

Kobe-Duke Symposium on Informality and Dynamism of African Economies Summing-up

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At the symposium today, our presenters, discussants and panelists collectively displayed an impressive wealth of knowledge on what is perceived to be informal business relations in sub-Saharan Africa. I believe this is the first time that scholars from Africa, Japan and the United States, in the fields of development economics and anthropology, and senior officials from two leading development agencies, the World Bank and JICA, have come together to share their experience, insights and perspectives on this topic. In my view, a conclusion drawn from our discussion is that the academic community still has some ways to go if it is to contribute definitively to improving the wellbeing of owners and workers engaged in micro-businesses, either directly or through evidence-based policy making. This is desperately needed to reduce inequality, achieve truly inclusive growth, and regain economic and political stability in much of Africa.

We began our deliberations with an elucidation of what constituted informality or what people perceived informality to be. **Prof Piot** described the state of play in the literature, offering differing perspectives on and definitions of informality. He highlighted that “challenges to offering a precise and crystalline definition of the informal” were “useful reminders of the complexity and nuance of the category itself”. He concluded that “a generic understanding of the informal—as income-generating enterprises largely outside the regulatory framework of the state that are small in nature, limited in their access to liquidity, and employing workers who are typically low-waged, precarious and vulnerable” - is a useful place” to begin our inquiry.

Prof Mine, our second speaker, introduced his latest book, *Oral History of Development Cooperation: Beyond Crisis*. He indicated that informality is not all about precarious, vulnerable and small enterprises. He highlighted one aspect of informality—the importance of informal networks—and cited examples of JICA projects in Chile and Tanzania, where informal networks sprung up after JICA projects ended. In this context, informality is something that is not prescribed officially, but instead something spontaneous. According to Prof Mine, “Projects may be transformed not by explicit policy changes but by the dynamics of people’s informal networks.” He concluded: “The advantage of informal networks lies in their flexibility and innovativeness. Africa possesses the wealthiest reservoir of young, networked human resources.”

In her intervention as a discussant, **Prof Hirano** livened the discussion with real life stories of informal sector workers in Yaoundé, Cameroon, which she collected from interviews of 120 informal workers. She emphasized that actors in the informal sector cross over between the informal and the formal economy; start businesses and fail;

share money and work among relatives and peers; and, importantly, want to be independent and free, rather than working for a more-hierarchical formal enterprise.

Dr Dabalen, the other discussant, summed up the two papers and suggested that the concept of informality is still not well defined. He asked whether it might not be more productive to focus on micro-businesses more broadly, rather than sharply distinguishing the informal from the formal. He stressed that the key point we should be focusing on is productivity and how modalities of informality/formality relate to the productivity of a given business.

The second session was devoted to discussing if informal entrepreneurs are generally unproductive and passive, as conventional development economics contends, or whether they are dynamic and entrepreneurial, as commonly observed by anthropologists.

Prof Hamaguchi, the first speaker of the session, presented findings of the study being conducted by the Duke-Kobe team. He drew on the survey of 1500 microentrepreneurs in Nigeria, Ghana and Kenya, conducted by a private microfinance institution, the ASA-I, in collaboration with the Duke Africa Initiative. His paper applies a Multiple Correspondence Analysis in constructing a composite index of informality for each individual micro-business; the index is derived from several informality variables commonly cited in the literature. He shared a number of findings, among them that informality is not significantly correlated with the size of business (the number of employees) or growth of sales revenue over the preceding five years.

The session's second speaker, **Prof Takahashi**, introduced the topic of micro sofa businesses in Nairobi through a series of photos showing the production process and various sofa models, and reported a number of interesting results from field work which has extended over several years. Among his findings, he highlighted that micro sofa businesses expand horizontally in part as a result of competing vendors' sharing of knowledge with one another about production methods and different sofa models. "By remaining small in scale, sofa vendors avoid bearing the financial and non-financial costs associated with larger formal enterprises." Prof Takahashi links this feature of informal business to the phenomenon of the "missing middle" in analyses of African business. However, he cautioned that there may be signs of change, as some young vendors have opted for exclusion vis-à-vis knowledge sharing.

