic. (1988a: 6)
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As Clark put it

the boundary between legal and illegal trading sometimes shifts so rapidly and reversibly that legal status seems to function as a disputed asset rather than an enterprise characteristic. (1988a: 6)
Clark further commented that the desire many traders exhibited, from Ghana to Peru, in wanting to obtain and keep legal rights clearly shows that a consideration of their legal status is not irrelevant (1988a: 6).

8.6 Members mostly law-abiding and often pay some form of license or tax

It could be argued that being classified 'illegal' because of non compliance with tax payment is a phallacy. Equating informal activities with non-tax paying activities fails to recognise the informal tax mechanism, the unofficial payment of bribes to officials that effectively has the same effect of formal tax; i.e. the costs are passed onto the consumer. Webster and Fidler note that “employing a legal definition would not be useful in West Africa, because the extent to which these very small businesses are registered and pay taxes varies from country to country” (1996).

Muskin notes, from research in northern Cote D’Ivoire, that “the [informal] sector’s members tend to be mostly law-abiding” (1997: 269), with only a small number disrespecting prevailing laws about registering and paying fees and taxes (ibid.). Statements such as “informal sector operators [in Ghana] do not pay tax; they do not have any insurance cover, nor unemployment and retirement benefit” (Ninsin, 1991: 98) are, frankly, unhelpful. Ninsin is approaching an analysis of the informal sector in Ghana from a formal perspective, obviously referring to formal tax and formal insurance cover for example. He makes no reference to informal taxation, informal insurance associations (for example, funeral or fire associations), informal social insurance or the ‘moral economy of the poor’. Further, there are many instances where informal sector operators do actually pay tax.

While I was conducting research in rural Ghana (Palmer, 2004), it was clear that most informal sector enterprises appeared to be legitimate, in the sense that they paid some sort of tax. This is contrary to the general belief that informal sector MSEs, particularly those in rural areas, are unregistered. Boapeah found that about half of the enterprises in his study sample from a rural district in southern Ghana were officially registered (1996: 180). In Palmer’s case, the incidence of tax payment may have been slightly higher than normal as his study was conducted in the rural district capital where there is a revenue office and therefore the enterprises find it harder to avoid them (Palmer, 2004).

During the fourteen months that I have been in Ghana, living largely in rural areas, I would estimate that the number of unregistered and un-taxed enterprises is far higher outside of the district capitals, where the revenue-van finds it harder to reach. There are numerous unregistered, untaxed, unofficial, sometimes illegal activities that go on, including: retailing and distilling of local gin or palm wine in houses; retailing of factory produced drinks (e.g. bottled gin or schnapps); illegal chainsaw operators; bribes to police at road-blocks; bribes to the timber task force (that was set up to stop the illegal chainsaw operations); teachers having undeclared and untaxed commercial farms in addition to their teaching salary; teachers doing part time private classes; casual labouring

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69 See section 9 for a discussion on the ‘moral economy of the poor’.
on farms; hiring of skilled labour to others; salaried logging workers hiring out the 
logging companies equipment (such as the 'skiddars' for land clearance) without the 
private owner aware and so on. However, even in the more rural areas where I was, those 
who opt to have some sort of store based enterprise cannot avoid paying tax for too long 
since their activities are obvious to the revenue collectors. Those based in households are 
less easy to spot and therefore enforce registration upon and tax. In one instance the wife 
of a worker in the district assembly was selling drinks illegally to villages without paying 
tax and the revenue people over-looked her for some time since they knew the husband. 
Though even she had to start paying tax after an unofficial six month 'tax holiday'.

In Ghana, while there is no income tax for farmers or those in the informal sector more 
generally, there are numerous other taxes that these operators have to pay. In villages 
there is the monthly head-tax of 1000 cedis per household. Store operators have to pay a 
kiosk/store-license fee of 7000 cedis per month (personal communication).70

It has been noted that informal sector associations (ISAs) are increasingly used as 
vehicles to tax the informal sector, and indeed that the main reason that ISAs were 
encouraged by governments was so that they can act as tax collectors from the members 
(2004: 67). In Suame Magazine, Ghana, for example, the GNAG charges members 
20,000 cedis a year (in 2003) as 'membership fees'. Some of this is remitted to 
government.

Even informal economic activities that were traditionally thought to be way outside the 
tax network, such as the head-porters at the main transport yard in Kumasi, Ghana, are 
increasingly being charged. In the case of these head-porters, officials from GPRTU71 go 
around and sell tickets to the head-porters on a daily basis (at 1000 cedis a day) to license 
them to operate in that transport yard. GPRTU in turn remits tax to the government. 
GPRTU officials can be seen around the Kumasi transport yard checking the head-
porters, asking them “ticket wo hin?” – ‘where is your ticket?’.

8.7 Informal finance predominates72

The reasons why access to formal credit is very limited informal sector MSEs, especially 
rural micro-enterprises, has been well documented and is summarised in a table collated 
by Palmer (2004: 14) in Fig 3, below.

In Ghana, as in many developing countries, the informal sector “mobilizes substantial 
financial resources that are simply not visible to the formal sector and not reflected in 
official statistics” (Aryeetey, 1996b: 10). This informal financial sector “is generally 
taken to comprise all financial transactions taking place outside of established formal 
financial institutions” (Duggleby et al., 1992: 18). This sector has been defined in Africa 
as the operations of savings and credit associations, professional money lenders, part-

70 Exchange rate at time these figures were collected, in August 2003, was approximately 14,500 cedis = 
1 GBP. 
71 Ghana Private Road Transport Union. 
72 For a more in depth discussion on informal finance see Palmer (2004), especially section 2.7.
time money lenders, relatives and friends, traditional usufu collectors, and co-operative societies (Aryeetey, 1995a; Aryeetey, 1996b: 20; Aryeetey and Udry, 1995).\textsuperscript{73}

Fig 3. Reasons why getting access to formal credit is difficult for informal sector MSEs

1) Lending to MSEs is considered a higher risk vis-à-vis lending to larger ones; Banks do not have enough information on potential borrowers and fear the lack of predictability surrounding the transaction. Lenders are frequently faced with information asymmetry (*) when compared to potential borrowers and thus "may avoid lending to smaller, less-known clients, or impose strict collateral requirements when they do" (Aryeetey et al. 1994: 7);

2) MSEs lack 'acceptable' collateral;

3) The small size of loan transaction has a high ratio of transaction cost to loan size. "The smaller the SME the more unattractive it is... as financial institutions will always want to recover their costs and make a reasonable profit, which is not always possible with small lendings" (Odei and Hammond 1996: 80).

4) MSEs often produce poor project reports and/or lack of comprehensive project plans;

5) MSEs often do not show managerial competence;

6) The ability of MSEs to repay a loan is not proven;

7) MSEs often lack a clear repayment plan;

8) The weak legal system to enforce repayments or contracts;

9) Susicion of fungibility of loans disbursed;

10) Physical remoteness of many enterprises, especially in the rural areas;

11) Lack of book keeping is common for MSEs;

12) Mobility of many MSEs;

13) Literacy of many MSE owners and the inability to understand what the banks ask of them;

14) MSEs are seen as disorganised.

Notes
* Asymmetry of information arises when potential borrowers have more information than the lenders are able to accurately obtain about the ability and willingness of the former to repay any loan (Aryeetey et al. 1994: 7).


\textsuperscript{73} Paragraph from Palmer (2004: 20).
“Most of the surveys appear to confirm that there are few if any links with the modern sector in terms of financing... The bulk of the capital consists of personal or family savings” (Hugon, 1990: 74). For example, Muskin’s research in Cote D’Ivoire highlights the predominant use of informal finance. He notes that over 90% of respondents used personal savings or family contributions for enterprise start-up (Muskin, 1997: 269).

8.8 Few formal business records kept

Many informal sector operators do not keep records of business transactions (Barwa, 1995; Fyle, 2002; Liedholm and Mead, 1999; King and McGrath, 1999b; Kpemlie, 1998; Thomi and Yankson, 1985).

For example, Muskin’s research in northern Cote D’Ivoire revealed that most owner-operators in the informal sector utilise rudimentary or non-existent formal internal financial procedures, with only 20% of his sample keeping financial records (1997: 269). In Ghana, Ninsin (1991: 99) notes the “disorder, confusion and incompetence which characterise management practices in the informal sector”, with lack of record-keeping presumably an example of this for Ninsin.

8.9 Generally low-level of education

Traditionally, informal sector operators have been regarded as possessing a low skills base and low levels of education (e.g. Hallak and Caillods, 1981: 56-57). However, it has been recognised that large numbers of much more educated people are entering the informal sector (cf. Charmes, 1999b: 78; King, 1990b). That the levels of education among informal sector operators and apprentices is rising, is most probably as a result of the move towards education for all (EFA). For example, in Ghana a survey in 1990/91 (cited in Baah-Nuakoh, 2003: 119) in the capital, Accra, revealed that 14.2% of informal sector enterprise owners had not been to school (see table 5, below). A later survey, in a rural town in 2003 (Palmer, 2004: 79), indicated that this had dropped to 9.2%.74 Likewise, the 1990/91 data revealed that 36.1% of operators had completed middle form four, compared to 46.8% in the 2003 survey.75 Surveys reveal that, as a result of the generational effect, the education level of enterprise owners is lower than that of the employees, which is again lower than the apprentices associated with that enterprise (Charmes, 1999b: 78). Over time, the effect of better schooled apprentices will have a impact on the informal sector with respect to output and productivity (Charmes, 1999b: 78). For example, Muskin’s research in northern Cote D’Ivoire notes that, “formal schooling was found to affect positively the ability of the informal sector producers to perform both mathematical and reasoning problems” (1997: 270). However, having apprentices who have received often substantially more education that their masters who are training them has implications for the effectiveness of the informal training process.

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74 It would be better to compare results from urban areas over this time period, instead of having one urban and one rural sample. However, since education in rural areas is almost always less wised-spread than in urban areas, what this data does indicate is that levels of education in urban areas for informal sector operators are likely to be much higher than is suggested by the rural data.

75 Equivalent to JSS3 now, the final year of junior secondary school.
Indeed, the consequences of having less- or un-schooled master-craftsmen training better-schooled apprentices may well have an adverse effect on the training. Due to issues of respect for master-craftsmen and senior (less-schooled) apprentices, younger (more-schooled) apprentices may feel reluctant to suggest new approaches (Muskin, 1997: 275). Muskin notes that:

With little to no schooling of their own and having learned the profession from someone else with no schooling, most informal sector producers can be expected to train the schooled apprentice no differently than they do the non-skilled apprentice... This involves a transfer of the same techniques of ‘aesthetic’ production and repairs and the same ‘compensation’ strategies which they acquired as apprentices and which they still employ. (1997: 274-5)

Table 5. Distribution of Ghanaian informal sector enterprise owners by educational level

<table>
<thead>
<tr>
<th>Education Level</th>
<th>1990/91 Accra Survey</th>
<th>2003 Nkawie Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not been to school</td>
<td>14.2</td>
<td>9.2</td>
</tr>
<tr>
<td>Has not completed primary</td>
<td>7.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Completed primary</td>
<td>7.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Entered middle school / JSS but not completed</td>
<td>3.3</td>
<td>9.2</td>
</tr>
<tr>
<td>Completed middle form four / JSS 3</td>
<td>36.1</td>
<td>46.8</td>
</tr>
<tr>
<td>Entered secondary but not completed</td>
<td>4.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Completed secondary</td>
<td>12.1</td>
<td>15.6</td>
</tr>
<tr>
<td>Tertiary education</td>
<td>10.4</td>
<td>6.4</td>
</tr>
<tr>
<td>Other</td>
<td>5.0</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: Table from Palmer (2004: 79).

* Data from Accra survey, the urban capital of Ghana, in Baah-Nuakoh (2003: 119).

** Data from Nkawie survey, a rural town in Ashanti Region, from Palmer (2004).

Notes: Percentages do not add up to 100% due to rounding of fractions.

The JSS replaced the middle school in Ghana. In the table ‘middle school’ and ‘JSS’ are assumed to be identical even though middle school was 4 years, while JSS is 3.

8.10 Informal skills training

The World Bank asserts that “traditional apprenticeship training is the most important form of structured training in the informal sector” (Johanson, 2002: x). Traditional Apprenticeships occur in very large numbers and cover most trades and service, with the average age of apprentices from 16-22 years. Traditional apprenticeship training is especially prevalent and organised in West Africa and emerging elsewhere.

