



# Formal and Informal Enterprises in Francophone Africa

Moving Toward a Vibrant Private Sector

Edited by Ahmadou Aly Mbaye, Stephen S. Golub, and Fatou Gueye

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## List of acronyms

AfDB	African Development Bank
BCEAO	Banque Centrale des États de l’Afrique de l’Ouest / Central Bank of the States of West Africa
BEAC	Banque des États de l’Afrique Centrale / Bank of the States of Central Africa
BOTA	Bamenda Organized Traders Association
CEMAC	Communauté Économique et Monétaire de l’Afrique Centrale / Central African Economic and Monetary Union
CGA	Centres de gestion agrees / Management Support Agencies
CNC	Centres de normalisation comptable / Accounting Standards-setting Commissions
CNPS	Caisse Nationale de Prévoyance Sociale (Cameroun) / National Social Security Fund (Cameroon)
DB	Doing Business (indicators, World Bank)
DGE	Direction des Grandes Entreprises / Large Companies Department
DLISS	Directorate of Labour Inspection and Social Security
ECAM 3	Enquête Camerounaise Auprès des Ménages 2007 / 2007 Cameroon Household Survey (Cameroon)
ECOWAS	Economic Community of West African States
EEFI	Enquête sur les Entreprises du Formel et de l’Informel / Survey on Formal and Informal Enterprises (Cameroon)
EESI 1	Enquête sur l’Emploi et le Secteur Informel / Survey of Employment and the Informal Sector (Cameroon)
EESI 2	Deuxième Enquête sur l’Emploi et le Secteur Informel au Cameroun / Second Survey of Employment and the Informal Sector in Cameroon
EPL	Employment Protection Legislation
EWI	Employing Workers Indicator
FCFA	Franc de la Communauté Financière d’Afrique / Franc of the Financial Community of Africa
GDP	Gross Domestic Product

GLP	Gross Labour Productivity
GUFE	Guichet unique de formalisation des entreprises / Single Window for Business Formalization
ICA	Investment Climate Assessments
ICBT	Informal Cross-Border Trade
IDRC	International Development Research Centre
ILO	International Labour Organization
IMF	International Monetary Fund
INS	Institut National de la Statistique / National Institute of Statistics
IPRES	Institution de Prévoyance Retraite du Sénégal / Retirement Pension Fund of Senegal
IT	Information Technology
JBIC	Japan Bank Investment Corporation
KOTA	Kumba Organized Traders Association
LIC	Low-Income Country
LLC	Limited Liability Corporations
NIF	Numéro d'Identification Fiscale / Taxpayer Identification Number
OECD	Organisation for Economic Co-operation and Development
OHADA	Organisation pour l'Harmonisation du Droit des Affaires en Afrique / Organization for the Harmonization of Business Law in Africa
p.a.	per annum
RGE	Recensement Général des Entreprises / General Census of Enterprises
SAP	Structural Adjustment Program
SAS	Société par Actions Simplifiée / simplified joint stock company
SME	Small and Medium Enterprise
SONACOP	Société nationale de commercialisation des produits pétroliers / National Petroleum Products Marketing Company
SSA	sub-Saharan Africa
TAFIRE	Tableau Financier des Ressources et des Emplois
TFP	Total Factor Productivity
UEMOA	Union Économique et Monétaire Ouest Africaine / West African Economic and Monetary Union
UNDP	United Nations Development Programme
USD	United States Dollar
VAT	Value-Added Tax

## Foreword

*Arjan de Haan*

Africa's economic performance has been encouraging over the last couple of decades. The continent's economic growth was above the global average for most of the 2000s and poverty declined significantly. Africa is also modernizing as urbanization increases, a middle class emerges, and the digital economy opens new windows of opportunity. At this juncture, it is crucial to determine how these positive trends can be leveraged to further reduce poverty and generate better quality jobs for the continent's fast-growing working-age population.

While there is a general recognition that the informal sector is the keystone of African economies, there is limited information about what is known as “the grey economy” and how it could help shape more inclusive growth via the creation or consolidation of existing enterprises and jobs. In Francophone Africa, formal wage employment is responsible for only 5% of the total labour force, while small informal businesses make up more than 97% of all private businesses in some countries. The informal sector is likely to remain the most important job-providing sector in the foreseeable future in African economies. Africa's cities' attractiveness and competitiveness are primarily shaped by the informal sector, which provides most of the jobs and influences urban habitats, transportation systems, and the overall structure of the urban economy.

For the last 50 years, IDRC has contributed, through the policy-oriented research it supports, to bringing about inclusive growth and curbing poverty in low-income settings. The research IDRC supports focuses on innovation, solutions, and evidence-based policy to generate change related to today's challenges and build multi-stakeholder partnerships to help achieve the Sustainable Development Goals. IDRC also supports research infrastructure and capacity, including that of young and female researchers. An in-depth understanding of the informal

economy is an important step toward apprehending the overall business environment and employment patterns in Africa.

This book makes an important contribution to the analysis of the informal sector and how it affects business environments, jobs, institutions, and structural transformation in Francophone Africa. It provides an understanding of the landscape of private entrepreneurship in Africa through its consideration of both formal and informal firms. The authors refute the traditional formal/informal duality hypothesized in the mainstream literature and undertake a thorough analysis of the wide spectrum of private entrepreneurship, between the extremes of complete formality and complete informality. This approach to informality as a continuum provides useful insights into the following issues: How do formal and informal firms cooperate or compete in various value chains, and how does this shape jobs, social protection, and productivity? What are the magnitude and sources of the productivity difference between formal and informal firms, and do the characteristics of firms help to explain this gap? What are the barriers to growth for formal and informal firms, and how can policy contribute to overcoming them? How do the labour regulations, to which formal firms are subjected, affect the share of informal sector jobs? How can policy contribute to nurturing a greater synergy between formal and informal firms?

In Africa, female participation in the labour market and their overall economic contributions are largely underestimated because they operate mainly in the informal sector. The book contributes to filling the existing gap observed in recent research. While most analyses of gender in Africa refer to culture, institutions, and the labour market, the findings presented in this publication address female entrepreneurship and the peculiar challenges and opportunities women face. The detailed information collected on women in entrepreneurship, and the in-depth analysis thereof, brings an important perspective on how the gender gap is playing out in terms of income generation and inequality. In doing so, the volume sets the groundwork for the formulation of gender-targeted policy actions that will support overall growth, be more inclusive, reduce inequality and poverty, and empower women.

Regional integration has grown in Africa, through customs unions, harmonized fiscal and legal systems, macroeconomic surveillance systems, and some harmonized business law. While showing limited effectiveness in spurring official trade flows in Central and West Africa, this integration is boosting cross-border trade through ethnic, kinship, and other kinds of networks within and between the regional blocks of the West African Economic and Monetary Union (*Union Économique et Monétaire Ouest Africaine* – UEMOA) and the Central African Economic and Monetary

Union (*Communauté Économique et Monétaire de l'Afrique Centrale – CEMAC*). These networks play a central role in shaping the institutional framework in which businesses operate. They influence the functioning of informal businesses as well as the cross-border trade with countries within and outside UEMOA and CEMAC.

An important policy debate regarding the informal sector is whether governments should seek to formalize informal firms through sanctions or assist these firms to increase their contributions to employment and income while remaining informal. While it is a source of income and employment, the informal sector is also a provider of inexpensive consumer goods and services to households with limited financial means, and these are often of low quality and can be dangerous. However, there are opportunities to create jobs, raise productivity, promote growth, and increase fiscal revenues. Informality is linked to low productivity, low wages, and jobs without protection, while development requires reducing and formalizing the informal sector over time. There is thus a dilemma between boosting the sector and shrinking it.

This volume makes an important contribution to this debate by recommending policies that can assist small informal firms to improve their performance while encouraging large informal actors to modernize. Policy reforms that intend to support small informal actors in consolidating and upgrading the quality of their products and services are critical. The book provides detailed recommendations regarding the type of assistance that will support small informal firms and jobs, including financing and training actors as well as designing and/or adapting business regulations that reflect the vulnerability of small informal enterprises.



## Preface

This book is the culmination of several major research projects on the informal sector in Francophone Africa. It builds on Benjamin and Mbaye (2012) which focused on West Africa, mainly Benin, Burkina Faso, and Senegal. The present volume draws on the data collected for Benjamin and Mbaye (2012) and some additional fieldwork in these three countries in West Africa, as well as a major data collection project in Central Africa on Cameroon and Gabon. As in the earlier study, the research presented in this volume involved a combination of quantitative and qualitative approaches to gain insight into the complex nature and processes of the informal sector, which by its nature is difficult to apprehend. The quantitative dimension is based on firm surveys in the major cities of five countries: Cotonou (Benin), Ouagadougou (Burkina Faso), Dakar (Senegal), Douala and Yaounde (Cameroon), and Libreville (Gabon). In each of these cities, 200 to 300 firms were surveyed with a sampling strategy designed to include a wide range of firms, from fully formal to completely informal. The firm surveys have provided a wealth of detail about the characteristics, operation, and challenges facing the private sector in Africa, and the overwhelmingly informal nature of these firms.

In addition to surveying firm managers about their enterprises, we also administered questionnaires to employees of these firms. To supplement our survey data, we carried out semi-structured interviews with a subset of the sampled firms and with focus groups. We also consulted secondary sources and available data sets. This diversified set of sources and methods enabled us to obtain a deeper understanding not only of the firms themselves but also the institutional environment that shapes them, the working conditions and living standards of employees, and appropriate policy measures to promote development of the private sector and economic progress.

A major theme in our previous work, extended here, is the diversity of the informal sector. We have identified and measured seven criteria of informality, none of which subsumes the others. Most firms satisfy some but not all the criteria of informality, implying a spectrum of informality rather than a dichotomous distinction between formal



and informal firms. For example, in Libreville around 70% of sampled firms maintain reasonably accurate accounts whereas only 30% provide social insurance to their employees. In much of the analysis, we categorize firms into three groups: formal, large informal, and small informal as first proposed by Benjamin and Mbaye (2012). While not capturing the full range of informality, this classification recognizes the crucial distinction between large and small informal firms. Large informal firms, while less numerous than small informal firms, are a distinctive feature of the economies of West and Central Africa. These large informal firms are similar to formal firms in terms of sales volume but their organizational structure and behaviour are much more like their small informal counterparts. In particular, they maintain falsified accounts and thus do not pay the regular income taxes that formal firms must.

While similar to Benjamin and Mbaye (2012) in terms of methodology and emphasis on the informal sector as a continuum rather than a binary distinction between formal and informal operators, the present study advances understanding of the informal sector in several other ways. First, as mentioned above, we also investigate informal employment, thus shedding light on the participation of women, the prevalence of self-employment, the severe precariousness of employment, the nature and extent of worker training, etc. Our findings in these regards largely confirm those of previous studies of informal employment. Second, the present volume covers Central Africa, particularly Cameroon and Gabon, enabling a comparison to the three West African countries covered in Benjamin and Mbaye (2012) (Benin, Burkina Faso, and Senegal). Third, a number of topics are new or discussed in greater detail: the nature of interactions between formal and informal firms, assistance programs to small informal firms, the role of gender, and a greater focus on the role of the business climate. On the general topic of the institutional environment, there are chapters on the role of labour-market regulations in impeding formal employment creation and the effects of the interaction of infrastructure and governance on informal trading. Fourth, we feature case studies of particular sectors in which the informal sector is heavily involved, such as used cars, smuggled petroleum products, distribution of cell phone credits, and garbage collection. These case studies are based on close observation and interviews, mainly in Benin and Cameroon, and illuminate the operation of the informal economy in vivid detail.

The new data gathered for this study in Cameroon and Gabon have involved many individuals and institutions whose help was invaluable. Universities and their Departments of Economics played a particularly important role. The teams were led, respectively, in Gabon by Professor Jean-Jacques Ekomié, assisted by Stevy Mbaollo, of the University Omar

Bongo of Libreville, and in Cameroon by Professors Georges Kobou of the University of Yaounde 2 and Dontsi of the University of Douala. The researchers in their institutes were involved throughout the data collection process (October 2012 to November 2014).

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Professor Ahmadou Aly Mbaye coordinated all phases of the project, with strong support from Dr. Fatou Gueye. He led the drafting of the project proposal, the formulation of the survey questionnaire, oversaw the fieldwork, organized the seminars disseminating the findings, and coordinated the preparation of the manuscript. Stephen S. Golub coordinated all the work related to cross-border trade in Cameroon, working with Georges Kobou and other researchers. Professor Golub also reviewed all the chapters with Professor Mbaye, particularly those translated from French into English. Three Swarthmore College students, Melanie Rose Ackerman, Ana Maria Curtis, and Jorge Luis Tello Garza provided very capable editing assistance.

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# Overview and Summary

*Ahmadou Aly Mbaye, Stephen S. Golub, and Fatou Gueye*

This book examines the operation, causes, and effects of the informal sector on Francophone West and Central Africa's economies. While the informal sector has received increasing attention in recent years, less is known about its role in Francophone Africa. In this regard, the book is a sequel to Benjamin and Mbaye (2012). There are similarities between the two books in terms of methodology and topics, but the present work breaks new ground in some important respects. As in Benjamin and Mbaye (2012), the analysis is based on a combination of quantitative and qualitative approaches to comparing formal and informal enterprises. This is a relatively novel approach, as most previous studies of informality in Africa focus on employment rather than firms, e.g., Filmer and Fox (2014), Cling et al. (2014), Chen (2012), and Roubaud and Torelli (2013). The quantitative analysis is largely based on original survey data gathered in the capital cities of the countries under study that cover formal, large informal, and small informal firms. This survey data is complemented by extensive interviews enabling a deeper understanding of the functioning of informal firms. Furthermore, the research involves extensive collaboration between African and Western researchers.

While sharing some analytical and topical similarities, this book goes beyond Benjamin and Mbaye (2012) in significant respects. First, the analysis is extended to countries in Francophone Central Africa, Gabon and especially Cameroon. This enables comparison with the three West African countries, Senegal, Benin, and Burkina Faso. The two Francophone regions have quite similar institutions, as summarized below, but differ in terms of economic structure. The Central African countries are resource-rich whereas the West African countries are resource-poor. As is well known, resource abundance can be more of a 'curse' than a benefit, and, as a result, macroeconomic stability and governance tends to be weaker in Central Africa than in West Africa. Given that the informal sector arises at least in part from institutional weaknesses, it is to be expected that the informal sector could be different. Comparisons to informal sectors in other countries in Africa and elsewhere are also included in several chapters.

Second, based on experience in carrying out the first set of surveys in West Africa, the survey questionnaire was refined. In particular, the new surveys add a stronger focus on the role of women in informal enterprises and more detail on perceptions of the institutional environment. The survey data are complemented by detailed case studies of a number of sectors in Benin and Cameroon, including used cars, smuggled gasoline, urban transport (moto-taxis and minivans), used clothes, and garbage recycling. These case studies together with the analysis of survey data provide an in-depth understanding of the operation, causes, and consequences of widespread informality.

Third, the range of topics covered in this volume is broader. Many of the issues analyzed in Benjamin and Mbaye (2012) feature in this work as well, including a composite definition of informality, recognition of the role of ‘large’ informal firms, detailed comparisons of the characteristics of formal, large informal and small informal firms, and informal cross-border trade with countries outside Francophone Africa. To these topics, this work adds analysis of several new ones, including the nature of interactions between formal and informal firms, assistance programs to small informal firms, the role of gender, and a greater focus on the role of the business climate. On the general topic of the institutional environment, there are chapters on the role of labour market regulations in impeding formal employment creation and the effects of the interaction of infrastructure and governance on informal trading.

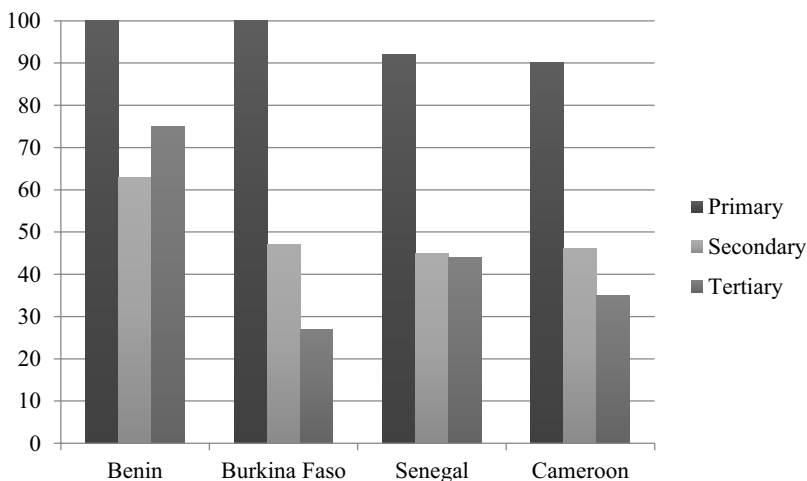
The remainder of this chapter begins with a brief review of the significance of the informal sector in Francophone Africa and the nature of official and unofficial institutions in the region. We then summarize the objectives and methodology of the book, provide summaries of the chapters, and conclude with a synthesis of the findings.

## **The Importance of the Informal Sector**

The informal sector is a major source of income and employment in all developing countries, particularly in Africa. In Africa’s low-income economies, the informal sector typically accounts for about half of aggregate output, according to National Accounts data.<sup>1</sup> Figure 1.1 shows the informal sector as a share of GDP for countries of focus in this book,

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<sup>1</sup>The International Monetary Fund (IMF 2017) provides estimates of the size of the informal sector in individual African economies based on combining multiple indicators. The IMF estimates of the informal sector are in the same range as the National Accounts data (i.e., averaging about 50% of GDP).



**Figure 1.1**

Share of the informal sector in selected Francophone West and Central African countries by major economic sector (percent of sectoral GDP)

Source: Mbaye et al. 2015

categorized by major economic activities: agriculture (primary), industry (secondary), and services (tertiary). Agriculture is overwhelmingly informal in African low-income economies. For non-agricultural sectors, the share of the informal sector is more variable, ranging from about 30% to 70% of GDP. For resource-rich economies in Central Africa, where oil plays a significant role, the formal sector is somewhat larger.

The informal sector is even more important in terms of employment, accounting for at least 90% of total employment in low-income African countries, based on household surveys. That is, wage employment in the public and formal private sectors are both typically around or below 5% of the labour force.<sup>2</sup> Our primary focus is on the urban informal sector, which is growing quickly and accounts for a large share of total informal employment. Table 1.1 shows estimates of urban informal employment as a share of total urban employment in the 1980s and 2010s in the five countries in West and Central Africa that we focus on. The table shows that, even within urban areas, employment is predominantly informal and in fact the proportion of informal employment is growing. Urban informal employment in the 2010s is higher in the West African economies at well over 80% than in Central Africa where it is around 70%. For Benin, this figure is a

<sup>2</sup>Golub and Hayat (2015) and Fox, Haines, Muñoz, and Thomas (2013) provide estimates of the share of the informal sector in total employment.

**Table 1.1**

Share of urban informal employment in total urban employment (percent), selected West and Central African economies

	1980s	2010–2015
<b>Benin</b>	NA	96.2
<b>Burkina Faso</b>	70.0	88.4
<b>Cameroon</b>	NA	67.3
<b>Gabon</b>	NA	74.5
<b>Senegal</b>	76	87.0
<b>sub-Saharan Africa average</b>	67.3	73.3

Source: Charmes 2019

staggering 96%, reflecting Benin’s special role as a regional entrepot for informal trading activities in West Africa.

As stressed in Benjamin and Mbaye (2012), there is no consensus on the definition of informality due to the considerable diversity among informal firms and the range of features that differentiate informal and formal businesses (size, registration, tax status, access to credit, falsified accounts, etc.). As most firms satisfy only some of these criteria, informality is a matter of degree. Perhaps most significantly, some large informal firms operate alongside a multitude of microenterprises.

## Formal and Informal Institutions in Francophone Africa

The Francophone African nations share a certain number of formal socioeconomic and institutional characteristics largely determined by their French colonial legacy and the continued, albeit reduced, French presence in the region. This includes the use of French as the official language and an unusually high level of formal institutional integration arrangements, including a common currency, the FCFA. Africa’s franc zone represents about 20% of the continent’s area and more than 30% of the African population (about 140 million people in 2016).

Francophone Africa consists of two major groupings with parallel and very similar structures in Central and West Africa, respectively: the *Communauté Économique et Monétaire de l’Afrique Centrale* (CEMAC) and the *Union Économique et Monétaire Ouest Africaine* (UEMOA). UEMOA and CEMAC each have their own, nearly identical, version of the FCFA currency and corresponding central banks: *Banque Centrale des États de l’Afrique de l’Ouest* (BCEAO) and the *Banque des États de l’Afrique Centrale* (BEAC). The FCFA in each region was initially pegged

to the French franc and subsequently to the Euro, although with continued support from the French government. The 1994 devaluation of the FCFA and related structural reforms marked an important period in the history of the franc zone.

In addition to having a single currency, Francophone countries in West and Central Africa have pursued deep regional integration through customs unions, harmonized fiscal and legal systems, and multilateral surveillance systems. Import duties and domestic taxes are harmonized within UEMOA and CEMAC, with minor differences between the two groups. In both the UEMOA and CEMAC areas, business law is governed by the dispositions of the Francophone Organization for the Harmonization of Business Law in Africa (OHADA) treaty. Chapter 8 provides additional details on OHADA and its influence on formal and informal businesses.

Informal firms are affected by these formal institutions but, by their very nature, operate largely outside of them. Yet they are often part of highly organized networks based on ethnic and kinship relations that predate the colonial era. These kinship ties provide a kind of shadow institutional structure that is in some respects more powerful and effective than official institutions. Chapter 4 includes some analysis of the role of kinship groups in the functioning of informal businesses. Kinship groups are particularly important in organizing informal cross border trade with countries outside of UEMOA and CEMAC, as shown in West Africa in Benjamin and Mbaye (2012) and extended here to Cameroon's informal trade, particularly with Nigeria, in Chapter 10.

## **Objectives and Methodology**

The main objectives of this book are to:

1. Develop a better understanding of the behaviour, practices, and motivation of the informal sector in Francophone Africa, particularly Central Africa;
2. Assess the causes of the spread of the informal economy;
3. Investigate its effects on employment, income, and growth;
4. Develop policy recommendations in light of the previous analysis.

Many but not all, of the chapters draw on our surveys and interviews. The sampling methodology for the surveys is described in Chapter 2 and the findings feature in Chapters 4, 6, and 9. Several other chapters also use results from other firm or individual surveys. In particular, Chapter 5 uses firm-level data from the World Bank *Investment*



*Climate Assessments* (ICA). The ICA database differs considerably from the surveys we carried out, in particular as it has limited coverage of small informal firms. The resulting different definition of small versus large firms in the ICA database explains some of the discrepancies in the findings between Chapter 5 and other chapters. Chapter 7 uses data from the World Bank Doing Business database on labour market regulations.

The qualitative dimension of our research is based on semi-structured interviews with informal sector business managers, traders, government officials, and other stakeholders or observers, mainly in Benin and Cameroon. There is a particular focus on Cameroon in a number of chapters.

## **Chapter Summaries**

### ***Part I. Comparative Analysis of the Informal Sector in Francophone Africa and Elsewhere: Measurement, Causes, and Effects***

Part I of the book discusses the methodology and findings of the surveys and contains comparative analyses of the informal sector in Francophone West and Central Africa. It presents findings on the characteristics of formal, large informal, and small informal firms; the productivity of these firms; some of the causes and consequences of informality; and policy implications.

#### **Chapter 2. Conceptualizing the Informal Sector: Analysis and Application to Francophone Africa (*Ahmadou Aly Mbaye and Fatou Gueye*)**

This chapter summarizes our methodology for defining and assessing informal sector firms, accounting for their large heterogeneity. We elaborate on Benjamin and Mbaye's (2012) argument that the informal/formal sector distinction should be viewed as a continuum rather than a binary choice. This view inspires a seven-part definition of informality: firm size, registration status, tax status, access to formal finance, honesty of accounts, social security coverage, and permanence of the workplace. Firms often exhibit varying levels of informality, satisfying some but not all of these criteria. Additionally, this chapter distinguishes between large and small informal firms. It also discusses a stratified sampling strategy to arrive at roughly similar numbers of formal, large informal, and small informal firms within three main sectors: commerce, other services, and manufacturing. Non-parametric tests confirm that no criterion subsumes the others.

### Chapter 3. Informal Sector Value Chains: Evidence from Case Studies (*Ahmadou Aly Mbaye, Stephen S. Golub, Fatou Gueye, Yves Momo Ngapgho, and Dominique Sébastienne Salla*)

In this chapter, the drivers of the rise of the informal sector in developing countries, in particular in Africa, are assessed. This is mainly done by comparing the most important drivers featured in the literature and the ones derived from our own survey data and observations from the field. The chapter then uses industry case studies to understand the informal sector, featuring both competitive and cooperative interactions between formal and informal firms. The patterns of interaction between formal and informal firms are complex, encompassing both cooperation and competition, with important effects on firm performance. Sectors where competition between formal and informal firms dominates include gasoline, used cars, and clothes. In prepaid cell phone cards, garbage collection, and urban transport (moto-taxis and minivans), however, the informal sector mostly serves market segments that the formal sector neglects. The chapter begins with a review of the literature on the underlying causes of the informal sector and the nature of formal/informal firm interactions. The chapter then summarizes some common features of the organization and functioning of informal value chains, illustrating them with examples from the case studies. The operation of each of the case studies is then described briefly. These discussions use specific examples that reveal the causes and consequences of the informal sector. An ambiguous view of the informal sector emerges. On the positive side, the informal sector is a source of income and employment and a provider of inexpensive consumer goods and services to households with limited means. On the negative side, informal sector workers have low wages, no job security, and little or no access to official social insurance programs; further, the goods and services supplied by the informal sector are often of low quality and even dangerous.

### Chapter 4. The Informal Sector in Francophone Africa: Dominant Characteristics, Scope, and Trends from Our Survey Data (*Jean-Jacques Ekomíé, Fatou Gueye, Dominique Haughton, Ahmadou Aly Mbaye, and Ibrahima Tall*)

This chapter uses original survey data to assess some of the same issues raised in Chapter 3. The survey findings from the six major cities covered by the study show that the characteristics and operation of businesses differ between formal, large informal, and small informal firms. Large informal firms were found to generally have intermediate features between those of the other two groups. The chapter presents detailed information on the three categories of firms, including the gender of

managers and employees, access to finance, perceptions of the business environment, use of new technologies, membership in professional organizations, and more. The chapter also continues the investigation begun in the previous chapter on the complex relationship between formal and informal firms in Francophone Africa, and how institutions, in particular the business environment, are critical in explaining the rise of the informal sector in Africa.

Chapter 5. Characteristics and Consequences of Informality: African Firms in Comparative Perspective (*Dominique Haughton, Jonathan Haughton, and Ahmadou Aly Mbaye*)

This chapter compares formal and informal firms in Francophone Africa with firms in other African countries and other developing countries, using data from World Bank ICA Surveys. The definition of informal firms differs from that in Chapter 4 due to limited data availability in the ICA surveys. Informal firms are defined by their size and access to credit, unlike the focus on a broader set of characteristics in the previous chapter. Furthermore, since the ICA surveys do not include many microenterprises, the size threshold for informality is higher in this chapter than the previous one. Informal firms as defined here have lower value added per worker and lower wages, confirming the findings from our surveys reported in Chapters 4, 6, and 9. On the other hand, informal firms do as well as, if not better than, formal firms in terms of growth. This relatively favourable finding reflects the fact that informal firms, as defined in this chapter, are larger than those in Chapter 4. Barriers to growth are analyzed for formal and informal firms. The findings that electricity, access to finance, and taxation are among the most severe obstacles businesses face are largely consistent with the findings of the previous chapter.

Chapter 6. The Failure of Structural Transformation in Francophone Africa and the Rise of the Informal Sector (*Nancy Claire Benjamin and Ahmadou Aly Mbaye*)

In many developing countries, rapid economic growth and poverty reduction have been the result of successful structural transformation—the shift of resources and production from low to higher productivity sectors, mainly agriculture to manufacturing. In sub-Saharan Africa (SSA), the much-improved growth performance over the last two decades has not been accompanied by a corresponding gain in formal employment and poverty reduction. This reflects the fact that in SSA, much of the counterpart of the declining share of output and employment in

agriculture is the rise of the urban informal sector. This chapter attempts to address the reasons for SSA's stunted structural transformation. The authors argue that formal sector jobs remain limited by high formal sector wages relative to productivity and an unwelcoming business climate, and rent-seeking. The chapter draws attention to policies that concentrate rents into a small number of hands and high factor costs for formal firms that reduce the incentives for modern, international firms to provide an engine of modernization for the informal economy.

Chapter 7. The Role of Labour Market Regulation in Deterring Formal Employment, with a Focus on Senegal (*Stephen S. Golub, Ahmadou Aly Mbaye, and Hanyu Chwe*)

The nature and consequences of labour market regulations in Africa, using both qualitative and quantitative methods, are analyzed in this chapter. We show that labour market regulations are very restrictive in many Francophone African countries. However, a number of studies, including Chapter 5, find that labour market regulations are not viewed as one of the most significant obstacles to business in Africa. The implications of labour market regulations for employment creation and worker well-being in formal and informal sectors are probed further through a case study of Senegal, which has one of the most highly regulated labour markets in the world. Our interviews reveal that firm managers do view these labour market regulations as a significant barrier to raising formal sector employment in Senegal, even if they are perceived as less burdensome to business than others such as access to finance and electricity supply, consistent with the findings of Chapter 5.

Chapter 8. What Policies Can Support Small Informal Businesses in Africa? (*Ahmadou Aly Mbaye, Félix Zogning, and Fatou Gueye*)

This chapter examines policy reforms to enhance the informal sector's role in economic development, focusing on assistance to entrepreneurship, especially for micro-, nano-, and household enterprises which constitute the bulk of informal firms and jobs. It further describes how some aspects of the business environment, such as access to financing, training, and business regulations, are particularly failing small informal enterprises. The role of technical assistance, professional organizations, and institutional structures, such as business incubators and accelerators, are explained. The chapter provides examples of successful government programs, discussing the lessons learned and their applicability to countries in Africa. The role of the Francophone legal system OHADA (*Organisation pour l'Harmonisation du Droit des Affaires en Afrique*) in

shaping institutional structures and laws toward the informal sector is also covered.

## ***Part II. The Informal Sector in Central Africa, with a Focus on Cameroon***

Part II analyzes some of the issues concerning the informal sector in Central Africa, and in particular the case of Cameroon, an important country in the region. The topics addressed include productivity of firms, the cross-border dimensions of informality, the effects of road infrastructure on trade, and the role of gender.

Chapter 9. The Informal Sector in Cameroon: Practices and Productivity (*Nancy Claire Benjamin, Fatou Gueye, Dominique Haughton, Ahmadou Aly Mbaye, Romain Tchacouté, and Joël Maturin Tinga Yepdo*)

This chapter examines the statistical relationships between productivity and the characteristics of various categories of firms in Cameroon using data from our firm surveys. The results indicate that, in Cameroon, productivity is higher among large informal firms than among small informal firms, and it rises with the degree of formality along the continuum, like in West Africa. The connection between productivity and various firm characteristics is investigated using parametric and non-parametric approaches. The statistical and econometric analysis supports the survey findings that productivity is highest among formal firms and lowest among small informal firms, even after controlling for other firm characteristics, although the differences are much smaller than what has been found for West Africa.

Chapter 10. Cameroon's Informal Cross-Border Trade (*Stephen S. Golub and Georges Kobou*)

This chapter discusses Cameroon's informal cross-border trade with its five neighbouring countries, with particular attention to Nigeria, the largest economy in the region. Using original data collection, on-site interviews, and secondary sources, the chapter documents the organization, magnitude, and composition of cross-border trade. Differential import taxes and subsidies are important determinants of the pattern of informal trade between Cameroon and its neighbours, similar to informal trade in other countries. The role of kinship groups, particularly the Igbo, the Bamiléké, and the Fulani-Haussa, in cross-border trade is also highlighted. The chapter provides historical background on these groups, their social organization, and modes of trading. These factors help in explaining the smuggling of rice from Cameroon into Nigeria and of petroleum products from Nigeria to Cameroon.

Chapter 11. Road Infrastructure, Corruption, and Cross-Border Trade: The Case of the Mamfe-Ekok Road Linking Cameroon and Nigeria (*Stephen S. Golub, Ahmadou Aly Mbaye, Dominique Sébastienne Salla, and Marina Tsikouras*)

This chapter studies the effects of a road improvement project in the North-West region of Cameroon connecting Cameroon to Nigeria. The road from Mamfe to Ekok is a well-known major corridor for formal and informal trade between Cameroon and Nigeria, but, until recently, trade was hampered by the poor condition of the road, particularly in the rainy season. The recently refurbished road has substantially lowered transport costs and travel times and thus boosted trade. Unexpectedly, however, the growth in trade has been dampened by the emergence of additional checkpoints manned by customs officials, police, and other government agencies. These checkpoints are *de facto* pretexts for demanding bribes from traders. Our interviews suggest that traders switched to alternative routes with higher transport costs to avoid paying bribes. The chapter proposes the hypothesis that the additional roadblocks are the result of the government exploiting the lower transport costs to extract additional rents from traders, in effect deterring traders from formalizing. This finding highlights an important policy conclusion that improvements in physical infrastructure, such as roads, have limited effects in boosting formal trade if social infrastructure is weak and corruption is pervasive, illustrating the importance of the institutional environment stressed in Chapters 3, 4, 5, 6, and 7.