Two discussants, **Ms Matsumoto** and **Ms Nyachieo** offered a spirited critique of the papers presented, drawing on their own research on Kenya's informal economy. Ms Matsumoto notes a possible bias in some of Prof Hamaguchi's findings, including in the relation between education and informality. She also contended that many informal workers are dynamic, if judged by resiliency during the Covid crisis. Her data shows that there is a degree of heterogeneity in resiliency among informal workers. Ms Nyachieo presented a comprehensive account of informal employment in Kenya and reaffirmed the importance of studying the informal economy, citing its dominance and rapid increase over the last few decades. She highlighted similarities in key characteristics

among workers that traditionally separate the formal from the informal sector. This supports the view that informality should be seen as a continuum as opposed to from a homogenous perspective, as well as the need to create a multi-dimensional index in conceptualizing informality.

In the **panel discussion** that followed, we turned our attention to a policy question: Can African countries achieve inclusive growth by embracing the informal economy as a pillar of development strategy? The panel consisted of Prof. Ogawa, Dr. Dipeolu, Prof. Leibbrandt and Mr. Soubeiga.

In making her remarks, **Prof Ogawa** drew on her extensive study of small commercial sectors in Tanzania, a study that has spanned many years. She reported that all actors in small commercial sectors that she studied share the same three principles: (1) uncertainty – coping with uncertainty necessitates livelihood diversification and gifting relatives; (2) social recognition – businesses are motivated first and foremost by social recognition, not monetary gains; and (3) trust – businesses rely on personal relations, those you trust. In her view, these principles constitute the essence of informality. She stressed that the potential of small commercial sectors in Tanzania is great and that if this potential is to be brought out more fully, policy interventions must engage and appreciate the three principles directly and positively.

Dr Dipeolu offered a contrasting perspective to many of the other papers, a view from the Presidency. He fully agrees that if African countries are to achieve meaningful growth and maintain social stability, governments must connect with informal entrepreneurs and workers better than hitherto. Successive Nigerian governments have not been very successful in this regard. All is not lost, however. Citing the ASAI – Duke Survey, Dr. Dipeolu corroborated that Nigerian microbusinesses are often larger and richer than commonly thought and that they are less informal than in Kenya or Ghana. While reiterating government's critical role in supporting these features, he insisted that it is not a one-way street. Those in the informal sectors need to do their part by paying taxes, registering with government agencies, and taking advantage of training and other opportunities that government extends.

Prof Leibbrandt opened his remarks with a passionate plea to revitalize the enthusiasm to tackle inequalities and polarization in societies. Such sentiment was strong in the early 2000s but has since been all but lost. Some researchers may actually question the utility of addressing informal micro-enterprises as distinguishable entities in the pursuit of inclusive growth. However, Prof Leibbrandt insisted that not only does informal employment exist, people know that informal enterprises are different and constitute the bottom of the pyramid. South Africa is a preeminent example in this regard. He asserted that informality in South Africa has been studied extensively, perhaps more so than in other African countries, and that the government wants to address it as a matter of priority. Nevertheless, the research community in South Africa has yet to produce definitive evidence of the dynamism of informal entrepreneurs, toward the end of generating policy recommendations.

Mr. Soubeiga, our final panelist, gave us additional insights from his country, Burkina Faso, a country that is currently caught up in internal conflict. He emphasized that informality is not just an urban phenomenon, insisting that informality is pervasive in rural settings. Given the nature of rural economic activities in Burkina Faso—both pastoralism and farming—it is difficult to formalize those activities or for the government to collect taxes. For these reasons, he is uncertain if the government is ready to adopt formalization of informal businesses as its policy, let alone be more proactive in the ways that previous speakers have advocated.