Early research, such as that by Callaway, who discussed ‘traditional apprenticeship’ in Nigeria (1963b: 359) and Foster’s “bush mechanics” in Ghana (1965: 156), noted the

76 This assertion was adapted slightly in the final version of the World Bank report, Skills Development in Sub-Saharan Africa, where it is asserted that “traditional apprenticeship training is probably the most important source of technical and business skills for workers in the informal sector” (World Bank, 2004: 129).
importance of informal skills acquisition. In Ghana, Sowa et al. (1977) estimated that 55.2 per cent of training in the country was through informal means. Also in Ghana, Yankson (1992) places it at 54.6 per cent, while Yankson notes that, “apprenticeship still remains the dominant channel for transfer of skills” (1992). Most recently, in Ghana traditional apprenticeship training has been estimated to be responsible for 80-90% of all skills development, compared to 5-10% by public sector vocational training centres and 10-15% by private, non-profit training providers (Haan and Serriere, 2002: 34). The World Bank estimates that in Ghana 55 per cent of workers in micro-enterprises have acquired their technical and generic skills through traditional apprenticeship (World Bank, 1995).

In apprenticeship training skills are acquired in an informal setting. Typically, parents of a junior school graduate or drop out will approach a master-craftsman or woman and ask them to train their ward. There may be an initial payment from the family to the master, or a series of on-going payments. Alternatively, the master may agree to train the apprentice for free provided the apprentice continues to work for the master after the period of the apprenticeship, to repay the master in kind.

Muskin’s research of 140 workshops in Korhogo, northern Cote D’Ivoire, revealed following characteristics as an example: The average number of apprentices per master to be 3.3; the average age of apprentices to be 20, with most starting apprenticeship at about 16.5 years old; the owner-occupier’s average length of apprenticeship was 5.7 years, with about 6.7 years of formal schooling; the average length of apprentices’ schooling was only 3.5 years; about a third (37.7%) of apprentices had received any schooling; about a third (34.2%) were related to the owner-occupier; and about a quarter (27.4%) paid to be apprentices (Muskin, 1997: 269).

The advantages of traditional apprenticeship training in the informal sector are seen by the World Bank to lie in its self-regulation, cost-effectiveness and self-financing nature (World Bank, 2004: 8). While disadvantages included the perpetuation of traditional technology and the lack of standards of quality assurance (ibid.). The earlier ILO/JASPA report in the mid 1980s identified that a key problem with apprenticeship training or on-the-job training... is that it can become a closed system, feeding on itself, with very little scope for the introduction of new ideas. The periodic infusion of entrants from the formal sector helps in some way to break this inbreeding, but clearly there is a need for more, to overcome the constraints in the informal sector with respect to skills. (ILO/JASPA, 1985: 36)

8.11 Technology

Yankson’s (1992) research on informal sector enterprises in Ghana revealed that the level of technology employed was low and generally in poor condition. According to Yankson only 5 per cent of the sampled entrepreneurs used self-constructed tools and equipments. The few cases were food processing (4 per cent), woodworking (11 per cent), metal fabrication (20.3 per cent), and in handicrafts (11.5 per cent). Yankson’s survey further showed that in the three years preceding the survey only 473 of the 1,206 operators (that
is 39 per cent) had bought tools and equipments, 44 per cent had not purchased any new tools or equipments and 17 per cent could not give a definite answer (1992).

However, this view of informal sector operators using simple technology with a low capital intensity does not hold uniformly throughout the informal sector (Aryee, 1981) due to its heterogeneous nature. Some research points to the existence of highly dynamic segments in the informal sector (Barwa, 1995: 8). Dawson's survey of micro engineering firms around Kumasi (1991) showed a relatively high level of mechanisation, indicating that there were 46 lathes, 5 capstan lathes, 10 milling machines as well as other equipment (Barwa, 1995: 9). In the last few years it has been more and more common to find mobile phone and internet technology being used in the informal economy in SSA. For example, anecdotal evidence from Lome, Togo, indicates that the number of informal mobile phone kiosks has increased; which are often little more than a table with someone behind it with a mobile phone, who sells the mobile units to customers to make calls (fieldwork by Palmer 2003). In Tanzania, Tom Molony has been researching the use of information communication technology among MSEs (Molony, forthcoming). Molony's doctoral thesis uses empirical evidence to explore how existing business relationships are being affected by the appropriation of mobile phones and the internet in three areas of the Tanzanian economy: the domestic trading of perishable foodstuffs, Dar es Salaam's informal construction sector, and the export of Makonde ebony carvings (personal communication to author).

8.12 Low price of informal sector products and services

Informal sector goods and services are usually much cheaper than those from the formal sector. The lower price of informal sector products and services arise in a number of obvious ways; informal operators often do not pay taxes, adhere to minimum wage legislation and avoid some overhead costs (Davies, 1979: 95). Since goods and services are cheaper, the quality of manufactured goods or food is also likely to be considerably worse for informal sector items, when compared to formal sector equivalents. It should be remembered that customers of formal sector goods and services are also paying for an 'ensurance of standards' (ILO, 1972: 6). For example, a customer who takes his car to a registered, recognised, official garage knows that the mechanic has been formally trained and certified to decent standards. A customer who takes his trotro to a bush-mechanic on the way-side will get the job done at a cheaper cost, but to an, often dubious, standard of safety.

8.13 Ease of entry to activities at the lower end of the MSE continuum

Davies noted some of the barriers to entry into formal sector activities (1979: 91) dividing them into direct and indirect barriers. Direct barriers include professional qualifications or formal educational requirements. Indirect barriers include large initial capital requirements, economies of scale giving others already in business a comparative advantage, and land use restrictions (ibid.).

77 See also section 3.25 on Keith Hart and 'barriers to entry' into informal activities.
The informal sector was originally formally characterised by its ease of entry (ILO, 1972). Webster and Fidler note that “low entry barriers facilitate relatively easy enterprise start-up” (1996: 13). In the informal sector there are no formal educational requirements for entry (Davies, 1979: 91). Hence, “it could be expected that the skills levels, in terms of certified training, of members of the informal sector will be low” (ibid.). The “capital intensity in this sector is low” (Barwa, 1995: 9), meaning that those wishing to establish informal economic activities did not have to have that much capital to do so.

However, while Hart (1973) noted that there was a general ease of entry, he noted that this was less true for the more dynamic, profit-making enterprises. He noted, for example, that the essential prerequisite for entry into better off, more profitable activities, is that savings have been accumulated (1973: 71). The later ILO/IASPA report noted that the ease of entry argument about the informal sector has to be qualified substantively: entry is quite selective and occurs mostly as apprentices and rather less frequently as entrepreneurs at the more mundane levels. (ILO/IASPA, 1985: 43)

Hart also noted the existence of ethnic group concentrations that “act as informal rings inhibiting entry into certain commodity trades” (Hart, 1973: 73). For example, Hart mentions the whole of the meat (cattle) distribution (from cattle trading to butchering) was dominated by the Islamic Hausa community and non-Muslims had problems ‘breaking’ into this economic area (ibid.).

Further, Hart noted that capital alone was not sufficient, and that skills were required to establish certain informal activities.

Artisans need not only small capital sums in order to set up their own sewing machine, bench and tools... but also a considerable amount of learned expertise.

(Hart, 1973: 70)

Palmer’s research among rural Ghanaian MSEs concluded that unless an aspiring entrepreneur has a family member or friend able to assist them they are likely to find it hard to start up an enterprise (2004). Bryceson points to a number of studies from SSA that suggest entry into more lucrative non-agricultural activities requires high levels of starting capital, that results in the exclusion of “farmers from more modest means” (2002: 734).

8.14 Income and Earnings in the informal sector

The ILO/IASPA studies in the mid 1980s noted that the informal sector should not be seen as “an undifferentiated mass [since]... Incomes vary widely” (1985: 17). Hugon notes that, while most research shows that the incomes of entrepreneurs are often above, or equal to the minimum wage in that country (Hugon, 1990: 76), “all the studies reveal that apprentices’ earnings are extremely low” (ibid.). Indeed, the ILO/IASPA country studies from five francophone countries in the mid 1980s showed that the majority of apprentices (over 90%) earned less than the legal minimum wage in those countries (ILO/IASPA, 1985: 17), “and this generalization is likely to hold for the other African

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78 See section 3.25.
countries as well" (ibid.: 18). The ILO/JASPA report goes on to note that, "apprentices are clearly the “working poor” of the informal sector" (1985: 18).

However, as noted in section 10 regarding the difficulties of measurement, it is very difficult in practice to establish income levels for informal sector participants. Complications would include when the survey was conducted, since incomes vary day to day and seasonally. Occupational pluralism (section 8.1) and the fact that there is often no real distinction between household and enterprise units (cf. Hugon, 1990: 76) further complicate accurate measurement. Moreover, surveys responses to questions related to income could be inaccurate depending on whether the respondent deliberately deflate their actual income (for example, due to the suspicion that income levels are being collected to calculate how much tax the entrepreneur should pay), or deliberately inflate it (perhaps to impress the interviewer, or because the respondent is embarrassed about how much they do earn).

As the ILO/JASPA report noted, researchers should be careful not to treat incomes within the informal sector as an ‘undifferentiated mass’ (1985: 17) and see the informal sector as a homogenous entity within which all suffer from poverty. However, following the presumption that those working in the informal sector have been subject to state policy that serves to disadvantage them, it has been argued that poverty is an inherent feature of those that operate in this part of the economy. Mead and Morrison conclude that “while there is some association between poverty and informality, this is by no means a clear-cut relationship. It would seem quite inappropriate to use poverty as a defining characteristic of informality” (1996: 1612).

8.15 Micro-enterprises and the informal sector

The term ‘informal sector’ is sometimes used to refer to micro and small enterprises (MSEs),79 (for example by Bagachwa, 1997: 141 or Livingstone, 1991: 652). However, this does not take into account those MSEs that operate in the formal sector, or indeed straddle both sectors, and hence some argue that the informal sector should not be classified as the MSE sector (cf. ILO/JASPA, 1985: 19).

It is true that the vast majority of informal economic activities can be termed ‘micro-enterprises’, which make up the majority of all MSEs in developing countries (Livingstone, 1991: 657). However, this does not mean that either the informal sector is just micro-enterprises, or that micro-enterprises are just in the informal sector.

Charmes (1998 in Xaba et al., 2002: 13) subdivides the category of enterprises in the informal economy into: 1) family enterprises, comprised of independent owners and family workers; and 2) micro-enterprises that consist of less than ten employees or which are not registered as enterprises.

79 Defined as production and distribution units of goods or services employing 10 persons or less (Bagachwa, 1997: 141; Webster and Fidler, 1996: 5).
Micro-enterprises in developing countries are usually defined as comprising of less than 10 workers (Aryeetey et al., 1994; Aryeetey, 1996b: 9; Boapeah, 1996: 175; Liedholm, 1991: 1; Liedholm and Mead, 1999: 7; Livingstone, 1991: 652; Rhyne and Otero, 1994: 26), but have been defined in Ghana as less than four (Steel and Webster, 1991: 9) or five workers (Amoah, 1997: 131). While there is no universal definition there is some agreement as to their general characteristics; very small scale of operation, low level of technology, low access to credit and lack of managerial capacity.

The working definition for this research is that micro-enterprises are any non-farm (agricultural), capitalist (cf. Mkandawire, 1999: 34) income-generating activities or wage employment, either full-time or part-time, operated from the home, a stall or the street (mobile vendors) constituting between 1 to 9 workers inclusive (including the owner-worker and any apprentices)\(^8^0\), who are either paid or non-paid (partly based on Livingstone, 1991: 652). The micro-enterprise spectrum is defined as a continuum between the more survivalist trading (bogyuwa-bogyuwa\(^8^1\)) and manufacturing activities at one end and the more dynamic kiosk-enterprises at the other\(^8^2\) (cf. McGrath, King, Leach and Carr-Hill, 1995: 1).\(^8^3\)

The informal economy can be conceptualised as a phenomenon including such non-mutually exclusive activities as micro-enterprises (from survivalist to dynamic), informal finance, informal insurance and taxation, informal social relations (including informal contracts, self-help groups, and the moral economy of subsistence entrepreneurship in the informal economy), and agriculture.\(^8^5\) Generally, informal economic activities share broadly similar characteristics.\(^8^6\)

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\(^8^0\) The research defines home-based work as remunerative work carried out by workers within their homes, i.e. subcontracted workers and independent own-account workers (Chen, Sebstad, and O'Connell, 1999).