Chapter 12. Gender and the Labour Market in Cameroon (*Jacques Charmes and Rosalie Njonkam*)

Although sub-Saharan Africa (SSA) has one of the highest rates of female participation in the labour market in the world, women's economic contributions are largely underestimated as their activities are often informal. In this chapter, the contribution of women to the labour market in Cameroon, in both the formal and informal sectors, is closely examined using various labour market, household, and firm surveys. The chapter finds that Cameroon is fairly typical of SSA in terms of a relatively high female labour force participation rate as well as high gender gaps in unemployment and underemployment rates. There is also a gender gap in entrepreneurship in the sense that female-managed enterprises are informal in almost all regards, more so than for male-managed firms. These gender disparities thus provide additional support for the findings in Chapter 4 that informality in Central Africa is even more pervasive for women than men, both as workers and entrepreneurs.

## Synthesis and Conclusions

As noted above, the book aims to address four issues about the informal sector in Francophone Africa: description of its operation, the causes of its pervasiveness, its consequences, and policy recommendations that flow from the other three.

### ***Key features of the informal sector***

Our analysis of survey data and case studies illustrates the heterogeneity of informal sector firms. Informality is a continuum rather than a binary distinction. We focus much of the analysis on three types of firms: formal, large informal, and small informal. Chapters 3 and 4 provide detailed qualitative and quantitative analysis of the informal sector, using case studies and surveys.

The survey results reported in Chapter 4 provide insights on the characteristics and operation of informal firms and how they differ from formal firms, regarding the socio-demographic features of managers and workers, their perspectives on their business prospects, access to finance, use of information and communications technologies, membership in professional associations, etc. In general, large informal firms have characteristics that are intermediate between small informal firms and formal firms.

There is a particular focus on the gender of the manager in the surveys. Women tend to be concentrated in the small informal sector and have even more precarious jobs and lower incomes than men in the same sector (Chapters 4 and 12). Informal firms managed by women tend to be smaller and more informal in all regards than those managed by men. Yet, female managers are in some respects more resilient and independent than their male counterparts. Chapter 12 provides a case study on the participation of women in the labour market in Cameroon.

Chapters 3 and 4 provide in-depth analysis of the interactions between formal and informal firms. Formal firms often complain, with some justification, about unfair competition from informal firms, but we show that, in many instances, informal firms may serve as subcontractors and clients for formal firms to the mutual benefit of both. Chapter 3 provides case studies of industries where formal and informal firms are alternatively competitive or complementary and Chapter 4 uses our survey data to further assess competition and cooperation between the two types of firms.

As in other African countries, the informal sector transcends national borders. Chapter 10 discusses Cameroon's informal cross-border trade and in particular the role of kinship groups in organizing this trade.

### ***Causes of the pervasiveness of informality***

A number of hypotheses have been advanced to explain the spread of the informal sector. As explained in Chapter 3, these include:

1. *Historical traditions.* In this view, the informal sector embodies traditional pre-modern economic practices at the village level. The continuing role that kinship groups play in the informal economies of Africa is consistent with this view.
2. *An unfavourable business environment due to state failures.* Entrepreneurs assess the costs and benefits of being informal based on the business environment. On the benefit side, being informal avoids high taxation and cumbersome regulations. The downside is loss of access to public services and government contracts as well as exposure to crackdowns. Thus, the worse the business climate in terms of red tape and poor public services, such as infrastructure provision, the greater the incentive to go informal.
3. *Trade liberalization and macroeconomic contraction.* This view asserts that the informal sector is the result of insufficient rather than excessive government involvement in the economy. In general, this perspective is more favourable toward the efficacy of government regulations and import protection than the previous hypothesis, although both recognize the detrimental effects of inadequate public investment in infrastructure.
4. *Labour supply-demand imbalance resulting in a paucity of 'good' jobs.* This view is sometimes referred to as the 'dualist' approach, with an insufficient demand for labour in the 'modern' sector to absorb underemployed labour in subsistence agriculture and the urban informal sector. The reasons for lack of formal employment creation may in turn be due to either too much or too little government intervention, and thus is a corollary of hypotheses 3 and 4.

The general discussion and case studies in Chapter 3 suggest that the rise of the informal sector in Francophone Africa, as in the rest of the continent since the 1980s, reflects all of these factors. These countries experienced economic crises in the 1980s followed by austerity and trade liberalization under the Structural Adjustment Programs (SAPs). These programs entailed large-scale reductions in public employment and salaries. The 1994 devaluation of the FCFA further lowered living standards. These SAPs were intended to spur the creation of private sector investment and employment, but the growth of formal sector jobs has been far too slow to absorb the reductions in public employment and the growing labour force, in Francophone Africa as in the rest of SSA. In hindsight, it seems clear that trade liberalization without provisions



for creating alternative sources of employment is an important factor, as illustrated by the demise of the cloth and clothing sectors in Francophone Africa. In this sense, there is some validity to hypothesis 3.

These economic difficulties spurred the informal sector on both the supply and demand sides. The demand for inexpensive consumer goods expanded, boosting purchases of items such as used clothes. On the supply side, the unemployed and new labour market entrants sought out new sources of income in the informal sector, in industries such as distribution of used or artisanally produced goods. Furthermore, the fiscal crises entailed the cutback of public services such as urban transport and refuse disposal. As illustrated in Chapter 3, informal sector alternatives to public services have emerged in the form of moto-taxis and minivans for transport, and informal operators are increasingly involved in the disposal and recycling of refuse. Many of these informal sector activities have low barriers to entry, with little capital or specialized skills necessary. This validates hypothesis 4 insofar as the informal sector has resulted from economic crises and austerity by absorbing underemployed labour, while also providing inexpensive low-quality products for these same workers and their families.

As discussed in Chapters 4 and 10, the continuing role of kinship groups in organizing the informal sector, the importance of commerce relative to modern industry, and the reliance on financing structures such as tontines indicates the influence of traditional business practices, and thus supports a role for hypothesis 1.

Most importantly, this book provides evidence for hypothesis 2, that the informal sector ultimately results from an unfavourable business climate for formal enterprise, supporting the findings of our earlier work in Benjamin and Mbaye (2012). Chapters 4 and 5 provide survey evidence on firms' negative perceptions on the institutional environment, using different datasets. Structural transformation in Africa has therefore been stunted by policies favouring well-connected firms and unions, as explained in Chapter 6. Chapters 7 and 11 focus on specific features of the institutional environment impeding formal sector development: labour market regulations, infrastructure, and corruption.

### ***Consequences of the informal sector***

A general finding in the literature is that informal firms are less productive than formal firms, with the implication that informality retards growth. Chapters 4 and 9 assess this issue, using differing data sets. Both chapters confirm a negative correlation between informality and productivity, but the results are nuanced. Chapter 5, using the World Bank ICA survey data, finds that informal firms tend to have lower productivity

than formal firms and pay lower wages, but grow just as fast as formal firms. This could be due to their greater flexibility and evasion of regulations. Somewhat similarly, analyzing our survey data with non-parametric relational techniques, Chapter 9 finds that the differential in productivity between formal and informal sectors is quite small. Our results, therefore, suggest that effects of informality by itself on economic growth are not strongly negative. This is consistent with the view that informality is a symptom of deeper institutional failures rather than the underlying cause of lagging economic growth.

Chapters 3, 4, 5, and 12 also assess the consequences of the informal sector for employment, incomes, and living standards. The case studies of Chapter 3 bring out the critical role of the informal sector in providing employment of last resort to many people, as well as delivery of inexpensive and convenient goods and services such as used clothes and motorcycle taxis. The flexibility and ingenuity of entrepreneurs and consumers in adapting to very difficult circumstances is remarkable. At the same time, there are serious downsides. Chapters 4, 5, and 12 show that incomes in the informal sector are often very low. Furthermore, the jobs offer no security and are often dangerous. The products of the informal sector are of low quality and there is virtually no regulation ensuring safety and reliability. Moreover, the situation of women, both as workers and entrepreneurs, is even more precarious than for men, as previously noted.

The informal sector's evasion of tax and regulatory obligations is often thought to entail unfair competition as formal firms must abide by regulations, which impede growth of the formal economy. Our studies of formal-informal firm interactions in Chapters 3 and 4 certainly confirm cases where the informal sector undermines formal production. The most dramatic case is distribution of smuggled gasoline from Nigeria into Benin and Cameroon that has posed an existential threat to official state petroleum distributors. In other cases, however, informal firms serve as subcontractors or customers of large formal firms. Street sales of prepaid mobile phone cards are a prominent example. Moreover, the informal sector often fills the gap left by the failures of the formal economy, such as public transport and garbage disposal.

### ***Policy implications***

The starting point for policy toward the informal sector is to recognize its diversity, and especially the distinction between large and small informal firms. Large informal firms could quite easily formalize, but choose not to do so. Whereas small informal firms are often barely able to survive yet provide employment of last resort for many people. Thus, policy should be differentiated between large and small firms, with the former

being sanctioned if they evade their tax and regulatory obligations, while the latter should be assisted. Too often African governments seek to tax small firms rather than assisting them, while politically connected large informal operators benefit from favourable treatment and evade tax and social obligations with impunity. The extent to which governments should sanction and formalize informal firms versus assisting these firms to increase their contributions to employment and income while remaining informal is fundamentally debated. The heterogeneity of informal firms suggests that policy should be flexible and be adapted to firm-specific features, particularly firm size.

Chapter 8 provides an assessment of programs to assist small informal firms. Business incubator and accelerator programs, whereby the government, NGOs, or donors bring together a number of small firms to provide coaching and various types of support, have proven effective in developed countries. While data is lacking on their effectiveness in Africa, there is reason to believe they can be even more beneficial due to the severe constraints facing entrepreneurs. Professional associations can also play a larger role in gathering information about the small informal sector and coordinating assistance programs. Chapter 8 illustrates the successful implementation of such initiatives in Morocco. African governments should work with the private sector in their countries to explore and implement such measures.

The first priority for governments should be to continue to improve the business climate. This will benefit formal and informal firms alike, and gradually induce some of the latter to formalize. Francophone African countries have unusually stringent labour market regulations, as shown in Chapter 7. These regulations contribute to high unit labour costs, which discourage formal hiring in manufacturing and thus blocks structural transformation, as explained in Chapter 6. Lack of infrastructure and corruption are also well-known problems. The interaction of governance and infrastructure provision is highlighted in Chapter 11, where a new road linking Cameroon to the Nigerian border had the unintended effect of boosting the number of checkpoints and bribes collected from traders by government officials.

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## **PART I**

# Comparative Analysis of the Informal Sector in Francophone Africa and Elsewhere: Measurement, Causes, and Effects



# Conceptualizing the Informal Sector: Analysis and Application to Francophone Africa

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## Introduction

The informal sector can be defined and categorized in a variety of ways. Economic literature provides different definitions of informality, as economists have different understandings of the term. The only consensus that we as economists have reached on informality is a lack of consensus. As Fields (2011, p. 1) puts it:

Quite remarkably and unaccustomedly for our profession, the widespread discussion about informality is proceeding without an agreed-upon definition of the term. Even more astonishingly, the field seems to have reached agreement that informality means different things to different people. Empirical studies show only a limited degree of overlap between those workers classified as informal according to the various definitions.

Due to the variety of criteria used to measure informality, theoretical and empirical studies use different definitions of the concept. As Kanbur (2009) notes, economists analyzing the informal sector must start by stating what their definition is. This lack of consensus on the definition of informality is not without consequences. Very little data on the informal sector is comparable over time and location, and very few conclusions obtained from analyses of the informal sector can be generalized to apply to all circumstances in which this phenomenon occurs (Gasparini and Tornarolli 2007).

Even international organizations continue to use differing concepts and definitions of the informal sector. The International Labour Organization (ILO), focusing on the labour market, emphasizes household and own-account enterprises (ILO 2013). Some International

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<sup>1</sup> Dominique Haughton provided the non-parametric test results presented in the chapter.



Monetary Fund (IMF) studies, to the contrary, exclude household enterprises, focusing instead on the ‘shadow’ economy, i.e., unreported economic activities intended to avoid regulatory oversight (Medina and Schneider 2018). The 2017 IMF *African Economic Outlook* (AfDB, OECD, and UNDP 2017, p. 49), acknowledging the variety of alternative approaches to defining informality, used two main characterizations of the informal sector:

- (1) household enterprises that have some production at market value but are not registered and
- (2) more broadly, underground production, where productive activities may be concealed from the authorities to avoid compliance with regulations or the payment of taxes, or are simply illegal.

Furthermore, economists increasingly recognize the heterogeneous nature of informality and the importance of using multiple criteria to define it (Fu et al. 2017; Charmes 1993; Grimm, Knorranga, and Lay 2012; Henley et al. 2006; Steel and Snodgrass 2008; Benjamin and Mbaye 2012, 2014). Steel and Snodgrass (2008) thus conclude, “[T]here is a continuum of different degrees of formality in terms of different characteristics such as nature of registration, payment of taxes, management structure, contractual arrangements with employees, market orientation, etc.” Fu et al. (2017, p. 3) add “... a consensus has emerged on the fact that there are degrees of formality and informality along a continuum rather than mutually distinct sectors... Therefore, using a single indicator is likely to capture only partially the formal character of the firm.”

Chen (2012) has developed a multi-criteria model of informal employment based on a classification of status in employment, with six categories: informal employers, informal employees, own account operators, casual wage workers, industrial outworkers or subcontracted workers, and unpaid but contributing family workers. Chen (2018) notes that informal employment in formal firms is increasingly included in measures of overall informal employment.

If the analytical approaches to informality are divergent, the criteria used to measure it are even more so. Heintz (2012) and Benjamin and Mbaye (2012, 2014) have identified the most common criteria used to define the informal sector. In his review of criteria defining informality, Heintz (2012) argues that the most important criteria are size, which is meant to capture the scale of operations; registration status or recognition by a government agency, which is meant to indicate whether the enterprise would be subject to government regulation; employer/enterprise social-security contributions; legal form of the organization; and character (sincerity) of financial accounts. Similarly, Benjamin

and Mbaye (2012, 2014) select workplace mobility, access to finance, non-payment of taxes, and the applicable tax regime as additional characteristics for identifying informal activities in Francophone African countries. Grabrucker et al. (2018), likewise recognizing the importance of multiple criteria in defining informality, use size, registration, payment of taxes, ease of entry, and use of traditional and/or labour-intensive technologies, overlapping substantially with Benjamin and Mbaye (2012, 2014).

Henley et al. (2006) investigate the congruence between their three definitions of informality based on employment-contract registration, social security protection, and the characteristics of the employer and employment using Brazilian household-survey data for 1992–2001. They find very little overlap between firms classified as informal using different criteria.

The definition of informality can shape the findings of empirical analyses of the effects of informality. For example, an important question concerns the effects of informality on productivity. Benjamin and Mbaye (2012), using multiple criteria of informality, find that large informal firms are more productive than smaller informal firms in Francophone West Africa. On the other hand, Islam and Amin (2015), measuring informality by registration alone, find that smaller firms are more productive. Chapter 9 of this book, using a similar definition to Benjamin and Mbaye (2012), confirms that in Cameroon formal firms have higher productivity, but with a lesser gap than in West Africa. Chapter 5, using a narrower definition of informality than Chapter 9 that is applicable to the World Bank Investment Climate Assessment (ICA) database, also finds that informal firms are less productive than formal firms in Africa, yet have similar growth potential.

Despite the increasing recognition that informality is a matter of degree, most empirical analyses of informality remain predominantly dichotomous (formal/informal) and classify activities that do not lend themselves to the same analytical approaches or do not respond in the same way to policy stimulus or regulation under the same umbrella. To date, only a few studies (Benjamin and Mbaye 2012; Mbaye et al. 2015; Fu et al. 2017) have attempted to implement an empirical methodology that fully considers the heterogeneity of informality. McKenzie (2017) noted a category of businesses in West Africa with profiles resembling formal firms and which could be ‘pushed’ toward formalization.

The rest of this chapter covers the following issues: explanation of the main criteria for informality, which forms the basis of our definition of informality and our data collection strategy; overview of the tax regimes applicable to private enterprises in Francophone Africa; description of

our analytical approach to informality and explanation of our data collection strategy; and an overview of the data. The chapter ends with a short conclusion.

## **Revisiting the Main Criteria for Defining the Informal Sector**

As a result of the multiple defining factors for informality, we suggest that a composite definition is the most appropriate. We propose seven criteria to define informality: size of the business, registration of the business with a local or national government agency, non-payment of tax or the tax regime applied to the firm, the keeping of accurate accounts, mobility of the workplace, access to bank credit, and social security coverage for employees. Benjamin and Mbaye (2012) provide a more detailed review of these criteria as well as their limitations. In what follows, we offer a brief summary. A notable addition to the list in Benjamin and Mbaye (2012) is the criterion of social security coverage provided to employees by formal enterprises and not by the informal sector.

### ***Size of the enterprise***

The criterion most widely used to define the informal sector is the size of the business. Size is alternatively defined as the number of employees or the level of sales. This criterion is mainly derived from the ILO approach (ILO 2002), which defines an informal enterprise as unregistered, owned by an individual or a household with assets inseparable from those of the business, and for which no reliable accounts exist. It is clear from the United Nations accounting system that only family enterprises operating in the household sector fulfill this definition (United Nations 2013).

The rationale underlying the size criterion is that small-scale activities tend to be informal because their operators lack the institutional and organizational capacity to obtain the accounting and financial documents required by tax authorities, the national statistical agency, and other government agencies. It should be noted that empirically even analyses that do not consider size as a defining criterion observe a strong correlation between size and informality. The problem with this criterion is that some businesses classified as informal are in fact not small. Many informal companies in West Africa are at least as large as some firms in the 'modern' sector. This is what we refer to as 'large informal businesses', which, in terms of sales, are similar to their formal counterparts (Mbaye et al. 2014). Conversely, some businesses in the formal sector are small (as measured by the number of employees). This is the case for law firms, notaries, customs

brokers, etc. Therefore, the size criterion cannot alone be used to define an informal enterprise and must be combined with other criteria.

### **Registration**

Registration with a government agency is another commonly used criterion for defining informality (McKenzie 2017). However, it is unusual for enterprises not to be registered with at least one government agency. Ultimately, this means that most enterprises, even informal ones, are registered somewhere (Mbaye et al. 2015), either with the tax authority, the ministry of commerce, or another central administration. Very few businesses that are classified as informal according to most of the definitions used in the literature do not have an expressed recognition of some kind with a given administration (Fox and Sohnesen 2012). Consequently, the criterion of absence of official recognition is of limited use in many countries because, even though they are not always registered at the central level, informal enterprises are often registered with the municipalities where they also pay indirect taxes.

### **Taxation**

As discussed in more detail below, there are two types of fiscal regimes in the OHADA region,<sup>2</sup> which includes both the countries of the *Union Économique et Monétaire Ouest Africaine* (UEMOA) and those of the *Communauté Économique et Monétaire de l'Afrique Centrale* (CEMAC). These systems are the ordinary corporate income tax and the lump-sum presumptive tax. Firms with annual sales amounting to around 100 000 USD are subject to the former, while those that fall short of this threshold pay the presumptive tax. Thus, the latter targets small informal enterprises, which are considered unable to provide detailed documentation and precise estimates of income. In practice, however, many small businesses do not pay direct taxes and, in the majority of cases, they are not registered with the tax authorities at all. Conversely, some large informal enterprises with sales well above the threshold significantly under-report their income and pay the presumptive tax. As a result, the key distinction to be made in these countries is not whether companies are registered with the tax authorities, but under which tax regime they operate and whether or not they pay their taxes.

### **Reliable accounting**

The majority of informal enterprises do not maintain regular and up-to-date accounts that give an accurate picture of their operations,

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<sup>2</sup>Organization for the Harmonization of Business Law in Africa, a legal system applied in all Francophone African countries. See Chapter 8 for further discussion.

which makes monitoring and taxing these enterprises particularly difficult (INS Cameroun 2011). The criteria for accurate financial statements follow the same underlying principles as those for regular business income taxation. Indeed, only companies able to provide reliable financial statements are taxed under that scheme. Many other enterprises operate under the presumptive lump-sum regime, even though they are clearly identified by the tax authorities as large enough to pay the regular income tax. The problem with this criterion is that it is difficult to establish the veracity of the financial statements produced by the businesses. In practice, many companies, especially the large informal ones, are adept at producing misleading financial statements.

### ***Mobility of the workplace***

Many informal activities are characterized by the lack of a fixed workplace. This includes street vendors, hawkers, etc. as well as small mechanics, carpenters, metal workers, and anyone engaged in petty trades. They generally do not have their own premises, nor do they rent their workspace. Instead, they occupy unused properties and are displaced as soon as the owners need the space. It is for this reason that some researchers conflate the informal sector with a precarious or mobile workplace and even go so far as to use this criterion to define informality. In our view, although it is appropriate to classify most itinerant activities as informal, it is nonetheless true that many other informal activities are conducted in fixed workplaces. Therefore, this criterion only identifies part of the informal sector.

### ***Access to bank credit***

Low access to bank loans is also a distinctive feature of the informal economy. This is because banks require certain financial and administrative documents before examining loan applications. As it is difficult for those involved in the informal sector to obtain these documents, it is almost impossible for them to obtain a bank loan. However, in Africa, many companies, even formal ones, are excluded from formal bank credit for other reasons (Diop et al. 2011). Therefore, the criterion of access to bank credit is not sufficiently discriminating to identify informality.

### ***Social security coverage of employees***

This criterion is certainly the one most frequently used to determine the status of employment (Guha-Khasnabis and Kanbur 2006). It was not included in Benjamin and Mbaye (2012); our unit of analysis was the business rather than the employee. We have decided to include this factor in the present study for two main reasons. First, in

this study, to a greater extent than in its predecessor, we consider the informal employee in parallel with the informal enterprise. Second, we believe that the integration of this factor could significantly improve our grasp of the informal sector. However, care should be taken not to infer the formal status of the firm from this criterion, as a large proportion of people working in formal firms work under informal conditions as noted in Chapter 7.

## **Our Approach to Defining Informality**

The previous discussion suggests that businesses should be classified as formal or informal according to a diverse array of criteria. Data collected in Francophone African countries and presented in Chapter 2 confirms this point and reveals that none of the criteria used to define informality appear to subsume the others. For example, in Libreville, about 70% of the companies surveyed keep regular accounts, while only about 30% operate a social security plan for their employees. In other words, only 30% of the firms in Libreville would be classified as informal according to the criterion of account keeping; however, 70% of the surveyed companies would be informal by the social security criterion. Similarly, the portion of firms in Cotonou (Benin) considered informal would be 47% according to the size criterion (ILO 2002), but this drops to 35% according to the criterion of failing to keep accounts. This is also true in Burkina Faso, where informal companies account for 70% of the total based on the size criterion, while this proportion is reduced to 28% according to the criterion of failing to keep accounts.

Acknowledging the difficulty in defining informality based on a single criterion, national statistical institutes in Africa increasingly combine two to three criteria to determine the formal or informal status of enterprises. While an improvement, limiting the number of criteria to two or three still does not do justice to the complexity of the informal sector.

Using a single or small number of criteria has several disadvantages. First, if the criteria change, the resulting classifications change too, and a robust measure of informality cannot be obtained. Second, the selection of the criteria used to make these classifications is usually arbitrary. Third, this process obscures the heterogeneous nature of the informal sector, which includes participants with very different characteristics and modes of operation.

Some empirical studies have implemented a multi-criteria approach to defining informality based on Benjamin and Mbaye (2012, 2014). For example, Fu et al. (2017), using such an approach, found that informal

firms differ from formal firms in several respects, including productivity, innovation, firm age, and entrepreneurial skills. The World Bank (2019) applies the Benjamin and Mbaye (2012, 2014) approach to studying employment patterns in Africa.

Our approach to the informal sector involves several stages. First, we divide the companies in our sample into eight groups according to the number of the seven listed criteria that they fulfill.

The informality criteria described in the preceding section are summarized as follows:

- Criterion 1: The business employs fewer than five people. This criterion captures the size of firms, with fewer than five employees being characteristic of small enterprises. This can be further broken down to several levels: own-account workers are those with one employee (the owner), nano-enterprises are those with two to three employees, and small enterprises are those with four to five employees.
- Criterion 2: The business is not registered with any public authority. Several modalities of registration are considered: registration with tax authority, registration with the department of commerce, and registration as importer/exporter.
- Criterion 3: The company does not pay any tax or is not taxed on the basis of its actual revenue. This criterion encompasses the following modalities: the firm is subjected to presumptive tax, the firm pays no direct taxes, or the firm pays no municipal taxes.
- Criterion 4: The company does not maintain regular, accurate accounts and financial statements. There are no certified statements, no annual accounts, and no registry of revenue or expenditure.
- Criterion 5: The company does not operate from fixed business premises. It uses a vehicle such as a car, a bicycle, or a motorcycle; uses a public space; is itinerant, or uses the operator's home as the work premise.
- Criterion 6: The company has not received a bank or microfinance loan within the last five years.
- Criterion 7: The company has not registered its employees with a social security scheme. It does not provide health coverage, a retirement plan, or industrial accident coverage.

Using these seven criteria, we define a business's level of informality according to the number of criteria it fulfills. We distinguish eight levels of informality. Totally formal firms, which meet none of the criteria, are classified Level 0. For every criterion fulfilled, the business rises in level of informality. For example, businesses meeting three of these criteria are classified as Level 3. Those meeting all seven are classified as Level 7

**Table 2.1**  
Scoring informality based on the seven criteria

<i>Criteria of informality</i>	<i>Weights</i>	<i>Scores</i>
<b>Criterion 1:</b> The business employs fewer than five people	1/7	
1 employee (the owner)	1/4	1/7*1/4
2 employees	1/4	1/7*1/4
3 employees	1/4	1/7*1/4
4 employees	1/4	1/7*1/4
<b>Criterion 2:</b> The business is not registered with any public authority	1/7	
No tax identification number	1/4	1/7*1/4
Not in commerce department registry	1/4	1/7*1/4
No official professional affiliation	1/4	1/7*1/4
Not in municipal registry	1/4	1/7*1/4
<b>Criterion 3:</b> The company does not pay any tax or is not taxed on an actual-revenue basis	1/7	
Pays presumptive tax	1/3	1/7*1/3
Does not pay any direct taxes	1/3	1/7*1/3
Does not pay any local taxes	1/3	1/7*1/3
<b>Criterion 4:</b> The company does not maintain regular accurate accounts and financial statements	1/7	
Does not have certified financial statements	1/3	1/7*1/3
Does not have any annual statements	1/3	1/7*1/3
Does not have any register of revenue or expenditure	1/3	1/7*1/3
<b>Criterion 5:</b> The company does not operate from fixed business premises	1/7	
Uses a vehicle (car, bicycle, motorcycle, etc.)	1/4	1/7*1/4
Public place	1/4	1/7*1/4
Itinerant	1/4	1/7*1/4
Home	1/4	1/7*1/4
<b>Criterion 6:</b> The company has not received a bank loan within the last five years	1/7	
No loans from banks	1/2	1/7*1/2
No loans from microfinance	1/2	1/7*1/2
<b>Criterion 7:</b> The company has not registered its employees with a social security scheme	1/7	
No health coverage	1/3	1/7*1/3
No retirement coverage	1/3	1/7*1/3
No industrial accident coverage	1/3	1/7*1/3
<b>Total</b>	<b>1</b>	<b>1</b>

Source: Authors



and are considered totally informal. In a second step, we assign formality/informality scores to individual businesses so that they can be ranked on a zero to one scale, assigning equal weight to each criterion (i.e.,  $1/7 =$  approximately 0.1428). The higher the score, the more informal the firm. A score of 0 would mean formality, while a score of 1 would indicate total informality. In between, there are varying levels of informality.

In much of the subsequent analysis in this book, we aggregate firms into three major groups: formal, large informal, and small informal firms. The coexistence of small and large informal enterprises is one of the defining characteristics of the West African and Central African informal sector. Large informal enterprises are comparable in size to those of the modern sector, but they behave informally in other respects. They meet most of the criteria for formality except that their accounts are inaccurate and deliberately misleading. Additionally, their organizational structure is more akin to a small informal firm than a formal firm.

Table 2.2 matches the seven criteria to the three types of firms. Formal firms are defined as those that satisfy all the criteria of formality described above except sometimes for size and access to bank credit, as occasionally formal firms can be very small and many formal firms do not have access to bank credit in Africa, given the dysfunctionality of the financial system. All other firms are defined as informal. The firms that we classify as small informal exhibit characteristics that are quite similar to those obtained from surveys of informality using the dichotomous approach, such as the 123 Surveys. However, some of these firms have substantial sales. We define large informal firms as those with estimated sales greater than 50–100 million FCFA (about 100 000 to 200 000 USD) that still pay the presumptive lump-sum tax. These larger informal firms tend to satisfy fewer of the informality criteria.

Most of these criteria are widely used to define informality in developing countries, particularly size of business, registration, and social

**Table 2.2**  
Criteria of informality satisfied by the three categories of firms

<i>Criteria</i>	<i>Formal</i>	<i>Large informal</i>	<i>Small informal</i>
<b>Less than 5 Employees</b>	Very Rarely	Yes	Yes
<b>Non-Registration</b>	No	Sometimes	Sometimes
<b>Lump-Sum Tax Regime</b>	No	Yes	Yes
<b>Lack of Accounts</b>	No	Almost never	Yes
<b>Lack of Fixed Workplace</b>	No	Usually not	Usually
<b>No Access to Bank Credit</b>	Sometimes	Sometimes	Yes
<b>No Social Security Coverage</b>	No	Sometimes	Yes

*Source:* Authors' surveys

security coverage. Our use of accounting, mobility of the workplace, and access to credit are not as widely used but important in defining the informal sector. In addition, in Francophone Africa, there is a particular tax regime that is key to shaping the informal sector, the lump-sum tax regime mentioned above. The tax regime is also central to our empirical definition of the large informal sector. In the following section, we describe this regime in greater detail.

## **Overview of the Business Tax Regime in Francophone Africa: Specific cases of Cameroon and Gabon**

As mentioned above, there are two main tax regimes that apply to businesses in Francophone Africa: the regular business income tax system and the presumptive lump-sum tax regime. The regular business tax regime is contingent on the availability of reliable financial statements that enable taxation assessment based on objectively verifiable documents such as systematic accounting and financial statements. This regime also imposes certain obligations on eligible companies. Furthermore, within the regular business tax regime, the largest enterprises must present more detailed financial statements than smaller ones. In particular, large enterprises have to provide a *Tableau Financier des Ressources et des Emplois* (TAFIRE) statement providing details on accounts and employees for the year in question. Moreover, in almost all Francophone countries, there is a separate division within the tax office exclusively responsible for processing the documentation for these large companies.

In the regular business tax regime, both for ordinary and large companies, credible financial statements are required for tax assessment in contrast to the presumptive tax regime applied to informal firms. The presumptive tax regime is based on the assumption that eligible companies do not have the institutional and organizational capacity to prepare reliable financial statements that can be used as a basis for tax assessment. The businesses concerned are therefore only required to keep a ledger summarizing receipts and expenditure. They are taxed on a lump-sum basis, in which a single payment discharges all tax liabilities, based more on the assumed level of their activities than on objectively verifiable accounting data.

It should be noted that although this dual fiscal system exists in all members of OHADA, there are significant variations, particularly the eligibility thresholds for regular business tax regimes (République Gabonaise 2013). The cases of Cameroon and Gabon illustrate, in more detail, the functioning of fiscal and customs activities in the Francophone area, each with its own nuances and idiosyncrasies.

In Cameroon, the companies under the regular business income tax regime generate at least 90% of the total tax revenue. The taxable amount is determined based on the declared annual revenue, which presupposes that the respective company maintains regular accounts. The threshold for being subject to this regime in Cameroon is 100 million FCFA in pre-tax revenue and 80 million FCFA in Gabon. The large companies under this regime with revenue of at least three billion FCFA undergo more stringent reporting procedures. They must provide the above-mentioned TAFIRE to the Large Companies Department (*Direction des Grandes Entreprises/DGE*). The regular business income tax regime also covers legal entities, self-employed professionals regardless of their pre-tax income, and intercity passenger transport operators with either 50 or more seats regardless of the number of vehicles, or fewer than 50 seats but more than 5 vehicles.

Under the presumptive tax regime, a distinction is often made between the withholding, or basic, tax regime for smaller firms and the simplified regular business income tax regime. The simplified regime encompasses businesses whose sole proprietors have pre-tax revenue within a given range. In Cameroon, this range is between 10 and 100 million FCFA, while in Gabon it is between 20 and 80 million FCFA. Sole proprietorships with pre-tax revenue below the specified range are subject to the lump-sum tax system. These companies are subject to minimum book-keeping obligations, and, as such, the tax authority estimates the tax liability owed at a single rate based on the size of the respective business. However, some businesses may be formal regardless of the level of their sales, including professions such as lawyers and customs brokers, as well as subsidiaries of foreign companies. Those firms must comply with the regular business tax regime.