Now, allow me to sum up our discussions in the symposium as follows:

1. Most if not all of our speakers share a view that informal microbusinesses in sub-Saharan Africa are dynamic, entrepreneurial and resilient. Our speakers are frustrated because despite their potential, informal entrepreneurs remain poor and entrenched at the bottom of the pyramid. Many of our speakers advocate that empowering informal entrepreneurs ought to be an effective policy intervention in helping to ameliorate inequalities, achieve inclusive growth and restore stability. In my view, their advocacy does not receive the recognition it deserves.
2. Nevertheless, in my humble opinion, we are yet to present definitive evidence that informal entrepreneurs are dynamic, entrepreneurial and resilient. The findings of our anthropologist colleagues, and also Prof Takahashi's, are most interesting and encouraging. However, if I am not mistaken, their samples are too small and their industry coverage too limited to allow for generalizing from their findings. Moreover, it may be difficult to conclusively attribute their findings to informality because the samples are not differentiated between informal and non-informal, and causality is not tested. Prof. Hamaguchi's work is intended to generalize those findings but his findings on dynamism are still ambiguous.
3. Thus, going forward, I would recommend that we work together – collectively and individually – to address the challenges we identified during the course of our deliberations. In particular, I would suggest that we endeavor to:
 - a. Adopt a definition of informality that is analytically clear and operationally practicable: Even the most commonly accepted definition of informality, namely, as being outside the regulatory framework, is not as clearcut as it seems. It is exceedingly rare that a micro-business has no relation with any government agency, if anything it is a matter of degree. Informality must be conceptualized with greater clarity, if it is to be analyzed with rigor.
 - b. Differentiate informal businesses from micro-businesses in general: As mentioned by Prof Ogawa, three principles that encapsulate the essence of informality are not prominent in enterprises in the market economy: (i) flexibility to react to uncertainty; (ii) the importance of social recognition;

and (iii) reliance on personal trust. Prof Hirano adds the appreciation of freedom. Informality should be defined by these behavioral characteristics. A challenge is that two of these elements are captured in Prof Hamaguchi's composite index of informality, but the weights assigned to the two variables did not come out to be all that significant in the statistical manipulations.

- c. Frame the design of a case study to allow for generalization of findings: Studying a narrowly targeted group of individuals or set of phenomena surely has its own value. However, if the objective of a study is to contribute to policy making directly or indirectly, samples need to be large enough to be representative of the broader economy or the sampling and accompanying statistical analysis need to be carefully formulated so that desired causalities can be inferred. I am told that many, if not a majority of anthropologists, are not interested in economic and social policy. This is unfortunate because, in my view, anthropologists have unique insights that can contribute to our common cause.
- d. Establish a model that captures the interworking of an informal economy and apply an appropriate quantitative method to look for desired evidence: A promising avenue may be to refine Prof Hamaguchi's model and incorporate the points above. He could then investigate more closely interlinkages between the attributes of micro-entrepreneurs and various aspects of their dynamism. The findings he reported in his presentation are preliminary. He plans to build on them to derive more conclusive evidence.
- e. Finally, focus on productivity growth: Prof Mine's presentation of JICA's new project to help startups in Ethiopia is refreshing. He explains that the idea is to assist small businesses to raise their productivity, expand their business, and, over time, become "formal." Through such a transformation, the "missing middle" could become a "solid middle." In our deliberations today, much was discussed about the tendency of informal micro-enterprises to expand horizontally and remain small in size. However, in the context of inclusive growth and poverty reduction, a more pertinent question might be whether the productivity/profitability of horizontally structured informal firms would remain low and if so, why, and to what end? This is the point stressed by Dr. Dabalen.

150 years ago, around one half of the graduates of Kobe College of Commerce, the predecessor of Kobe University, chose to work in small informal businesses rather than formal companies. Stories of their success remind us that there is no reason to believe a priori that smallness is a necessary feature of informality.

It is vital for scholars, policy analysts, states, and the global community to refocus on inclusive growth as it would ameliorate inequalities, help restore stability in much of Africa, and make economic growth sustainable. The discussions in this symposium

have convinced us that informality has a unique place in the study of and search for inclusive growth. The co-organizers of this symposium are encouraged by the rich deliberations by our speakers and active participation by the others from the floor and online. We hope that we can continue to strengthen our collaboration in the period ahead.

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