\(^8^1\) Despite the fact that in Ghana micro-enterprises have been defined as being less than 5 workers, it is considered by the author that a distinction of less than 10 is better since enterprises of this size resemble each other in their other characteristics, such as access to credit and level of operation.

\(^8^2\) The trading micro-enterprises can fall under the general Twi term of bogyuwa-bogyuwa, which is translated as 'people who sell minor items in bits' or simply 'petty trading'. Bogyuwa-bogyuwa enterprises are described as operating 'under the sun', being very small in size, with a small turnover, small profit and a subsistence, or 'hand-to-mouth' existence. However, although the term bogyuwa-bogyuwa is widely understood it is not used as common parlance.

\(^8^3\) This follows others, like Boeh-Ocansey (1997: 4), who define the micro-enterprise spectrum as a continuum between the more survivalist enterprises at one end and the more dynamic at the other.

\(^8^4\) The last two paragraphs have been taken from Palmer (2004: 3).

\(^8^5\) For a discussion on the inclusion of agriculture as part of the informal economy, see section 10.38 and 11.0.

\(^8^6\) As shown in section 8. However, this said, the highly heterogeneous nature of informal economic activities makes it very difficult to generalise. In this case, the characteristics outlined in section 8, can be taken as broadly representative, but not definitive.
SECTION NINE

9.0 THE MORAL ECONOMY OF SUBSISTENCE ENTREPRENEURSHIP IN THE INFORMAL ECONOMY

The egalitarian philosophy of peoples, inured by generations of peasant insecurity to the disbursement of surpluses as a form of social insurance, makes private accumulation a difficult, though not impossible, task, and allows those who do not benefit from the informal economy to consume the earnings of those who do. (Hart, 1973: 87)

In James C. Scott’s *The Moral Economy of the Peasant*, Scott (1976) argued that peasant economies, rather than being based on principles of individual maximisation are based on mutual institutions designed to insure against risk. Scott noted that, for peasant farmers near to subsistence level, the cost of failure “is such that safety and reliability take precedence over long-run profit” (1976: 13). He went on to discuss this notion as being applicable to “fishermen and petty traders living close to the margin [of subsistence who] also spread risks to help ensure a steady income” (1976: 24). For example, the small-scale trader may avoid selling his goods to one person (on credit), or may pursue “several minor occupations to minimize the danger of ever being entirely out of work” (1976: 24).

In *The Moral Economy of Trade*, Evers and Schrader (1994: 5) described the ‘traders’ dilemma’. This dilemma that traders face arises from their moral obligations to assist kin and neighbours, on the one hand, and their need to accumulate capital and make their enterprise profitable on the other. This need to accumulate capital and resources necessary for trading ventures is often in contravention of the ‘moral economy of the poor’.87 The ‘traders’ dilemma’ is more acute in rural areas, compared to urban areas (1994: 13).

Informal enterprises close to subsistence level and particularly those in rural areas, will suffer the same ‘traders’ dilemma’ described above and are more likely to be ‘satisficers’, than ‘maximisers’ (cf. Simon, 1957), than their more dynamic and urban counterparts.

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87 The notion that kinship obligations adversely affect the accumulation of capital and hence the running of an enterprise is from earlier work. Seers and Ross note that: “[Family] loyalties, like most egalitarian tendencies, whatever there other [social security] merits, are not conducive to the accumulation of capital” (1952: 17). However, some research argues that the notion that the poor share amongst themselves to the detriment of capital accumulation is not universal. Robertson’s research in Ghana among market women noted that “most women were aware of the parasitic potential of having relatives treat their businesses as free meal tickets... [and] thus most... rejected appeals from relatives to sell to them at or below cost” (Robertson, 1984: 483). She argues that “this phenomenon belies the extended family mystique, whereby everyone supposedly shares among poor people” (ibid.). Further, Bryceson (2002: 729) mentions a number of Nigerian case studies that suggest the moral economy is ‘under pressure’ as a result of people being forced to forego expenditure on gift-giving in favour of more immediate consumption needs.
Palmer, based on research on 101 informal sector MSEs in rural Ghana, concluded that twenty-four percent of the sample “indicated that social obligations in the community (e.g. funerals) posed either a major or moderate problem for the current operation of their enterprise” (2004: 61).

Palmer cites a Ghanaian carpenter’s view on this dilemma:

It can happen that family obligations effect an enterprise... If there is a problem and there is no money in the family, you are tempted to use the resources you have for the enterprise. Secondly, when some family members approach you for some jobs you are likely not to charge them the economic price. (2004: 62)

Palmer’s research in Ghana “reveals that the rural enterprise owner has to contend with economic aspects of the enterprise on one hand and the social commitment of rural life on the other” (2004: 62).

While some researchers, usually economists, assert that family and community obligations play only a “marginal role” with respect to inhibiting enterprise activity (for example Aryeetey of ISSER, Ghana, cited in Palmer, 2004: 62), most researchers acknowledge that the ‘moral economy of the poor’ affects enterprise growth.

Boapeah’s research on rural enterprises in southern Ghana, revealed that between 30-70% of rural enterprise profit was spent in this way, thus highlighting the “effect that social obligations in rural areas have on business performance” (1996: 183). Others note that “the burdens of the extended family... are felt particularly in rural areas” (Vyakarnam and Fiafor, 1991: 41) and are “always likely to be imposing” on enterprises (Dia, 1991: 11). Buckley notes that “family obligations retard enterprise growth” (1996: 14).

Interestingly, Keith Hart’s doctoral research in northern Frafra villages in Ghana discussed the problems rural traders face regarding kinship obligations. He comments that:

These village traders, selling cigarettes, kola, aspirin, kerosene, matches and all the other small impediments of modern civilization, are invariably members of the community which provides their custom and it has been suggested that, when customers are kinsmen, the trader is in difficulties... you have a lot of trouble getting them to pay up when the customer is your father-in-law or compound head... nevertheless many village traders seem to overcome the drawbacks of operating in their home community and even expand into other enterprises such as... making high-interest loans to farmers. (Hart, 1969: 145-146)

The “rural entrepreneur is much more dependent on the attitudes of the society in which he lives than the urban business person” (Vyakarnam and Fiafor, 1991: 41) and “does not experience the same level of anonymity as that felt by their urban counterparts” (ibid: 38). Indeed the extended family and community can bestow both positive and negative effects on an enterprise’s finance (Buckley, 1996: 13; Buckley, 1997: 1089; Dia, 1991: 11). On the one hand family and community support can directly or indirectly assist an enterprise. Family support might include the supply of cheap or free labour to the enterprise or the granting of gifts/loans to support either start-up financing and/or
periodic working capital requirements. Community support might include support to funeral or medical expenses that might otherwise have to come from the enterprise's savings. This is particularly the case where informal mutual aid associations have been set up in communities to assist those in need. Conversely, the family can serve as a drain on the financial resources of an enterprise. For example the owner might be called upon to assist with the cost of a family funeral, support other family members that have no source of income, or provide employment for family members. Likewise an enterprise might easily be effected by the social pressures of having to give donations at funerals.

Keith Hart's doctoral work in Ghana further noted that, apart from subsistence expenditures, the main area where migrants spent their money was "the field of social obligation" to fulfill the "expectations incumbent on any participant in the Frafra tribal network" (Hart, 1969: 225). His fieldwork revealed that "if a Frafra migrant were asked to give one reason why he was not prosperous, he would probably blame the obligations of kinship and tribe" (Hart, 1969: 226). And, while Hart notes that "the "extended family" is a convenient scapegoat for the unsuccessful [since] failure is portrayed as altruism [and] self-sacrifice to the common good... social obligations of migrants, if uncontrolled, are indeed a heavy drain on resources" (ibid.). These obligations might include funeral expenses, gifts and remittance to kin in the home village, payment of travel expenses of visiting kin, board and lodging of visiting kin who are seeking work.

9.1 Informal associations in the moral economy

Scott noted that, "the process of local adaptation to subsistence problems is complimented by various forms of mutual assistance... [such as] local burial associations, social welfare groups, rotating credit associations" (1976: 206). These types of savings and insurance informal associations have been well documented (for example, see Ardener, 1964; Ardener, 1996; Bortei-Doku and Aryeetey, 1996; Bouman, 1995; Chen, 2000; Palmer, 2004).

One Ghanaian carpenter, interviewed by Palmer, highlights why people join these informal associations

I joined the church social assistance group to help in times of need. If you are not a member and such a thing happens [funeral, health costs etc], you are forced to sell some of your tools or materials. (in Palmer, 2004: 63)

Hart's original research in Ghana, noted that, in the informal sector, information regarding jobs tends to travel along 'informal social networks' (Hart, 1973: 77), rather than employment exchanges. Hence, new migrants do no tend to go for jobs where they do not have a relationship (kin, ethnic, social) already established. The result might be seen in the occupational and residential clustering of kin groups in the informal sector. On the one hand, kin, village or ethnic clustering may occur in specific professions, as more and more enter into employment through defined 'social networks'. On the other hand, new arrivals from the rural areas, hoping to make a living in the informal sector, are likely to cluster in areas where they might already know people who can help them

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88 This paragraph was taken from earlier work by Palmer (2004: 62).
As Keith Hart’s doctoral research noted, new arrivals to Accra could reduce their initial cash outflow by making use of existing kin in Accra (Hart, 1969: 245).

9.2 Household strategies and rural livelihood diversification: Expansion through diversification

As noted above by Scott, those near the level of subsistence are more likely to follow strategies which reduce risk, even if these strategies result in less overall profit for those involved. In this context, one strategy that is followed is livelihood and income diversification, which has its roots in the traditional risk aversion strategy utilised by peasants living in situations of extreme uncertainty (Long and Richardson, 1978: 200; cf. Hugon, 1990: 75).

The ILO report noted that, when compared with larger, wealthier entrepreneurs, the small entrepreneur’s ability to cope with loss is disproportionately smaller, especially where the latter has no access to sources of (formal) credit (1972: 505), that could help smooth income and consumption shocks.

The result is threefold. Firstly, an informal sector operator close to the margin of subsistence, given the choice between investing more in one enterprise, or diversifying into another enterprise, is likely to choose the latter. Expansion of MSEs “generally implies diversification rather than the specialisation of economic function” (Long and Richardson, 1978: 200). Indeed, Long and Richardson noted that, in many instances the owner of the enterprise develops a set of complementary economic activities which, while allowing expansion, functions also to spread the risk under conditions of economic uncertainty. (1978: 201)

Secondly, the subsistence-oriented entrepreneur is likely to establish a social relationship with only a limited number of suppliers and buyers, frequently at the expense of his profits (cf. Hart, 1969; ILO, 1972: 505; Palmer, 2004: 46). By doing this the subsistence-oriented entrepreneur will, on the one hand, be more likely to access credit from suppliers if they are known to the supplier personally and frequently buy from that supplier. On the other hand, by selling (on credit) to a limited number of known individuals, the subsistence-oriented entrepreneur minimises the risk of customers defaulting on credit payments.

Thirdly, the informal sector operator close to the margin of subsistence will be less likely to innovate or conduct new activities that may offer higher income reward, but that are more prone to failure (cf. ILO, 1972: 505).

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91 See section 9.0.
SECTION TEN

10.0 MEASUREMENT OF THE INFORMAL ECONOMY

Apart from fitting well with debates surrounding poverty and employment, one of reasons why the informal sector concept was initially so appealing was that it identified, and started to delineate, those economic activities which were traditionally ignored and excluded from official systems of national accounts (that were used to calculate GDP for example). Before the ‘informal sector’ was born, researchers were noting the fact that much was being omitted from national accounts and statistics. For example, in Kenya, Harbison noted that “reliable statistics for the modern sector may be meagre; but for the traditional sector they are almost non-existent” (1967: 175). The ILO mission to Kenya elaborated on this issue, saying that

the problem with employment is that the statistics are incomplete... omitting a range of wage earners and self-employed persons, male as well as female, in what we term “the informal sector”. (ILO, 1972: 5)

10.1 Statistical measurement: the 15th ICLS definition

Even with the early recognition regarding the difficulties of statistically assessing the informal sector, it took some twenty years before a statistic definition was accepted.

In 1987, the 14th International Conference of Labour Statisticians (ICLS) called for the informal sector to be put on the agenda on the next ICLS (Bangasser, 2000: 20). The 14th ICLS further concluded that “the ‘economic unit’ [the enterprise] was the most appropriate measurement unit for defining the informal sector” (Bangasser, 2000: 20), and not the worker.