In both Central and West Africa, the proportion of enterprises taxed according to the regular business tax regime is relatively low: 33% in Douala, 27% in Yaounde, and 21% in Libreville. For all other companies not subject to the regular business income tax regime, the transparency required for the tax authority to effectively determine the taxable income of the firm does not really exist. As a result, the highest levels of direct tax collection in these countries are obtained from the minority of enterprises subject to the regular business income tax regime, and especially those subject to the large company regime.

In Francophone Africa, informal enterprises avoid paying the numerous taxes imposed on formal enterprises. The latter are subject to various forms of taxes and levies, beyond the regular business income tax described above, including a wage tax, a tax on fixed assets, a tax on land,

a surtax and levies on undeveloped or partially developed land, registration fees, stamp duties, sales taxes on certain products, special levies on motorized vehicles, licensing fees, and many more. Most of these taxes are cumulative and can absorb a significant proportion of a formal enterprise's revenue. On the other hand, informal enterprises are ineligible for exemptions or deductions that in principle reduce the tax burden on formal enterprises. For example, the value-added tax (VAT) on business inputs is only deductible for formal enterprises. However, in many cases formal firms have difficulty obtaining the tax refunds they are entitled to by law.

In addition, to be authorized to clear their products through customs, importers must be registered with the tax authorities and have a tax identification number. In Cameroon, this number is the *Numéro d'Identification Fiscale* (NIF), also referred to as a Taxpayer Number. However, a special dispensation enables individuals to import as a group. Participants in the informal sector form groups to import in bulk and thus frequently benefit from more favourable customs clearance terms. In short, there is a clear lack of tax fairness, with the tax burden disproportionately falling on a minority of companies.

## **Our Sampling Strategy**

The surveys were carried out on formal and informal enterprises in six major cities of West and Central Francophone Africa: Cotonou, Ouagadougou, Dakar, Douala, Yaounde, and Libreville. While our surveys were completed only in the capital cities of Benin, Burkina Faso, Senegal, and Gabon, we considered two cities in Cameroon: Yaounde, the administrative capital of Cameroon, and Douala, its business centre. Given the economic importance of Douala, we sampled more firms in Douala (60% of the total Cameroon sample) than in Yaounde.

The sampling strategy was designed to ensure that all categories of enterprises were included. This short explanation supplements the more detailed methodological description provided in Benjamin and Mbaye (2012) and Mbaye et al. (2014). The surveys were conducted by the national statistical agencies under the direction of the research team, as described in the Preface.

Table 2.3 shows the size and composition of the sample by type of firm in the six cities. For each city, around 200–300 firms were surveyed for a total of over 1500. Most of the firms sampled are small informal ones. However, the share of informal firms in the sample (about two-thirds) is far below the actual share of over 95%. We deliberately oversampled

**Table 2.3**

Size and composition of sampled firms in six cities

<i>City</i>	<i>Formal</i>	<i>Large informal</i>	<i>Small informal</i>	<i>Total</i>
<b>Dakar</b>	74	50	184	<b>308</b>
<b>Cotonou</b>	68	45	182	<b>295</b>
<b>Ouagadougou</b>	40	33	227	<b>300</b>
<b>Douala</b>	108	18	145	<b>271</b>
<b>Yaounde</b>	61	10	93	<b>164</b>
<b>Libreville</b>	50	19	172	<b>241</b>
<b>Total</b>	<b>401</b>	<b>175</b>	<b>1,003</b>	<b>1,579</b>

*Source:* Authors' surveys and calculations

formal and large informal firms to enable comparisons between the three types of firms.

### **Sample frame and sample size**

We used censuses of firms and tax directories as the basis for selecting firms to be surveyed. We followed different approaches for sampling formal and large informal firms than for small informal firms. In the case of Cameroon, for example, the surveyed formal and informal enterprises are derived from the General Census of Enterprises (*Recensement Général des Entreprises/RGE*) of 2009. The sample for the survey of small informal enterprises was selected using the concentration zones for commerce, industry, and services identified in the 2009 Survey of Employment and the Informal Sector (EESI).

The sample of formal and large informal enterprises is stratified by sectors of activity. All the sampled businesses are in three sectors of operation—manufacturing, commerce, and other services—constituting the first level stratum. Sub-sectors in each of these three groups formed a second level stratum. The share of GDP accounted for by each sub-sector was used to assign the sample in each stratum. The sample then was drawn separately in each stratum.

For small informal firms, the research teams performed a preliminary study in each city to identify zones of concentration of various informal activities. Based on this preliminary study, the sample was divided by site. In each city, the sample is allocated proportionally to subsectors using the sectoral distribution of the informal production units determined from the EESI 2 (*Deuxième Enquête sur l'Emploi et le Secteur Informel au Cameroun*). For Gabon, a similar procedure was used, except that the tax directory of firms was used as a sample frame for formal and large informal firms.

## The Heterogeneity of the Informal Sector: Evidence from Our Survey Data

In this section, we illustrate the continuum approach to the informal sector using our survey data. Subsequent chapters 4, 6, and 9 use the survey data to analyze characteristics, causes, and effects of the informal sector in the countries under study.

Our results confirm those of Benjamin and Mbaye (2012) and Mbaye et al. (2015) on the heterogeneity of the informal sector. Table 2.4 shows the extent to which firms satisfy various criteria of informality differs considerably by city. It can be observed that the majority of firms in most cities are of small size, are subject to lump-sum taxation, lack access to bank credit, and their employees lack social security coverage. On the other hand, in all five cities, more than half of firms are registered with at least one government agency. However, the extent to which firms have regular financial accounting and have a fixed workplace differs considerably between cities. Thus, the share of firms classified as informal varies considerably depending on the criteria used, illustrating the importance of defining informality as a continuum.

### Interdependence of Informality Criteria: A Directed Acyclic Graph

To better understand these interdependencies among the seven criteria defined above, we constructed Figure 2.1, a directed acyclic graph (Pearl 2009), using the Tetrad IV algorithm (Spirtes et al. 2000). The Tetrad

**Table 2.4**

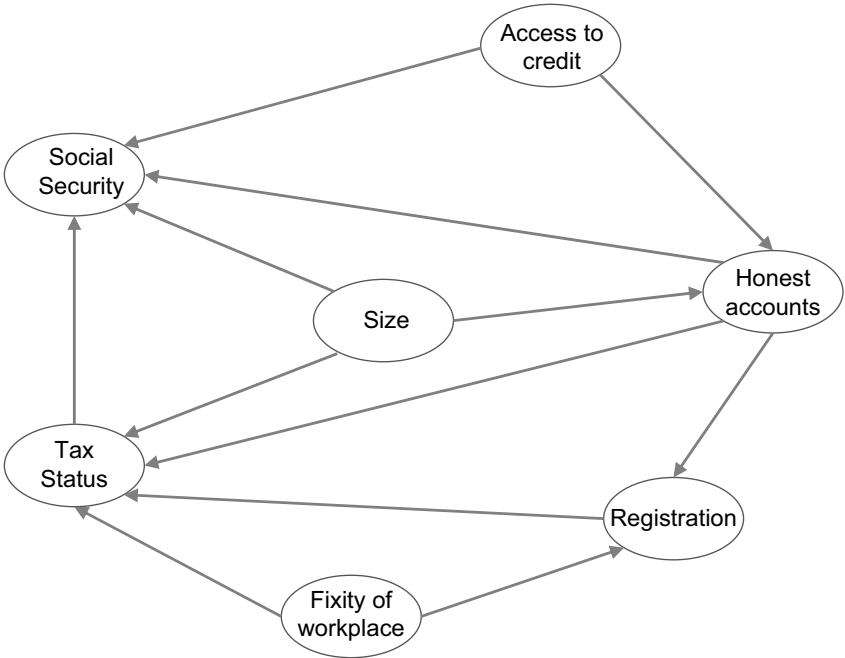
Share of firms that satisfy various criteria of informality within each city (percent)

City	<i>Less than Five Employees</i>	<i>Not Registered</i>	<i>Lump-Sum Taxation</i>	<i>Lack of Regular Accounts</i>	<i>Lack of Fixed Workplace</i>	<i>Lack of Access to Bank Credit</i>	<i>Lack of Social Security Coverage</i>
<b>Dakar</b>	68.5	11.7	76.0	33.8	66.5	81.8	66.9
<b>Cotonou</b>	47.1	43.0	77.3	35.6	72.9	71.9	56.9
<b>Ouagadougou</b>	69.7	11.3	86.7	27.7	58.0	76.0	70.7
<b>Douala</b>	57.6	28.4	66.8	32.5	29.5	74.9	59.0
<b>Yaounde</b>	61.6	25.6	72.6	53.0	20.7	78.7	59.8
<b>Libreville</b>	68.9	22.8	79.2	53.1	15.3	90.0	68.5

Source: Authors' surveys and calculations

IV methodology begins with the correlation matrix of all seven criteria, and initially assumes that any pair of criteria is linked. Links are then removed according to the non-significance of tests of zero correlation or partial correlation (the latter conditioned on other criteria). Surviving links are then oriented based on the details described in Spirtes et al. (2000) or on the Tetrad IV Carnegie Mellon website (<http://www.phil.cmu.edu/tetrad/>).

It appears from this chart that while some criteria are correlated with many others, none of them totally subsumes the others. The criteria on ‘maintaining honest accounts’ and ‘compliance to tax regulation’ are the most connected (with five arrows reaching to or from them). They are followed by ‘the social security criterion’ with four arrows. The ‘registration’ and ‘size’ criteria display three arrows while other criteria display fewer. Therefore, classifying firms into formal and informal categories is likely to yield different outcomes if any one of these criteria is applied individually, at the exclusion of the others.



**Figure 2.1**  
 A directed acyclic graph of the connection among seven criteria of informality for Cameroon  
 Source: Authors

## Patterns of Informality: A Latent Class Cluster Analysis

In order to reveal informality patterns in our sample, we performed a cluster analysis of firms on the basis of informality criteria via a latent class model, particularly well suited in this case where all criteria are binary (yes/no) variables, and came up with four different clusters (Table 2.5). Firms in cluster 1 are prototypes of informality, meeting fewer criteria of formality than firms in other clusters. Less than a fourth of them hold sincere bank accounts, about 5% have received bank loans, 2.6% provide some type of social security coverage to their employees, less than 1% are subject to the regular business tax regime, and less than 15% have more

**Table 2.5**  
Latent class model (cluster analysis) for Cameroon (proportion)

	<i>Cluster 1</i>	<i>Cluster 2</i>	<i>Cluster 3</i>	<i>Cluster 4</i>
<b>Cluster size</b>	0.47	0.26	0.22	0.05
<b>Honest accounts</b>				
<i>Yes</i>	0.23	0.99	0.93	0.97
<i>No</i>	0.77	0.01	0.07	0.03
<b>Access to credit</b>				
<i>Yes</i>	0.05	0.38	0.24	0.36
<i>No</i>	0.95	0.62	0.76	0.64
<b>Social security</b>				
<i>Yes</i>	0.03	0.90	0.35	0.72
<i>No</i>	0.97	0.10	0.65	0.28
<b>Registration</b>				
<i>Yes</i>	0.57	1.00	0.99	0.09
<i>No</i>	0.43	0.00	0.01	0.91
<b>Tax status</b>				
<i>Regular business</i>	0.01	0.94	0.07	0.00
<i>Lump sum</i>	0.99	0.06	0.93	1.00
<b>Size</b>				
<i>Less than 5 employees</i>	0.86	0.22	0.71	0.19
<i>5 employees or more</i>	0.14	0.78	0.29	0.81
<b>Fixity of workplace</b>				
<i>Without fixed location</i>	0.55	0.15	0.53	0.87
<i>With fixed location</i>	0.45	0.85	0.47	0.13

Source: Authors' surveys and calculations



than five employees. Here also, registration and mobility of workplace do not tend to be correlated with other criteria defining informality, since a majority of firms in this cluster are registered and only a very few of them meet other formality criteria.

## Conclusion

Recent research suggests that informality is a matter of degree rather than a binary choice. To that end, we have identified seven criteria of informality to arrive at a composite definition that reflects the multifaceted nature of informal firms. We have implemented this approach to informality in detailed surveys carried out in six major cities in West and Central Francophone Africa. Furthermore, we focus on three major categories of firms—formal, large informal, and small informal—to recognize a crucial feature of the informal sector in this part of the world: the existence of large informal enterprises that are comparable in size to formal firms yet underreport their income and behave much like informal firms in other important respects. A non-parametric analysis of our survey data shows that none of the criteria subsumes the others. We will use the results of these surveys throughout this book.

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## CHAPTER 3

# Informal Sector Value Chains: Evidence from Case Studies

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This chapter presents our analysis of informal sector value chains, mainly in Dakar (Senegal), Cotonou (Benin), and Douala (Cameroon), based on interviews and field research carried out in these cities as well as review of secondary literature. This qualitative analysis is augmented by quantitative analysis of survey data in the following chapter. The chapter begins with a review of the literature on the underlying reasons for the emergence of the urban informal sector and its key characteristics to provide a broader historical and institutional context for the case studies. We then turn to an overview of our findings on the structure and common features of informal sector value chains, and illustrate the ways in which they reflect the deeper forces underpinning the growth of the informal sector. Next, we split the case studies into three groups: those where the relations between the formal and informal sectors are primarily competitive, those where cooperation between informal and formal operators predominate, and intermediate cases where there are aspects of both competition and complementarity. The cases of competition include imports and distribution of gasoline, used cars, and used clothes. The cases of collaboration include refuse disposal, information technology services, mobile phone cards, and real estate. Both competition and complementarity are prevalent in urban transport (moto-taxis and minivans) and fabric distribution. We use the case studies to describe the complex relationships between formal and informal firms and evaluate the positive and negative consequences of informality at a micro level. The conclusion provides an overall assessment of the causes and consequences of the development of urban informal value chains.

### **Drivers of Informal Sector Activity**

The pervasiveness of the informal sector in Africa is beyond dispute and well documented as noted in Chapter 1. The relative importance

of the drivers of informality is much debated, however. There are several alternative perspectives that can be classified in various ways (Chen 2018; Collins 2015; Schneider 2002; Matsongoni and Mutambara 2018). Chen (2018) refers to four schools of thought: *dualist*, *structuralist*, *legalist*, and *voluntarist*. Matsongoni and Mutambara (2018) expand Chen's list to seven, essentially by sub-dividing some of Chen's four categories. Collins (2015) provides a three-part categorization of perspectives: *modernist*, *neo-liberal*, and *political economy*. The neo-liberal seems to be an amalgam of Chen's legalist and voluntarist rubrics while the political economy perspective seems roughly similar to Chen's structuralist perspective. Taking these together, we believe that the following four hypotheses best capture the alternative views of the above authors and others.

1. *Historical traditions*. This corresponds to Collins' modernist viewpoint. According to this hypothesis, the informal sector embodies pre-modern traditional economic practices that existed for centuries and continue to influence contemporary business practices in the informal sector.
2. *Unfavourable business environment*. This subsumes Chen's legalist and voluntarist views, which ultimately are both based on rational choice by businesses considering the constraints they face. Entrepreneurs assess the costs and benefits of being informal based on the business environment. On the benefit side, being informal avoids high taxation and cumbersome regulations interventions. The downside is loss of access to public services and government contracts as well exposure to crackdowns. Thus, the worse the business climate in terms of red tape and poor public services, such as infrastructure provision, the greater the incentive to go informal.
3. *Excessive liberalization and macroeconomic contraction*. This view asserts that the informal sector is the result of insufficient rather than excessive government involvement in the economy. In general, this perspective is more favourable toward the efficacy of government regulations and import protection than the previous hypothesis, although both recognize the detrimental effects of inadequate public investment in infrastructure.
4. *Formal labour supply-demand imbalance* (sometimes referred to the 'dualist' approach). This view stresses the gap between growing labour supply due to demographic factors and slow formal employment creation. The reasons for lack of formal employment creation may in turn reflect either too much or too little government intervention, depending on the authors' views.

These four perspectives are not necessary mutually exclusive; in fact, they all certainly play a part in the generally accepted narrative below of the rise of the informal sector in Africa, although the weight placed on various factors can be debated.

The rise of the informal sector in Francophone Africa, as in the rest of the continent since the 1980s, reflects similar and generally accepted historical evolution. In the first decades after independence, to varying degrees, Francophone as well as other African countries had a rudimentary industrial base. However, these local firms were often woefully inefficient, producing for the domestic market under high import protection, and increasingly undermined by smuggling (Golub and Mbaye 2009). They collapsed with the austerity and market liberalization of the structural adjustment era. Most African countries experienced economic crises in the 1980s followed by austerity and trade liberalization under Structural Adjustment Programs (SAPs). These programs entailed large-scale reductions in public employment and salaries. The 1994 devaluation of the FCFA further lowered living standards. These SAPs were intended to spur private sector investment and employment, but the creation of formal sector jobs has been far too slow to absorb the reductions in public employment and the growing labour force. These economic difficulties spurred the informal sector on both supply and demand sides.

On the supply side, the paucity of formal sector employment opportunities leads to a relentless search for any income-earning opportunity, even if offering low pay and no security or benefits. On the demand side, the prevalence of low-income consumers spurs an equally relentless search for lower-priced items even if quality is poor, e.g., used clothes, used cars, smuggled gasoline, and recycled refuse items.

Furthermore, fiscal crises entailed the cutback of public services such as urban transport and refuse disposal. Informal sector alternatives to public transport have emerged in the form of moto-taxis and minivans, and informal operators are increasingly involved in the disposal and recycling of refuse, as our case studies of these sectors illustrate. Many of these informal sector activities have low barriers to entry with little capital or specialized skills necessary.

What does this story say about the various hypotheses on the rise of the informal sector? In hindsight, it seems clear that trade liberalization without provisions for creating alternative sources of employment (hypothesis 3) played a part, as illustrated by the demise of the cloth and clothing sectors in Francophone Africa. Dualism (hypothesis 4) is more of a corollary than an independent cause in the sense that the informal sector has grown relative to the modern sector in part due to economic



crises and austerity and the failure of the private sector to thrive due to institutional weaknesses (hypothesis 2).

Hypothesis 1, about the role of business culture and organization, is also valid. Our case studies in this chapter, as well as in Chapters 4 and 10, note the continuing role of kinship groups in organizing the informal sector, the importance of commerce relative to modern industry, and the reliance on traditional financing structures such as tontines.

Ultimately, however, this book, along with our previous work in Benjamin and Mbaye (2012), suggests that the most critical driver of the informal sector is the unfavourable business climate for formal enterprise (hypothesis 2). While excessively rapid trade liberalization and fiscal austerity undoubtedly played a role in the decline of formal industry and public services throughout Africa, the demise of formal manufacturing was also due to the inefficiency of African firms. Lack of competitiveness was masked in the first decades of independence by very high protection and weakened by smuggling before trade liberalization was instituted (Golub and Mbaye 2002, 2009). The failure to develop competitive export industries outside of primary commodities is also telling. Formal firms that remain in business largely benefit from monopoly power and continued protection, e.g., the sugar industry in Senegal (Mbaye, English, and Golub 2015). The underlying problem is an adverse business climate that does not encourage formal entrepreneurship and investment as shown in Chapters 4, 5, 6, 7, and 11 of this book.

Informal firms largely escape tax obligations, labour market regulations, and other government interventions (Chapter 7; Mbaye and Gueye 2018). On the other hand, these enterprises are less likely to have access to public services (e.g., water, electricity) and are ineligible for value-added tax (VAT) deductions (MCC 2017; Perry et al. 2007). There are therefore offsetting competitive advantages favouring one set of firms or the other. In practice, however, the lower costs associated with tax and regulatory avoidance usually outweigh the benefits of access to public services, given the burdensome nature of many regulations and the typically low quality of public services in African countries. Thus, there are strong incentives for firms to opt for informal firm status and for formal firms to stay away unless protected from competition.

The theoretical literature in economics provides support for the argument that informality is a result of rational cost-benefit calculations when the investment climate is poor. One significant contribution is from Azuma and Grossman (2002). Their model explains informality as an outcome of excessive state extraction of revenues from formal firms under imperfect information. The government is unable to closely assess underlying features such as knowledge, skills, reputation, connections,

access to finance, and market power, as well as incomes accruing from these assets. Under these assumptions, the state cannot adjust the amounts that it extracts from producers in the formal sector according to each producer's ability to pay and thus may sometimes extract too much and alter the cost/benefit calculus of formal versus informal status for some firms. This is predicated on informal firms avoiding most costs associated with taxes, corruption, and bureaucratic hassles but being excluded from public services (mainly property rights) and infrastructure services (roads, sewage, electricity, potable water). Excessive rent extraction could also be fostered by short horizons for government officials who realize that their time in office is limited (Acemoglu 2003). Also, cronyism, characterized by firms with political connections, can explain why such firms are less subject to excessive rent extraction than firms without political clout. All these considerations are consistent with Gelb et al.'s (2009) theory according to which limited state enforcement capacity, along with a poor business environment, is a major driver of informality.

To test the relative importance of these hypotheses, most authors have used macroeconomic approaches, in particular the *MIMIC/DYMIMIC method* (*Multiple Indicators – Multiple Causes*, *DY* stands for dynamic). This method considers many possible causes of informality along with numerous indicators of the informal sector. Collins (2015) is a good example. These macroeconomic approaches have some limitations that the authors acknowledge, and thus it is not surprising that they have differing findings (Matsongoni and Mutambara 2018). Our approach is instead to use results from our surveys to assess the importance of various institutional and social factors.

Empirical analyses using survey data have corroborated the rational choice approach to informality. Previous work by some of the authors of this chapter has found that a major cause of informality is avoidance of onerous regulations and red tape (Mbaye and Gueye 2018). Grimm et al. (2012) also find support for the importance of the business environment.

In a related vein, Ali and Najman (2019) provide a good illustration of the role of cronyism in explaining the expansion of the informal sector in Egypt. They highlight the ample privileges of firms with connections to either the army or government officials compared to non-connected firms. The differential in terms of trade protection, preferential access to finance, energy subsidies, tax advantages, barriers to entry, etc. is such that firms without political clout must become informal to survive. Furthermore, connected firms are sheltered from competition from the informal sector. Using data from the World Bank Enterprise Survey, they find that connected firms represent around 11% of the sample

total employment. Due to their marginalized status, informal small and medium enterprises (SMEs) receive little help from the government in addressing the constraints they face: lack of access to finance, weak management and entrepreneurial skills, poor location and networking, poorly defined legal and regulatory framework, and weak technological capabilities. Government support agencies for SMEs are underfunded and ineffective.

To summarize, institutions, and in turn the business climate, are an important driver of the informal sector in developing countries. This relates to the important question of whether and how to formalize the informal economy. Different observers have different notions of what formalization of the informal economy means. To some, it means shifting informal workers to formal wage jobs—but this requires creating more formal wage jobs. To others, it means registering and taxing informal enterprises. Evaluations of such formalization efforts have found that they are usually failures (Daniels 1998, 2003). Providing access to legal and social protection as well as support services (e.g., skills or business training) and improving the overall business climate are critical, as discussed in Chapter 8.

## **Formal/Informal Interactions**

In some sectors, as noted in the previous section, the ability of informal firms to escape tax and regulatory burdens leads to a playing field that is not level in areas where formal and informal firms compete, which is almost always in favour of informal firms. In other areas, however, the differential regulatory treatment and competitiveness of informal firms offers opportunities to cooperate with formal firms. Our case studies described below reveal instances of both competition and cooperation between formal and informal firms. In this section, we briefly review the literature on this topic.

Informal firms often serve as distributors of formal firms' products or source raw materials from formal firms (Mbaye and Gueye 2018; Chen 2012). These transactions are typically mediated through a "network of commercial relationships or a value chain of subcontracted relationships" (Chen 2012). However, the smallest and most marginalized informal firms operate largely in isolation from the formal economy.

The scant research on formal and informal firm interactions uses standard sources, such as the Afristat-Dial's 123 databases and the World Bank's Investment Climate Assessment (ICA) surveys. While there are

some questions in these surveys about interactions between formal and informal enterprises, they are not specific enough to enable a full analysis of these complex relationships. In most cases, the competition that formal firms face from their informal counterparts is common knowledge, but many aspects are not fully understood.

No clear conclusions emerge from the literature on the overall effects of the interactions between formal and informal firms. Using the results from the World Bank Enterprise Survey, González and Lamanna (2007) found that competition from the informal sector has negative effects on the productivity of the formal sector. Some enterprises appear to be more affected than others, depending on firm characteristics and the environment in which they operate. By contrast, Böhme and Thiele (2014), using the 123 databases, found that formal businesses in the countries surveyed have backward and forward linkages with informal businesses.

Subcontracting to SMEs is increasingly encouraged in Francophone African countries. Many of them have implemented national and regional subcontracting exchanges with support from the United Nations Industrial Development Organization, managed directly by the private sector, in partnership with the government. These exchanges are intended to encourage large enterprises to subcontract smaller enterprises, by helping small enterprises meet the quality and punctuality requirements of large enterprises. Unfortunately, subcontracting efforts have had little success. Limited funding precludes adequate staffing for the exchanges, and their scope is restricted to industry, leaving out agriculture and services.

Labour regulations are a major impediment to subcontracting in Francophone African countries. As discussed in Chapter 7, these countries inherited one of the most stringent legislation systems in the world from France, with severe restrictions on dismissals, the number of temporary contracts permitted, the number of days of paid leave, the minimum wage, etc. In principle, the labour law applies to all employees. In practice, however, labour regulations are almost never applied upon informal employment—the vast majority of the workforce. For obvious reasons, it is much easier for officials to enforce the law upon formal firms than their informal counterparts. The labour laws stipulate that subcontracting firms are liable for any violations by subcontractors. Thus, a formal firm is exposing itself to risk when it engages in a subcontracting relationship with an informal firm that, by its nature, does not comply with labour legislation. Clearly, this inhibits large formal firms from trying to take advantage of lower labour costs by outsourcing to smaller firms.

## The Organization of the Informal Sector Value Chains

Our case studies reveal that sectors involving formal and informal firms tend to have some common organizational structures. For goods that are imported, there are large importers, wholesalers, semi-wholesalers/distributors, and retailers of varying size. For services, there is a parallel structure with some large operators contracting smaller distributors. There are also specialized agents for particular sectors, such as customs clearance agents, brokers, drivers, and mechanics. The players at the top of the value chain are often formal or large informal firms, whereas retailers are almost always small informal firms.

The relationships between value chain participants are based on trust rather than formal contracts. For example, for clothing, when semi-wholesalers sell to retailers, they mark up the price by 30–100%. But when the quality of the clothes is below what was advertised, the retailer may be entitled to partial compensation, depending on the relationship with the wholesaler, for example whether they are members of the same kinship group.

### **Importers and wholesalers**

Large importers and wholesalers can be either government or private, formal or informal, with the degree of informality varying. For instance, in Cameroon, motorcycles from China are imported by licensed economic operators. These companies must meet certain administrative requirements, such as maintaining appropriate physical offices, having a clearly defined administrative structure, maintaining accurate accounts, and registering with the *Caisse Nationale de Prévoyance Sociale* (CNPS) [National Social Security Fund], Cameroon's national social insurance fund. They have access to significant capital. In many other cases, informal importers and wholesalers epitomize the 'large informal' firms described in Chapter 2 (i.e., their business structure is quite similar to small firms in that it usually revolves around a single person and management practices are informal). They underreport sales, pay minimal taxes, and are largely unregulated. In the case of smuggled gasoline from Nigeria, wholesalers are divided into two categories in Benin and Cameroon. The first group serves as agents for powerful government and military officials involved in trafficking (Mbaye and Gueye 2015). The second group includes large informal wholesalers, who are established mostly in villages and towns located on either side of the Nigerian border.

In a related vein, informal importers of used textiles and shoes in Cameroon must have an import licence. They import clothes, miscellaneous household textile items (tablecloths, sheets, curtains, towels, etc.), bags

(school, travel, and sport), and footwear in containers. They are of various nationalities, mainly Cameroonian (about 90%) and some Nigerian and Malian. Our interviews revealed that the Cameroonians controlling the business are overwhelmingly from the Bamiléké ethnic group described in Chapter 10. For generations, the Bamiléké have conducted this business within families. They generally sell entire containers to wholesalers. Their staff include young university graduates who work in modern offices in markets or shopping malls. This staff are well-paid and have social security coverage. Some of them travel to Europe and North America to purchase and package the bales of second-hand items and ship them to Cameroon. Wholesalers purchase in large quantities from the importers. They generally pay before the delivery of the goods. They have very close relationships with the importers. Some of these wholesalers repackage the bales they purchase from the importer. Occasionally, they act as importers themselves. Wholesalers have large warehouses in the open-air markets, and in the low-income neighbourhoods of Douala. Some of the used clothing is resold in neighbouring countries. Like the importers, they have modern offices and an educated and well-paid staff.

### ***Semi-wholesalers and distributors***

Semi-wholesalers also purchase from importers and wholesalers but on a smaller scale, either because of their limited financial resources or their lack of connections. They are mostly registered with the tax authorities and with the municipality they operate in. However, they do not keep proper financial accounts and do not pay regular business income taxes. They have small warehouses in all the major open-air markets where they sell at the retail stalls. Their employees consist of family members (wives, children, and cousins) or others who are close to them. These semi-wholesalers have varying levels of education and substantial experience in the business. Many of them started out as street peddlers, then took on lower-level tasks in the stores such as unpacking, and eventually became semi-wholesalers.

In the case of used clothing, there is considerable competition among wholesalers and semi-wholesalers, so they jockey for position to obtain the best products before the containers are unloaded. Some even offer to pay in advance of delivery. The goods arrive in a wide range of packaging. The value of the products is based on several criteria: type of good (single or mixed variety), weight, and quality, with a lot of variation. On the other hand, particularly reliable wholesalers can remit payment after they sell their goods, with only a small advance deposit required. It is easy to identify the importer or wholesaler based on the packaging (colour, weight, and shape of the bale).

Distributors of motorcycles are numerous and active primarily in poorer districts and those located on the periphery of urban centres. They work closely with and have representatives at the importers' premises. They set up shops consisting of a showroom and a storeroom in the back. They sometimes generate substantial sales, especially near the end of the year. In addition to depositing some of their revenue in banks, they also contribute to tontines from which they often borrow money to meet their commitments to the importers/suppliers. Wholesalers assemble the imported motorcycles.

### ***Retailers, drivers, and others at the bottom of the value chains***

In the case of goods, retailers range from shops in markets to street vendors or sidewalk sellers, such as for smuggled gasoline sold from stands by the side of the road. Retailers buy from wholesalers/importers or semi-wholesalers through a complex distribution chain. In general, retail is an activity of the small informal sector that involves a single individual or a family, and where men, women, and children alike work. Retailers are typically informal in all respects. Each vendor also tends to specialize in a given type of product. For example, footwear retailers may specialize in sports shoes, men's or women's dress shoes, among others. To avoid taxation, they use warehouses that are located far away from their point of sale. In the case of services, the distribution depends on the nature of the activity. For transport services (moto-taxis and minivans), there are numerous small informal operators serving as drivers and ancillary service providers such as repair or parking lot attendants. In the case of refuse recycling, scavengers scour the dumps seeking reusable items. Some of them live in the dumps. In general, incomes are very low, but higher for those with small shops compared to street vendors. However, as they develop their skills and capital, some can move up the value chain. For example, street vendors of used clothes can become employees in stalls and hotels, and even eventually open up their own new and used-clothing shops (Cavé 2011).

For sectors such as gasoline distribution, and motorcycle and minivan transport, retailers and drivers are usually young, unmarried men with a substantial level of education, usually at least the equivalent of Grade 5. The preponderance of men (over 90%) is due to the perception that these jobs are too dangerous for women, unless they operate out of their home. Women are more prevalent in the sale of used clothes and fabric.

For example, gasoline retailers purchase fuel in barrels of 100 to 200 litres or large cans of 40 litres. The traders then transfer their gasoline into jerrycans of 10 to 50 litres. The only other equipment necessary for entry into selling are a funnel and a cloth to filter impurities, resulting

in total capital outlay of about 15 000 FCFA (about \$30). Given the low barriers to entry and high level of competition, profit margins are quite small. Nevertheless, these earnings can substantially exceed those in alternative occupations, particularly for those that handle large volumes (Mbaye and Gueye 2015).

Retailers sell recycled products directly in open-air markets or by delivering them to shops and stalls. For direct sales, distributors go to neighbourhoods and markets and sell the goods themselves, using rickshaws or carrying items on their heads or shoulders. Prices are set through bargaining (Badiang et al. 2013).

### ***Specialized agents by sector***

In some sectors with more differentiated or complex goods or services, specialized agents play a key role. For example, in real estate there is a network of formal and informal brokers who work together. Likewise, motorcycles and minivans require a network of repair services. Some specialized skills are also often involved. For example, informal recyclers of refuse transform the objects collected by scavengers into finished or semi-finished products. They often have a fixed location, some limited capital, and professional qualifications. In some cases, these recyclers come from a tradition of craftsmanship that they adapt to a new urban setting (Hugon 1980). For example, Dogon migrants with a long history of metalworking in Mali have significantly contributed to the development of the ‘macocotte’ pot business in Cameroon and are the main producers, as they have few viable alternative occupations (Cissé 2009).

The used car distribution chain is a particularly large source of diversified employment opportunities with varying levels of skill and remuneration.

- *Brokers* help bring together buyers and sellers. Used cars are highly differentiated, and potential buyers have specific preferences and ability to pay, making matching difficult. Most of these brokers are independent operators with no fixed location. They search for potential clients, help them identify appropriate vehicles for their needs, and negotiate prices. They are paid with a commission from either the seller, the buyer, or both. Sometimes, they negotiate a price with the importer, then demand a higher price from their client and pocket the difference.
- *Customs clearance agents* can be either formal or informal. Formal agents are registered with customs, while informal brokers, who are not licensed, work with their formal counterparts to put customs declarations through for their clients. Licensed customs clearance



agents can directly access customs' electronic platform and submit customs declarations online. This means all transactions are monitored by customs officers. Informal agents help individual or informal importers to declare their goods and clear customs. They can log in to customs' platform using their formal counterparts' credentials. Formal customs clearance agents work on behalf of government, multinationals, and large domestic enterprises, who rarely deal with informal agents. All the remaining importers transact with informal operators. Several of the formal firms we interviewed acknowledge that up to 80% of their business is obtained through informal agents acting on behalf of smaller importers. Formal agents charge more because they have higher operating and fixed costs. Informal agents have no fixed office; they settle in improvised 'offices', usually made up of a simple table and chair, set up somewhere around the parks or wherever their services are in demand. Thus, they use an open space, go from one park to another, and are constantly using their mobile phones. They follow the customs clearance process until the transaction is finalized. Formal agents compete with each other for the business of informal agents. Informal agents can process up to 20 imported cars per day.

- *Other actors in the used car value chain.* These include guards, drivers and the park administration personnel. At the border, handlers unload and transfer all the merchandise onto domestic trucks. Drivers are hired to bring cars from the port to the park and to drive to neighbouring countries, particularly Nigeria and land-locked countries such as Chad, Burkina Faso, and Niger. For the latter, one driver brings the car to the border and another takes over from there. There are also washers, painters, sheet metal workers, and loaders, who are paid by the task. Most imported cars are older both because they are inexpensive and also because African workers lack the skills to repair the increasingly complex electronic controls in newer cars.

## **Key Characteristics of Informal Firm Operations**

In this section, we review the key characteristics of informal firms involved in informal sector value chains.

### ***The extent of informality***

As noted in the previous section, our case studies involve both large and small informal firms. These firms display the characteristics of informality

described in Chapter 2. Most small operators are not registered. Some pay minimal taxes when they operate market stalls. For example, used clothes sellers working in the markets are subject to a municipal tax of 100 to 200 FCFA per day, in addition to a rental fee of roughly the same magnitude they pay to the managers of the market. Participation in official social security systems is minimal. Informal social insurance mechanisms are more common. For example, since 2014, informal sector minivan operators in Cameroon may apply for CNPS insurance to receive CNPS benefits. Very few have actually done so. There were no CNPS social insurance beneficiaries among our interviewees. Instead, they make daily deposits of 1000 FCFA into a revolving fund to assist each other in case of accidents or the death of a family member.

### ***Access to financing***

For both large and small informal firms, financing usually is either from their own funds, family members, or informal financial institutions such as tontines, whereby members make regular monthly deposits and are then eligible for loans. For example, based on our interviews with motorcycle drivers, the main source of financing to purchase their motorcycles is loans from tontines or a number of microfinance entities. In Cameroon, informal financial services are largely controlled by the Bamiléké ethnic group from Western Cameroon, mentioned previously, who have a long tradition of tontines and entrepreneurship. Around 90% of the motorcycle taxi drivers with whom we spoke said that they were members of one or more tontines and almost none had accounts with formal banks, which require excessive paperwork even for opening a savings account and view lending to motorcycle owners to be high risk. Drivers make daily contributions of 500 to 3,000 FCFA or corresponding weekly or monthly contributions. Through their savings, drivers can become motorcycle owners, purchase land, and build homes. Very few use accounts in banks.

Larger operators sometimes finance smaller ones. For example, motorcycle purchases can be made either by direct purchase or through lease-purchase. In a direct purchase, the investor purchases the motorcycle from a distributor in his or her own name. These investors are generally public- or private-sector workers seeking to supplement their income. Under a lease-purchase arrangement, a driver becomes the owner of a motorcycle over time by paying a weekly or monthly fee until the full amount is paid. This amount varies depending on the purchase price, interest rate, and other factors. In Douala, for example, based on our interviews with members of the industry, a motorcycle purchased for 350,000 FCFA may be leased for a total of 500,000 to 600,000 FCFA

over a six- to eight-month term. Collateral is required for most contracts. In some cases, a guarantor agrees to repay the agreed amount should the driver be unable to honour the contract. However, it is also possible to find individuals seeking or offering lease-purchase contracts through unions and associations.

In the case of used clothes, the main sources of start-up capital are family gifts or inheritances, personal savings and tontines, microfinancing, and more rarely formal banks. In the early stages in the 1980s, second-hand clothing businesses were family enterprises, and, although this is not always the case now, it remains common. Many retailers still receive their initial capital from their family or kinship group. Wholesalers and semi-wholesalers have access to loans from banks and microfinance institutions although the interest rates they borrow at are often very high. Interestingly, however, even the large importers and wholesalers participate in tontines, although the amounts involved are much greater than those for retailers.

### ***Precarity***

The informal value chains are quite organized but also quite vulnerable to external shocks and changes in government stances. The moto-taxi sector is a case in point. The 1990s were a period of massive investment in the motorcycle taxi industry, such that some operators controlled fleets of more than 30 motorcycles in Cameroon and even more in Benin. A fleet of 30 vehicles generated approximately 75,000 FCFA a day, or 2,500 FCFA per vehicle. With the arrival of Chinese motorcycles, the purchase price of motorcycles dropped to half that of the used Japanese motorcycles that had previously dominated the market. This made it possible for new, smaller-scale operators to enter the market with the objective of becoming their own bosses, forcing out some major operators. In our interviews with motorcycle drivers, we found few cases of owners with more than three motorcycles. In addition to greater competition, the demise of larger operators was attributed to the increasing ‘dishonesty’ of drivers, even when they are relatives, and higher risk of motorcycle theft due to increased criminality in recent years (suffocating or drugging drivers, holding them up at knife or gun-point, etc.).

Benin’s entrepot role in the informal distribution of used cars in the region, particularly for smuggling into Nigeria, generates as much as 10% of Benin’s GDP. However, the sharp decline in used car imports into Benin due to the economic crisis in Nigeria, along with more vigorous border enforcement, reveals the vulnerability of Benin’s informal car distribution chain to the vagaries of Nigeria’s unstable economy.

### ***Kinship networks***

Kinship networks are a source of social capital and trust throughout the informal sector and particularly in cross-border trade as described in Chapter 10. These groups provide training, connections, and employment opportunities to new entrants. The important role of the Bamiléké in Cameroon was noted above. The predominance of Malians, especially the Dogon, in pot manufacturing in urban Cameroon is another example. When they arrive in the city, Malian migrants, like all West Africans, are welcomed into kinship networks based in a region or village, which assist them with housing and employment. Malian migrants in Douala and Yaounde form a reconstituted group based on the model of village organization. The Dogon mosque in Douala and the Dogon Community Centre in Yaounde are centres where newcomers can meet a relative or native from their village. The main employers of the newly arrived labour force are from the same village who are already established, although they are not always wealthy (Cissé 2009).

### ***Trade associations and unions***

Many informal sector firms are members of trade associations or unions, usually by sector. Trade associations provide multiple services to the informal operators they represent, including negotiations with the government in cases of dispute, assistance with access to credit, and help in times of personal crisis. For example, waste recyclers in Cameroon set up a union, SYNETMEFCAM, the *Syndicat national des travailleurs pour l'environnement et l'exploitation des métaux et déchets ferreux et non ferreux du Cameroun*, or National Trade Union of Workers for the Environment and the Exploitation of Metals and Ferrous and non-Ferrous Wastes in Cameroon. There is also an association specifically for scavengers at the municipal landfill in Douala that works with SYNETMEFCAM.

Unions in the minivan sector in Cameroon negotiate with the government and organize the business. Most drivers are members of the union to which they contribute 200 to 300 FCFA prior to each departure. The union representative in turn acts as a dispatcher for the minivans. The union also defends the sector's interests vis à vis the government. For example, if a driver is arrested, the union representative will defend him in court. Prior to 2014, each minivan route had its own workers' representative, but their great number made negotiations with the government and municipalities unwieldy. In 2017, the government decreed that only officially registered transport union federations could represent the minivan industry and negotiate with the municipality of Douala. Operators in the sector became affiliated with a major union, the Littoral regional office

of the *Confédération générale des syndicats des transports du Cameroun* [General Confederation of Transport Unions of Cameroon].

There are several unions representing moto-taxi drivers in Benin, with strong political clout (Marchais 2009). The unions were very powerful in the 1990s and worked with the government to collect taxes and levied union fees on drivers. The unions were weakened in the late 1990s when corruption scandals discredited them, but they remain influential. A number of unions are federated under the umbrella of the *Collectif des syndicats de conducteurs de taxis-moto du Benin* [Association of Moto-Taxi Driver Unions of Benin]. Unions tend to be affiliated with various political parties. Although motorcycle taxi drivers in Cameroon reported understanding the importance of unions, fewer than 20% said they belonged to a union. Many drivers said they suspected that the unions pursued their own interests rather than those of their members. Regardless, the unions remain an important presence for drivers, providing advice, coordinating provision of credit, training drivers on traffic regulations, and helping them prepare for driver's licence tests. In discussions between drivers and the government, they are officially recognized as middlemen, and they bargain with other entities to obtain services for their members.

### ***Relations with government***

In principle, the informal sector value chains are subject to government regulations, with a stringency that varies between sectors and over time. However, government often lacks the capacity to regulate effectively. Moreover, government officials and politicians are often involved in or benefit from informal activities. The ambiguous role of government is well illustrated by its stance on smuggling, which features in some of our case studies and Chapter 10 (used cars, gasoline, cloth, and used clothes). Government policy oscillates between collusion, crackdowns, and indifference. For example, in the case of gasoline imported into Benin and Cameroon from Nigeria, high level military officials in Nigeria are widely known to be involved (Golub and Mbaye 2019). High-level officials and traders make arrangements to allow the smugglers to cross the border at designated times in large trucks. Smaller-scale traders pay fees that are negotiated with border officials. Sometimes officials pursue conflicting strategies, with some cracking down while others are colluding.

The minivan sector in Cameroon is another illustration of the various pressures affecting government policy toward the informal sector. Initially lax, minivan regulation was ramped up in the aftermath of the attention received following a serious accident in 2014 in Douala. Both the central and municipal governments oversee the sector, creating a

complicated patchwork of rules and regulations with the main result of spurring extortion. Police are supposed to enforce driving and parking rules and frequently stop drivers ostensibly to check that their public transit permits and driver's licences are valid. In practice, however, drivers frequently complain that even if all their documents are in order, they are extorted with a 500 to 1,000 FCFA bribe by the police, which they pay to avoid wasting a lot of time being hassled. Some union officials report that they pay police and state troopers weekly dues to avoid being stopped en route.

## **Sectors where Competition between Formal and Informal Firms Predominate**

This section provides brief descriptions of sectors where the informal and formal segments tend to be in competition. The following two sections address other sectors where relationships of cooperation dominate and then situations when both competition and complementarity are both present.

### ***Smuggled gasoline in Benin and Cameroon***

The informal sale of petroleum products in Africa often involves intense competition between the formal and informal sectors. This activity is particularly prevalent in Benin and to a lesser extent in Cameroon. Street corners lined with tables displaying various sized vases and bottles containing the brown/yellow liquid are ubiquitous throughout Benin and some regions of Cameroon. The gasoline is known by the evocative nicknames of 'kpayo' meaning 'fake' in Benin (Cessou 2016) and 'fédéral', 'zoua-zoua', 'bush wine', and 'funge' in Cameroon (Herrera 1997). In Benin, there are an estimated 50,000 jobs involved in the informal fuel circuit, which is more than half the number of the country's government officials (Igué 2011; Houssou et al. 2013). Some estimate a much higher number (Cessou 2016).

As discussed in the case of Cameroon in Chapter 10, both countries mainly import their petroleum products illegally from Nigeria, due to much lower retail prices. In Benin and Cameroon, petroleum products are distributed through both formal and informal circuits. The official import and distribution of fuel is overseen by state agencies in both countries, the *Société nationale de commercialisation des produits pétroliers* [National Petroleum Products Marketing Company] (SONACOP) in Benin and the *Société nationale des hydrocarbures* [National Hydrocarbons Company] in Cameroon. In Benin especially, the official

**Table 3.1**  
Informal share of petroleum products in Benin, 2013

	<i>Informal Share of Total Volume</i>
<b>Gasoline</b>	91%
<b>Petrol</b>	78%
<b>Diesel</b>	47%
<b>Total</b>	73%

Source: Mbaye and Gueye (2015)

distribution circuit has come to be dominated by the informal circuit. In 2009, there were around 267 service stations (i.e., one per 429 km<sup>2</sup> or 31,855 inhabitants) and another 87 formal sellers. In Cameroon, the situation varies more by region.

Competition from the informal sector is a major reason for the losses incurred by SONACOP. These losses have been of the order of 125 billion FCFA in recent years—equal to about half the public sector payroll (Igué 2011). The dominance of the informal distribution of gasoline in Benin is illustrated in Table 3.1, showing the proportion of official and unofficial imports in 2013. The table is consistent with other estimates that informal sales account for 80 to 90% of gasoline sales in Benin and a large share of other petroleum products (Houssou et al. 2013; Cessou 2016).

The informal distribution of fuel is similar in Benin and Cameroon (Montcho 2009). Large-scale Nigerian exporters and domestic importers play important roles in both countries. On the Benin and Cameroonian sides, major importers have large amounts of capital and often operate illegally and through intermediaries, though they may have a formal façade. High-level military officials are heavily involved in Nigeria. They control border warehouses with large underground 200 litre vats. Tanker trucks frequently fill up at Nigerian service stations, driving across the border with impunity, while others often collect gasoline illegally at Nigerian official refineries or clandestine refineries scattered all over the country. Thus, soldiers posted in oil-producing regions “are all millionaires”, according to one anonymous soldier (Houssou et al. 2013).

The truckers deal in large volumes and account for a considerable amount of traffic. Some of these trucks double, or even triple the capacity of their vehicles’ tanks. Some are employed by the government, but also engage with the informal sector, mixing legally imported and smuggled gasoline. These trucks supply all types of retailers along interstate highways. Often, large importers bring gasoline by boats of various sizes and then transfer it to motorcycles specially modified for this purpose. These are originally two-wheeled vehicles that are modified to make tricycles,

specially designed to allow the transport of large quantities of liquids over long distances.

As reported by the vendors of smuggled gasoline themselves, these products are of very dubious quality. Mixtures that are made of different petroleum products are not subject to any control or inspection. The fuel is often adulterated and the frequent use of containers for different kinds of products leads to dangers, even if there is no deliberate mixing of incompatible products. Using a low-quality, adulterated, or inappropriate fuel damages engines, increasing maintenance costs. The petroleum products are also handled in the open air, which results in significant pollution. Moreover, as petroleum products are highly flammable and very little precaution is taken in handling them, tragedies involving explosions and fires in ships, motor vehicles, and tricycles are common. Frequent spills also lead to chemical residues seeping into the ground and destroying fauna and flora.

### ***Used cars***

Used car imports have largely supplanted imports of new cars, due to their greater affordability. Although new and used cars are imperfect substitutes, there is substantial competition between formal and informal distributors. The sale of used vehicles began in the 1980s, and was tentative at first, but immense used car parks gradually appeared in many countries as the business took off. African students living in Europe introduced this idea to local businessmen, who recognized it as a profitable activity and entered the used-car market. The number of used vehicles imported into Cameroon has increased over time, rising from under 20,000 in 2007 to over 40,000 in 2014.

In Benin, much more dramatic trends have been observed due to its special role as an entrepot for the region, mainly to Nigeria, where used car imports are severely restricted. Used car imports peaked at over 300,000 per year in 2012–2014 before falling sharply to about 100,000 in 2016–2017 due to the recession in Nigeria (Golub and Mbaye 2019).

Importers buy used vehicles in various developed countries. Sprawling parks have been built for the trade of used vehicles. These parks are completely controlled by informal actors and have a very light administrative structure. There are over 100 used-vehicle parks in Cotonou. Vehicles imported for re-export to neighbouring countries leave for the border twice a week. This semi-illegal activity is openly acknowledged in Benin and even regulated by customs, which provides escorts to convoys of used cars on their way to the Nigerian border.

Most cars imported into Benin are declared in a customs transit regime rather than for domestic use, with a stated destination of Niger



rather than Nigeria. It is common knowledge, however, that more than 90% of cars imported in transit in Benin wind up in Nigeria. Unlike rice, as described in Chapter 10, there is apparently no significant re-export trade of cars from Cameroon to Nigeria.

### ***Used clothes***

Used clothes imported from developed countries are ubiquitous in low-income Africa. The used-clothing sector is a canonical case illustrating the drivers of informality discussed above and the ambiguous mix of costs and benefits that it brings.

Used clothing is a boon to low-income households and to informal importers and retailers, but contributed to the demise of domestic textile and clothing production. African countries such as Senegal and Cameroon had sizable but inefficient textile and apparel production in the 1970s, producing for the domestic market with high levels of protection (Golub and Mbaye 2002). These domestic firms have largely disappeared with little but artisanal production remaining. Smuggling from neighbouring countries with lower tariffs, e.g., The Gambia into Senegal, began the process of unravelling domestic textile sectors (Golub and Mbaye 2009). The recessions in the 1980s and subsequent trade liberalization exacerbated the demise of formal textile and apparel production, as used clothes imports surged. As a result, many relatively well-paying jobs were lost. Second-hand clothing imports and distribution, previously banned and confined to the poorest consumers, evolved into one of the most important African industries in terms of sales and employment. Used clothes compete with cheap Asian imports, increasingly from China (Bredeloup and Lombard 2008; Brooks and Simon 2012; Zollman 2013).

Some thought that Chinese imports would spell the end of the used-clothing trade. Chinese clothing in Africa is sold at low prices, making it competitive with the used clothes. However, our interviews revealed that consumers often prefer second-hand to new items imported from Asia, particularly China, even when the Chinese goods' prices are competitive because of the perceived higher quality of the former.

In Cameroon, official imports of used clothes were banned until 1992 and importers had to smuggle goods into Cameroon from Cotonou in Benin, using canoes or trucks. The liberalization in the early 1990s resulted in legalization of this business and hence new entrants and more competition, often in the form of Bamiléké extended families sending more of their members into the business. To boost their competitive edge, some families sent their children to foreign and national universities to

improve their capabilities. The less capable go out of business. The used-clothing business is present all over Cameroon, but it is booming in the city of Douala. Indeed, this city is the hub for distribution of second-hand items in the country and demand is particularly high in Douala due to its high concentration of low-income residents. The sector is well organized. Products are either sorted or packed in bulk. For example, there can be a bale of just sheets or a bale of sheets, curtains, and towels. The colour of the packaging indicates the identity of the importer.

## **Sectors where Complementarity between Formal and Informal Firms Predominate**

### ***Refuse collection and recycling***

Recycling and reuse of discarded items has long been a feature of African societies but has become a much more pressing issue due to the adoption of Western consumerism, rapidly growing populations, and rural-urban migration. More than 90% of kitchen equipment (pots, wood stoves, cutlery, etc.) in Africa is manufactured from discarded metal. Furthermore, people often lack knowledge about modern garbage disposal and processing methods.

Formal waste management systems in Africa are largely dysfunctional. Mbaye (2008) analyzes the Dakar case in detail. To some extent, it reflects inadequate funding, which is to be expected in a poor country. More importantly, however, the key obstacles are organizational. Jurisdiction for refuse collection is often unclear between local and central levels of government and sometimes privatized firms. Also, there is an utter lack of organized recycling programs and a public sense of environmental responsibility. For example, a large volume of household waste is simply sand that could easily be dumped outside the house (Mbaye 2008). Given the failures of formal collection systems, a range of informal professions have gradually sprung up in Africa operating throughout the value chain, including informal recycling of discarded household items.

Waste is dumped in municipal landfills and illegal dumps. The city of Douala has three municipal landfills, but they are grossly insufficient and thus a great deal of waste is taken to the multiple illegal dumps in neighbourhoods that are not served by Cameroon's official disposal services.

There is a growing market in the resale of recovered household objects in Africa. In Cameroon, Fodouop (1991, 2000) shows that informal recycling is particularly developed in Yaounde and Douala for items such

as glass and plastics. A number of informal sectors processing recycled materials are active in Douala, such as:

- Reusing plastic bottles to bottle water and other drinks
- Repairing umbrellas
- Dyeing used clothing
- Repairing and manufacturing leather goods (leather slippers, sandals made from belt straps)
- Using tires to manufacture other rubber items, for cars and other products
- Scrap metal working (e.g., barbecues)
- Forging aluminium ‘macocottes’ (pots)
- Manufacturing vegetable graters from tin cans

Resellers buy objects such as kitchen utensils, shoes, handbags, electronic and electrical household appliances, barrels, plastic and glass bottles, and resell them without any processing beyond washing and minimal repairs. Reusing items also gives used products a second life. Examples include grocery bags reused as garbage bags and paint cans or detergent barrels as water storage containers.

Informal recyclers tend to specialize and locate in distinct neighbourhoods of Douala: barbecue manufacturers and bottled water vendors congregate at the entrance of Castel Hall at the place called ‘Mobil Njo-Njo’; the Makéa neighbourhood near the Marché Central is the place to find ‘macocotte’ pots; tire reconditioning occurs in the Camp Yabassi neighbourhood; home appliance recyclers are located at the entrance to the Marché New Deido; and umbrella manufacturers are near Bepanda Omnisports stadium.

In addition to recyclable materials, garbage also contains a considerable number of toxic items including car batteries, batteries, and accumulators from electrical and electronic equipment, pharmaceuticals, and pesticides (Müller et al. 2012). Garbage pickup and handling make no provisions for dangerous materials in Cameroon as in Africa in general. Further, in Cameroon, as elsewhere, garbage collection and management is a low-status job (Guitard 2015; McKay et al. 2015). In addition, as in other African countries, recyclers and resellers work in deplorable sanitary conditions without any effective government oversight. Thus, workers are exposed to very serious hazards, including contamination from pathogens through needles, blood bags from blood transfusion centres, and other contaminated sharp objects, that are mixed in with household waste. Scavengers are also constantly exposed to harmful fumes and landslides from ‘garbage mountains’ or offloading dump trucks. Likewise, aluminum smelters, like scrap metal workers,

work without protective gear and are exposed to pulmonary pathologies and cuts that lead to infections. Using rickshaws, the scrap metal workers load, transport, and unload pieces of scrap, with their bare hands, over long distances.

Like incineration, recycling requires some effort and investment to work properly, such as sorting, distribution of colour-coded bins for the various types of recyclables, pickup schedules, and sensitizing people to environmental concerns. Thus, recycling imposes costs (collection, sorting, and transport) which must be at least partly offset by the proceeds of recycled products. Therefore, the resulting goods must be of adequate quality.

### ***Cement factories in Benin and Senegal***

Cement factories offer an example of cooperation between formal and informal firms. There are four formal cement factories in Benin and three in Senegal. In the past, these cement factories had depots spread across the country. However, they are increasingly using informal distributors to sell their products. Most of these wholesalers purchase in cash and very little on credit. Our interviewees explained that the manufacturers rely on the services of wholesalers to lower storage costs. In addition, the distributors can reach a broader clientele all over the country due to their trading networks and flexibility. Cement factories have trucks to transport their output to the depots, but increasingly rely on private transporters and most of them are informal. The cement makers request only minimal identification from transporters (e.g., the tax identification number and proof of registration with the Commerce Department), making it relatively easy for informal firms to participate. However, maintenance is not subcontracted; firms often have an in-house operations department responsible for maintenance. The firms have an internal department to handle mechanical and electrical systems, although they may call on outside contractors for some tasks. The firms work with a consulting firm that visits every three to four months to assist with tax compliance and accounting. In general, they generate their own electric power due to the poor quality and unreliable supply of power from the national grid. For personnel recruitment, very few of them call on temporary employment agencies; instead, their own human resource departments handle this responsibility.

### ***Prepaid phone cards***

Prepaid phone credit sales is another example of division of labour, involving large telecommunications enterprises and informal actors in nearly all African cities. In Benin and Senegal, the large formal telecommunications enterprises, including MTN, ORANGE, Bénin Télécoms,

Expresso, Tigo, and Move, are served by informal retail distribution of prepaid phone cards and phone credits sold by street vendors. Values of pre-paid cards can be as low as 100 FCFA (20¢ US).

As in other informal retailing, such as smuggled gasoline or used clothes, the sale of phone credits requires minimal capital investment. The main costs are purchasing communications credits from the big companies and paying a tax for the temporary occupation of a public highway.

Although official statistics are not available on the number and sales of telephone credit retailers, it is clear from observing urban and rural activities that the amounts are substantial and the sector is an important source of employment. A 2014 report put total revenues from telecommunications activities at 535 billion FCFA (nearly a billion USD), 65.6% of which are derived from the mobile sector. Since nearly all mobile sales involve prepaid cards, one can infer that street sales of credits are over 300 billion FCFA. In the same report, the company estimated the employment in these activities at 100,000, nearly equal to the total number of employees in the entire Senegalese public sector.

### ***Real estate brokerage***

Real estate brokers facilitate sales or rentals of buildings and land for home or commercial use in exchange for a negotiated commission. We distinguish formal brokering, which consists of recognized agencies, from informal brokering by individuals.

African cities have experienced a demographic boom that poses enormous housing challenges. The causes of the boom include rapid national population growth and significant rural to urban migration, especially to the major cities. The resulting rises in demand are driving up land ownership costs, thereby pushing rental costs up drastically. For example, between 2000 and 2008, the rental cost in the Plateau neighbourhood in Dakar increased six-fold.

Formal brokers often rely on informal ones to maintain and expand their clientele. Informal brokers are more flexible, closer to their consumers, and can help match buyers and sellers more effectively than the larger companies. Both customers and building owners pay fees to the informal brokers.

### ***Subcontracting in the IT sector***

The information technology (IT) sector has enormous potential for subcontracting. In fact, with internet cabling and the development and management of software programs, the multinational telecommunications companies often find it advantageous to subcontract with local small and medium enterprises (SMEs). An interviewer in Dakar stated

that local IT firms are particularly involved at the port and with law firms. They often have one-year renewable service delivery contracts. Among others, they help install programs to assist management, sell IT materials, perform IT cabling, and manage IT networks. These SMEs often complain that large operators do not provide them with enough work. Instead, the big companies often prefer having technicians from the parent company travel to the site. Most SME managers that we met expressed their frustration about lack of access to these markets. According to these managers, there is also a serious corruption problem with bribes, both in public and in private sector contracts. These bribes can absorb up to 30% of the contract. They also note that politicians often win contracts, but have no capacity to deliver the expected services so they outsource to smaller companies at paltry rates.

For their part, large companies complain about the inadequate skills and poor quality control of small operators and thus prefer to keep much of the work in-house, even if the cost is substantially higher. Another reason for the lack of subcontracting is that many of the largest contracts involve public sector projects, which often rule out the involvement of informal firms that do not abide by labour market and other regulations.

To assist SME development, countries set up support structures such as the *Centres de normalisation comptable* (CNC) [accounting standards-setting commissions] and the *Centres de gestion agréés* (CGA) [management support agencies]. The role of the CNCs includes ensuring that training programs for accountants are accredited, accounting practices meet professional standards, and that the UEMOA and OHADA standards are implemented. In addition to these two types of agencies, there is the *Guichet unique de formalisation des entreprises* (GUFÉ) in Benin, which entitles SMEs to credit from two banks (West African Development Bank and Orabank). There are numerous other agencies ostensibly promoting similar goals such as microcredit, youth employment, female empowerment, quality norms, etc. The problem is that these agencies are often ineffective due to underfunding, overlapping mandates, staff with little private sector experience and networks, and lack of accountability.

## **Sectors where Competition and Complementarity between Formal and Informal Firms are Balanced**

### ***Urban transport: Moto-taxis and minivans in Benin and Cameroon***

As major cosmopolitan cities with rapidly growing populations, Douala and Cotonou are desperately in need of affordable and flexible transport systems.

Demand is driven by the failure of governments to provide functional public transportation systems and paved roads, the low incomes of the vast majority of the population, rural-urban migration, urban sprawl over vast distances, and massive under-employment. In Cameroon, for example, the public busing system is dysfunctional (SITRASS 2004). In addition, government funding of road maintenance ceased after the economic crisis in the 1990s. From the time of its creation in 2000, the private *Société Camerounaise de transport urbain* (SOCATUR) [Urban Transport Company of Cameroon] experienced difficulties because of numerous vehicle breakdowns in turn due to poor road conditions. Buses, when available, often do not run in off-peak times. Into this gap stepped entrepreneurs that purchased motorcycles and minivans and hired unemployed young men to operate them.

Each form of transportation has its own niche while also competing somewhat with the others. Motorcycles are the cheapest form of transport and most suited for short distances, emergencies, and the lowest income customers. Taxis are preferred for medium distances, having greater comfort and security, but of course cost more. Municipal buses work well for anyone not in a hurry. Minivans are an intermediate solution, especially suited for long distances at a low cost.

The emergence of these alternative modes of transport was facilitated by a lack of regulation in the public transportation sector (Diaz Olvera et al. 2007). Relations with law enforcement are often tense (Amougou and Bernard 2010); the urban chaos that motorcycle taxi drivers help create leaves a bitter taste in the mouths of municipal officials. Whenever drivers engage in a protest, they block traffic, burn tires, and get merchants upset. The slightest altercation with a driver can lead to a swarm of drivers ready to lynch the perpetrator.

While the authorities acknowledge the importance of these modes of transportation in urban settings, they also see the need for some regulation. The sheer number of motorcycle drivers makes them a considerable political force. An interviewer reported that on the eve of an election, a government official in Douala once advised motorcycle taxi drivers to “just do your job and stay out of political matters that could create unnecessary problems for you.” The government views these young people, with their many grievances and easy vulnerability to manipulation by politicians, as virtual powder kegs on wheels.

### *Moto-taxis*

Moto-taxis emerged in Benin in the 1980s where they are known as *zemidjan* in Benin, which in the local language means ‘get me there quickly’ (Agossou 2004). They have become ubiquitous in Benin. The number of moto-taxis in Benin grew steadily from about 30,000 in 1990

to 100,000 in 2000 (Marchais 2009) and is now about 250,000. As a result of increased entry and competition, incomes of drivers have dropped considerably, though they still exceed incomes in other informal and even some formal occupations in Benin.

Motorcycle taxi service in Douala began in the 1990s, a time of social tension arising from public demands for greater political openness. A strike referred to as *Opération ville morte* [Operation Dead City] blocked public and private transportation vehicles, but left room for motorcycle taxis to slip through. Moto-taxis are called *benskin*, the name of a traditional dance in Western Cameroon performed by bending forward with a stooped back, like a motorcycle rider.

Moto-taxi drivers work 8 to 12 hours a day in pouring rain or stifling heat, breathing polluted air from their own and other vehicles, at risk of life-threatening accidents, to earn what is considered relatively good incomes of about \$10 per day. In their rush to raise their take-home pay, they take risks such as passing on the left, speeding, making illegal U-turns, and ignoring traffic signals. Accidents are common. Kaffo et al. (2007) note that they sometimes drive without a licence, thereby invalidating any insurance coverage they may have when an accident occurs.

The government stance toward motorcycle taxis differs somewhat in the two countries. In the early 1990s, the city of Cotonou attempted to establish regulations, such as wearing a helmet, having a licence, and paying a registration fee to open a business. However, these rules have not been effectively enforced by the authorities or respected by drivers (Marchais 2009). In Cameroon, moto-taxis are somewhat more restricted and are mostly limited to Douala.

### *Minivans*

Minivans were one of the most widespread forms of public transport in the city of Douala until a fatal accident in 2014 led to a temporary shutdown. Minivans are a popular method of commuting for many low-income people because they take on enough passengers to keep the cost low per traveller while being smaller and thus more flexible about routes and schedules than municipal buses (SITRASS 2005). These minivans carry passengers between designated points in the city centre and distant suburbs. Workers use this form of transportation to commute and students use them to go to and from school. The bulk of passengers are informal sector workers and students.

The minivans are used freight transportation vehicles that have been remodelled for passenger use. Until 2014, 90% of minivans were old imported Mercedes MB 100s; the remaining 10% were Renaults, Toyota Hiaces, and other models. All of these vehicles are run-down with very



tight seating to accommodate a maximum of passengers, for whom comfort and security are secondary to affordability. While inexpensive and convenient, their dilapidated and overcrowded state makes these vehicles more prone to traffic accidents.