10.2 The 15th International Conference of Labour Statisticians (January, 1993)

The 15th ICLS categorises the informal sector as consisting of units engaged in the production of goods or services... [that] typically operate at a low level of organization, with little or no division between labour and capital... and on a small scale. Labour relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees. (15th ICLS, 1993: section 5.1)

Production units in the informal sector are characterised by ‘household enterprises’, meaning that the fixed and other assets used do not belong to the production units... but to their owners. The units... cannot engage in transactions or enter into contracts with other units... [on their own behalf]. Expenditure for production is often indistinguishable from household expenditure. (15th ICLS, 1993: section 5.2)

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94 For convenience, the 15th ICLS resolution is reproduced in part in the appendix of this paper.
The concept notes that informal economic activities do not necessarily deliberately avoid payment of tax or compliance with other regulations and should be distinguished from the hidden or underground economy (15th ICLS, 1993: section 5.3).

For statistical purposes, the informal sector is regarded as a group of production units which, according to the definitions and classifications provided in the United Nations System of National Accounts (Rev.4), form part of the household sector as household enterprises or, equivalently, unincorporated enterprises owned by households (15th ICLS, 1993: section 6.1). Within the household sector, the informal sector comprises (i) "informal own-account enterprises" (15th ICLS, 1993: section 6.2)... [that are] owned and operated by own-account workers, either alone or in partnership with members of the same or other households, which may employ contributing family workers and employees on an occasional basis, but do not employ employees on a continuous basis (15th ICLS, 1993: section 8.1);\(^{95}\) and (ii) the additional component consisting of "enterprises of informal employers" (15th ICLS, 1993: section 6.2)... [that are] owned and operated by employers, either alone or in partnership with members of the same or other households, which employ one or more employees on a continuous basis (15th ICLS, 1993: section 9.1).\(^{96}\)

Recognising the long urban bias in informal sector research and analysis, the 15\(^{th}\) ICLS definition specifically mentioned that the informal sector should be measured in both urban and rural areas (15th ICLS, 1993: section 15).

A status boost to the 15\(^{th}\) ICLS adoption of the resolution of statistics on employment within the informal sector in January 1993 came within a few weeks with the revision of the 1968 version of the international System of National Accounts (SNA)\(^{97}\) (Bangasser, 2000: 21-22). "The 1993 SNA notes and makes use of the distinction between the informal and formal sectors" (Bangasser, 2000: 21).\(^{98}\) This was important since the SNA represents the conceptual framework within which the GDP is calculated for example.

10.3 A note on the 15th ICLS definition and a word on measuring the "unemployed"

Difficulties with respect to statistical, quantitative, measurement of the informal sector result from its characteristics - small size of activities, high mobility and turnover, seasonal variations in activity, clustering in specific areas, lack of recognizable features for identification/location, lack of usable records, and possible reluctance to survey participation (Afrisat, 1997b). Indeed, these difficulties of measurement have led some to

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\(^{95}\) See also the Appendix.

\(^{96}\) See also the Appendix.


comment that, "the informal sector does not lend itself to empirical observation" (Hugon, 1990: 71).

10.31 The unit of analysis: enterprise unit, worker or job?

The statistical definition of the informal sector has been criticised for taking the enterprise or production unit as the unit of measurement. An alternative category could be the worker or job as the unit of measurement. For example, Jhabwala, in Definition and Measurement of the Informal Sector, has highlighted the bias created in using an enterprise approach. She argues that this approach overemphasises the contribution that 'visible' enterprises make to GDP, and sidelines the 'invisible' economic activities. These 'invisible workers', for example, include home based workers, woman agriculture workers, street vendors, informal workers in the formal sectors, mobile workers (such as head-loaders and porters), seasonal workers (such as market vendors in periodic markets), dispersed workers (such as construction), outworkers, and street vendors (cf. Charmes, 1998; Hart, 1973; Livingstone, 1991: 657, 1999: 5).

10.32 Measuring the 'invisible': which usually means women

Liedholm and Mead note that informal sector MSEs headed by women most likely to operate from their home and since "home-based MSEs...tend to be overlooked, both in assistance projects and in official statistics, women owners of MSEs are particularly likely to be 'invisible entrepreneurs'" (Liedholm and Mead, 1999: 5). Indeed the 15th ICLS concept notes that "special probings" (15th ICLS, 1993: section 22.3) are needed to ensure that activities that would otherwise go unreported, such as economic activities pursued by women in the house, are enumerated. Though it does not seem to suggest what 'special probings' these might be. Jhabwala suggested a household approach would provide a better estimate of the size of the informal sector, so that enterprises could be 'tracked down' through the workers.

Charmes notes that, "it is not so difficult as it was a few years ago to isolate the contribution of the informal sector to the GDP in the National Accounts" (Charmes, 1998), though given what has been noted about 'invisible enterprises', many would contest this. In fact, Charmes partly recognises this, at least in the case of women, noting that, "it is still extremely difficult to isolate the contribution of women to the informal sector and to the GDP as a whole... Women remain the main source of underestimation of the informal sector contribution" (1988). He qualifies this by arguing that (after Charmes, 1998):

1] Women are usually engaged in informal economic activities that are the hardest to enumerate (the 'invisible activities' mentioned above), and the non-response rate of women is higher than men in surveys.

99 See http://mospi.nic.in/def_measure.htm or http://www.nic.in/stat.def_measure.htm
100 See the Appendix.
101 See footnote 99.
2] More so than men, women are often engaged in multiple jobs, especially in rural areas.\textsuperscript{102}

3] their production activities are not only hidden behind their status of so-called inactive housewives, but also behind the less ‘valuable’ status of family worker in agriculture or the difficult-to-capture status of independent street or road vendor. In these types of work, their contribution to the commercial margins is limited, and their value added in the transformation process is overlooked.

\textbf{10.33 Who are the unemployed, and how can they be measured?}

We identify the main problem as one of employment rather than unemployment. By this we mean that in addition to people who are not earning incomes at all, there is another – and in Kenya more numerous – group of people whom we call the ‘working poor’. (ILO, 1972: 9)

This approach, adopted by the ILO’s Employment Mission to Kenya in 1972, resulted from “a redefinition of the concept of unemployment” (Moser, 1978: 1044). This arose out of two factors (after Moser, 1978: 1044); Firstly, from the dissatisfaction of the notion of ‘disguised unemployment’, as the measurement and comparison involved was largely arbitrary.\textsuperscript{103} Secondly, it was realised that, in countries where no social security in terms of unemployment benefit exists, it is necessary to find or create some form of employment or income-generating activity, regardless of how sporadic and low-paying it might be.

The notion of ‘unemployment’ is limited in developing countries (Hart, 1976; Weeks, 1973). Without unemployment benefit, state pensions or other form of social welfare intervention on the part of the state, “the necessity of economic survival forces individuals into making a living irrespective of the potential pay-offs offered” (Long and Richardson, 1978: 177). People will therefore enter into any sort of income-generating activity, and this usually means an activity in the informal sector. Informal employment can serve to act as a buffer for those officially unemployed, against destitution and dependence on others (Hart, 1973: 79-81). Given the (relative) ease at which to enter into some form of self-employment in the informal sector, it would be expected that few of the officially ‘unemployed’ are likely to be without some form of income, however irregular and precarious (Hart, 1973: 81).

However, informal economic activities that are pursued or are on offer are perceived in differing ways by different types of people. Hart suggests that the illiterate migrant would see employment of this sort as a “ladder out of poverty” (1973: 78), whereas, according to Hart, the educated youth, with white-collar aspirations instilled on him according to western educational model, sees informal employment as “socially inferior and undesirable” (ibid.). They might therefore be more inclined to ‘hold-off’ entry into informal employment in the hope of securing ‘formal’ work. The extent to which a

\textsuperscript{102} See section 10.35.

\textsuperscript{103} Disguised unemployment: persons without work and who would probably seek it if unemployment were much lower.
person can ‘hold-off’ any sort of employment will obviously vary, from a few days to a few years, but while they do not take employment options open to them, and do not want to create their own in the informal sector, they might be termed as ‘unemployed’.

10.34 Identifying employment status

Employment classification is beset with problems (cf. Harbison, 1967: 175). Since “many censuses rely on the informants’ own identification of their employment status” (Scott, 1979: 107), with many informants receiving ‘no guidance’ as to what criteria they should use in answering (Ibid.: 108), the definition of employment is subjective and open to myriad interpretation. For example, a worker in an informal enterprise, whose activities the state would consider as ‘employment’, might be considered by the person involved as temporary employment, no matter if they have been there for a long time, and in a census the ‘worker’ might claim to be unemployed, and not working.

Imagine an announcement of a pending unemployment census on the media in a country in SSA. This might lead those in informal employment (including farmers) to register as ‘unemployed’ in the hope that the state is carrying out the employment exercise with the idea of creating employment for those registered. Thus, their registering as unemployed, even if they are working, might be the result of some expected gain. This was exemplified in Ghana recently. The present ruling political party, the New Patriotic Party (NPP), led by J. A. Kuffour, came to power in January 2001 with, among other election promises, the pledge to create employment for the youth. As a result, when the employment census was announced on radio and in the papers, telling the unemployed to come to register on this or that day, there were many incidences of “unemployed” people registering who were in most senses of the word, employed. “There are yet some who do not recognise farming as a job and came to register as unemployed persons” (GNA, 2001c). Many were registering specifically with the idea that by doing so, by putting their name forward, they would benefit, and get a ‘job’ or at least some kind of training. For example, “in an interview at the Roxy Cinema Registration Centre at Adabraka, Agya Sei, a 24-year-old driver said he was hopeful that the exercise will help him secure a job (GNA, 2001c).”

10.35 Occupational pluralism, formal-informal straddling and measurement

Consider Kwame Nsiah, a Ghanaian carpenter, who also retails carpentry consumables, such as nails, glue, hinges and so on, and sells chickens on a periodic basis. In fact, his income from retailing and selling chickens exceeds his income from carpentry, but when asked his occupation, he replies ‘carpenter’. Obviously the census and enumeration has missed a lot. As mention previously, occupational pluralism is the norm, not the exception. Where an employment census only asks about one job, or the main activity, the reality of occupational pluralism is oversimplified, since one person is considered to have one job, which is often not the case. Employment duplication and occupational pluralism has an impact on labour statistics, often calculated on the assumption of “one

104 See also section 12.4.
105 See section 8.1.
man, one job”, as Keith Hart noted in his Ghana fieldwork (Hart, 1969: 255). Hart added that this assumption is ‘risky’ when low pay and few hours are offered in waged jobs (1973: 66).

Thus employment statistics that categorise people according to one occupational type, such as those for Ghana in Table 6, below, fail to give an accurate account of the reality of occupational pluralism.

Table 6. Employment in Ghana by occupational categories (1998/99) (percentages of total employment)

<table>
<thead>
<tr>
<th>Type of work</th>
<th>Urban areas</th>
<th>Rural areas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
<td>Women</td>
</tr>
<tr>
<td>Agricultural employment</td>
<td>19.1%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Wage-employment</td>
<td>42.4%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Self-employment</td>
<td>32.8%</td>
<td>64.4%</td>
</tr>
<tr>
<td>Unpaid family work (agric.)</td>
<td>3.4%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Unpaid family work (non-agr.)</td>
<td>2.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>No regular employment</td>
<td>0.3%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: The exact definition of wage-employment is not immediately known and it would appear that this category includes some workers in IS enterprises.


Indeed, Charmes notes that one of the “major shortcomings in the measurement of informal sector… and women’s contribution in particular, is the incomplete account of… involvement… in secondary activities, multiple jobs or, more broadly, in pluri-activity” (1998). He notes that ‘secondary activities’ are termed ‘secondry’, not because they necessarily provide less income than the ‘primary’ or ‘main’ activity, but “rather because they are not spontaneously declared and are reported in a second stage. These secondary activities should be considered as important as the main ones and should be covered in the same type of adapted questionnaires” (Charmes, 1998).

Even though the 15th ICLS definition does acknowledge that ‘secondary’ activities should be included in data collection (15th ICLS, 1993: section 16), there is still a large gap between stated theoretical objectives and the practical difficulty of enumerating what is often ‘invisible’. Presumably more ‘special probings’ are required (15th ICLS, 1993: section 22.3).

Since women are more likely to have multiple-occupations (Charmes, 1998), finding procedures to enumerate the complex web of occupational strategies pursued by them, will shed light on the “activities concealed behind the usual activity of women [especially] in rural areas” (ibid.).