An estimated 300–400 minivans were operating in Douala, with roughly 1,000 direct jobs before minivans were temporarily banned on October 29, 2014, following the traffic accident that resulted in several deaths. Since January 2017, minivans have gradually resumed operations with more modern vehicles.

As usual, these informal sector solutions to state failures to provide adequate urban transport have both pros and cons. The fares are very low, and drivers are readily available to carry passengers regardless of road conditions or time of day. The motorcycles offer cheap transport and are equipped to handle unpaved roads and traffic jams. The competitive advantage of the *zimidjan* is complementary to that of *kpayo*—the informal sale of cheap smuggled gasoline described above. On the downside, drivers often drive unsafely, are involved in many accidents with resulting injuries and deaths, and are constantly breathing fumes from traffic. Moto-taxis also contribute to the high level of pollution in cities. As a result, their life expectancy is well below the average of 54 years for Benin (Marchais 2009). The minivans are also quite dangerous, as was unfortunately illustrated by the fatal accident in 2014.

### ***Fabric distribution in Benin***

Wax fabrics with very vibrant colours that appeal to African consumers are a major household item in all African countries. Like the case of clothing described above, fabrics were largely produced in African countries until the crises of the 1980s. In most of these countries, almost all domestic manufacturers have gone bankrupt and wax fabrics are now nearly all imported from China. There are still three textile factories operating in Benin that manufacture unbleached fabric and thread, but they are operating at very low capacity, if at all, due to competition from the much cheaper Chinese fabric. Chinese fabrics are imported by informal wholesalers that are very difficult to monitor. They generally import in groups and carry out all their customs operations together.

Vlisco, a Dutch company with factories in Côte d'Ivoire and Ghana, is an exception. Its most well-known wax products are GTP, Woodin, and Uniwax. Vlisco wax products are almost always more expensive than Chinese imports, but their quality is also superior. Vlisco does not produce in Benin, instead importing from its parent company in Holland or from its subsidiaries in Ghana and Côte d'Ivoire. It sells its

products to wholesalers that resell them to retailers. This cooperation with informal distributors is crucial to Vlisco's ability to compete with Asian imports.

The government establishes a list of about 200 certified wholesalers and importers by decree, updated every quarter. This restricted list of fabric importers was initially intended to protect what remained of Benin's textile industry, but it is widely evaded. Each wholesaler has a network of approved retailers with which it works regularly, but it also deals with more irregular purchasers. One of our interviewees explained that Chinese importers sell counterfeited Vlisco products, damaging Vlisco's legitimate business. Sales of these fake Vlisco products are in principle illegal, but the rules are not enforced as police and customs collude with the Chinese importers. Nigerian firms (ABS, Nichem) are also in the market, offering similar products that are not counterfeited but are of much lower quality.

## Conclusions

There are multiple explanations for the rise of the informal sector: the appeal of traditional modes of doing business, the loss of formal sector jobs following structural adjustment programs, and the rational choice of entrepreneurs to become informal when the business climate is adverse and state enforcement capacity is weak. We argue that these explanations all have some validity but that the most important factor is the institutional environment that dissuades formal enterprise. As a result, African economies, including those in Francophone West and Central Africa, have become increasingly dualistic, with booming urban informal sectors.

The sector descriptions and analysis in this chapter bring out all the complexities and dilemmas posed by the informal sector in African economies. On the positive side, the informal sector is a crucial source of employment in a situation where formal sector jobs are few and far between. For young graduates who cannot get jobs in the government, farmers barely able to survive in subsistence conditions, and numerous others without viable alternatives for earning a decent living, the informal sector is their only recourse. Earnings are low but well above those in subsistence agriculture. Ease of entry in most informal activities keeps incomes low but also means that jobs are readily available. Furthermore, the informal sector provides goods and services to low-income consumers where the government and formal economy fail. For example,

moto-taxis and minivans in Benin and Cameroon meet the urgent transport needs of the population in the sprawling metropolises of Cotonou, Douala, and other cities with insufficient or unreliable public transport systems. In some instances, the informal sector provides complementary services to the formal sector, as in the distribution of pre-paid phone cards. Informal operators contribute to recycling the huge volumes of garbage generated by major cities.

There are, however, serious downsides. The smaller players, such as street hawkers, are poorly paid and have no social security benefits, yet may be required to pay municipal taxes as well as bribes in order to operate. Meanwhile, large informal wholesalers understate their sales and pay next to nothing in taxes. Lack of regulation poses grave dangers to safety and health both for providers and users. In the case of crucial services such as public transport and waste management, ceding provision to informal, unregulated operators is particularly problematic.

Competition between formal and informal firms can inhibit or even destroy the formal sector. The most extreme case is probably in petroleum products distribution, where the prevalence of smuggled gasoline from Nigeria threatens national petroleum distributors in Benin and Cameroon with bankruptcy. Illicit sales of gasoline and other petroleum products lower fiscal revenues significantly.

Further, the prevalence of overtly illegal activities undermines the legitimacy of official institutions. The oscillation between violent crackdowns by the state and tacit collusion, or even participation by officials at all levels, damages the credibility of the government while creating instability and insecurity for informal sector operators. Government officials may be in alliance with large informal operators while making life miserable for the smallest informal firms with multiple demands for bribes and destruction of their property when they don't comply.

What should be done given this mix of positive and negative effects of informal activity? Banning informal sector operations is neither practical nor desirable. In an economic environment of underfunded and inefficient public transport systems, safety and low cost represent a difficult trade off that is unlikely to disappear anytime soon. The authorities must find a balance between regulation and the need for affordable and easily accessible services.

As a general principle, as argued throughout this book, particularly in Chapter 8, the government should seek to formalize the larger informal operators while assisting smaller firms at the margins of survival, rather than preying on them. In an environment of weak governance, finding the right balance between assistance and enforcement is a daunting challenge.

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## CHAPTER 4

# The Informal Sector in Francophone Africa: Dominant Characteristics, Scope, and Trends from Our Survey Data

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### Introduction

By its very nature, it is difficult to obtain accurate information about the informal sector. This applies to firm structure, sales, job types and quality, productivity, client and supplier relationships, the participation of women in management and employment, etc. Benjamin and Mbaye (2012) applied the methodological framework outlined in Chapter 2 to survey data to analyze the informal sector, its definition, scope, dominant traits, and trends in Francophone West Africa (Benin, Burkina Faso, and Senegal). This chapter extends the analysis to Cameroon and Gabon in Central Africa. Surveys were conducted in Cameroon's cities of Douala and Yaounde, and Libreville in Gabon, between 2013 and 2014. These findings complete data previously collected in West Africa from 2007 to 2009 and enable comparison between the two regions. Despite their similar Francophone institutions, the economies of the two regions differ substantially in terms of resource abundance, governance, and macro-economic stability. The Central African countries have higher average income due to resource revenues, but the standard of living of most people is still very low. The survey instrument was updated to encompass an increasingly broad set of issues regarding business organization and employment. Therefore, some information is only available for countries that underwent more recent surveys and for which additional modules were added to the standard questionnaire. All the data for the tables and figures presented in this chapter are derived from these surveys.

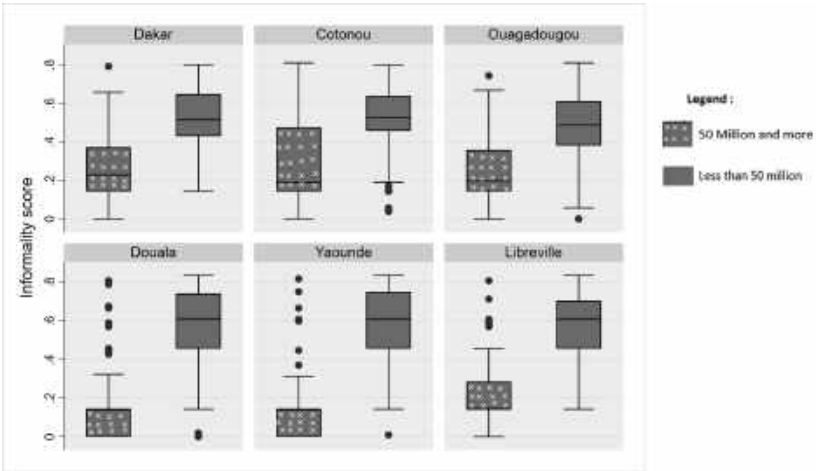
In this chapter, we focus mainly on the classification of firms as formal, large informal, and small informal to compare these three major types of firms, primarily in the three Central African cities (Douala, Yaounde, and Libreville) with some comparisons to the three cities in

West Africa (Cotonou, Dakar, and Ouagadougou). The next section discusses the socioeconomic characteristics of formal and informal managers and employees. The following section focuses on firms managed by women. We then turn to an analysis of firms' views on the institutional environment and return to the issue of formal-informal firm interactions discussed in the previous chapter. Our results provide considerable support to the hypothesis that weaknesses in the business environment are an important source of informality.

### Socioeconomic Characteristics of Formal versus Informal Managers and Employees

This section describes the characteristics of informal compared to formal firms, examining factors such as managers' age and education, and compensation of employees.

Using the 0–1 informality measure from Chapter 2, where 0 is completely formal and 1 is completely informal, Figure 4.1 shows that size is very much correlated with informality, since those firms with lower levels of sales (below 50 million FCFA) tend to be more informal than firms with larger annual sales.



**Figure 4.1** Informality scores according to the level of annual sales of 50 million FCFA or more and less than 50 million FCFA (0–1 scale where 0 is completely formal and 1 is completely informal) *Source:* Authors' surveys and calculations

**Table 4.1**

Manager's average age by status of firms (percent of all managers by sector)

<i>City</i>	<i>Status of the firm</i>	<i>Less than 25</i>	<i>Between 25 and 35</i>	<i>More than 35</i>
<b>Douala</b>	Formal	0.9	17.6	81.5
	Large informal	0.0	38.9	61.1
	Small informal	11.0	61.4	27.6
<b>Yaounde</b>	Formal	1.6	21.3	77.0
	Large informal	20.0	40.0	40.0
	Small informal	18.3	51.6	30.1
<b>Libreville</b>	Formal	4.0	22.0	74.0
	Large informal	10.5	52.6	36.8
	Small informal	30.9	55.3	13.8

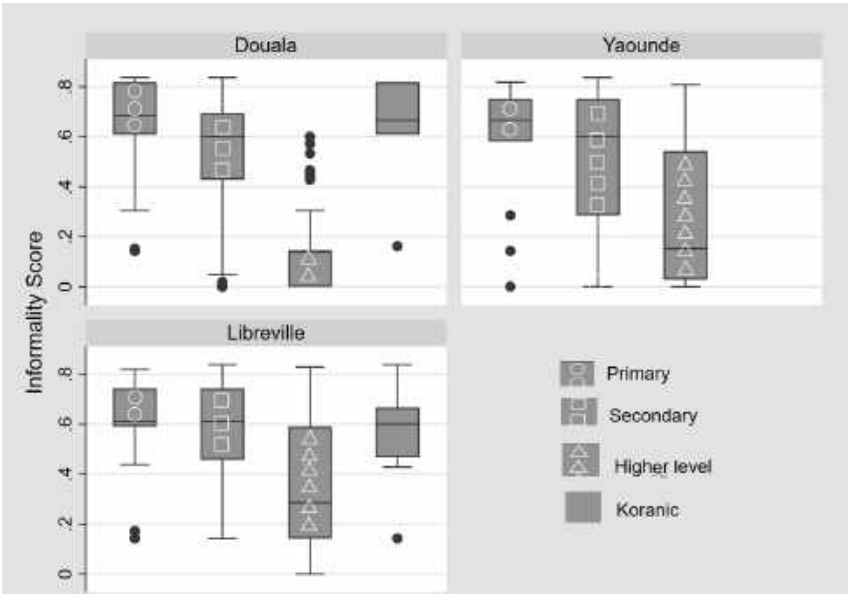
*Source:* Authors' surveys and calculations

Table 4.1 shows that the proportion of business managers who are under 25 years old is very low in the surveyed enterprises. In the three Central African cities, the average manager's age is highest in the formal sector (more than 70% of firms have managers over 35 years old), considerably lower in the small informal sector and in-between for the large informal firms.

Firms managed by people with no education or with a primary level of education are found to be more informal than those with more highly educated managers, using the 0–1 scale for composite informality (Figure 4.2). Surprisingly, in Libreville, this figure also shows that firms managed by people that achieve a secondary level of education have similar levels of informality to those with managers who only attended Koranic schools. This illustrates both the weaknesses of the formal education system and the entrepreneurial spirit of Koranic school graduates.

Table 4.2 shows further detail on managerial education by city. Over 90% of managers in all countries and segments of the informal sector are literate. Of the managers in the small informal sector, 21.5% in Libreville, 11.7% in Douala, and 28% in Yaounde reached higher educational levels. More strikingly, a majority of managers in the small informal sector have a secondary level of education: 50.6% in Libreville, 69% in Douala, and 52.7% in Yaounde.

Another striking feature of informal work in Central Africa is the level of self-employment, which is higher than 70% among small informal firms in the three cities of Central Africa (Figure 4.3), but much lower in Cotonou and Dakar. Among formal firms, it is usually less than 20%.



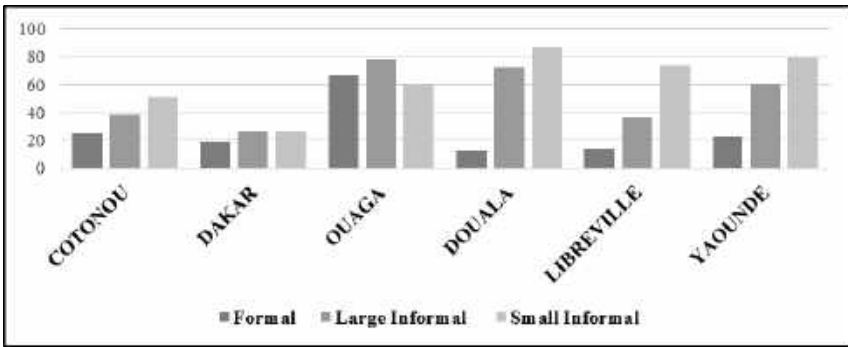
**Figure 4.2**  
 Informality scores according to the level of education of the business manager (0–1 scale where 0 is completely formal and 1 is completely informal)  
 Source: Authors’ surveys and calculations

**Table 4.2**  
 Literacy and educational background of business managers (percent)

City	Status of the firm	Have been to school	Can read and write in French	Primary	Secondary	Higher education
Douala	Formal	97.2	99.1	1.9	26.9	68.5
	Large informal	100.0	100.0	5.6	66.7	27.8
	Small informal	99.3	99.3	18.6	69.0	11.7
Yaounde	Formal	98.4	98.4	4.9	32.8	60.7
	Large informal	100.0	100.0	0.0	50.0	50.0
	Small informal	100.0	100.0	19.4	52.7	28.0
Libreville	Formal	90.0	100.0	6.0	10.0	74.0
	Large informal	73.7	94.7	0.0	26.3	47.4
	Small informal	84.9	98.8	12.8	50.6	21.5

Source: Authors’ surveys and calculations

Table 4.3 illustrates the considerable monthly wage differences between the formal and informal sectors for the five cities. In almost all cases, formal sector wages are the highest and small informal sector incomes the lowest, with large informal firms somewhere in the middle, although



**Figure 4.3**  
Self-employment (percent of total employment)  
Source: Authors' surveys and calculations

with varying differentials. Notably, Gabon has the highest average wage levels of the formal sector yet the lowest wage levels of the informal sector. The average wage level in formal firms is about 10 times higher than for small informal firms in Libreville, while it is only 3.2 times higher in Yaounde, 2.5 in Dakar, and 2.4 in Ouagadougou. Higher income inequality in Gabon, due partly to the dominance of oil in the economy, may explain this difference. The differences in compensation between formal and large informal firms is smaller than with small informal ones in all countries except for Benin.

Our findings indicate that social connections play a preeminent role in employment. In the three Central African cities studied, a large majority of employees did report a kinship relationship with the manager in the small informal sector. Only 17.6% of employees in Douala in the small

**Table 4.3**  
Average monthly salary in 1,000 FCFA

City	Formal	Large informal	Small informal
Dakar	467.3	265.8	182.5
Cotonou	324.8	62.2	79.3
Ouagadougou	326.5	319.8	134.0
Douala	364.4	168.4	103.0
Yaounde	272.2	541.6	85.7
Libreville	656.3	204.8	67.5

Source: Authors' surveys and calculations

informal sector did not have a kinship connection; the corresponding figures are 22% in Yaounde and 39.2% in Libreville. The role of kinship is considerably less in the formal and large informal sectors although not insignificant (Table 4.4).

Our findings concerning surveyed employees' working conditions tend to confirm the general conclusion drawn by previous literature on Africa's labour market. The working conditions in the informal sector are often precarious and are far worse than in the formal sector (Table 4.5). It appears that most informal sector employees do not receive a pay slip, unlike their formal sector counterparts. In Libreville, 83.5% of formal sector employees and only 18.9% of small informal sector employees receive a pay slip. Similarly, in Yaounde, only 2.4% of small informal sector employees receive a pay slip; whereas, 85.3% do in the formal sector. Working hours are also harsher in the small informal sector. The average daily working hours for workers in small informal firms is 12 in Douala, 11.2 in Yaounde, and 12.2 in Libreville, compared to the formal sector's 8 in Douala, 6.4 in Yaounde, and 7 in Libreville. Employees stated that these long hours help them make ends meet. Most small informal sector employees had no social security coverage (pension or social security benefits): 15.4% in Libreville, only 3.4% in Douala, and 2.9% in Yaounde. In contrast, in the formal sector, the majority of employees have social security coverage. Likewise, the majority of formal sector employees receive paid vacation, while very few do in the small informal sector. Formal sector working conditions are better than in the informal sector in other dimensions not shown in the table. Few enterprises in the formal or informal sectors offer a year-end bonus or profit sharing. Holding multiple jobs is another factor that is more common in the informal sector. Further, in the small informal sector, most employees are paid the minimum wage or less, as discussed below. However, it should be noted that some formal sector employees work in precarious conditions too, reflecting the fact that informal jobs exist even within formal entities.

The situation is more varied for the share of employees who have an employment contract (Table 4.6). In Libreville, most firms, even small informal ones, have work contracts, with the majority being permanent even for informal firms; this reflects Libreville's small population and the country's large wealth. In Douala and Yaounde, however, the situation for formal and informal firms differs sharply, with the vast majority of employees in formal firms having permanent contracts; whereas, very few informal firms, especially smaller ones, have such contracts.

**Table 4.4**  
Proportion of employees citing kinship with the job sponsor (percent)

<i>City</i>	<i>Status of the firm</i>	<i>Production manager</i>	<i>Manager's spouse</i>	<i>Manager's child</i>	<i>Another relative of the manager</i>	<i>Kinship with another employee</i>	<i>No kinship</i>	<i>No information</i>
<b>Douala</b>	Formal	1.9	0.0	0.2	2.2	1.5	94.0	0.2
	Large informal	13.6	0.4	1.8	8.2	5.0	70.0	0.9
	Small informal	65.5	2.1	2.7	6.1	1.4	17.6	4.7
<b>Yaounde</b>	Formal	5.2	0.0	1.2	4.0	2.8	86.9	0.0
	Large informal	22.7	0.7	0.7	5.3	1.3	69.3	0.0
	Small informal	59.4	0.0	6.5	9.8	1.6	22.0	0.8
<b>Libreville</b>	Formal	8.5	0.0	0.6	5.5	9.8	74.4	1.2
	Large informal	8.9	2.2	2.2	11.1	20.0	55.6	0.0
	Small informal	20.3	4.9	3.5	19.6	9.8	39.2	2.8

*Source:* Authors' surveys and calculations



**Table 4.5**

Working conditions according to the firm's status (percent, unless specified)

<i>City</i>	<i>Status of the firm</i>	<i>Receive a pay slip</i>	<i>Average working hours per day</i>	<i>Social security or retirement fund</i>	<i>Paid vacation</i>
<b>Douala</b>	Formal	93.0	8.0	47.1	78.7
	Large informal	32.7	11.5	21.4	10.9
	Small informal	2.0	12.0	3.4	2.7
<b>Yaounde</b>	Formal	85.3	6.4	52.6	69.3
	Large informal	23.3	9.8	28.0	15.3
	Small informal	2.4	11.2	2.9	3.5
<b>Libreville</b>	Formal	83.5	7.0	79.3	66.5
	Large informal	44.4	10.1	31.1	53.3
	Small informal	18.9	12.2	15.4	11.2

Source: Authors' surveys and calculations

**Table 4.6**

Proportion of employees with a work contract (percent)

<i>City</i>	<i>Status of the firm</i>	<i>Permanent</i>	<i>Temporary</i>	<i>Other</i>	<i>None</i>
<b>Douala</b>	Formal	87.4	3.4	7.0	2.2
	Large informal	25.4	13.2	38.0	22.7
	Small informal	3.3	18.2	10.1	68.2
	<b>All firms</b>	<b>54.0</b>	<b>8.9</b>	<b>16.5</b>	<b>20.5</b>
<b>Yaounde</b>	Formal	64.5	7.2	20.7	7.6
	Large informal	18.6	8.7	41.3	31.3
	Small informal	4.0	3.2	25.2	67.5
	<b>All firms</b>	<b>37.2</b>	<b>6.7</b>	<b>27.7</b>	<b>28.4</b>
<b>Libreville</b>	Formal	67.0	26.8	4.3	1.8
	Large informal	13.3	33.3	46.7	6.7
	Small informal	6.3	12.6	20.3	60.8
	<b>All firms</b>	<b>35.5</b>	<b>21.9</b>	<b>16.2</b>	<b>26.4</b>

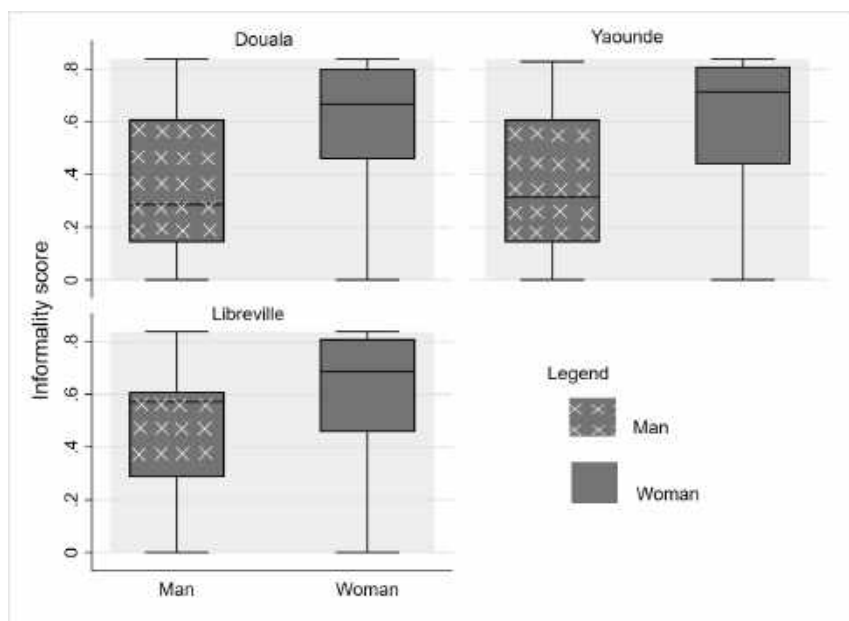
Source: Authors' surveys and calculations

## Profile of Female Entrepreneurship in Central Africa

An analysis of the profile of female entrepreneurship in Central Africa reveals contrasting trends. On the one hand, female entrepreneurs seem more confined to small informal activities and thus more excluded from basic social services (e.g., training, financing, and ICT use). On the other

hand, women seem to be more resilient when facing a hostile environment. For example, despite their very informal status, the female loan repayment level is higher.

The predominance of women in the small informal sector is an obvious reality in all the cities studied. Figure 4.4 shows the overall informality score for male- and female-headed firms on the 0–1 scale explained in Chapter 2, where 1 is completely informal. The figure shows considerably higher overall informality for female-managed firms. Turning to individual cities in Central Africa in Table 4.7, in Douala, the proportion of enterprises led by females is merely 10% in the formal sector and 6% in the large informal sector. However, in the small informal sector, this proportion rises to 83%. In Yaounde, the percentage of female-led small informal firms is 80, compared with 17% in the formal sector. In Libreville, 12% of formal firms are managed by women, compared with 78% in the small informal sector. The greater presence of females in the small informal sector was also documented in our interviews. Women are found more frequently in retail, self-employed hairstyling, prepaid phone card marketing, and restaurants. Similarly, our analyses on cross-border trade show that in some socio-religious networks, women play



**Figure 4.4**  
Informality scores by gender of the business manager  
Source: Authors' surveys and calculations

an important role as commercial intermediaries, often in activities connected to their spouses.

Table 4.7 also presents the extent to which female-managed firms manifest some of the seven criteria of informality. It appears that in the three cities, the majority of female-operated firms do not have reliable accounting systems. Only 45% of female managers use formal accounting in Douala, 36% in Libreville, and 27% in Yaounde. Similarly, firms managed by women are much less likely to have a fixed workplace than their same-status male counterparts. The proportion of women without a fixed workplace is 39% in Yaounde and 33% in Libreville, but higher in Douala at 56%. Sometimes, however, women have fixed locations as retail vendors in the open-air markets or street stands of African cities. The registration criterion reveals that between 40% and 48% of female-managed firms are registered, well below that of men. During our interviews, we observed that women engaged in very small informal activities, such as selling peanuts, sometimes had tax records. The factor that is most strongly correlated to female entrepreneurship is the size of the business. Most women engage in activities of very small size (fewer than 5 employees). Female-managed firms comprise 72% of businesses in Libreville, 84% in Yaounde, and 86% in Douala in this category of microenterprise.

The share of female-managed firms with social security coverage of employees is very low, at 15% in Douala, 23% in Yaounde, and 18% in Libreville; the rate of coverage for male-managed firms is higher at 49%, 48%, and 34%, respectively (Table 4.8). Additionally, in all three cities, employees' average monthly income is lower for enterprises managed by women than men.

Another dominant characteristic of entrepreneurship in Africa is financial exclusion (i.e., lacking access to bank credit), from which

**Table 4.7**

Distribution of firms according to informality status, the manager's gender, and informality criteria (percent)

City	Manager's gender	Status of the firm			Accounting	Lack of fixed		Size (<5 employees)
		Formal	Large informal	Small informal		workplace	Registration	
Douala	Male	49.3	6.8	43.9	74.6	21.0	71.2	48.3
	Female	10.6	6.1	83.3	45.5	56.1	40.9	86.4
Yaounde	Male	46.0	8.0	46.0	55.8	12.4	77.0	51.3
	Female	17.7	2.0	80.4	27.5	39.2	45.1	84.3
Libreville	Male	22.1	7.7	70.2	48.6	12.5	81.7	68.3
	Female	12.1	9.1	78.8	36.4	33.3	48.5	72.7

Source: Authors' surveys and calculations

**Table 4.8**

Distribution of enterprises according to social security coverage and access to bank financing by manager's gender (percent)

<i>City</i>	<i>Manager's gender</i>	<i>Social security</i>	<i>Bank loan</i>	<i>Repayment difficulty</i>
<b>Douala</b>	Male	48.8	27.5	25.4
	Female	15.2	18.2	39.4
<b>Yaounde</b>	Male	47.8	26.6	32.7
	Female	23.5	9.8	19.6
<b>Libreville</b>	Male	33.7	9.6	30.0
	Female	18.2	12.1	25.0

Source: Authors' surveys and calculations

**Table 4.9**

Proportion of firms by sales volume according to the manager's gender, average of Douala, Yaounde, and Libreville (percent)

<i>Manager's gender</i>	<i>More than 50 million</i>	<i>Less than 50 million</i>	<i>Total</i>
	<i>FCFA</i>	<i>FCFA</i>	
<b>Male</b>	24.2	75.8	100
<b>Female</b>	13.9	86.1	100

Source: Authors' surveys and calculations

not even the formal sector can fully escape. Not surprisingly, female-managed firms have weaker access to credit than male-managed ones. Libreville is the only city where the share of women with access to bank credit is higher than for men, at 12% versus 9% (Table 4.8). By contrast, in Douala, 18% of women have access to bank credit, compared with 28% of men; in Yaounde, 10% of women have access to bank credit, while the same is true for 27% of men. A significant number of people of both genders experience some difficulties in repaying loans, with no systematic differences between men and women.

A larger proportion of firms managed by women have a sales volume of below 50 million FCFA when compared with firms managed by men, at 86% versus 76% (Table 4.9).

Female-managed firms are more consistently excluded from infrastructure services such as water, electricity, and telephones, and make less use of Information and Communication Technology (ICT). The shares of female-managed enterprises in Douala with an email account and a website are only 9% and 1.5% in Douala; the corresponding figures for male-managed firms are much higher, at 42% and 26%, respectively. In Yaounde and Libreville, these shares are a bit higher, but a significant gap between male- and female-led firms is still observed. A similar pattern emerges for access to infrastructure.

On the other hand, women tend to have fewer problems with unions and the government. and they are as optimistic as men about the future of their business (Table 4.10). For example, only about 20% of firms managed by women in Douala report experiencing problems with the government, versus close to 80% for their male-operated counterparts. In Yaounde, these numbers are 14% for female and 86% for male enterprises. When we look at the share of enterprises who note having trouble with unions, it is also much lower for female-led enterprises than for male-led enterprises.

There is also a strong correlation between sectoral activity and gender of managers (Table 4.11). Female-led businesses are more present in the trade and other service sectors, and they are much less represented in manufacturing and construction. For example, in Douala only

**Table 4.10**

Firms' perceptions of business by the manager's gender (percent)

City	Manager's gender	Optimism about future of business	Problems with unions	Problems with government
<b>Douala</b>	Male	78.7	83.3	79.5
	Female	21.3	16.7	20.5
<b>Yaounde</b>	Male	69.1	75.0	86.1
	Female	30.9	25.0	14.0
<b>Libreville</b>	Male	86.8	100.0	82.5
	Female	13.2	0.0	17.5

Source: Authors' surveys and calculations

**Table 4.11**

Firms' sector of activity by the manager's gender (percent)

Sector	Douala		Yaounde		Libreville	
	Male	Female	Male	Female	Male	Female
<b>Manufacturing</b>	23.4	12.1	33.6	23.5	22.1	15.2
<b>Trade</b>	34.2	36.4	33.6	41.2	41.8	42.4
<b>Construction</b>	4.4	0.0	6.2	0.0	5.8	0.0
<b>Non-Financial market service</b>	30.2	42.4	18.6	25.5	27.4	39.4
<b>Financial and insurance services</b>	0.5	1.5	0.9	0.0	1.4	0.0
<b>Non-market services</b>	2.9	6.1	4.4	9.8	1.0	3.0
<b>Other services</b>	4.4	1.5	2.7	0.0	0.5	0.0
	100.0	100.0	100.0	100.0	100.0	100.0

Source: Authors' surveys and calculations

12% of female-managed enterprises are in manufacturing, versus 23% for male enterprises, and there are no female-managed enterprises in the construction sector in any of the three cities.

In summary, female-managed enterprises exhibit the symptoms of informality and precariousness to a greater extent than male-managed firms. Therefore, female-managed firms are more vulnerable, and in greater need of assistance, than those of their male counterparts.

## The Business Environment and the Informal Sector

### **Access to public services**

Our surveys confirm that weaknesses in the business environment are costly for all enterprises, but particularly so for informal enterprises and female-managed enterprises. Access to water, electricity, telephone, and other communication services illustrates these issues. For example, in Douala only 18% of female-managed enterprises have access to water, against close to 50% for male-managed enterprises. In Yaounde, 57% of female-run enterprises have access to electricity, versus 79% for male-run firms (Table 4.12). The same is true for access to communication technologies such as email, website, and mobile phones.

Informal firms also suffer from other aspects of public service delivery, including interruptions of service and long delays in obtaining connections for water, electricity, and fixed-line telecommunications.