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106 See the Appendix.
It is widely known that, due to low and often declining real incomes in formal sector employment, especially in the formal public sector of many countries in SSA, many formal sector employees take up informal sector activities (cf. Charmes, 1999b: 72). This straddling of the formal and informal further complicates an accurate enumeration of employment activities.\textsuperscript{107}

10.36 Frequency of data collection misses informal enterprises that survive for less than a year

As Livingstone notes, in the micro-enterprise sector, "turnover is rapid and many enterprises are ephemeral" (1991: 663). Therefore data collection has to occur frequently in order to ‘catch’ enterprises that survive for only a short time.

The 15\textsuperscript{th} ICLS definition mentions that “questions on employment in the informal sector should be included, if possible, once a year” (15th ICLS, 1993: section 22.5). Therefore, informal sector employment surveys that occur once a year will miss those enterprises that survive for less than a year. This is unfortunate since, if these ephemeral activities could be enumerated, it might shed more light on reasons for enterprises dying after only a short life. However, the 15\textsuperscript{th} ICLS definition does note that the proposed mixed household and enterprise surveys (15th ICLS, 1993: section 25), that would be most effective with respect to enumerating informal economic activities, should occur as soon as possible after each other “to minimize loss rates of units” (15th ICLS, 1993: section 26.1).\textsuperscript{108}

10.38 The 15\textsuperscript{th} ICLS definition excludes agriculture

It has been noted that in the rural informal sector, particularly, non-farm informal economic activities and farm activities are mutually inter-dependent on each other. Given the large importance farming and other agricultural practices play with respect to rural enterprise development (either in the start up stage or in cross-financing) it seems inappropriate to exclude agriculture from any conceptualisation of the (rural) informal sector.\textsuperscript{109}

Indeed, Hart included farming in his ‘legitimate’ informal income opportunities (Hart, 1973: 69), and the ILO mission to Kenya made a distinction between formal and informal agricultural activities. However, the latter’s distinction was concerned with formal, large scale plantation-type agriculture, compared to the informal, small-scale, largely subsistence agriculture (1972: 504).

It has been accepted that, from a conceptual viewpoint, the informal economy can include agricultural activities (Afrisat, 1997a: 23). However, for “practical reasons” (15th ICLS, 1993: section 16), which are not mentioned but presumably pertain to the collection of information, the 15\textsuperscript{th} ICLS definition of the informal sector excludes agricultural

\textsuperscript{107} See section 8.1.
\textsuperscript{108} See the Appendix.
\textsuperscript{109} See also section 8.1 on occupational pluralism and the discussion of farm-enterprise cross-financing.
activities (15th ICLS, 1993: section 20), being limited to “household enterprises engaged in non-agricultural activities” (15th ICLS, 1993: section 16). Instead of including agriculture as part of the informal economy, the 15th ICLS notes that, “agricultural activities, may be identified as separate categories outside the distinction between the informal and formal sectors” (15th ICLS, 1993: section 20).
SECTION ELEVEN

11.0 THE RURAL INFORMAL ECONOMY

It is surely not possible to deny the existence of similar enterprises (artisans, petty traders, peasant farmers etc.) in rural areas. The 'rural informal sector' should logically receive at least as much attention as the 'urban informal sector'. (Bromley, 1978: 1034)

Since Hart's concentration of "the urban sub-proletariat" in Accra (Hart, 1973: 61) and later urban informal sector studies conducted by the ILO, the informal economy has for the most part been considered an urban or semi-urban phenomenon, part of the dualistic nature of urban economies (Aboagye and Gozo, 1986; Todaro, 2000).

As noted previously, both Hart (1973) and the ILO (1972) mentioned agriculture as part of the informal sector, but both their final products definitely cast the informal sector into an urban framework. In actual fact, both Hart and the ILO made mention of rural non-agricultural enterprises, that were described as having almost identical characteristics of the urban informal sector counterparts.

Hart's original doctoral thesis contained a chapter that mentioned rural non-farm enterprise activity, such as blacksmiths, potters, tailors of smocks, drummers and barbers [who] earn sizeable cash incomes from occupations which are usually only secondary to the main business of farming. (Hart, 1969: 144)

He also mentioned that some activities were taken up during the agricultural off-season and notes, for example, that as the farming season has always been short - a matter of some six months from late April to early October... [farmers]... have traditionally supplemented their income by specializing in certain crafts and skilled occupations. (Hart, 1969: 143)

However, this discussion of rural informal economic activities never found its way either into his presentation at IDS in 1970, or his two early pieces (cf. Hart, 1970, 1973).

The ILO Kenya report noted, in its famous chapter 13, The Development of the Informal Sector, that although the chapter would concentrate on the urban informal sector... it should be noted that in 1969, in what was certainly an under-count, there were found to be almost 190,000 men, women and children working in non-agricultural activities in rural areas. (ILO, 1972: 223)

The ILO report noted that the "great majority of the rural producers are part-time farmers; of the rest some are also teachers or government officials" (1972: 192). Further, it noted

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110 See section 4.31.
111 See section 10.38.
112 The ILO report actually comments in a footnote that the characteristics for rural enterprises they describe are believed to apply to urban informal activities too (ILO, 1972: 192, footnote 1).
113 See section 3.33.
that rural enterprises in Kenya have the following features (ILO, 1972: 192-3): training takes the form of apprenticeship, where “exact and rigid copying” of the master results in lack of product differentiation and difficulty to adjust to new opportunities; low level of education for the owner, rarely beyond primary level; absence of trade certificates; capital required for start-up is low and mainly consists of buying tools (often second-hand); enterprises operate in a limited market; inferior quality of manufactured product; absence of stock to cater for seasonal demand; lack of business and technical knowledge causes machinery to breakdown; business premises are usually very poor, without proper roofing, floor or walls; high failure rate when the rural enterprise reaches ten employees.

However, the decision to “concentrate on the urban informal sector” (ILO, 1972: 223), over the ‘rural’ resulted in an early conceptual bias and, buttressed by Hart’s urban research (1970, 1973), culminated in an urban bias of informal sector work. Another reason for this bias might be the relative ease (and comfort) of urban- over rural- based research, and thus the predominance of the former in published literature. Consequently, research has been focussed on larger cities, with little information on small or intermediate cities (Trager, 1987: 240) or rural areas. In fact, recent research by the ILO has confirmed the urban bias in informal sector research still prevails (Xaba et al., 2002).

11.1 How much of the informal sector is rural?

While some claim that most micro-enterprises are based in urban areas (Adams and Pischke, 1992b: 1469), the majority of studies have noted their predominance in rural areas (Mead, 1999).

Based on World Bank suggestions from 1987, that considered a town to be rural if it has less than 20,000 people or a market centre to be rural with less than 2000 persons, Livingstone (1991: 654) calculated that in 1979 just 2.7% of the total Kenyan population, and 19% of small-scale enterprises fell into this category. Livingstone, therefore, concludes that small-scale enterprise employment “appear[s] to be heavily concentrated in urban areas” (1991: 654). However, Livingstone goes on to qualify that “if household-based non-farm activity were included, the figure would be very much larger” (1991: 654) and notes that, based on 1977 data, 50% of rural households were engaged in at least one non-farm activity, and “nearly 25% engaged in two or more” (ibid.)

11.2 Anatomy of the rural informal sector

In terms of contribution to overall rural household income, rural non-farm activities have previously been estimated to make-up about 40% of the overall income (Bagachwa, 1997; Ellis, 1998; Haggblade, Hazel, and Brown, 1989; Reardon, 1997). However, more recent research conducted as part of the deagrarianisation and rural employment (DARE)
project, co-ordinated by Deborah Bryceson of the Afrika-Studiecentrum, Leiden,
suggested rural non-farm activities make a higher contribution to overall income;
between 60-80% (Bryceson, 2002: 730).

Livingstone notes that “defining the rural informal sector is even more problematic than
in the urban case” (1991: 652). He comments that “it is often taken as synonymous with
the non-farm activities... of rural households, although the latter are not inevitably
associated with small-scale establishments” (ibid.). On non-farm employment,
Livingstone states that this can be either part- or full-time, conducted in or near the
household, or in small establishments independent of the house, located in rural market
centres or towns (1991: 652). Bagachwa takes the rural informal sector to be synonymous
with
non-farm or non-agricultural small-scale activities, including manufacturing,
construction, mining, fishing, transport, commerce and other services...
irrespective of whether they are carried out as main or secondary activities. (1997:
141)

The different types of rural non-farm activities are too numerous to mention, and
certainly exceed what was implied above by Bagachwa. As a short, but by no means
complete, illustration, the rural informal economy can include: agriculture,\(^\text{16}\) the more
traditional activities of carpentry, tailoring/ dressmaking and weaving; all manner of
retail activities; service enterprises like barbering and shoe-shining; food production
enterprises, such as corn-milling; alcohol distilling; repair enterprises, such as bicycle and
radio repairers; natural resource based activities, such as hunting and fishing; transport
services, such as the trotro in Ghana; financial services, such as the susu collector, also in
Ghana. More so than in urban areas, the rural informal sector in SSA contains a largely
invisible element.\(^\text{17}\) Activities such as alcohol brewing (like akpeteshie, pito or palm
wine in Ghana), weaving, charcoal making, water carriers, traditional healers and \(j\juju\)
m\en\ in Ghana are difficult for surveys to identify.\(^\text{18}\) Many rural informal economic activities are
conducted by women, conducted in the home or conducted as mobile enterprises, often
from a head-pan carried on the head, or from a tray or moveable cart. This, perhaps,
makes the rural informal economy even more difficult to measure than its urban and peri-
urban counterparts.\(^\text{19}\)

\(^\text{16}\) See discussion in section 11.4 below.
\(^\text{17}\) See Livingstone (1991: 659) and Palmer (2004: 78) for further examples.
\(^\text{18}\) Juju men in Ghana are believed to be able to harness the power of good and evil spirits. Often people
will go to them to try to ensure their new enterprise start-up will be successful, or go to them if their
enterprise is going badly to try to remedy the situation. One cookie seller Palmer (2004: 73) spoke to said
that her enterprise was suffering an attack of juju and no matter how hard she tried she could not make a
profit any more. Apart from having to take articles such as baby chickens, lizards, leaves, string, akpeteshie
(local gin) there is nearly always a financial payment required for this type of informal economic activity.
\(^\text{19}\) Though obviously note that these activities may well be present in urban areas, even if they have
previously not been mentioned in the literature or research documents.
\(^\text{19}\) See section 10 on measurement.
Bryceson (2004) asserts that one activity that has become the 'untold economic success story' in rural areas is the boom in informal alcohol production.\(^{12}\) Bryceson (2004) notes the ease of entry into this activity and that, since transport costs have increased, there is more raw material available as one way to preserve maize or guinea corn, for example, is to ferment it. Hence the growing practice of artisanal alcohol production. However, this has been noted previously. For example, in Ghana Keith Harts doctoral thesis notes that a "newcomer [in 1969] is the village gin-distillery" (Hart, 1969: 146) and "profits from gin [akpeteshie] sales make it the boom rural industry" (ibid.: 146-147). Further, he notes that "anyone can set up as a distiller with a few pounds worth of equipment and a small amount of instruction from an experienced practitioner" (ibid.: 147).

Like the composition of the informal economy more generally,\(^{12}\) trade represents the most common type of activity in the rural informal sector. Livingstone (1991: 656) mentions a survey of Kenya's rural informal sector by Ng'ethe et al (1989), whose sample of rural MSEs was mostly made up of; manufacturing (16%) and trade (69%). Palmer's (2004: 7) research in Nkawie-Kuma, a rural town in Ghana, noted that only 21% of the sample of 109 rural SMEs were manufacturing enterprises, with 53% retail enterprises. Bagachwa's research on the rural informal sector in Tanzania (1997: 145-146) notes that the predominant activity, making up 40-45% of all rural activities, is trade/restaurants/hotels, with rural manufacturing accounting for 31-41%. The ILO Kenya report noted that only 20% of non-agricultural rural activities were in manufacturing and repair activities, such as posho (maize) mills, footwear, tailoring, sawmills, furniture making, metal working, bicycle repairs, garages and cement block manufacturing (1972: 192, 225).

11.3 The rural informal economy and de-agrarianisation

It could be argued that the concept of a rural informal economy has been strengthened over the last twenty years, since the introduction of SAPs and neo-liberal policies (Bryceson, 2002: 730; 2004), by the increasing recognition given to the process of 'deagrarianisation' in Sub-Saharan Africa (Bryceson, 1996).