### **Access to financing**

Access to formal financing is a pervasive problem in African countries, as previously noted. Much of current investment is financed with personal

**Table 4.12**

Access to Infrastructure and Communication Technologies services by manager's gender (percent)

City	Manager's gender	Communication technologies			Infrastructure services		
		Email	Website	Mobile phone	Water	Electricity	Telephone
Douala	Male	42.0	26.3	63.9	49.8	81.5	64.9
	Female	9.1	1.5	42.4	18.2	63.6	34.9
Yaounde	Male	36.3	19.5	63.7	51.3	78.8	66.4
	Female	13.7	11.8	54.9	37.3	56.9	47.1
Libreville	Male	26.9	15.9	NA	61.5	84.6	38.9
	Female	18.2	3.0	NA	69.7	81.8	36.4

Source: Authors' surveys and calculations

**Table 4.13**  
Enterprises' method of financing (percent)

City	Status of the firm	Method of financing			
		Internal funding or retained earnings	Bank credit	Loan from a family member or friend	Savings, gift, inheritance
<b>Dakar</b>	Formal	64	20	4	12
	Large informal	62	16	8	14
	Small informal	64	8	2	26
<b>Cotonou</b>	Formal	76	15	7	2
	Large informal	64	8	14	14
	Small informal	68	15	0	16
<b>Ouagadougou</b>	Formal	67	19	14	0
	Large informal	55	14	23	9
	Small informal	56	8	20	16
<b>Libreville</b>	Formal	27	21	9	43
	Large informal	7	7	26	59
	Small informal	3	4	18	74
<b>Douala</b>	Formal	30	17	8	46
	Large informal	5	5	15	75
	Small informal	1	3	18	79
<b>Yaounde</b>	Formal	23	14	9	54
	Large informal	0	20	10	70
	Small informal	2	5	9	84

Source: Authors' surveys and calculations

funds and retained earnings (Table 4.13). Even for formal firms, only about 15–20% have received bank loans in the various cities. Access to bank credit is even lower for small informal enterprises, below 10% in all cases except Cotonou where it is 15%. For large informal enterprises, access to bank credit is somewhat more variable, reaching 20% in Yaounde, where it actually exceeds the share of formal firms with bank credit. Enterprises rely instead on other types of financing (e.g., personal savings, retained earnings, family loans, gifts, and legacies) to fund their investment. Notably, more than 85% of small informal enterprises and 70% of large informal enterprises in Douala, Yaounde, and Libreville receive gifts and inheritances as a main source of financing.

Firms in West Africa and Central Africa face high loan interest rates, particularly informal enterprises. Formal enterprises generally can borrow at about 12% interest (Table 4.14 and Benjamin and Mbaye 2012).

**Table 4.14**

Loan interest rates charged by banks

<i>City</i>	<i>Formal</i>	<i>Large informal</i>	<i>Small informal</i>
<b>Douala</b>	12.1	16.0	21.8
<b>Yaounde</b>	11.8	30.0	19.4
<b>Libreville</b>	12.8	27.0	28.5

*Source:* Authors' surveys and calculations

Small informal enterprises confront rates of about 28% in Libreville, and about 20% in Yaounde and Douala. These higher rates paid by informal enterprises are justified in part by the high level of risk associated with these loans and the high operating costs of the microfinance institutions that are their main lenders.

In the three West African cities, all types of surveyed enterprises admitted to having considerable loan repayment difficulties, with peaks of 80% for formal firms in Cotonou and 87% for large informal firms in Ouagadougou. In general, firms in Douala and Yaounde seemed to have fewer such difficulties, at peaks of 28% for formal firms in Yaounde and 39% for large informal firms in Douala. Formal enterprises reported having fewer loan repayment difficulties than small informal enterprises for all the cities in the sample, except Cotonou.

### ***Other aspects of the business environment***

Formal enterprises are more likely than small informal enterprises to be members of a professional organization. As depicted in Table 4.15, the figures are 35% for formal enterprises and 13% for small informal enterprises in Cotonou, 30% and 19% in Dakar, and 18% and 7% in Ouagadougou. In Central Africa, informal enterprise membership in professional associations is relatively low, at less than 5% in the three cities; whereas for the formal sector, it is at 40%, 15%, and 20% in Douala, Yaounde, and Libreville, respectively.

### ***The informal sector and business taxation in Central Africa***

The role of business taxation in fostering competitiveness and growth is widely recognized and documented. In the countries under study, the tax system is regarded as a significant obstacle to development. According to many authors, the pervasiveness of the informal economy results, in part, from a tax policy aimed at maximizing revenue collection rather than promoting development (Loayza 1997; Mbaye and Gueye 2018).



**Table 4.15**

Proportion of firms affiliated with a professional association (percent)

<i>City</i>	<i>Formal</i>	<i>Large informal</i>	<i>Small informal</i>
<b>Dakar</b>	29.7	40.0	19.0
<b>Cotonou</b>	35.3	28.9	13.0
<b>Ouagadougou</b>	18.0	21.2	7.5
<b>Douala</b>	39.8	11.1	4.1
<b>Yaounde</b>	14.8	30.0	2.2
<b>Libreville</b>	20.0	5.3	2.3

Source: Authors' surveys and calculations

**Table 4.16**

Perceptions of the administration of the tax system (percent)

<i>City</i>	<i>Status of the firm</i>	<i>Taxes not properly used by the State</i>	<i>No confidence in the management of public funds</i>	<i>Tax payment leads to tax harassment</i>	<i>Poor enforcement of social safety net rules</i>
<b>Douala</b>	Formal	83.3	82.4	47.2	82.4
	Large informal	83.3	94.4	55.6	88.9
	Small informal	95.2	96.5	66.9	93.1
<b>Yaounde</b>	Formal	83.6	85.2	52.5	78.7
	Large informal	70.0	80.0	50.0	80.0
	Small informal	87.1	89.2	57.0	93.5
<b>Libreville</b>	Formal	52.0	42.0	44.0	44.0
	Large informal	68.4	52.6	42.1	73.7
	Small informal	70.4	58.7	41.3	75.0

Source: Authors' surveys and calculations

Business leaders have a fairly negative perception of the tax system; this holds true for both formal and all categories of informal enterprises.<sup>1</sup> The length of the wait time for tax settlement is considered unacceptably high by most company managers. Generally, the methods of tax settlement are considered ineffective, as is the quality of the collection service. Similarly, tax rates on businesses are considered high by many companies. There are, however, some positive perceptions of the efficiency of the collection service. A majority of respondents affirm the ease with which their taxes

<sup>1</sup>Our interviews suggested that tax administration, rather than tax rates, is the primary problem, consistent with the World Bank *Doing Business 2019* findings. This differs from older survey results from the World Bank *Enterprise Surveys*, to which Chapter 5 refers.

can be declared and they encounter few barriers in the registration process. Moreover, a large number of both formal and informal businesses find that it is not always advantageous to remain in the informal sector because of the impossibility of deducting the value-added tax (VAT) and thus gaining access to international public contracts.

Our findings indicate a very low level of confidence in how governments use tax revenues. Many managers of formal firms report tax harassment, i.e., repeated demands for fees, inspections, documents, etc. (Table 4.16). Finally, the low tax collection levels can be explained by the limited capacity of government. This negative view of the taxation system may contribute to tax evasion in these countries.

## **Analyzing Interactions between Formal and Informal Firms**

The relationship between formal and informal firms is much debated. The predominant view is that informal firms have an unfair competitive advantage due to avoidance of tax and regulatory obligations and thus undercut formal firms. There are certainly important instances of a playing field that is not level for formal and informal firms. However, there are also many cases of complementary and cooperative relationships between the two categories of firms. This section addresses the following issues:

- The value chains and number of people who are involved, their impact on growth and employment, the obstacles to their development, etc.
- The patterns of competition between formal and informal firms: sectors which are affected, impact on formal firm productivity and overall performance, and impact on market structure and job creation.
- Understanding the policy implications of the interplay between these categories of firms.

### ***Sourcing***

In this section, we use our survey data to analyze the relationships between the formal and informal sectors, focusing on competition and collaboration. Transactions between formal and informal actors are common. Table 4.17 shows that 52.5% of firms in Dakar and 31% of enterprises in Cotonou trade with firms of a different size than themselves. Also, the table shows that large enterprises in Dakar tend to trade more with other large enterprises; whereas, in Cotonou large

**Table 4.17**

Share of firms doing business with different size counterparts (percent)

		<i>Dakar</i>	<i>Cotonou</i>
<b>Firms using different size counterparts as clients</b>		52.5	31.0
Decomposition of large firms' sales, by category of client firm:	Big enterprises	49.2	41.7
	Small enterprises	22.2	47.2
	Medium enterprises	28.6	11.1
Assessment of the trend of interaction over time	Increasing	73.2	9.1
	Decreasing	14.3	15.1
	Stable	12.5	75.8

*Source:* Authors' calculations

firms tend to trade more with smaller firms. The table further shows that in Dakar most large firms expect to transact more with firms of different size than themselves in the future whereas in Cotonou the majority of such firms view such transactions as stable.

Table 4.18 shows the distribution of subcontracting by sector. Not surprisingly, wholesale and retail trade are major participants, accounting for almost 21% in Dakar and 30% in Cotonou of reported cases of distribution of formal sector products, mainly manufactured goods. Frequently, large informal wholesalers procure supplies from formal firms to sell to small informal retailers. In some cases, these wholesalers

**Table 4.18**

Proportion of informal firms involved in subcontracting of formal sector goods and services (share by sector in percent)

<i>Sector goods and services</i>	<i>Dakar</i>	<i>Cotonou</i>
<b>Wholesale/retail trade</b>	21.4	29.9
<b>Construction</b>	10.2	16.4
<b>Customs clearance</b>	1.0	0.0
<b>Insurance</b>	2.0	3.0
<b>Telecommunication</b>	0.0	3.0
<b>Cement</b>	0.0	1.5
<b>Kitchen utensils</b>	2.0	0.0
<b>Carpentry</b>	0.0	1.5
<b>Catering/restaurants</b>	0.0	1.5
<b>IT equipment</b>	1.0	1.5
<b>Transport</b>	12.3	0.0
<b>Other</b>	50.2	41.8

*Source:* Authors' calculations

receive goods on credit and sell them to small informal firms, only after which they pay the formal supplier firms. Construction is another important sector where subcontracting is observed, particularly in Cotonou (16.4%). In this industry, the large enterprises have the financial strength and expertise to tender for big projects, and they then subcontract to smaller, mostly informal, firms.

We also examined smaller firms' perceptions about doing business with larger firms. In general, the level of satisfaction is quite high, both in Dakar and in Cotonou. These results remain robust to different criteria to categorize the small informal businesses. A proportion between 80 and 100%, depending on the criterion of informality, expressed great satisfaction with the timeliness and level of professionalism of the relationship.

Table 4.19 examines whether the source of relationships with outsourced enterprises is personal or professional. About 34.7% of enterprises in Dakar and 67.5% in Cotonou are subcontracting based on friendships. This personalization of business relationships is quite understandable given the level of risk associated with the informal sector and difficulties in enforcing contracts in Africa. Kinship and other networks substitute for the rule of law (Golub and Hansen-Lewis 2012).

The informality of transactions between enterprises is also obvious in financial relationships shown in Table 4.20. Few informal firms have the working capital to pay cash for purchases. This is particularly marked in Cotonou, which is noted for its pervasive informality: 97.5% of transactions with informal commercial partners are on credit rather than cash. Most of the credit extended is not in kind but rather in cash, with loans having short maturities of a month or less. Generally, lenders are satisfied with the level of repayment.

Table 4.21 shows that larger firms (formal and large informal) that do business with small informal firms tend to be less productive than

**Table 4.19**  
Relationships of business partners for formal and informal firms (percent)

<i>Relationship</i>	<i>Dakar</i>	<i>Cotonou</i>
<b>Friends</b>	34.7	67.5
<b>Relative</b>	2.0	12.5
<b>Same kinship network</b>	4.1	2.5
<b>Same religious network</b>	2.0	5.0
<b>Strictly professional</b>	57.1	12.5
Total	100.0	100.0

*Source:* Authors' calculations

**Table 4.20**

Financing of transactions with informal sector partner (percent)

		<i>Dakar</i>	<i>Cotonou</i>
<b>Share of transactions on credit</b>		41.9	97.5
Type of loan	In cash	88.9	100.0
	In kind	11.1	0.0
Modalities of repayment	Weekly	3.3	0.0
	Daily	14.8	0.0
	Monthly	80.3	0.0
	Other	1.6	100.0
Assessment of level of repayment	Excellent	14.8	0.0
	Good	40.7	100.0
	Fair	29.6	0.0
	Other	14.8	0.0

*Source:* Authors' calculations**Table 4.21**

Productivity (sales per worker) of formal and large informal firms according to whether they subcontract with small informal firms, as a ratio to average productivity by sector (percent)

<i>City</i>	<i>Status of the firm</i>	<i>Trade with small informal firms</i>	<i>No trade with small informal firms</i>
<b>Dakar</b>	Formal	35	165
	Large informal	46	154
<b>Cotonou</b>	Formal	19	181
	Large informal	98	102

*Source:* Authors' calculations**Table 4.22**

Share of firms that export and do not export among those who do business with small informal firms (share of all firms within group in percent)

<i>City</i>	<i>Status of the firm</i>	<i>Export</i>	<i>Do not export</i>
<b>Dakar</b>	Formal	10.0	90.0
	Large informal	9.5	90.5
<b>Cotonou</b>	Formal	28.1	71.9
	Large informal	18.8	81.3

*Source:* Authors' calculations

those that do not transact with smaller firms. Likewise, among formal and large informal exporting enterprises, a clear and intuitive result emerges. Few exporting firms have business relations with the informal sector (Table 4.22). Exporting firms must meet very high standards and cannot take risks by outsourcing to informal firms.

**Table 4.23**

Productivity (sales per worker) of formal and large informal firms according to whether or not they compete with small informal sector, as a ratio to average productivity by sector (percent)

<i>City</i>	<i>Status of the firm</i>	<i>Compete with small informal firms</i>	<i>Do not compete with small informal firms</i>
<b>Dakar</b>	Formal	54	140
	Large informal	42	174
<b>Cotonou</b>	Formal	27	148
	Large informal	41	155

Source: Authors' calculations

**Table 4.24**

Share of firms that export and do not export among those competing with small informal firms (share of all firms within group in percent)

<i>City</i>	<i>Status of the firm</i>	<i>Export</i>	<i>Do not export</i>
<b>Dakar</b>	Formal	16.2	83.8
	Large informal	14.3	85.7
<b>Cotonou</b>	Formal	31.7	68.3
	Large informal	5.0	95.0

Source: Authors' calculations

### ***Competition between formal and informal firms***

Additionally, we examined competition between the formal and informal firms in different sectors and its effects on the formal sector. Firms that compete with small informal firms tend to have much lower productivity than firms that do not compete with smaller firms (Table 4.23). Similarly, Table 4.24 reveals that large firms (formal and large informal) that export are less subject to competition from small informal firms than large firms that do not export. Overall, this suggests that the largest firms, and especially those that export, tend not to face significant competition from informal firms; instead smaller formal firms are those most affected by competition from informal firms. Thus, the impact of unfair competition from informal firms may be greatest for less established formal companies. There are some important exceptions to this general trend, however, as we show in the case studies. For example, the national petroleum distributors in Benin and Cameroon are severely damaged by smuggled gasoline imports from Nigeria, as discussed in the previous chapter.

## **Conclusion**

In this chapter, we have presented the results of our surveys in West and Central Africa on the characteristics of firms, the interactions among

different types of firms, and the drivers of informality. Given the similarity of the surveys carried out in the various countries, we are able to compare the structure and operation of firms across countries in considerable detail. We illustrate the complexity of the informal sector and contrast three kinds of firms: formal, large informal, and small informal. Our results largely confirm those of Benjamin and Mbaye (2012) in terms of the similarities and differences between these three types of firms. Our results show that small informal firms suffer from various forms of social exclusion and an adverse business environment to a greater extent than formal firms and even large informal firms. The socio-demographic characteristics of the three types of firms differ considerably. The average level of educational attainment is higher for managers in the formal sector than in the informal sector. Self-employment is much more prevalent in the informal sector. Personal connections to the firm manager are much more prevalent among employees in the informal sector than the formal sector. Our findings in Central Africa go further than the previous ones in West Africa in illustrating the precarious nature of the informal economy. Women are more frequently present in the small informal sector than in the formal sector. The new results of this research highlight that firms managed by women are more likely to be informal than firms managed by men, i.e., less likely to have a fixed workplace, have lower access to bank loans, participate less in social security systems, and pay their employees less.

Our results also shed light on the debates on the driving causes of widespread informality, discussed in the previous chapter. Our results in this chapter shed light on two hypotheses discussed in Chapter 3:

1. the informal sector reflects pre-modern business culture; and
2. the adverse business climate and weak state authority induce firms to make a rational choice of going informal.

We find some support for both of these factors. The first is supported by the predominance of kinship group ties in informal firms, whereas they are largely absent from formal firms. The second hypothesis is validated by the responses of firms regarding their perceptions of the institutional environment, which are generally negative. This is the case both for provision of public services such as water, communications, and electricity, and the widespread negative view of the administration of taxation and enforcement of regulations.

We further examine another topic addressed in the case studies of the previous chapter: the nature and significance of interactions between formal and informal firms. Most firm surveys, including ours, show that many formal firms complain of unfair competition from informal

firms, and it would clearly be in their interests to have informal firms removed from markets where they compete. The view of unfairness is readily understood because of informal firms' lack of obligation to pay formal taxes and regulated wages, or to not comply with other regulations. However, in other respects, the playing field is not necessarily unlevel. The productivity advantage of formal firms, given their access to better technology, intermediate goods, import and export markets, and to formal, large-scale consumers, often means the markets are segmented in a way that reduces the impact of informal competition.

The very same reasons why the informal sector struggles to grow and modernize also explain why informal businesses fail to enter organized and complex value chains. To mainstream outsourcing in business relationships, African governments should seriously consider relaxing the labour code, and thus enable larger firms to diminish labour and related costs through subcontracting. Likewise, improving training and support services could provide more positive interactions between formal and informal firms.

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# Characteristics and Consequences of Informality: African Firms in Comparative Perspective<sup>1</sup>

*Dominique Haughton, Jonathan Haughton, and Ahmadou Aly Mbaye*

## Introduction

From a public policy standpoint, the standard view is that it is preferable for businesses to operate in the formal, rather than informal, sector. Not only are formal sector firms more likely to pay taxes, but it is believed that they have better access to finance, land, and services such as electricity, which enables them to grow faster and larger, be more productive, and pay higher wages (Ingram et al. 2007).

In sub-Saharan Africa, an estimated 74% of non-agricultural employment is in the informal sector, defined as workers not covered by social protection, comparable to the 70% rate in South and Southeast Asia, but above the 56% rate that prevails in Latin America (OECD 2009). Estimates indicate that 64% of GDP (49% of non-agricultural Gross Value Added) in sub-Saharan Africa is generated by the informal sector, double the rates seen in Latin America (OECD 2009). By any standard, the informal sector in Africa, and most of the developing world, is large.

One possible explanation for the high importance of the informal sector is that the investment climate favours the informal. Thus, it is possible that the investment climate facing formal firms is not favourable enough to encourage firms to transition to formal status.

Ultimately, firms have a choice between becoming formal or remaining informal. Retaining their informal status could mean facing potentially lower taxes and charges, thus finding it cheaper and easier to hire and fire

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workers and having more flexibility to work around regulations. These benefits may outweigh the costs to the firm of being formal.

In this chapter, we examine the links between informal status ('informality'), the investment climate, and performance, putting the African experience into comparative perspective. The database and definition of informality we use differ from the previous chapter and elsewhere in this book which is based on original survey data. We first discuss our data sources and the manner in which we define informality, and then summarize some of the key characteristics of informal firms. This allows us to turn to an examination of the relevance of informality for firm performance, including growth, productivity, wages, and investment. After summarizing the barriers and perceived constraints bearing on informal and formal firms, we end with concluding remarks.

## Data and Definitions

As the preceding chapters show, the definition of informal varies considerably from author to author. For instance, in their study of informality in six African countries, Ingram et al. (2007) considered all firms with more than 10 employees to be formal, defining the remaining firms as either 'partially formal' (if officially registered) or informal (Benjamin and Mbaye 2012).

Our definition of informality is constrained by the data. In this chapter, we use information from the Investment Climate Assessment (ICA) surveys of 51,262 firms in 92 countries between 2005 and 2009. The ICA survey project has been supported by the World Bank. The data collected are relatively consistent across surveys and include both objective measures, such as sales and employment, as well as perceptual measures related to the investment climate, such as whether access to finance is seen as a problem.

We have divided the ICA data, which are collected from individual firms, into three country-related groups:

- Our sub-Saharan African ('African') sample, which covers 18 countries; the full list is provided in Appendix 1.
- A group of 28 non-African 'comparator' countries that have levels of development similar to those of the African sample, which serves as a sort of control group. The group includes Bolivia, the Philippines, Indonesia, India, and Vietnam, but not China (see Appendix 1 for the list).
- A residual group of 'other countries' that are typically either transition economies in Eastern Europe or mid-to-upper-income countries that may be less directly comparable to the African sample.

In a few tables, we provide separate data for the eight Francophone sub-Saharan African ('Francophone African') countries in the African sample; these countries are marked with an asterisk in Appendix 1.

Most of the ICA surveys focus on firms with at least five employees. However, ICA surveys in a handful of countries have focused just on microenterprises with five or fewer employees. Statistics for these firms for eight such countries in Africa, covering 912 firms, are presented separately in the tables below; the countries are listed in Appendix 1.

The ICA data do not have sufficiently complete information on whether firms are officially registered, whether employees pay social contributions, or whether the business pays taxes for us to be able to use these variables to define informality. Instead, we measure informality based on the answers to two questions: Does the firm have a bank account? And does the firm have audited accounts? If the answer is yes in both cases, the firm is formal. If the answer is no in both cases, the firm is informal. In all other cases, the firm is considered semi-formal. Our definition of informality is the result of a more detailed exploratory analysis.

Using our definition, 41% of the firms in our total sample were formal, 11% informal, and the remaining 48% semi-formal (Table 5.1). These proportions hardly vary between Africa, the non-African comparators, and other countries, although informality appears to be slightly more prevalent in Francophone Africa than elsewhere. Not surprisingly, the proportion of African microenterprises that are informal is relatively high (24%), but it is noteworthy that one in five small firms is formal in the sense of having a bank account and keeping proper accounts.

**Table 5.1**  
The incidence of informality by region

<i>Region</i>	<i>Percentage Breakdown</i>				<i>No. of firms</i>
	<i>Informal</i>	<i>Semi-formal</i>	<i>Formal</i>	<i>Total</i>	
<b>African sample</b>	11.1	44.7	44.2	100.0	7,907
<b>Non-African comparators</b>	11.0	48.2	40.9	100.0	19,021
<b>Other countries</b>	11.0	49.0	40.0	100.0	21,653
<b>Total</b>	<b>11.0</b>	<b>48.0</b>	<b>41.0</b>	<b>100.0</b>	<b>48,581</b>
<b>Memo items</b>					
<b>Senegal/Burkina/Benin</b>	12.6	51.0	36.5	100.0	1,188
<b>Francophone African sample</b>	14.2	50.7	35.1	100.0	3,119
<b>African micro-enterprise sample</b>	23.7	55.6	20.7	100.0	907

*Source:* ICA surveys. Totals may not sum to 100.0 due to rounding. Missing values are excluded from the calculations.

Benjamin and Mbaye (2012) found that a relatively high proportion of large firms in Dakar, Cotonou, and Ouagadougou were still operating as informal businesses. There is a sizable variation among firms that have annual sales of at least 500,000 USD and are formal (using our criteria of formality). In Laos and Algeria, fewer than 10% of large firms are formal, and, at the other extreme, almost all the surveyed firms in Nepal and Ecuador are formal. The low proportion of large firms that are formal in Peru (37%) is noteworthy, as this is the country from which Hernando de Soto (1986) drew inspiration in his classic book, *El Otro Sendero* [The Other Path], which detailed the ways in which rules and regulations discourage firms from becoming formal, thereby serving as a drag on economic growth.

## Characteristics of Informal Firms

In this section, we summarize some of the most important characteristics of informal firms, including sector, size, ownership structure, and the characteristics of managers. In the final part of the section, we use TreeNet, a data-mining technique, to help us understand what variables are most closely associated with whether a firm is in the formal sector.

### Sector

From our data, we are able to distinguish four sectors for which the sample sizes are large enough: manufacturing (except garments), trade (wholesale and retail), services, and garments. The sectoral pattern of informality, broken down by geographic region, is shown in Table 5.2. It is clear that the degree of informality does not vary much across sectors and varies only modestly across regions/samples. However, two points are worth noting. First, the garment industry in the African sample is more likely to be informal, and less likely to be formal, than elsewhere. This suggests a clear difference between the industry in Africa, where it is small-scale and domestically oriented (as shown later), and other regions, where a substantial fraction of the industry consists of large, export-oriented firms.

The second point is that African manufacturing is more likely to be formal, and less likely to be informal, than elsewhere. If there is a progression from informal to semi-formal to formal, then the shortage of informal firms—those at an early stage of their life cycle—suggests that manufacturing in Africa risks lagging behind the rest of the world.

**Table 5.2**

Breakdown of formality, overall and by industrial sector and area

	<i>Percentage Breakdown</i>				
	<i>Informal</i>	<i>Semi-formal</i>	<i>Formal</i>	<i>Number of firms</i>	<i>Missing data</i>
<b>African sample</b>					
Manufacturing	9.5	40.1	50.4	2,764	28
Trade	11.1	48.9	40.0	2,299	23
Services	10.5	42.6	46.9	2,200	12
Garments	20.3	55.7	24.0	697	5
<b>Non-African comparators</b>					
Manufacturing	14.8	45.3	40.0	9,370	66
Trade	6.7	51.9	41.4	3,427	71
Services	6.5	48.6	45.0	4,139	98
Garments	9.9	44.2	45.9	1,492	12
<b>Other countries</b>					
Manufacturing	10.8	48.2	41.0	8,211	163
Trade	11.3	52.3	36.5	6,512	304
Services	10.6	46.9	42.4	6,824	127
Garments	15.2	49.3	35.6	688	16
<b>African microenterprise sample</b>					
Manufacturing	19.0	63.3	17.8	381	5
Trade	13.0	57.6	29.4	270	0
Services	16.1	59.2	24.7	110	0
Garments	30.5	52.1	17.5	33	0

Source: ICA surveys

### **Size based on employment**

One measure of firm size is the number of employees. This has the advantage of being less sensitive to the problem of exchange rate conversion encountered when trying to compare measures of sales or value added across countries. Most employees are full-time and permanent, but a significant number of firms hire large numbers of workers on a part-time basis—for instance, to process a harvest or deal with a holiday season. We have incorporated the effect of part-time workers by including the full-time equivalent of the part-time workers. Information on the average time worked by temporary employees is missing for some firms; for these cases, we substituted countrywide mean values.

The distribution of firm size (as measured by employment) is skewed to the right, so mean values are larger than medians, which is why we

**Table 5.3**  
Number of employees (full-time equivalents)

	<i>Informal</i>	<i>Semi-formal</i>	<i>Formal</i>	<i>Overall</i>	<i>Number of firms</i>	<i>Percent large</i>
<b>African sample</b>						
Mean	10.4	19.1	81.3	46.0	7,485	8.2
Median	7.0	9.0	22.0	12.0		
<b>Non-African comparators</b>						
Mean	15.2	50.2	121.6	72.8	16,272	12.6
Median	7.0	14.0	23.0	15.0		
<b>Other countries</b>						
Mean	15.7	31.5	103.9	58.8	21,008	10.0
Median	8.0	12.0	23.0	14.0		
<b>Total</b>						
<b>Mean</b>	<b>14.6</b>	<b>36.5</b>	<b>105.6</b>	<b>61.7</b>	<b>44,765</b>	<b>10.6</b>
<b>Median</b>	<b>7.0</b>	<b>12.0</b>	<b>23.0</b>	<b>14.0</b>		
<b>Memo items</b>						
Percent large	1.8	6.5	19.7	11.2		
<b>African microenterprise sample</b>						
Mean	2.1	2.8	3.1	2.7	729	—
Median	2.0	3.0	3.0	3.0		

Source: ICA surveys

Note: 'Large' firms are those with 100 or more full-time equivalent employees.

present both sets of numbers in Table 5.3. Additionally, the rightmost column shows the percentage of firms that are large (defined as having 100 or more full-time equivalent employees). Two very clear patterns emerge from the results summarized in this table. First, formal firms everywhere are larger than informal or semi-formal enterprises. Second, firms in our African sample are smaller than elsewhere, in any given category.

### **Size based on sales**

Firm size may also be measured by the volume of annual sales. As the ICA data are in local currency units, we converted these to US dollars using the average exchange rates reported in the World Bank's *World Development Indicators* for the relevant years, and then adjusted to 2009 prices using the United States consumer price index.

The pattern in Table 5.4 is clear: the greater the degree of formality, the larger a firm's sales. This is true whether we use the mean values of

**Table 5.4**

Mean sales per firm per year (USD in thousands per year, 2009 prices) by sector, formality, and reference group

	<i>Manufacturing</i>	<i>Trade</i>	<i>Services</i>	<i>Garments</i>	<i>Overall</i>
<b>Informal</b>					
Mean	428	305	807	404	497
Median	51	56	46	24	49
<b>Semi-formal</b>					
Mean	1,711	1,412	1,406	1,380	1,526
Median	189	176	178	177	182
<b>Formal</b>					
Mean	7,564	4,259	8,042	3,075	6,698
Median	651	415	407	901	519
<b>Total</b>					
<b>Mean</b>	<b>3,944</b>	<b>2,390</b>	<b>4,257</b>	<b>1,941</b>	<b>3,535</b>
<b>Median</b>	<b>256</b>	<b>225</b>	<b>212</b>	<b>323</b>	<b>237</b>
<b>African sample: means</b>					
Informal	230	110	153	31	150
Semi-formal	612	387	469	666	501
Formal	5,835	2,663	7,774	1,972	5,457
<b>Totals</b>	<b>3,375</b>	<b>1,254</b>	<b>3,922</b>	<b>990</b>	<b>2,766</b>

Source: ICA surveys

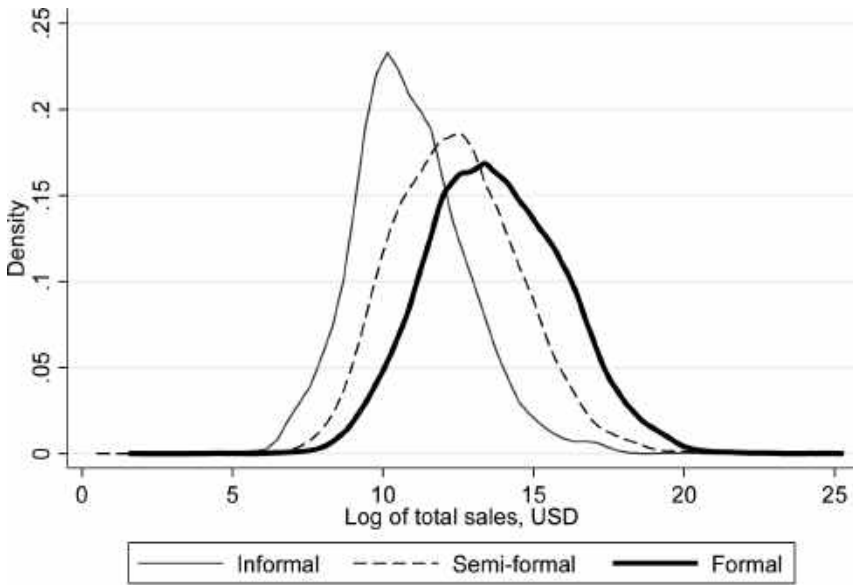
sales or the median values, which are typically about a tenth as large as the mean values. Crudely, sales in formal firms are about three times as large as in semi-formal firms, which are in turn about three times as large as in informal firms. The patterns may also be seen visually in Figure 5.1, which shows the kernel densities for the log of annual sales per firm, by degree of formality.

The geographic information in Table 5.4 shows that the volume of sales by African firms is typically smaller than that of firms elsewhere, particularly for informal and semi-formal firms. However, African formal firms are almost as large as formal firms elsewhere in each of the four sectors considered here.

### **Age of firms**

On average, the firms surveyed by the ICA have been in operation for 15 years (13 years for informal firms and 17 years for formal firms). Interestingly, the difference in age is small, reflecting the tenaciousness of informal firms, and the fact that most of them will not transition





**Figure 5.1**  
 Distribution of sales per firm, by informality  
 Source: ICA surveys

to full formal status. Informal and semi-formal firms in our African sample are particularly young (9 and 11 years, respectively), reflecting perhaps the recent nature of sustained economic growth there. It is also worth noting that microenterprises in Africa are only 9 years old, on average.

**Owners and managers**

The information on the education of the manager/owner in the ICA surveys is scant and unreliable. However, there is some information on other aspects of the owners and managers. On average, the top manager had almost 16 years of experience (either at the firm or elsewhere). This figure was slightly higher in formal than informal firms (16.1 versus 14.4 years), and somewhat lower in the African sample (13.3 years) and among African microenterprises (12.4 years) than elsewhere. However, it is striking how little variation there is overall in the average.

About one firm in three has at least one female owner. Female owners are less common in Africa (30%) and in the informal sector (also 30%) than in the formal sector (37%). It is rare for the top manager to be a woman: only one firm in six is led by a woman, and only one in nine in Africa. However, informal firms are more likely to be run by a woman than formal enterprises.

### **Ownership structure**

Publicly listed companies are exceptionally rare in the African sample, where most of the countries in question do not have stock exchanges. Limited liability companies are also less common in Africa, where the dominant form of the firm is a sole proprietorship.

Not surprisingly, informal firms also tend to be sole proprietorships, while most formal firms have limited liability. But it is noteworthy that just 8% of formal firms outside Africa, and 2% in Africa, are publicly listed. Evidently, the ownership stake of the principal owner is remarkably high, even for formal firms, where it averages 74%. In this respect, African firms resemble their counterparts elsewhere. On the other hand, the concentration of ownership is not any higher for microenterprises than for other firms.

### **Financing**

One of the most common complaints of business people is that they cannot get enough access to credit. Although almost three-fifths of firms had access to credit, the proportions varied from 22% for informal firms, to 39% for microenterprises, and 72% for formal sector firms. Complaints by informal firms about the lack of credit may be justified, although our definition of informal—no bank account and no internal accounts—all but guarantees the results shown here.

The data presented in Table 5.5 show how firms finance their working capital needs. In all cases, at least two-thirds of the financing is generated internally. For informal firms, the figure is close to four-fifths of the total.

Also of some importance is supplier credit, which in most cases provides at least a tenth of these financing needs. Bank credit is also important for formal, but not informal, firms, providing a further tenth of funding. All other listed sources of funding are of minor importance. African microenterprises are as likely to tap bank finance as their larger peers, but are substantially less likely to use supplier credits, relying instead more heavily on internal funds.

### **When is a Firm Formal?**

We now ask what variables are most closely associated with a firm being formal. This issue has been addressed before (Gelb et al. 2009; LaPorta and Shleifer 2008; Ingram et al. 2007), but our sample is larger and more complete than those of most other studies. Among the most common findings in the literature are that formality is associated with:

- Firm size: larger firms are more likely to be in the formal sector.
- Education/managerial talent: the managers of formal sector firms tend to have more education and experience.

**Table 5.5**

Breakdown of financing of working capital by source (percent)

	<i>Informal</i>	<i>Semi-formal</i>	<i>Formal</i>
<b>African sample</b>			
Internal funds	79.2	77.5	66.0
Bank (private or state-owned)	1.3	6.2	12.4
Family/friends	2.1	0.9	0.6
Non-bank financial institution	0.5	1.3	1.9
Supplier credit/customer advance	13.5	12.4	17.7
Other (including informal sources)	3.5	1.6	1.4
<b>Non-African comparators</b>			
Internal funds	81.0	69.6	59.8
Bank (private or state-owned)	3.9	14.0	23.0
Family/friends	2.4	2.7	4.0
Non-bank financial institution	2.5	0.9	1.0
Supplier credit/customer advance	6.9	10.5	9.8
Other (including informal sources)	3.2	2.3	2.4
<b>Other countries</b>			
Internal funds	80.9	74.5	67.7
Bank (private or state-owned)	2.4	9.3	13.5
Family/friends	2.9	2.6	1.4
Non-bank financial institution	0.4	1.1	1.0
Supplier credit/customer advance	12.3	10.6	14.5
Other (including informal sources)	1.1	1.7	1.9
<b>African microenterprise sample</b>			
Internal funds	87.6	83.1	75.5
Bank (private or state-owned)	1.0	6.5	13.3
Non-bank financial institution	2.7	2.5	2.1
Supplier credit/customer advance	4.1	3.3	6.6
Other (including informal, family)	4.6	4.6	2.5

Source: ICA surveys. Includes information for firms for which the components of financing sum to 100%. The columns here do not necessarily sum to 100%, due to rounding.

- Access to land: this is a reason for becoming formally established because informal firms may not have the legal standing required to own land.
- Corruption: it is widely considered that corruption works against firms entering the formal sector because they become more vulnerable to the whims of bureaucrats.

- Access to external finance: the most important single reason to go formal may be to have better access to the financial sector.
- Access to public services such as roads, water, and electricity: formal firms typically have good access to these services.
- Taxation: typically, formal firms pay higher taxes.

In most of these cases, there is the thorny issue of causality. For instance, do well-educated people bring their firms into the formal sector or do formal sector firms attract well-educated people? For now, our interest is in establishing the correlates of being formal—and, by implication, the inverse, which are the variables that are associated with being in the informal sector.

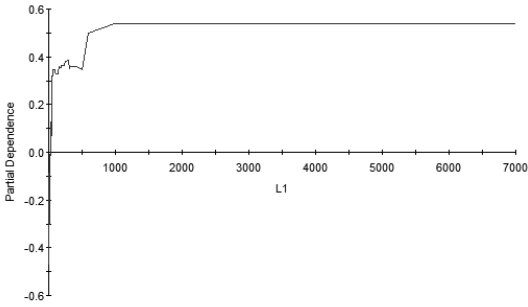
We use a data-mining technique, TreeNet, to attempt to unravel some of these effects. This is a non-parametric technique that makes no assumptions about the distributions of the variables, and is robust to missing values, which are common enough in the dataset. This method thus provides a more solid alternative to the more traditional approach of multinomial logistic regression. A brief description of the methodology can be found in Appendix 2.

Our target variable is the measure of informality, which has three categories: formal, semi-formal, and informal. As predictor variables, whose availability is constrained by the questionnaires used in the ICA surveys, we use the size of the firm (measured by the number of full-time equivalent employees), the years of experience of the top manager working in the firm, whether the top manager is female, the extent to which the education of the workforce is an obstacle, whether corruption is an obstacle, and whether access to finance is an obstacle. Additionally, we use several other controls, including the main sector of the firm's activity, the year in which the firm was established, capital per worker employed, the percentage of sales directed to exports, and whether the firm communicates with clients and suppliers by email or uses a website.

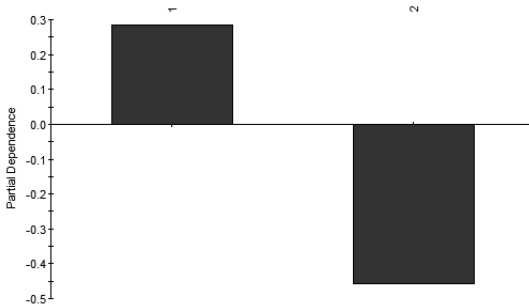
The most interesting results arising from the TreeNet analysis are shown in Figure 5.2, where each of the eight panels displays the partial effect (when other predictors are held constant) of the predictor in question on the propensity for a firm to be in the formal sector. The relative importance of each variable is shown next to each graph, with an index of 100 representing the most important.

The top panel in Figure 5.2 shows that the probability of a firm being in the formal sector rises steeply as size increases to about 50 employees, tapers off, and then increases again.

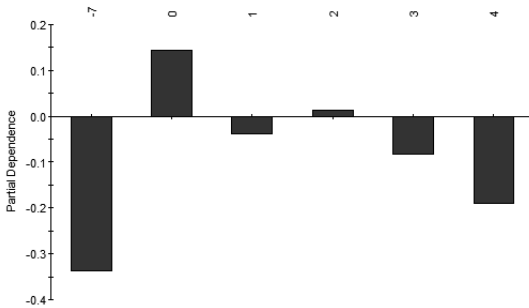
In other words, size and formality go together strongly. The second panel shows that firms that use email are more likely to be formal. In the



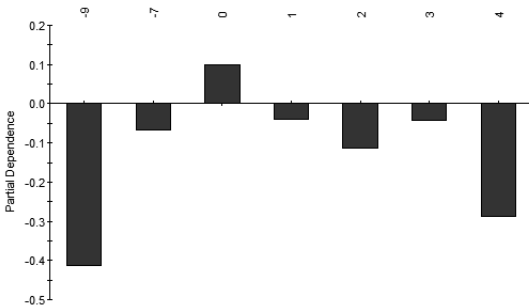
Number of permanent employees.  
Importance = 100



Email communication (yes = 1).  
Importance = 97



Access to finance is an obstacle. Importance = 89  
Note: -7 missing, 0 no obstacle, 1 minor, 2 moderate, 3 major, 4 severe.

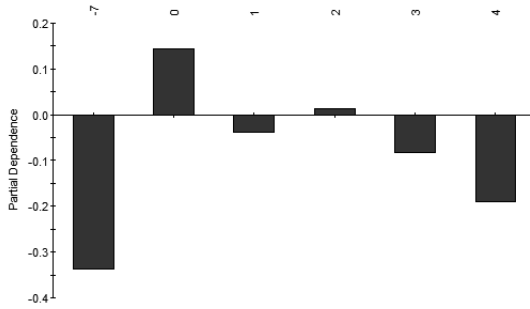


Access to land is an obstacle. Importance = 92  
Note: -7, -9 missing, 0 no obstacle, 1 minor, 2 moderate, 3 major, 4 severe.

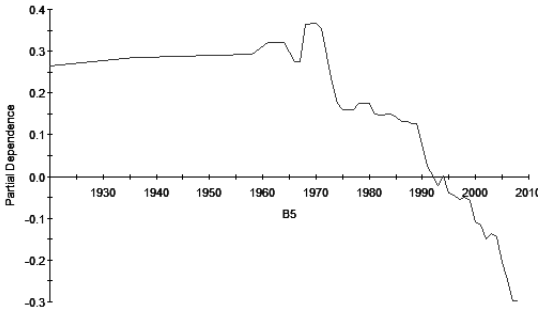
**Figure 5.2** (Continues)

Partial effects of predictors on the probability that a firm is formal

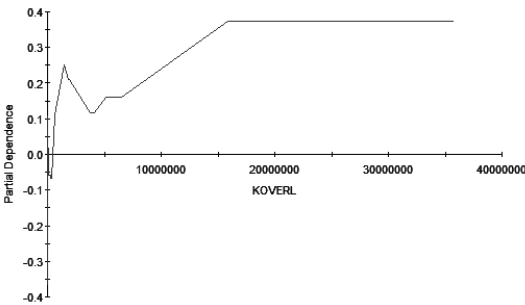
Source: ICA surveys



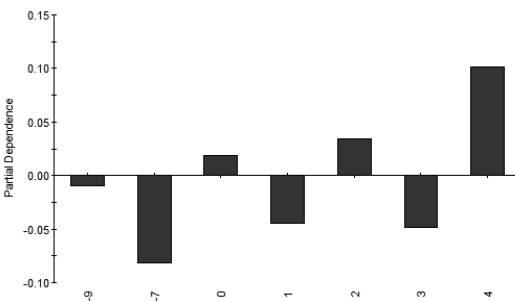
Corruption is an obstacle.  
 Importance = 81  
 Note: -7, -9 missing,  
 0 no obstacle, 1 minor,  
 2 moderate, 3 major,  
 4 severe.



Year in which firm was  
 established.  
 Importance = 81



Capital intensity (US\$/  
 worker, 2009 prices).  
 Importance = 74



Education of workforce  
 is an obstacle.  
 Importance = 76  
 Note: -7, -9 missing,  
 0 no obstacle, 1 minor, 2  
 moderate, 3 major,  
 4 severe.

Figure 5.2 (Continued)

next panels, we see that the more firms perceive it to be difficult to have access to finance (third panel) or land (fourth panel), the less likely they are to be formal.

In fifth and sixth panels of Figure 5.2, we see that firms that report corruption as a minor, rather than a major, obstacle are more likely to be formal. We also see that firms that were established longer ago are more likely to be formal, although the number of firms in the sample that were established before 1960 is quite small. The final two panels in Figure 5.2 are the least influential (of the variables displayed) correlates of formality. In the second to last panel, higher capital intensity is associated with a greater incidence of formality. The final graph is interesting, in that it shows that firms that report that the education of the workforce is a severe obstacle to the firm's development are more likely to be formal.

## **Performance of Informal Firms**

Are formal firms more, or less, dynamic and productive than informal businesses? This is the central issue that we address in this section, looking first at growth and then at productivity. In the latter part of this section, we examine some of the possible explanations for any productivity differential, including capital intensity, the propensity to export, and the use of information technology.

### **Growth**

Most of the ICA surveys asked firms for information on employment and sales at the time of the survey and for the three previous years. This allows one to compute two different measures of the growth rate of the firm over time.

The first measure shown here is the annualized percentage change in employment over the three years prior to the survey; the numbers are summarized in Table 5.6. Overall, the growth in employment was robust, averaging 5.7% per annum (p.a.) for all the firms covered. Expansion was particularly rapid in the African firms in the sample (7.0%) and among informal firms in the African sample (8.2%). For the sample as a whole, the growth of enterprise employment appears to be unrelated to the degree of formality of the firm. At a minimum, lack of formality is not seriously hobbling enterprise employment growth—fortunately, given the enormous need to create jobs in Africa (Fox and Gaal 2008).

These growth rates refer to firms that were included in the ICA surveys. By definition, these are the successful firms, in the sense that they have not collapsed or shrunk into insignificance. This selection bias

**Table 5.6**

Mean growth rate of employment and sales over previous three years

	<i>Informal</i>	<i>Semi-formal</i>	<i>Formal</i>	<i>Overall</i>
<b>Employment</b>				
African sample	8.2	7.6	6.3	7.0
Non-African comparators	5.9	4.2	4.6	4.5
Other countries	4.8	6.5	6.4	6.2
<b>Total</b>	<b>5.7</b>	<b>5.8</b>	<b>5.7</b>	<b>5.7</b>
<b>Memo items</b>				
Senegal/Burkina Faso/Benin	8.1	8.0	6.7	7.5
Francophone African sample	7.1	6.2	4.9	5.8
African microenterprise sample	-10.6	1.4	0.1	-1.0
<b>Real value of sales</b>				
African sample	9.3	4.6	5.4	5.4
Non-African comparators	0.6	2.1	5.0	3.1
Other countries	3.4	8.2	10.0	8.4
<b>Total</b>	<b>3.2</b>	<b>5.1</b>	<b>7.1</b>	<b>5.8</b>
<b>Memo items</b>				
Senegal/Burkina Faso/Benin	0.3	4.0	6.1	4.3
Francophone African sample	11.6	4.1	4.6	5.3
African microenterprise sample	6.0	13.5	13.0	12.7

Source: ICA surveys. Top panel based on 43,916 usable observations out of a total sample of 51,262 firms. African microenterprise sample: 732. Bottom panel based on 37,395 usable observations out of a total sample of 51,262 firms. African microenterprise sample: 362. Mean annual growth rate of sales overall: 5.82%.

means that these numbers do not, as a general rule, give an accurate sense of the growth in enterprise employment overall.

The second measure of growth looks at firm sales. The values of sales at the time of the survey, and three years prior to the survey, were first deflated using a local consumer price index, as wholesale price indexes were not available for most countries.

The real growth rate of firm sales, at an annual 5.8% overall, mirrors that of employment growth. By this measure, growth in the African countries in our sample was slightly below the overall average, although higher than in the non-African comparator sample, as the bottom panel of Table 5.6 shows. Informal firms in the African sample posted very rapid growth in sales (9.3% p.a., and 11.6% for Francophone African countries), in sharp contrast with the experience in the non-African



comparator group (0.6% p.a.). This suggests that informality may be less of a restraint on growth in the African sample than it is elsewhere.

### **Productivity**

There is substantial literature on the question of how productive informal firms are. For instance, Gelb et al. (2009) found that labour productivity was similar for formal and informal firms in East Africa, but not in South Africa. Benjamin and Mbaye (2012) found that productivity is higher in formal firms in Dakar, Cotonou, and Ouagadougou, even after controlling for the sector in which the firm operates. As noted above, the standard argument is that formalization brings access to finance, land, and electricity, which raise a firm's productivity. On the other hand, there are costs to being in the formal sector, including higher taxes and more onerous labour regulations, which may mean that only inherently productive firms can afford to 'go formal'.

The actual measurement of productivity is quite problematic (Charmes 2006), and some authors simply use output per worker (e.g., Gelb et al. 2009). We experimented with the measurement of total factor productivity, but the measures are relatively unstable, and require substantial amounts of information. Further, this information is often missing, thereby reducing the sample size. The compromise is to look at value added per worker per year. We measure value added by subtracting the cost of intermediate inputs (including utilities and transport) from sales. The numbers are converted to US dollars using current exchange rates, and then put into 2009 prices using the US consumer price index. A relatively small number of firms have negative value added, and we exclude these cases from the results reported here. We also exclude all cases where value added per worker exceeds 10 million USD. There are just a handful of such cases and we consider them to be atypical, or perhaps even miscoded.

The numbers for all firms in our sample are summarized in Table 5.7, which shows mean value added per worker in the top row of each group, followed by the median. The results are in line with expectations. Most strikingly, mean value added per worker rises as one goes from informal firms (18,126 USD) to semi-formal firms (42,601 USD) to formal firms (62,187 USD). This information alone does not allow us to determine whether this greater formality is associated with higher productivity, with greater capital intensity, or perhaps even with more monopoly power.

It is also clear from Table 5.7 that mean value added per worker is lowest in the garment sector and highest in trade and services. This pattern holds strongly for semi-formal and formal firms, but not among informal firms, where manufacturing value added is relatively low. On the other hand, median value added per worker per year is just 1,962 USD for informal garment firms.

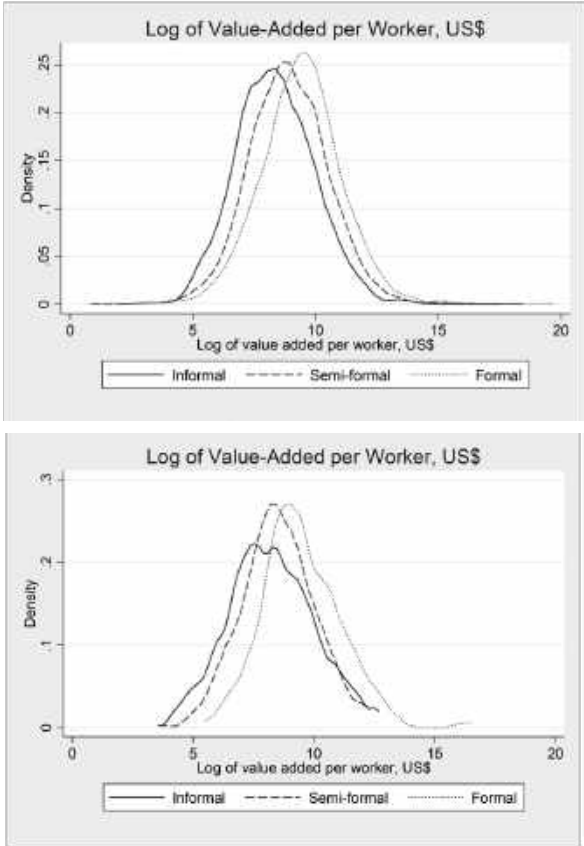
**Table 5.7**

Value added per worker per year (USD, 2009 prices) by sector and formality

	<i>Manufacturing</i>	<i>Trade</i>	<i>Services</i>	<i>Garments</i>	<i>No. of firms</i>
<b>Total sample</b>					
Informal					
Mean	9,941	20,896	30,536	14,556	3,232
Median	3,368	5,174	5,297	1,962	
Semi-formal					
Mean	28,976	54,383	54,606	18,908	15,571
Median	6,293	11,614	10,940	4,087	
Formal					
Mean	51,436	74,845	73,201	20,358	15,589
Median	11,387	18,933	15,111	6,260	
<b>Total</b>					
<b>Mean</b>	<b>35,850</b>	<b>58,790</b>	<b>60,477</b>	<b>18,969</b>	<b>34,392</b>
<b>Median</b>	<b>7,583</b>	<b>13,336</b>	<b>11,854</b>	<b>4,759</b>	
<b>African sample</b>					
Informal					
Mean	5,844	8,770	8,227	2,611	583
Median	2,850	2,162	1,611	1,540	
Semi-formal					
Mean	12,281	17,590	29,880	9,755	2,668
Median	4,631	6,581	4,999	2,821	
Formal					
Mean	28,806	45,754	51,662	11,065	3,200
Median	11,233	12,409	12,741	7,133	
<b>Total</b>					
<b>Mean</b>	<b>20,611</b>	<b>27,728</b>	<b>38,145</b>	<b>9,150</b>	<b>6,451</b>
<b>Median</b>	<b>7,133</b>	<b>7,951</b>	<b>7,237</b>	<b>3,293</b>	
<b>Francophone African Sample</b>					
Informal					
Mean	4,511	4,852	7,943	1,531	264
Median	2,307	2,219	1,399	1,182	
Semi-formal					
Mean	11,842	15,510	24,722	2,919	1,088
Median	2,883	4,236	4,756	2,193	
Formal					
Mean	48,116	44,214	62,337	3,842	829
Median	8,422	11,893	12,895	3,685	
<b>Total</b>					
<b>Mean</b>	<b>25,903</b>	<b>21,239</b>	<b>38,894</b>	<b>2,649</b>	<b>2,181</b>
<b>Median</b>	<b>4,032</b>	<b>5,199</b>	<b>5,937</b>	<b>1,851</b>	

These patterns also hold for the firms in the African sample, with an important caveat: African firms have labour productivity that is only half as high as the worldwide levels, for each category of firm (informal, semi-formal, and formal), and within each of the four sectors examined here (see Figure 5.3). When the median levels of labour productivity are used, firms in the Francophone African countries are even smaller than the broader African group. However, the mean value added per worker in the Francophone sample is in line with that of the full African sample, suggesting that in the Francophone countries there is greater dualism, with some very large and productive firms coexisting with many rather small firms with low labour productivity.

The remarkably low levels of value added per worker in African garment firms is striking, and especially in the Francophone area, where the



**Figure 5.3** Distribution of the log of value added per worker, by formality: for standard ICA surveys (top) and for microenterprises (bottom)  
 Source: ICA surveys

mean value is under \$4,000, even in the formal sector, and less than half this in informal garment firms. A number of countries, including Vietnam, Cambodia, and Bangladesh, have seen economic growth fuelled by the rapid expansion of productive garment factories, but this model of economic development is not evident in the African countries represented here.

### **Wages**

Theoretically, firms in a competitive labour market would be expected to hire workers to the point where compensation equals the marginal revenue product of labour. Thus, information on wages and benefits paid to employees provides an alternative, and arguably better, measure of (marginal) labour productivity. The relevant data are summarized in Table 5.8.

**Table 5.8**

Mean wages and benefits paid per worker per year (USD, 2009 prices) by sector and formality

	<i>Manufacturing</i>	<i>Trade</i>	<i>Services</i>	<i>Garments</i>	<i>Total</i>
<b>African sample</b>					
Informal	2,217	1,077	1,127	1,266	1,432
Semi-formal	3,619	1,813	2,163	2,890	2,559
Formal	6,535	3,578	4,725	3,956	5,149
<b>Total</b>	<b>5,071</b>	<b>2,428</b>	<b>3,277</b>	<b>2,996</b>	<b>3,647</b>
<b>Non-African comparators</b>					
Informal	2,849	1,726	8,489	3,828	3,666
Semi-formal	3,581	3,351	6,844	2,488	4,244
Formal	5,488	5,011	3,510	1,894	4,496
<b>Total</b>	<b>4,140</b>	<b>3,894</b>	<b>5,442</b>	<b>2,364</b>	<b>4,282</b>
<b>Other countries</b>					
Informal	2,566	3,087	4,553	1,826	3,339
Semi-formal	5,689	8,321	8,164	3,109	7,178
Formal	6,541	18,124	8,574	8,600	10,306
<b>Total</b>	<b>5,722</b>	<b>11,370</b>	<b>7,926</b>	<b>5,111</b>	<b>8,009</b>
<b>Memo items:</b>					
<b>Microenterprises</b>					
Informal	3,431	480	1,304	494	3,055
Semi-formal	2,114	2,577	2,267	901	2,194
Formal	5,241	4,148	2,464	2,118	4,284
<b>Total</b>	<b>2,849</b>	<b>3,119</b>	<b>2,226</b>	<b>1,002</b>	<b>2,794</b>

Source: ICA surveys

Note: Sample size is 34,392 firms out of a maximum possible total of 51,262. Sample confined to firms with value added per worker greater than zero and less than US\$10 million.

Some very clear themes emerge from Table 5.8. First, on average, compensation paid by formal firms is generally higher than in the informal sector.<sup>2</sup> There are a number of possible explanations for this: perhaps formal firms use more educated labour (so they do not necessarily pay higher wages for any given class of labour skills); or maybe the tax and administrative burdens on formal firms mean that only the most productive firms can survive in the formal sector; or perhaps there are barriers to entry into the formal sector, so formal sector firms have some monopoly rent that they share with their workers.

A second theme is that, on average, wages are lower in the African sample than elsewhere, though this is not the case if one focuses just on formal sector firms. One possibility is that formal sector firms are relatively heavy users of skilled labour, which commands a strong wage premium in the African sample, as such skills are still relatively scarce.

### ***Capital and labour intensity***

We now need to try to explain the evident differential in labour productivity between informal and formal firms, and for this we first look at capital intensity, and then at the roles of exporting and of technology.

Value added per worker will generally be higher when the capital-to-labour ratio is higher—in other words, when production is relatively capital intensive. The mean capital per full-time equivalent worker is 206,000 USD (in 2009 prices) (see Table 5.9), but this likely reflects the effect of some highly capital-intensive firms, such as utilities. The median amount of capital per worker is just 4,932 USD, but it is less than half of this level in the African countries in our sample (and less than a fifth as high in the Francophone African sample), and far lower in informal than formal firms. By any standard, the amount of capital in informal firms in the African sample is very low, at just 370 USD per worker.

The flip side of capital intensity is labour intensity. Labour costs represent about half of total costs, and this proportion varies little across region or between formal and informal firms. A more detailed breakdown does show that labour costs represent roughly three-quarters of total costs in the services sector, and that this proportion does not vary much over region or formality.

### ***Investment***

We have shown clearly that informal firms have less capital per worker than their formal sector counterparts. It is sometimes argued that

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<sup>2</sup>Oddly, for the comparator countries, informal sector wages are inversely related to formality for services and garments. It is unclear why this is the case; it may reflect the limitations of the ICA database in capturing the informal sector.

**Table 5.9**

Mean and median capital per full-time equivalent worker (USD, 2009 prices)

	<i>Informal</i>	<i>Semi-formal</i>	<i>Formal</i>	<i>Total</i>
<b>African sample</b>				
Mean	2,511	18,206	17,366	16,031
Median	370	1,404	4,799	2,383
<b>Non-African comparators</b>				
Mean	27,019	443,830	463,089	398,685
Median	1,395	5,305	6,546	4,932
<b>Other countries</b>				
Mean	9,719	25,322	43,222	30,279
Median	745	4,867	8,723	5,229
<b>Total</b>				
<b>Mean</b>	<b>16,553</b>	<b>251,975</b>	<b>208,095</b>	<b>206,045</b>
<b>Median</b>	<b>1,395</b>	<b>5,305</b>	<b>6,546</b>	<b>4,932</b>
<b>Memo: African microenterprise sample</b>				
Mean	n.a.	4,044	5,082	4,077
Median	n.a.	1,747	4,485	2,541
<b>Memo: Francophone African sample</b>				
Mean	1,659	3,450	8,480	4,607
Median	381	707	2,149	893

Source: ICA surveys. Memo: Based on a sample of 14,976 firms, out of a maximum possible total of 51,262 (i.e., 36,286 missing values).

informal firms might be expected to invest less, and less often, than formal firms, because they lack access to funding. This is partially due to a lack of collateral, and because there are limits to how large an informal firm can grow.

We marshal the relevant numbers in Table 5.10, which shows investment per firm in US dollars in 1999 prices. Investment spending is hugely skewed to the right, and a few very large projects raise the mean values far above the median. Thus, if the purpose is to focus on a 'typical' firm, it is more appropriate to refer to the median rather than the mean values.

From Table 5.10 we see that the median investment spending per firm is 22,950 USD per year, ranging from 3,791 USD in informal firms to 38,608 USD in formal firms. This ten-to-one ratio mirrors the median level of sales, which is ten times higher in formal than informal firms (see Table 5.3), so it is by no means clear that informal firms are relative under-investors. Investment by firms in the African sample is comparatively modest, especially as measured by median investment.

**Table 5.10**  
Investment levels and rates

	<i>Investment levels (USD per firm, 2009 prices)</i>			
	<i>Informal</i>	<i>Semi-formal</i>	<i>Formal</i>	<i>Total</i>
<b>African sample</b>				
Mean	30,617	67,276	355,358	209,427
Median	1,383	4,236	30,740	10,795
<b>Non-African comparators</b>				
Mean	146,001	1,521,812	2,156,685	1,755,318
Median	5,000	24,302	31,486	26,098
<b>Other countries</b>				
Mean	94,970	138,898	732,810	406,971
Median	5,404	18,339	49,621	27,724
<b>Total</b>				
<b>Mean</b>	<b>95,404</b>	<b>615,506</b>	<b>1,181,265</b>	<b>849,127</b>
<b>Median</b>	<b>3,791</b>	<b>16,202</b>	<b>38,602</b>	<b>22,950</b>
	<i>Investment rate as a percent of total capital</i>			
African sample	31.5	25.6	26.3	26.5
Non-African comparators	17.3	17.3	17.9	17.6
Other countries	29.7	30.4	30.5	30.4
<b>Total</b>	<b>25.4</b>	<b>22.6</b>	<b>23.3</b>	<b>23.2</b>
<b>Memo items</b>				
Senegal/Burkina/Benin	31.6	21.1	17.6	23.2
Francophone African sample	25.7	31.6	37.6	32.5
African microenterprise sample	n.a.	15.0	48.4	24.5

*Source:* ICA surveys. Top panel based on 39,247 observations out of a maximum possible total of 51,262. Cases with investment above 100 million USD are excluded. Bottom panel based on a sample of 11,165 firms out of a maximum possible total of 51,262. Cases where investment exceeds 500% of capital are excluded.

We can combine the information on investment and capital stock to present investment as a percentage of the capital stock, as done in the bottom panel of Table 5.10. The overall mean proportion is 23%, and this does not vary much between informal and formal firms. By this measure, the African firms in our sample are dynamic (or optimistic) relative to the non-African comparator sample (26% versus 18%). The informal firms in the African sample are particularly vigorous, with investment equivalent to 32% of the reported value of capital (but 26% in Francophone Africa), despite relatively modest access to credit. This helps to explain our earlier finding that the growth of informal firms is not less than that of formal businesses.

### **Propensity to export**

It is possible that formal firms are more productive because they are more likely to be striving to compete on world markets. This is at best a partial explanation, because most firms do not export any of their goods or services, which helps explain why exports represent just 8.2% of total sales in our whole sample (see Table 5.11). The figure is half this level (4.2%) for the African sample and is lower in informal than formal firms (3.2% and 11.3%, respectively).

As expected, exporting is more important for firms in manufacturing and garments than in retail/wholesale trade or services. Formal sector firms in the garment industry are particularly oriented to exporting: over two-thirds of sales by formal sector garment firms in the non-African comparison group consist of exports. By this standard, the garment

**Table 5.11**

Value of exports as a percentage of total sales, by sector and formality

	<i>Informal</i>	<i>Semi-formal</i>	<i>Formal</i>	<i>Overall</i>
<b>African sample</b>				
Manufacturing	2.7	3.9	9.5	6.6
Trade	2.1	1.1	2.5	1.8
Services	0.1	1.0	3.4	2.0
Garments	2.1	8.6	18.9	9.7
<b>Non-African comparators</b>				
Manufacturing	6.0	10.8	14.2	11.9
Trade	1.5	2.1	2.9	2.4
Services	2.4	3.7	5.3	4.4
Garments	12.4	40.0	68.2	52.1
<b>Other countries</b>				
Manufacturing	3.5	8.7	15.1	10.8
Trade	1.2	1.9	3.9	2.5
Services	0.9	4.4	8.2	5.6
Garments	9.4	17.4	33.3	21.9
<b>Total</b>	<b>3.1</b>	<b>6.5</b>	<b>11.3</b>	<b>8.2</b>
<b>Memo: African microenterprise sample</b>				
Manufacturing	3.8	3.8	10.1	5.0
Trade	2.3	3.6	8.9	5.0
Services	0.0	0.1	10.6	2.4
Garments	0.0	0.0	15.0	2.6
<b>For exporters only</b>	<b>46.9</b>	<b>47.8</b>	<b>45.7</b>	<b>46.5</b>

Source: ICA surveys



industry in the African sample is a laggard. Less than 10% of its sales go to exports, which means that the industry is essentially serving the domestic market.

Firms that do export quickly come to rely heavily on exports. Exports account for almost half of sales by those firms that export anything at all, though the figure is close to a third for African exporters.

### ***Use of information technology***

Productivity may also be linked to the use of technology. Three-fifths of all firms use email, with a lower proportion in Africa (about half) than elsewhere. The information on the proportion of firms using email to communicate with clients and supporters is somewhat approximate because email has spread rapidly, and its use expanded rapidly between 2005 (the year of the first surveys) and 2009 (the year of the most recent surveys in our study).

Informal firms make far less use of email than formal firms. This is probably not a characteristic of informality per se, but of the relative lack of technological sophistication, and resources, of informal firms. A similar pattern appears in the use of the Web to be in touch with clients and suppliers. One firm in three uses the Web, but the rate is only about half this high in Africa, and a mere 11% among informal firms. As a general proposition, it is not clear whether email and Web use leads or lags other features of business development, but the technological lag in Africa is evident.

Approximately one firm in seven has an international quality certification. The rate is slightly lower in the African sample than elsewhere, where only one in twenty informal firms has such an imprimatur.