Deagrarianisation is defined by Bryceson (1996: 99) as a long term process of: i) economic activity reorientation (livelihood); ii) occupational adjustment (work activity) and; iii) spatial realignment of human settlement (residence) away from strictly agricultural patterns. She comments that, while in the 1950s - 1970s the idea of a move away from agriculture, was understood as a move from rural to urban areas, the process of deagrarianisation conceptualises a move away from agriculture to happen in situ, in the rural areas themselves (Bryceson, 2004).

Bryceson (1996: 97) points to research since 1980 that illustrates the increasing importance of non-agricultural rural employment (NARE) in sub-Saharan Africa. She notes that the increased significance of NARE relates to the growing role it plays in rural

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\(^{12}\) See section 7.2.
livelihood strategies; shown by the increase in total labour time spent on NARE activities and the increasing part it plays in contributing to overall household income (ibid.).

Bryceson notes that, while NARE has received a ‘centre-stage’ position in development project work, they have traditionally been seen as largely supplementary to, rather than operating independently of, farming activities (1996: 97). She notes that, increasingly, NARE is being seen as an “alternative to farming for certain categories of people in a number of places” (1996: 97, original emphasis). However, Bryceson (2004) comments that deagrarianisation does not suggest that the rural poor are turning their backs on agriculture altogether, since subsistence agriculture is frequently retained as a fall-back option.

Bryceson points to causal factors responsible for an increase in NARE, as being (after 1996; 2002; 2004): i) the increasing population densities in many rural areas, causing people to increasingly turn to non-farm activities due to lack of land (e.g. parts of Nigeria and Ethiopia; cf. studies mentioned in Bryceson, 2002: 731); ii) Structural adjustment policies (SAPs) that resulted in a contraction of urban employment opportunities for potential migrants (Bryceson, 1996: 97); iii) SAPs like the removal of government subsidies on education and health resulted in cost-recovery measures that increased the daily cash requirements needed (Bryceson, 2004). Since agricultural incomes are often characterised by lump-sum, post-harvest payments, diversification into income-generating ventures like NARE, that provide a more steady income source, became necessary (Bryceson, 2002: 729); iv) The reduction of farm incomes in many cases due to the government cessation of paying subsidies on agriculture under SAPs (Bryceson, 2004); v) SAPs that resulted in decreased public sector wages forced greater livelihood diversification and increased participation in informal economic activities (Bryceson, 2004); vi) the increased investment in primary education resulting in a generation of rural inhabitants becoming more dissatisfied with a strictly agrarian way of life (Bryceson, 1996: 97); vii) the increase in rural people changing for traditional services that were previously given for free (e.g. village midwifery) (Bryceson, 2004; cf. Hart, 1969: 144).

With reference to point vi) above; that the increased investment in primary education results in a generation of rural inhabitants becoming more dissatisfied with a strictly agrarian way of life, it might be interesting to consider what affect the EFA policy will have on speeding up deagrarianisation. Will the growth of formal (basic) education, promoted under EFA strategies, mean that more and more rural youth enter into primarily non-agricultural livelihood strategies? If this is the case, there will need to be more policy focus than there is now on promoting and assisting MSE development, including the

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123 This has been mentioned before. Hart, for example, mentions that many traditional roles, such as roofing expert, hut-builder and ritual diviners “now [1969] have an open market value and some Frafra have turned to these roles as a major supplementary source of cash income, where before they were part of the nexus of kinship obligations which linked the inhabitants of a particular settlement” (1969: 144).
creation of enabling environments and business development services that can assist enterprise start-ups.\textsuperscript{124}

As mentioned in section 8.1, one overriding characteristic of rural livelihoods is occupational pluralism\textsuperscript{125} and the notion of deagrarianisation, outlined above, encompasses this (Bryceson, 2002: 732).

11.4 The rural informal economy: some unresolved issues

One issue that deagrarianisation does not cover so well is the notion that, in many rural households, agricultural and non-agricultural activities are so closely connected. This can be seen, for example, in the cross-financing of economic activities at the household level, so that farming activities frequently cross-finance NARE and vice-versa.\textsuperscript{126}

Thus, taking the rural informal economy as synonymous with non-farm activities – as many do\textsuperscript{127} - by-definition excludes agriculture from the rural informal economy. Hence, researchers interested in the rural informal economy, like Bagachwa, exclude agriculture from their survey questions (1997: 146). Since different household farming and non-farming enterprise activities often operate effectively as one overall household enterprise, it would be illogical to take the rural informal economy as synonymous with non-farm activities.

Further questions that have not been adequately covered by Bryceson and her DARE team relates to education and skills development that can support NARE. While Bryceson notes that “encouragement of formal and informal education and skills training” (1997b: 255) is necessary to “unleash [sic] the largely latent creative potential of [the African] continent” (ibid.) harboured by deagrarianisation, she does not discuss further. How can education and skills contribute to the process of deagrarianisation? What kind of support, if any, should be given to informal and formal skills training to support NARE? Will, as previously suggested, EFA speed up the deagrarianisation process, and if so what will the consequences be?

\textsuperscript{124} The attention paid to ‘enabling environments’ in many of the PRSPs, for example, is a step forward. However, one might question; enabling environments for whom? Clearly, many of the MSE support services in place at present are bias towards larger, more formal enterprises (cf. Palmer, 2004: 17-20).

\textsuperscript{125} This is not to suggest that occupational pluralism is not a common feature of the informal economic activities in urban and peri-urban settings; as was made clear in section 8.1. Some, Chambers (1997: chapter 8) for example, note that poor rural people’s livelihoods are made up of a diverse portfolio of economic activities. He suggests that the urban elite of developing countries are more like their counterparts in the so-called ‘north’, in that they have one job. This assertion is less and less true in the wake of SAPs that resulted in wages, especially in the public sector, that were not sufficient to live on alone. Hence, even many ‘elites’ and waged-workers in the urban and rural areas are resorting to other income generating strategies.

\textsuperscript{126} See section 8.1.

\textsuperscript{127} See section 11.2.
12.0 INTERVENTIONS AND THE INFORMAL ECONOMY

The traditional attitude to what came to be called the 'informal sector' was usually one of benign neglect on the part of the state, to just ignore the activities, which would, the development thinking at the time (1950s, 1960s) went, eventually disappear as they were absorbed by the 'modern' sector. Direct intervention into the informal economy can be neatly discussed by looking at: the negative disruption some states have taken to harass informal sector occupants; state and donor support to the informal economy; the politics of intervention; and the basic dilemma of any intervention.\textsuperscript{128}

12.1 Negative disruption by the state\textsuperscript{129}

A few instances in the recent past highlight how the informal sector has been specifically targeted for 'clearance' as it was seen to get in the way of 'decent' development. For example, in October 1983, the Tanzanian government launched 'The Human Resources Deployment Act', popularly known as \textit{Ngwu Kazi}, 'Hard Work', which aimed to integrate the informal economy into government controlled areas of trade and relocate the urban unemployed back to rural areas where they could be employed in agriculture (Kerner, 1988: 41). The police, army and national service militia had the task of identifying and repatriating to their home regions the 'jobless loiterers'. These were initially identified as those not in possession of the government identity card, that gave details of place of work and place of residence. Clearly, workers in the informal sector, unlicensed and unregistered, became obvious targets (Kerner, 1988: 43). In Nigeria, similar official harassment and neglect has been noted (Mamman, 2003: 110-111). In Ghana, the 'housecleaning exercise' of 1979 under the young J. J. Rawlings caused major disruption to informal trade (see Clark, 1988a, 1988b; Robertson, 1984), culminating in the destruction of Makola No.1 Market in Accra on August 18\textsuperscript{th} 1979.\textsuperscript{130}

\textsuperscript{128} A 'third way', between negative disruption and state/donor intervention, would be to look at the more laissez-faire approach, advocated by de Soto (1989), that advocates a free-market approach to the informal sector. Hernando de Soto depicts informal economic activities in a very positive light, commenting on their major contribution to the national economy, and sees the informal sector as the path to economic development. De Soto advocates "unbridled capitalism as the solution to underdevelopment" (Bromley, 1990: 331). Clearly, many of de Soto's ideas conform to the Washington consensus of the IMF and World Bank with regards to their Structural Adjustment Policies from the mid 1980s to 1990s.


\textsuperscript{130} After Rawlings 2\textsuperscript{nd} coming, the main markets in Sekondi, Kumasi and Koforidua and Makola No.2 were also destroyed (Robertson, 1984: 469).
12.2 State and donor support: Intervention for poverty and growth?

The key problem of intervention with the intention of positive support relates to the ‘fuzzy’ conception of the informal economy, and this problem of conception leads to problems for policy intervention. Depending on how the informal economy is defined or conceptualised will obviously have ramifications for how interventions are designed and implemented. If the informal economy is treated as a homogenous entity, it is almost impossible to design a ‘one-size-fits-all’ intervention that can allow for all the diverse needs within the informal economy. Can it be possible to design a single policy that will simultaneously alleviate poverty and promote growth within the informal economy? Hugon notes that, aims and means are ambivalent, conflicting and contradictory. Combating poverty (e.g. loans for groups unable to give any security) is often at odds with measures designed to promote upper-tier informal ventures. (1990: 80)

The heterogeneous nature of informal economy means that needs are obviously different for different groups within it. In this instance it is far more useful to disaggregate target groups within the informal economy and design intervention according to their different needs. Hence, the distinction between subsistence and entrepreneurial self-employment can be useful. Mathur and Moser assert that “policy prescriptions cannot be formulated for the informal sector as a whole, but only for specifically identified groups and activities within it” (1984: xi). Further, just as any conception of the informal economy needs to be country specific, intervention also needs to be contextualised and not used as a blue-print intervention from country to country. Hugon notes that, “policies should be country- and sector specific” (1990: 85). Any discussion of state and donor intervention should recognise the fact that the reach of intervention will be limited (King and McGrath, 1999b). Difficult questions are faced by those designing intervention, such as; Given that interventions cannot be everywhere, where should interventions be? Who are the targets? What are the intentions of the intervention? If the intention is pro-poor growth, what interventions will encourage this? How far can interventions help, indeed will they help at all? Might intervention cause more harm than good, or have unexpected outcomes?

12.3 State and donor support: A note on the limitations of intervention

The ILO mission to Kenya (1972) recommended massive governmental support to the informal sector, for example with training programmes, credit facilities, technical assistance, and an easier licensing process (ILO, 1972: 21-22). By seeing such a division between formal and informal, and by treating the informal sector itself as a homogeneous entity, the ILO mission, as well as later interventions into the informal sector, assumed that “a single policy prescription can be applied to the entire informal sector, without consideration for the specific circumstances of individual establishments” (Blunch et al., 2001: 8). Bromley, in the late 1970s, put this in another, oft quoted way:

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121 See section 5.3.
122 See section 5.4.
123 The last two questions will be dealt with in section 12.3.
it is often mistakenly believed that a single policy prescription can be applied to
the whole informal sector, so that governments should adopt similar programmes
towards artisans making furniture, towards artisans illegally manufacturing
fireworks, towards sellers of basic foodstuffs, and towards prostitutes or drug-
peddlers. (Bromley, 1978: 1034)

Often governments have specific intervention packages designed to assist small-scale
activities in the informal economy, but usually these interventions are either short-lived,
of limited geographical scope or not suitable for many in the informal economy.

For example, Palmer looked at rural enterprise financing and concluded that "neither the
FUSMED, the PAMSCAD, nor the EGF seem to be of any benefit to rural micro-
enterprises, and instead tend to be aimed at the upper-tier of the informal economy or
MSEs in the formal sector" (2004: 20). This underlines the issue of where intervention
is targeted. These three schemes from Ghana, for example, are clearly aimed at the more
dynamic micro-enterprises in the informal sector or other MSEs in the formal sector.

Specifically, the PAMSCAD small credit line of the National Board for Small Scale
Industries (NBSSI) in Ghana has been criticised (after Palmer, 2004: 18-19) for;

a) The small coverage of the population and urban bias
b) The small loan amount is not much help and equity contribution excludes the poorest
c) The timing of loan delivery and repayment schedules are bad

Further, Palmer noted that;

many MSE owners are disillusioned and hostile towards the NBSSI, and not just
because of failures to deliver on promises of loans. Another problem with NBSSI
is the lack of follow-up support to MSEs that have been involved in NBSSI
programmes. (2004: 67)

Targetted interventions into the informal economy are usually of limited geographical
spread, given the vast and heterogeneous nature of the informal sector. If intervention is
funded externally, there may be serious issues of long-term sustainability once the funder
pulls out. For example, in 1986 UNICEF set up 12 pilot community based vocational
training centres (CBVTC) in poor areas in Ghana. After the three year project, during
which time UNICEF paid for everything, the project – to train the unemployed youth
with skills for self-employment in the informal sector – was handed over to the
government. They, in turn, handed over the responsibility of running the CBVTC,
including the responsibility of financing them, to the communities themselves.
Unsurprisingly, these poor communities could often not afford to keep the centres
running and many collapsed (Palmer, 2001).

Harper notes that, in order to promote small enterprises it is necessary to look first at
existing practices and institutions rather than attempting to create new ones (1984). In
credit intervention, for example, before any intervention is undertaken it is necessary to

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134 FUSMED (Fund for Small and Medium Enterprises Development [Bank of Ghana]); PAMSCAD
(Programme of Action to Mitigate the Social Cost of Adjustment); and EGF (EMPRETEC Ghana
Foundation), see Palmer (2004: 17-20, 66-68) for further discussion and critique.
establish the deficiencies (where they exist) of the extant rural credit markets in that context. Without a full understanding of the financial needs of the rural poor and “evidence of where these are and are not being satisfied through existing private intermediaries” (Rogaly, 1996: 110), it would be problematic to design an intervention likely of succeeding.

12.4 The political rhetoric of intervention and the reality of implementation: an example from Ghana

Any form of state intervention into the informal economy is likely to be tied closely to politics. Indeed the same might be said of donor intervention; if there is not the political will to implement intervention, intervention will likely fail. The example given below relates to the difference between stated, or suggested intervention, and actual measures taken to follow through the initial political assertion.

In Ghana, during 2000, when the New Patriotic Party (NPP), led by John Kuffour, was campaigning, a key pledge made by the party was job creation. Indeed the NPP manifesto specifically mentioned the intention was to “create jobs for all persons able and willing to work and to reward each of them appropriately” (NPP, 1996: section 1.31). The average voter might not be criticised for thinking that if they voted for the NPP, they might be in a better off situation as a result of more jobs being created.

In early March 2001, “The Vice President, Alhaji Aliu Mahama... gave an assurance that the government will keep faith with its election promises of creating wealth and jobs” (GNA, 2001). However, a few days later, the NPP “members in Parliament... denied ever making a promise to create 750,000 jobs in the first 100 days of it coming into power” (GNA, 2001b).

In fact, it soon became clear that the intention was not to create mass waged employment for the people, but for the people to create jobs, or mass self-employment, for themselves in the informal economy. The government’s role in ‘job creation’ would be limited to supporting the development of an enabling environment (GoG, 2003: 69). Further, following the country-wide unemployment census in September-December 2001, it was clear to the NPP government that people lacked the skills required to create jobs for themselves, and so required skills training. This has been manifest in the promotion of the Skills Training and Employment Promotion Programme (STEP).

The STEP project, started in February 2003, is a modular skills training initiative that is being run by existing service providers, principally the Integrated Community Centres of Employable Skills (ICCES). ‘Unemployed’ youth are trained in short courses, often for three to six months, in various trades such as batik tie-and-dye, soap, pomade and powder making, basketry, photography, food processing, garment construction, carpentry and

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135 King (2003) notes a similar case in Kenya, where in February 2003, the new government under Kibaki, stated it was the government’s intention to create 500,000 jobs per year. This was qualified in June 2003, when the government announced that 88% of these 500,000 jobs were to be created in the informal economy by the people themselves.
masonry. Each STEP project has a maximum of 25 trainees per three month course. In addition to the main trade skill being taught, like batik, the STEP trainees are instructed in entrepreneurial skills and cooperative formation skills. On completion the intention is that they will be able to create employment for themselves in cooperatives. Despite the existing numerous problems with ICCES (Palmer, 2001), the intention of the NPP government is to open up new centres in all 110 districts of Ghana, some of which will no doubt run the STEP project. In addition, the problems of implementation of the STEP programme itself suggest that job creation in this manner might not be as easy as hoped. For example, the STEP project has not - to date - conducted any labour market surveys before deciding on which courses to offer where. Rather, the choice seems arbitrary and decided behind closed doors without the participation of the actual implementing bodies or the communities involved. Thus people are trained in communities in trades that might not have much of a demand for their skills, or in designs, in batik for example, that are not in demand in that area. In addition training people year after year in the same trades in the same community will contribute to the problem of market saturation and excessive competition. For example, in one rural community in Ashanti Region the STEP programme was being conducted through the existing ICCES vocational training centre. They were not involved in any of the decisions regarding the implementation. Instead they were simply told by their head office to select about 30 people for training in soap making, batik, tie and dye and pomade production. As a result many of those enrolled had little real clue about what they were doing there and often attended only because it was free and they may as well take it. Those enrolled contained a large number of family and friends of the vocational training centre’s staff.

The government has pledged to provide start-up capital for STEP graduates. For example, 15 graduates from Bepong ICCES Centre in the Kwahu South District (Eastern Region) have been promised a loan of 7.5 million cedis from the Poverty Alleviating Fund (PAF) to commence business (GNA, 2003c). However, this financial assistance from the government has been slow in coming in some cases. For example, in Ashanti Region, the STEP graduates from phase one of the project (that finished in June 2003) have still, in May 2004, not received any start-up funds.

While this promised money will be a help, it is questionable exactly what 500,000 cedis per graduate can achieve since this amount is small when compared to the outlays required to run and sustain a new enterprise, especially since profits will not come back to the enterprise immediately. For example, in 2003 a new sewing machine (plus scissors, machine oil, thread, thimble, needles, button machine, tape measure, hangers) cost about 500,000 cedis; while basic carpentry tools (chisels, hammer, pinch bar, saw, tape measure, sharpening stone, plane, G-clamp, hand-drill) could easily set a new entrepreneur back 300,000 cedis. Clearly this does not leave much capital left for investment in raw materials such as different types of cloth and buttons for dressmaking; or lumber, plywood, nails, glue, polish, foam, black leather for carpentry. Presumably

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136 The government pays about 555,000 cedis per trainee to the ICCES centre that is providing the training.
137 See also section 8.3 on market saturation.
138 The identity of the specific ICCES centre where the STEP project is being conducted is withheld due to the critical nature of the discussion and the ramifications this information may have on that centre.
this is why the government is encouraging people to form cooperatives so that they can share the cost of initial items.

However, the indications, from those implementing the STEP programme at village-level, is that the STEP graduates feel the programme has helped them to acquire useful skills. In addition, the STEP programme being conducted at existing ICCES centres has had positive knock-on effects for existing ICCES trainees. They are, for example, able to benefit from the STEP training being conducted; dressmaking students with ICCES can benefit from learning batik or soap making intended for the STEP trainees (ICCES/STEP coordinator for Ashanti Region, by personal communication, May 2004).

It will be interesting to follow the development of the STEP project. At present there are still unresolved issues regarding how STEP graduates will actually create their own jobs. Other issues are related to the sustainability or possible unexpected adverse effects that might arise (for example as a result of market saturation resulting from too many trained in the same trade in too small an area).

It can be seen that the political rhetoric of job creation ‘for all persons willing to work’ has been translated into support to enabling environments and a skills training programme whose effectiveness has yet to be determined.139

12.5 A conflict between policy aims and reality: The harassment of informal economic activities by the Kumasi Metropolitan Assembly (KMA) and the Ghana Railway Company (GRC) in 2003

A common problem in many countries in SSA that, perhaps, results from the lack of inter-ministerial discussion on core policy issues, is the conflicting interests and policies of different ministries of the same government. Thus, while a core policy aim might be to promote the informal economy, which has been seen in Ghana, for example, as “one of the most crucial [elements in] Ghana’s development efforts” (GoG, 2003: 73), different ministries or district/municipal assemblies might pursue policies seemingly at odds with each other. For example, on the main road out of Kumasi towards Sunyani or Bibiani, it is common to see signs spray-painted on rows of informal enterprises - in 2003 - such as: ‘Produce permit. Remove immediately by order KMA, dated 24.06.01’. The Kumasi Metropolitan Authority (KMA) is trying to deter the construction of informal enterprises on public land where the entrepreneurs do not have land permits. In many cases, this approach is failing as enterprise owners simply ignore the warning and carry on as normal (fieldwork by Palmer, 2003). It is not unlikely that there are issues of local

corruption too, where local officials are paid off by enterprise owners so that they are not moved.

Two recent examples of when a local authority in Ghana acted in contradiction of stated aims in the PRSP can be seen with the harassment of informal economic activities by the Kumasi Metropolitan Assembly (KMA) and the Ghana Railway Company (GRC) in 2003.

Informal sector activities are often repressed by Metropolitan Assemblies on the grounds that they cause congestion on pavements, encroach on public land, or for other health and sanitary reasons. In 1995, the KMA passed a ‘Control of Hawkers Bye-Law, stating that “nobody is allowed to trade on the pavements of the city…” (GNA, 2003). In March 2003, KMA relocated many traders from the pavements around Adum, Central Market and Kejetia, saying that “the assembly reserves the right to prosecute any person arrested for selling at any unauthorised place in Kumasi” (GNA, 2003). In reality, this has had little effect since any visitor to the areas around Adum, the Central Market and Kejetia can clearly see them all packed with traders and hawkers of all sorts.

In April 2003, over 10,000 traders were ejected from the Accra rail station by the Ghana Railway Company (GRC). The reason given were that the trades “were encroaching on the land... impeding the smooth running of trains”, paving the way for pickpockets and being a nuisance to staff and passengers (GNA, 2003b). However, the real reason for their eviction could be more to do with pleasing the international donors who are to finance the re-development of the rail station. GRC claimed that on a recent visit by the Minister for Ports, Harbours and Railways, the GRC was told by officials that “donors would not be encouraged to undertake the project if they saw the “bad” situation at the station” (GNA, 2003b). The ejected “troublesome” traders then took over the pavements and central business area of Accra “compounding the already chaotic traffic situation” (GNA, 2003b). In addition to simply moving the informal traders to a different location, and hence not really solving the issue there are other implications resulting from the ‘ejecting’ of informal traders from a specific location. As Trager notes, the removal of shops and stalls does not lead to the result desired by the government; it does not eliminate the “unsightly” activity, but it only forces those engaged in it to resort to various coping mechanisms which lead to lessening incomes and to increasing the instability of their businesses” (1987: 248).

12.6 The good intentions of state and donor interventions. The dilemmas of intervention: will external intervention undermine the strength of the informal sector?

The ILO characterised the informal sector as developing due to a spirit of self-reliance, like the harambee, or self-help, movement in Kenya (ILO, 1972: 225), noting that “the recognition of unfilled needs generated by social change is followed by individual or group action on a local basis” (ILO, 1972: 225). While the ILO drew this parallel with the harambee movement, noting that both this and the informal sector had developed
independently of government support, it still recommended that the Kenyan government become heavily involved with the informal sector development.

As King notes, this comparison with the *harambee* touches... on the dilemma of much informal sector policy: that if what is special and positive about the informal sector has been developed despite total neglect and even active discouragement by the state, then would it not be valuable for government to continue a hands-off approach? (King, 1996: 12)

King goes on to note that "any attempt to 'formalize the informal sector' could well undermine its robust independence" (King, 1996: 12).

This 'basic dilemma of the informal sector' was noted by the ILO/JASPA studies in the mid 1980s. Here it is noted that "the sector is efficient because it is informal, but because of its informality it cannot be integrated into development plans" (ILO/JASPA, 1985: 35). The ILO/JASPA report (1985: 35) asserted that pro-informal sector policies "taken to [the]... extreme... involves the formalization of the informal sector". Further, that:

government intervention may bring with it Government regulation – e.g. wage and price control, rigid quality standards, licensing requirements – which may indeed negate the essence of the informal sector through a creeping formalization. This would indeed not be desirable. (ibid.)

Along similar lines, Hugon notes that:

the growth of the small scale activities has been in the main spontaneous... unrelated to the development agencies, major organisations and financial intermediaries. They have tried to become involved, but have found it very difficult... Too much standardisation would destroy positive forces and add to the economic and social crisis. (1990: 79-80)

However, despite this dilemma, and while acknowledging the importance of the informal sectors ability to self-help, the ILO/JASPA report (1985) recognises that interventions, either technical or financial, "may be needed by the sector to maintain its dynamic nature and to enable it to make improvements in its production, sales, training and other aspects" (ibid.: 36).

Three last issues are worth noting. Firstly, is the issue concerning the financing of the education for all (EFA) initiative in states in SSA. If one of the intentions to formalise the informal economy is so that informals can be taxed to provide needed revenue to government coffers, perhaps to help fund the EFA initiative the governments might be 'shooting themselves in the foot' by doing this. Although, as discussed, not paying tax is not a key element per se in a conceptualisation of what falls under the rubric of 'informal', many informals often do not pay tax. If one of the reasons for intervention on the part of the government is to increase fiscal revenues by extending the tax net over as much of the informal sector as possible, perhaps many informal operators would go out of business. Loosing one of the advantages, in some places, of being informal, other enterprises would be forced to increase prices to customers so as to off-set their expected decrease in profit as a result of having to pay tax. Thus entry into informal occupations

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140 It was noted earlier by Steele (1972: 226). See section 2.1.
would become harder, at a time when more and more graduates of EFA are emerging into the informal labour market.

Secondly, it is important to fully understand the “wider economic and political environment” (Trager, 1987: 247) within which the informal economy operates as this “can have crucial implications for informal sector activities” (ibid.). It is essential to consider not just the linkages with other areas, such as the formal economy, but to consider “the policy and regulatory environment in which informal sector enterprises must operate” (ibid.).

Thirdly, the issue of trying to design pro-poor intervention that will promote growth at the same time as reducing poverty is an ongoing issue.
13.0 RE-CONCEPTUALISATION OF THE INFORMAL ECONOMY: INFORMAL ECONOMY OR NORMAL ECONOMY?

Given all that has been said of the informal economy, it may be time to move towards a re-conceptualisation of the concept, classifying the informal economy not as unique, but as something normal, cross-cutting all spheres of the economies in SSA states. Indeed, King noted that “there seems to be some point in re-conceptualizing the informal sector as the ordinary economy cutting across rural and urban areas, agriculture and commerce, across survival skills ad income-generating strategies” (King, 1990: 145).

Here, this paper will outline four arguments that might be put forward to support this view: that the informal economy is so large that it should be seen as the normal economy in these states; that both the formal and informal sectors exhibit characteristics of each other; that the close, and often inter-dependent, relationship between farming and non-farm enterprises means separation of sectors is not logical; and that the issue of divided households breaks down the idea of a rural/urban division.

Huge size of the informal economy

Section 7.1 noted that the informal economy is vast, easily making up the majority of employment opportunities in many countries in SSA. Is it not time, then, that instead of being seen as something ‘special’, the informal economy should be viewed as part of the overall ‘normal economy’? (cf. King, 1990).

Close links between what is now termed formal and informal, with both exhibiting characteristic of the other

Given the large number of links between formal/informal economies and that they both exhibit characteristics of each other, the relationship between the formal and informal becomes blurred; for example wage duplication, where formal sector employees have informal sector sidelines, or informal sector participants have multiple informal employment; some waged jobs are unrecorded (Rimmer, 1992); Others making rational decisions to move from the formal to informal areas of the economy and, by doing so, bring a formal background, up-to-date information and access to formal support mechanisms (i.e. training, modern banking, extension services) to the informal economy; Others using informal activities to finance a period of formal sector unemployment; In addition many informal activities act as service/material providers for both the informal/formal economy. Further, since the activities exhibit both modern and traditional features, this clear-cut dualistic categorization is inappropriate (Aboagye & Gozo 1986).

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141 See also sections 3.3 and 6.2.
Relationship between farming and non-farm employment

Sections 8.1 and 11.0 noted the close relationship between agriculture and non- or off-farm employment and the fact that, in many cases, they are financially inter-dependent on each other at the household level. The informal economy concept should recognise that farm and non-farm activities are not separate.

Divided households and the implications for the informal sector

One issue that has “been entirely neglected in the past” (Livingstone, 1991: 662), is “the importance of so-called female-headed households” (ibid.). Livingstone notes that a household budget survey conducted in Kenya in 1981-2, revealed that about one third of households were female-headed (Livingstone, 1991: 662). From this, he postulates, “it is evident that these do not refer necessarily to widowed or single women, but in the main to what are... referred to as ‘divided households’” (ibid.). This is where the household income is supplemented by income from work the husband, and/or other family members, undertake in urban areas or a local town, while the wife and other family members work in the rural locality to keep up the farm component of the total income. ‘Divided households’ are “dependent on income from two sources, rural and urban” (1991: 662). For the Kenyan data, Livingstone notes that, “given the high proportions of divided-households, it suggests a very strong interdependence between rural and urban activities in supporting... households” (1991: 663).

142 See also section 10.38.
143 Would it be possible for houses to be dependent on two (or more) sources, different family members living in different rural localities, i.e. do divided households have to be straddle rural/urban, can they not straddle rural/rural or urban/urban?
APPENDIX

15th International Conference of Labour Statisticians
(Geneva, 19 to 28 January 1993).

Resolution II

Resolution concerning statistics of employment in the informal sector

(Reproduced here in part)

CONCEPT

5. (1) The informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.

5. (2) Production units of the informal sector have the characteristic features of household enterprises. The fixed and other assets used do not belong to the production units as such but to their owners. The units as such cannot engage in transactions or enter into contracts with other units, nor incur liabilities, on their own behalf. The owners have to raise the necessary finance at their own risk and are personally liable, without limit, for any debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditure. Similarly, capital goods such as buildings or vehicles may be used indistinguishably for business and household purposes.

5. (3) Activities performed by production units of the informal sector are not necessarily performed with the deliberate intention of evading the payment of taxes or social security contributions, or infringing labour or other legislations or administrative provisions. Accordingly, the concept of informal sector activities should be distinguished from the concept of activities of the hidden or underground economy.

OPERATIONAL DEFINITIONS

Informal sector

6. (1) For statistical purposes, the informal sector is regarded as a group of production units which, according to the definitions and classifications provided in the United Nations System of National Accounts (Rev.4), form part of the household sector as household enterprises or, equivalently, unincorporated enterprises owned by households as defined in paragraph 7.
6. (2) Within the household sector, the informal sector comprises (i) "informal own-account enterprises" as defined in paragraph 8; and (ii) the additional component consisting of "enterprises of informal employers" as defined in paragraph 9.

6. (3) The informal sector is defined irrespective of the kind of workplace where the productive activities are carried out, the extent of fixed capital assets used, the duration of the operation of the enterprise (perennial, seasonal or casual), and its operation as a main or secondary activity of the owner.

**Household enterprises**

7. According to the United Nations System of National Accounts (Rev.4), household enterprises (or, equivalently, unincorporated enterprises owned by households) are distinguished from corporations and quasi-corporations on the basis of the legal organization of the units and the type of accounts kept for them. Household enterprises are units engaged in the production of goods or services which are not constituted as separate legal entities independently of the households or household members that own them, and for which no complete sets of accounts (including balance sheets of assets and liabilities) are available which would permit a clear distinction of the production activities of the enterprises from the other activities of their owners and the identification of any flows of income and capital between the enterprises and the owners. Household enterprises include unincorporated enterprises owned and operated by individual household members or by two or more members of the same household as well as unincorporated partnerships formed by members of different households.

**Informal own-account enterprises**

8 (1) Informal own-account enterprises are household enterprises (in the sense of paragraph 7) owned and operated by own-account workers, either alone or in partnership with members of the same or other households, which may employ contributing family workers and employees on an occasional basis, but do not employ employees on a continuous basis and which have the characteristics described in subparagraphs 5 (1) and (2).

8 (2) For operational purposes, informal own-account enterprises may comprise, depending on national circumstances, either all own-account enterprises or only those which are not registered under specific forms of national legislation.

8 (3) Registration may refer to registration under factories or commercial acts, tax or social security laws, professional groups' regulatory acts, or similar acts, laws, or regulations established by national legislative bodies.

**Enterprises of informal employers**

9 (1) Enterprises of informal employers are household enterprises (in the sense of paragraph 7) owned and operated by employers, either alone or in partnership with
members of the same or other households, which employ one or more employees on a continuous basis and which have the characteristics described in subparagraphs 5 (1) and (2).

9 (2) For operational purposes, enterprises of informal employers may be defined, depending on national circumstances, in terms of one or more of the following criteria: (i) size of the unit below a specified level of employment; (ii) non-registration of the enterprise or its employees.

9 (3) While the size criterion should preferably refer to the number of employees employed on a continuous basis, in practice, it may also be specified in terms of the total number of employees or the number of persons engaged during the reference period.

9 (4) The upper size limit in the definition of enterprises of informal employers may vary between countries and branches of economic activity. It may be determined on the basis of minimum size requirements as embodied in relevant national legislations, where they exist, or in terms of empirically determined norms. The choice of the upper size limit should take account of the coverage of statistical inquiries of larger units in the corresponding branches of economic activity, where they exist, in order to avoid an overlap.

9 (5) In the case of enterprises which carry out their activities in more than one establishment, the size criterion should, in principle, refer to each of the establishments separately rather than to the enterprise as a whole. Accordingly, an enterprise should be considered to satisfy the size criterion if none of its establishments exceeds the specified upper size limit.

9 (6) Registration of the enterprise may refer to registration under specific forms of national legislation as specified in subparagraph 8 (3). Employees may be considered registered if they are employed on the basis of an employment or apprenticeship contract which commits the employer to pay relevant taxes and social security contributions on behalf of the employee or which makes the employment relationship subject to standard labour legislation.

TREATMENT OF PARTICULAR CASES

12. (1) Different members of a household may be engaged as self-employed persons in different kinds of informal sector activities during a given reference period. In order to determine whether such activities should be regarded as separate enterprises or as parts of a single enterprise, due consideration should be given to the definitional requirements of an enterprise, as specified in the International Standard. Industrial Classification of All Economic Activities (ISIC, Rev.3). Where it is difficult in practice to apply these requirements, different activities carried out by different household members should be treated as separate enterprises if they are perceived as such by the household members themselves.
12. (2) A household member or group of household members may be engaged as self-employed persons in different kinds of informal sector activities during a given reference period. For practical purposes, all activities carried out at a time by the same household member or group of household members should be treated as parts of a single enterprise rather than as separate enterprises.

14. Household enterprises, which are exclusively engaged in non-market production... should be excluded from the scope of the informal sector for the purpose of statistics of employment in the informal sector.

15. ...the scope of the informal sector should include household enterprises located in urban areas as well as household enterprises located in rural areas.

16. For practical reasons, the scope of the informal sector may be limited to household enterprises engaged in non-agricultural activities. With account being taken of paragraph 14, all non-agricultural activities should be included in the scope of the informal sector, irrespective of whether the household enterprises carry them out as main or secondary activities. In particular, the informal sector should include secondary non-agricultural activities of household enterprises in the agricultural sector if they fulfil the requirements of paragraphs 8 or 9.

20. Activities excluded from the scope of the informal sector, such as domestic services, non-market production and agricultural activities, may be identified as separate categories outside the distinction between the informal and formal sectors.

DATA COLLECTION PROGRAMME AND METHODS

21. (2) The data collection programme with regard to the broad objective (a) should preferably be based on a household survey approach, with households as reporting units and individual household members as observation units.

22. (3) ...Special probings may be needed with respect to informal sector activities that would otherwise go unreported, such as unpaid work in family enterprises or activities carried out by women on their own account at or from home.

22. (5) In order to monitor trends in informal sector employment over time, questions on employment in the informal sector should be included, if possible, once a year.

Mixed household and enterprise surveys

25. (1) The basic principle of mixed household and enterprise surveys is to construct a sampling frame of informal sector enterprises through a household survey operation, prior to the informal sector survey itself. The household survey component, if appropriately designed, makes it possible to identify informal sector enterprises rather than establishments, and to cover virtually all informal sector units irrespective of size, kind of activity, and type of workplace.
25. (2) Mixed household and enterprise surveys are based on area sampling and conducted in two phases: (i) informal sector enterprises and their working owners are identified during the first phase through a household listing or interviewing operation (household survey component); (ii) all or a sample of the business owners thus identified are interviewed during the second phase to obtain information on the characteristics of their enterprises (enterprise survey component).

26. (1) The time interval between the two phases should be kept as short as possible, to minimize loss rates of units.

28. If information on seasonal variations of informal sector activities is to be obtained and annual estimates of the main aggregates are to be produced, data collection should be spread over a period of a whole year by dividing the sample into independent sub-samples for different quarters or months of the year.
BIBLIOGRAPHY