## **Firm Perceptions of Barriers and Constraints**

The ICA surveys typically ask respondents to indicate which obstacles, from a long list, are the most important, second most important, and third most important. This is helpful in providing some perspective on the ranking of constraints facing firms. In Table 5.12, we show the proportion of firms that mention the problem as either a first, second, or third most serious obstacle, and we have sorted the obstacles from those that received the most mentions (access to finance, tax rates, electricity, and so on) to the least mentioned. Not every survey listed all the obstacles shown in Table 5.12, and this lack of cross-country consistency does make the results somewhat harder to interpret. For the most part, there is little difference in the rankings by formal and informal firms, although some differences are noted below.

**Table 5.12**  
Main obstacles faced by firms

	Overall	African sample	Non-African comparators	Other countries	Senegal/ Burkina Faso/Benin
Access to finance	30.9	51.1	38.1	22.7	56.7
Tax rates	30.3	37.4	32.3	27.2	45.6
Electricity	27.5	52.5	37.0	17.8	58.6
Practices of informal competitors	25.8	34.2	32.7	21.6	46.0
Corruption	21.0	23.9	31.9	16.0	21.6
Political instability	18.8	10.9	30.2	15.7	4.2
Inadequately educated workforce	16.4	14.6	21.2	14.9	8.3
Crime, theft, disorder	15.8	29.6	18.5	12.5	8.0
Macroeconomic instability	12.9	6.2	19.4	12.1	0.0
Tax administration	12.6	14.7	18.5	9.0	18.5
Access to land	9.4	19.6	14.8	5.0	19.8
Labour regulations	9.1	6.5	12.7	7.9	2.1
Transportation	9.1	22.5	10.6	5.9	24.1
Business licensing and permits	7.6	15.0	8.6	6.1	7.7
Customs and trade regulations	7.0	11.1	10.1	5.0	15.6
Court system/dispute resolution	3.2	2.3	4.1	3.1	1.2
Telecommunications	1.5	3.3	1.9	1.0	1.7
Regulatory policy uncertainty	0.4	0.0	1.5	0.0	0.0
Political and macroeconomic framework	0.4	0.0	0.9	0.3	2.9
Functioning of the courts	0.3	0.4	0.5	0.2	0.0
Other	0.3	0.2	0.8	0.1	0.0
Regulation of prices and margins	0.3	0.0	0.9	0.0	0.5
Zoning rules	0.0	0.0	0.0	0.1	1.4

Source: ICA surveys

Dissatisfaction about *access to finance* is widespread, as is typical in such surveys. African respondents, in particular, complain about a lack of access to credit. Informal firms are substantially more concerned about access to credit than are formal sector firms. One interpretation is that formality (measured here as having a bank account and having audited accounts) opens the door to credit, while another is that successful firms simultaneously use credit and become formal, so that causality flows from a third source. Survey responses to this question are notoriously difficult to interpret, as firms always want cheaper credit, but their willingness and ability to repay are often doubted by lenders.

*Tax rates* and, to a much lesser extent, *tax administration*, are seen as serious problems, particularly in Africa, although to a somewhat lesser extent for the informal sector. As with responses to perceptions about access to credit, this is not easy to interpret: are taxes really too high or too arbitrary, or are respondents not used to having to pay taxes? In most of the world, *business permits and licensing* are irritants more than a serious problem. However, an interesting exception is the Senegal/Burkina Faso/Benin group, where these are viewed as problems, especially by formal firms. *Customs and trade regulations* are not seen as a major problem anywhere, except perhaps among formal firms in Senegal/Burkina Faso/Benin. Informal firms are especially unconcerned, perhaps because they are less likely to be exporters or importers. On paper, many African countries have tough *labour laws*, but in practice this does not appear to pose problems to firms, especially informal firms. Unsurprisingly, formal firms are somewhat more likely than others to see labour regulations as a problem, albeit a modest one. Restrictions on hours of operation are not at all a concern in Africa—unexpectedly—and they affect informal firms just as much as other firms. Restrictions on pricing and mark-ups are viewed as somewhat more serious, but, in Africa at least, such regulations do not pose real problems.

Concerns about infrastructure vary. *Electricity* is a serious problem, particularly in Africa, for both formal and informal firms. This confirms what is known anecdotally, but points to a major correctable weakness in the business environment in many countries. A weak electricity supply hits informal firms only slightly more than formal ones. On the other hand, *telecommunications* are viewed as less of a problem in the African sample than elsewhere, and less among informal than formal firms. These surprising results may reflect lower expectations in Africa and among informal firms, or perhaps communications are simply not much of an obstacle anymore, particularly for small firms, given the spread of mobile telephony. On the other hand, African microenterprises do report problems with telecommunications. Concerns about *transportation* are somewhat higher in the African sample than elsewhere and are quite serious in the Senegal/Burkina Faso/Benin subsample. However, even in Africa, transportation is not viewed as one of the more serious obstacles facing businesses.

Unexpectedly, *macroeconomic stability* is viewed as less of a problem in Africa than elsewhere in the world. This could potentially be attributable to the relative price stability of the numerous CFA countries, but then the high concern with macroeconomic stability in Senegal/Burkina Faso/Benin looks more puzzling. Africa may have an image as the continent of political instability, but businesspeople there do not seem to be

too concerned: the problem of political instability is viewed as far more serious elsewhere, particularly in Latin America and the Caribbean. Informal firms are slightly less worried about political instability than are formal firms. Perhaps informal firms are less visible targets in times of political uncertainty.

On the other hand, *corruption* is generally seen as a more serious problem than political instability. Even here, African firms view it as less of a problem than in most other areas of the world, although African microenterprises see it as a serious obstacle. The striking exception here is the East Asia and Pacific region, where corruption is not seen as much of an obstacle to business. These findings do not necessarily imply that there is no corruption, but they do infer that it is not unduly intrusive, and it may perhaps even be helpful, to firms.

The *court system* is often viewed as an obstacle to the development of enterprises by tying up disputes for years, for instance, or rendering judgments (e.g., on payments) too slowly. In practice, the court system is not widely seen as a problem in the ICA surveys, especially in Africa; perhaps there are other mechanisms at work when disputes arise. However, while the courts may seem benign, *crime, theft, and disorder* are seen as relatively serious problems, particularly among formal firms in Africa. Possibly, formal firms are easier to target. Additionally, *access to land* is seen as a larger problem by the African sample than elsewhere, and quite a serious problem in Senegal/Burkina Faso/Benin. In the African sample, *zoning restrictions* are not seen as a problem, although it is noteworthy that informal firms are more likely to see a problem here than are formal firms. Ultimately, while land may be difficult to get, once a firm has the land it can be used for almost anything.

Unexpectedly, African firms are less likely to feel constrained by an *inadequately educated workforce* than firms elsewhere in the world; informal firms are also relatively unconcerned by the educational levels of workers. It is not clear how best to interpret this finding. One possibility is that there is a strong pool of relatively well-educated (but possibly unemployed) workers in Africa, so finding skilled labour is not unduly difficult. Another possibility is that African firms are doing simple work, and do not need as much skilled labour. A third view is that African firms do not adequately grasp the importance of a well-educated workforce. Without further information, it is hard to choose between these interpretations.

*Informal sector competitors*, who are presumably less fettered by regulations and are no doubt seen as competing unfairly, are seen as a significant obstacle, even by other informal sector operators. The reasons behind this concern are unclear, but it is possible that informal sector

firms are viewed as having an ‘unfair’ advantage by being less subject to taxes and regulations.

## Conclusions

Throughout this chapter, we have presented a series of comparisons between formal and informal firms, and between firms in Africa, in comparator countries, and African microenterprises. All the data came from ICA surveys, undertaken between 2005 and 2009.

Informal firms are defined as businesses that neither keep formal accounts nor have a bank account, formal firms do both, and semi-formal firms do one but not the other. Even using this relatively narrow definition—the best we could do given data limitations—we find patterns that are by now quite familiar. Compared to their formal or even semi-formal peers, informal firms are smaller and younger, their managers are less experienced, they are more likely to be privately owned, and they are largely internally financed.

Informal firms perform poorly in a static sense, in that they have lower value added per worker and pay lower wages. This reflects their lower level of capitalization and the fact that they are less likely to export, or to use email or the Web. Yet, if performance is measured by growth, then informal firms do as well as, if not better than, formal firms. The simplest explanation is that despite financial and perhaps other constraints, they invest as heavily, relative to their capital stock, as formal firms do.

There are certainly barriers to growth and efficiency. Informal firms complain especially about poor access to finance and the poor quality and availability of electricity. Yet, informal firms can also be nimble, seeming relatively unperturbed by the constraints imposed by labour laws, business permitting, telecommunications, and the legal system.

In their article, La Porta and Shleifer (2014) argue that there are three main views of the informal sector. One sees it as an “untapped reservoir of entrepreneurial energy” (La Porta and Shleifer 2014, p. 109), the opposite view is one of “parasites competing unfairly with law-abiding formal firms” (La Porta and Shleifer 2014, p. 109), and the third, which they favour, is a dualistic story where “development comes from formal firms” led by better-educated entrepreneurs whose more-productive firms eventually displace the low-technology informal businesses (La Porta and Shleifer 2014, p. 110). Using our definition of informality, we find informal enterprises to be as dynamic as their formal counterparts—including in Africa, even Francophone Africa—in that they invest proportionately as much and grow at least as fast. There is entrepreneurial energy, but

it is not untapped or even particularly suppressed. Informal firms do not complain unduly about the burden of regulation. Mainstream firms do complain about the practices of 'parasitic' informal competitors, but enough informal firms complain about taxes that they cannot all be free riders. The dualism of the business sector can be overstated: there appears to be a continuum, from small enterprises producing cheap and simple goods and services to large sophisticated firms. Certainly, most small businesses, whether formal or informal, do not grow to be very large, but there is a middle ground, somewhere between informal and formal, that is too substantial to overlook.

African firms are somewhat smaller than their counterparts in countries elsewhere that have a similar level of development, and especially so in Francophone Africa. The typical manager of an African firm is less experienced than elsewhere, and less likely to be female. Very few African firms are publicly listed, and informal and semi-formal firms have low levels of capitalization, poor access to credit, and low levels of labour productivity. On the other hand, formal African firms have levels of labour productivity and wages that are on a par with formal firms in the comparator countries, and they are growing at least as rapidly as firms elsewhere in the world, despite serious complaints about electricity and some concerns about transportation, crime, theft, and disorder.

In one important area, African firms are clearly lagging. Garment firms in Africa are very small, poorly capitalized, have low productivity, and almost exclusively serve their domestic markets. This is in sharp contrast with the larger, more productive, outward-looking garment factories that are common in less-developed countries outside Africa. Perhaps, to borrow from David Morawetz's celebrated phrase (1981), we need to ask why the Emperor's New Clothes are Not Made in Africa. The significance of high unit labour costs and labour market regulations is addressed in Chapters 6 and 7.

From a policy perspective, it would be wrong to overlook or ignore informal firms. They demonstrate real dynamism, and, for this reason, they merit support from the institutions of government at least as much as their larger and more-established formal peers.

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## APPENDIX 5.1

### ICA Surveys by Category

<i>Country</i>	<i>Survey year</i>	<i>Sample size</i>	<i>Country</i>	<i>Survey year</i>	<i>Sample size</i>
African sample		7,965	Non-African sample		19,260
Ghana	2007	494	Bolivia	2006	613
Angola	2006	425	Colombia	2006	1,000
Cape Verde	2006	98	Peru	2006	632
Gambia	2006	174	Paraguay	2006	613
Tanzania	2006	419	Ecuador	2006	658
South Africa	2007	937	El Salvador	2006	693
Senegal	2007	506	Guatemala	2006	522
Madagascar	2009	445	Albania	2009	175
Mauritius	2009	398	Georgia	2008	373
Côte d'Ivoire	2009	526	Uzbekistan	2008	366
Mali	2007	619	Kazakhstan	2009	544
Benin	2009	150	Moldova	2009	363
Kenya	2007	781	Macedonia	2009	366
Burkina Faso	2009	393	Kyrgyz Rep.	2009	235
Cameroon	2009	363	Nepal	2009	368
Zambia	2007	603	Bhutan	2009	250
Niger	2009	150	Laos	2009	360
Ethiopia	2006	484	Philippines	2009	1,326
African microenterprise sample		912	Algeria	2007	600
Burkina Faso	2009	123	Morocco	2007	659
Cameroon	2009	120	Indonesia	2009	1,444
Cape Verde	2009	115	Pakistan	2007	935
Côte d'Ivoire	2008	92	Bangladesh	2007	1,504
Madagascar	2008–2009	113	Moldova	2009	363
Mauritius	2008–2009	86	India	2005	2,286
Nepal	2009	145	Vietnam	2005	1,150
Togo	2009	118	Laos	2009	360
			Cambodia	2007	502



## APPENDIX 5.2

# Methodology for Data Analysis (TreeNet)

### Brief description of the TreeNet methodology

The objective of a TreeNet analysis is to obtain a more precise understanding of any non-linear relationships between the propensity for a firm to be in the formal sector and a set of ‘predictors’, as well as of any interactions among the predictors. Indeed, TreeNet is recommended as a tool to be used once the main predictors have been identified and data quality issues treated (Salford Systems 2012). Although the direct interpretation of a TreeNet model is difficult, the graphs that arise from the procedure, and which display the impact of each predictor separately, are straightforward enough (Salford Systems 2012).

The main idea of the TreeNet methodology is as follows. Let us first note that a decision tree can be viewed as a function of the predictors (referred to as a step-function) that is constant on each terminal node. To simplify the exposition, first consider a continuous target variable  $Y$ . A simple tree based on two predictors  $X_1$  and  $X_2$ , represented in Figure A2.1, yields the following step function:

$$Tree(X_1, X_2) = \bar{Y}_1 \text{ if } X_1 \leq a$$

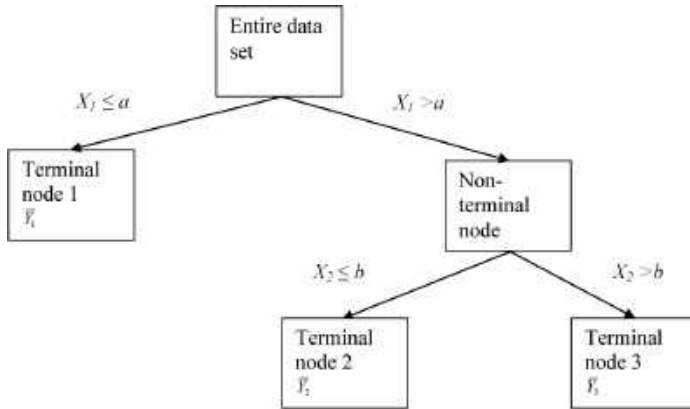
$$Tree(X_1, X_2) = \bar{Y}_2 \text{ if } X_1 > a \text{ and } X_2 \leq b$$

$$Tree(X_1, X_2) = \bar{Y}_3 \text{ if } X_1 > a \text{ and } X_2 > b$$

where  $\bar{Y}_1, \bar{Y}_2, \bar{Y}_3$  are the means of the target variable on each of the three terminal nodes 1, 2, and 3.

The idea of the TreeNet procedure is to use not just one step function corresponding to one tree as an approximation of the true function which links  $Y$  to a set of predictors  $X$ , but instead to propose a sum of such step functions, each corresponding to a tree with a fairly small number of nodes. Each added tree acts as a ‘boost’ to the performance of the previous approximation. So, the approximation proposed by TreeNet is of the form:

$$F(X) = \bar{Y} + \beta_1 tree_1(X) + \beta_2 tree_2(X) + \dots + \beta_M tree_M(X)$$



**Figure 5A2.1**

Simple decision tree with two predictors

Source: Authors

In this expression, the  $\beta_p$ , as well as the splits in the successive trees, are determined by a gradient descent algorithm (see Friedman 2001), which at each added tree aims to minimize the mean square error of the approximation. To avoid the risk of overfitting, the number of trees involved in the approximation is controlled by cross-validation or evaluation of the approximation on a test sample. In the case of a categorical target variable, as for example formality (three levels: informal, semi-formal and formal), the mean square error is replaced by a suitable error function in the gradient descent algorithm (see Friedman 2001).



# The Failure of Structural Transformation in Francophone Africa and the Rise of the Informal Sector

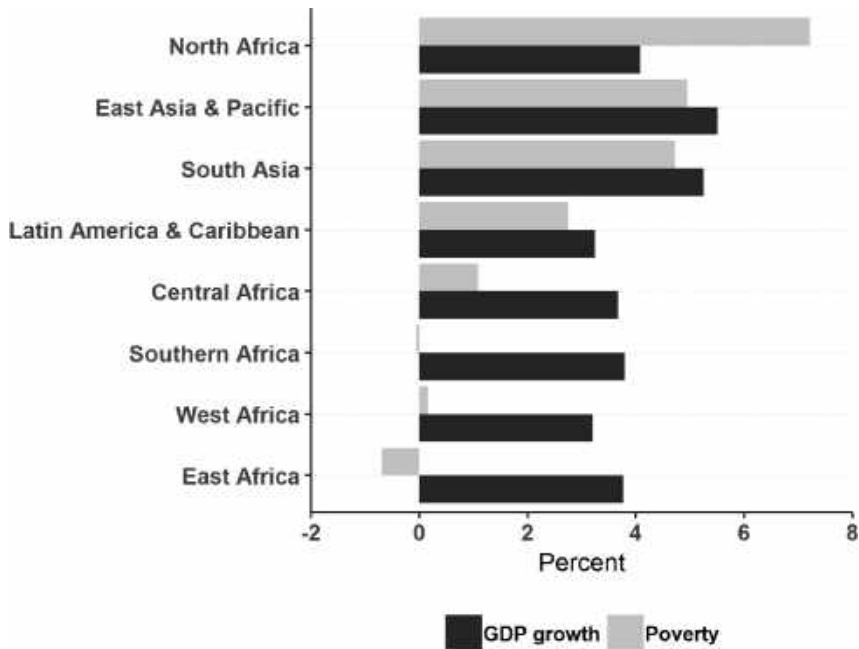
*Nancy Claire Benjamin and Ahmadou Aly Mbaye*

## Introduction

In many developing countries, rapid economic growth and poverty reduction have been the result of successful structural transformation—the shift of production from low to higher productivity sectors, mainly agriculture to manufacturing (Rodrik 2016). In sub-Saharan Africa (SSA), the much-improved growth performance over the last two decades has not been accompanied by a corresponding gain in formal employment and poverty reduction. Figure 6.1 shows the average annual growth rates and cumulative reduction of the poverty rate over 1970–2014. While North Africa, East Asia, South Asia, and to a lesser extent Latin America had impressive declines in poverty, all regions of SSA had minimal or no poverty reduction, despite sizeable GDP growth rates.

This reflects the fact that in SSA, much of the counterpart of the declining share of output and employment in agriculture is the rise of the service sector, which is mostly in the informal sector. The informal sector has become the dominant employer in SSA and accounts for about half of the total value added in SSA. Furthermore, the low productivity observed in informal activities relative to formal activities suggests that the overall productivity factors would increase by shifting them to formal activities.

A further important feature of successful structural transformation is that growth results from reallocation of factors *between* sectors in addition to any growth within sectors. Figure 6.2 shows that in African countries, unlike in Asia, there is little growth attributable to ‘between sector’ reallocation over the period from 1990 to around 2015. For most countries in our sample, the ‘within sector’ component of productivity growth is higher than the ‘between sector’. For resource rich countries like Nigeria and Mozambique, growth has been very high but without any structural



**Figure 6.1**

Annual GDP growth and cumulative poverty reduction in various regions, 1970–2014

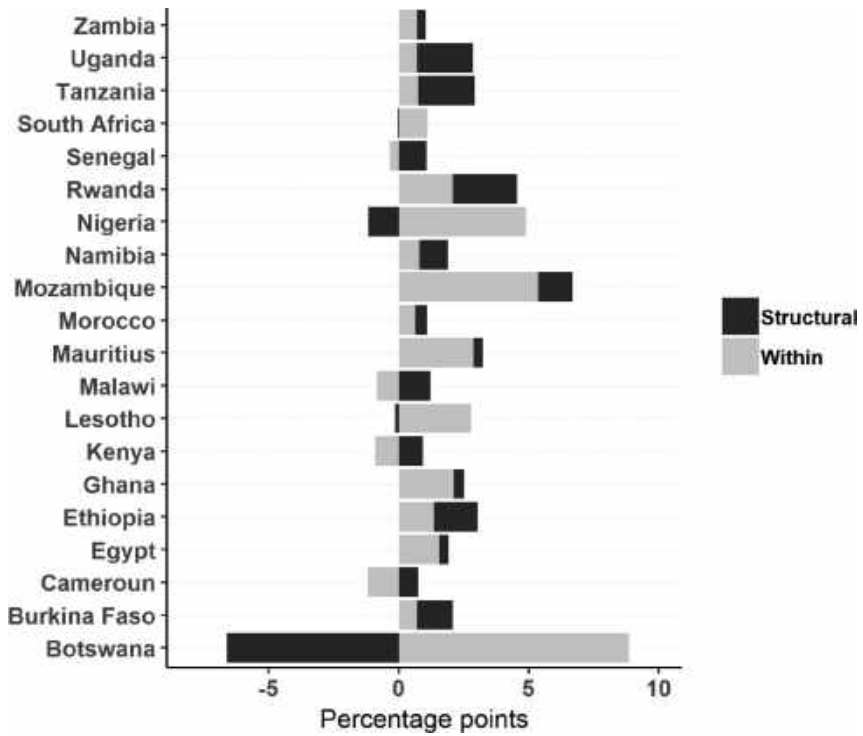
*Note:* Percent changes are compound annual growth rate and unweighted regional averages

*Source:* Authors' calculation from Penn World Tables (Groningen Growth and Development Centre 2019a)

transformation. An extreme case of this general trend is Nigeria, where the structural transformation term is actually negative, as the economy's dependence on oil has increased. Even Botswana's impressive growth is entirely due to the 'within sector' component, reflecting the high reliance on the mining sector. For many resource-poor countries like Senegal and Malawi, growth has been much less impressive, as 'between sector' growth has been too low to compensate for low 'within sector' growth.

The distribution of productive factors matters for both structural transformation (between agriculture and the other sectors) and informality (between formal and informal business models). At the crux of the two distributions is the issue of productivity, and, thereby, the ways that transformation and informality affect economic growth.

The main messages include the following: relative returns to factors in the urban and rural sectors in Africa have given rise to substantial rural-urban migration, where employment opportunities for migrants and non-migrants alike are overwhelmingly in the informal economy. Thus, the informal sector is already the draw for transformational out-migration from agriculture. The main challenge is the modernization of



**Figure 6.2**

Decomposition of economic growth into structural change (between sectors) and within-sector growth, 1990–2010s

Source: Authors' calculation based on the GGDC database (Groningen Growth and Development Centre 2019b)

informal economic activity. The informal sector is quite diverse, with a strong majority of small subsistence firms, but also an influential layer of large, sophisticated, informal firms. These informal actors represent a large cadre of clients for business services and social services, but experience difficult relations with government and lack institutional support. Policy should focus on what constrains rapid modernization of the informal economy and thus inhibits access to the benefits of modernity, including higher productivity. Instead, policies often concentrate rents<sup>1</sup> into a small number of hands, raising factor costs for formal firms and in turn reducing the incentives for modern, international firms to provide an engine of modernization for the informal economy. Much of the data used in this chapter is drawn from the surveys described and presented in Chapters 2 and 4.

<sup>1</sup>The term “rents” refers to cases where people earn an income which is not commensurate with their level of effort nor the level of risk involved in the endeavour.

The remainder of this chapter is organized as follows: the first section reviews the dominant characteristics of the informal sector in Africa, the second describes some key aspects of the institutional environment in Francophone Africa and their implications for the informal sector and structural transformation, the chapter then addresses impediments to growth and formal employment, the following section analyzes the implications from the previous section's analysis for structural transformation, and the chapter concludes with recommendations.

## **The Informal Economy**

As noted in earlier chapters, in SSA, the informal economy is highly diverse. Chapters 2 and 4 stress the importance of distinguishing large from small informal firms in describing behaviour and identifying obstacles in the investment climate. While the vast majority of informal firms are very small, large informal firms play a major role. A firm that chooses to be informal in a country with weak regulatory enforcement can become quite large and may have strong incentives to do so.

Both formal and informal firms need relationships of trust to secure inputs, get credit, and market their products. When formal institutions fail to provide effective property rights, firms can, to some extent, internalize these relationships of trust if they are large enough. Sometimes, becoming 'large enough' can take the form of informal religious and ethnic networks. These can substitute for official institutions that should (but often fail to) support arms-length trading in the formal sector (Golub and Hansen-Lewis 2012).

As discussed in previous chapters, informal employment is overwhelming in West Africa. The informal economy employs most of the workers from vulnerable groups, including women and youth. By and large, the urban informal sector has open entry and provides employment for those leaving agriculture, which is the core migration underlying structural transformation. Finally, the vast majority of small businesses and microenterprises operate in the informal economy. Inevitably, given the lower productivity of workers in the informal sector, their contribution to GDP is less than proportional to their numbers, but still large.

### ***Rural-urban migration***

Rural-urban migration is one of the most important determinants of the rise of the informal labour force in the developing world. Becker (2004) documents the magnitudes of such internal migration trends in developing countries and finds them to be astonishingly high in some instances.

For Africa, Kessides (2006) finds that the urban population has almost doubled in 15 years, mostly due to such migrations. As the classic Harris and Todaro (1970) model explains, migrants will flock to urban areas even if prospects of formal jobs are low, given that the wages in these jobs are so much higher than in rural areas. Most migrants end up in the urban informal sector rather than outright unemployment. Bhattacharya (2002) emphasizes, however, that the urban informal sector can be quite dynamic and is not simply a pool of surplus labour. As discussed in Chapter 4 and other literature, there are large disparities in access to basic services (education, health, and other infrastructural services) and earning opportunities between rural and urban areas that drive rural-urban migration in Africa. Fox and Gaal (2008) find that average earnings in informal services are higher than in agriculture by at least 50% in the majority of the African countries they studied.

### **Employment trends**

Table 6.1 shows Senegal’s employment in certain broad sector categories for 2011 and 2015, with estimates based on household surveys. The figures reflect the fundamental trend of structural transformation: employment declines in agriculture, but it also declines in other tradable goods sectors, namely, industry, and a concomitant rise in non-tradables, ‘Other services’. Given the steep requirements for becoming a global competitor in manufacturing, the performance in the other services sector will become increasingly important in Africa. This is also a sector where lack

**Table 6.1**  
Household survey employment estimates in Senegal  
(percent)

<i>Sector</i>	<i>Formal/Informal</i>	<i>2011</i>	<i>2015</i>
<b>Agriculture</b>	Formal	0.8	0.3
	Informal	55.1	36.1
<b>Industry</b>	Formal	2.8	1.3
	Informal	10.7	7.8
<b>Trade</b>	Formal	1.2	1.9
	Informal	16.5	18.0
<b>Other services</b>	Formal	2.5	5.6
	Informal	10.3	29.0
<b>Total</b>	Formal	7.4	9.1
	Informal	92.6	90.9

*Source:* Senegal Statistical Agency (ANSD 2011 and 2015) and authors’ calculations

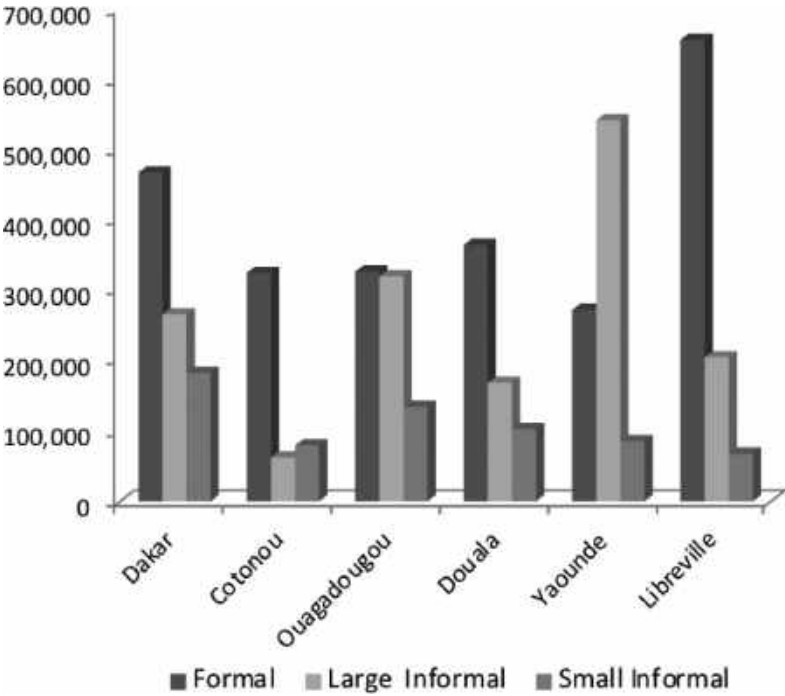


of quality control and regulatory oversight can be especially damaging to informal operators.

Using these employment figures to make rough estimates of labour productivity, it appears that the gap between formal and informal productivity is growing over time in most sectors.

**Informal incomes**

The lower productivity in the informal sector also translates into lower wages. Figure 6.3 shows very large earnings differentials between formal and informal workers, which are well documented across countries and geographical regions (Gasparini and Tornarolli 2007), particularly for Africa (Benjamin and Mbaye 2012). Chen et al. (2005) observe that economic growth has not resulted in improved standards of living in the informal sector. Braude (2005) found that education levels were much higher in the South African formal sector than the informal sector. These educational differentials undoubtedly contribute to differences in earnings between workers in the two sectors, albeit with substantial variation among informal workers.



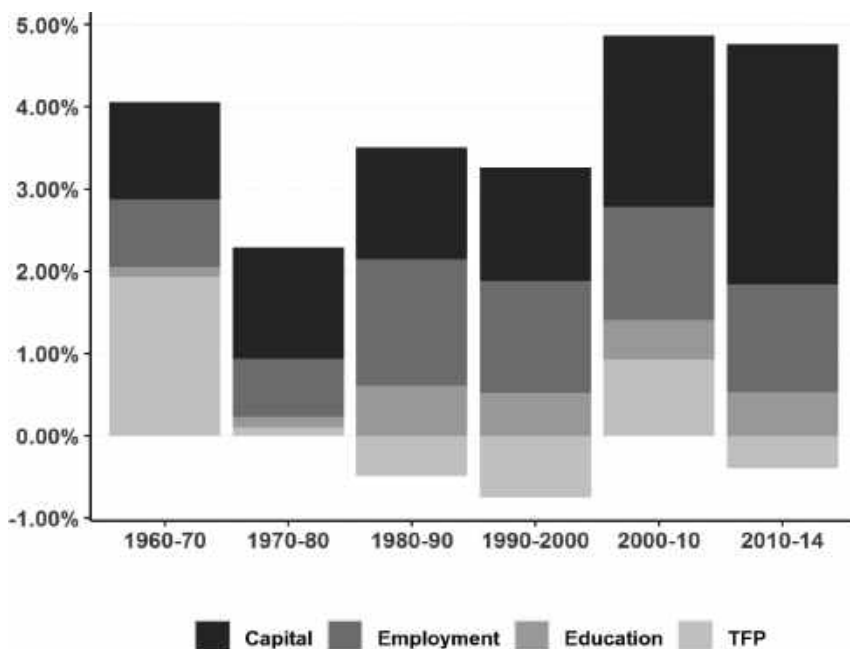
**Figure 6.3**  
 Average monthly wage by formal/informal status, FCFA  
 Source: Authors' surveys and calculations

High-paying public or formal sector jobs are protected, but also rationed. Figure 6.3 shows that Libreville in Gabon, an oil exporter with the highest per capita GDP among the countries represented, has the highest wages for employees of formal firms. However, the employees of small informal firms in Libreville are paid no more than the corresponding employees in five other Francophone African cities. The incomes of employees of small informal firms show the greatest degree of uniformity across the locations studied.

### Productivity

Low productivity growth is a further manifestation of the rising role of the informal sector and the lack of structural transformation in Africa. Figure 6.4 shows Total Factor Productivity (TFP) growth has been minimal or even negative in SSA.

Part of the explanation for the low productivity growth in Africa is that informal firms usually have lower productivity than formal firms.



**Figure 6.4**

Growth decomposition for Africa by decade

Note: Data included for 13 countries until 1980 and for 28 countries through 2014

Source: Authors' calculation based on the Penn World Tables (Groningen Growth and Development Centre 2019a)

Thus, as the formal sector stagnates while the informal sector expands, economy-wide productivity growth is reduced. This is also the case in West Africa, as confirmed in Benjamin and Mbaye (2012) and in Chapter 9. Large informal firms, described in Chapter 2, have productivity levels that are usually between those of formal and small informal firms and sometimes even higher than that of formal firms. In general, the closer to formal a firm is, the higher productivity it tends to have. The fact that large informal firms' productivity sometimes rivals that of the formal sector confirms Gelb et al.'s (2009) finding that the institutional environment deters many firms from formalizing.

There is some empirical evidence to suggest that this wide range of productivity across firms can compound the difficulties of programs designed to raise productivity growth (Aghion et al. 2005). Some policies try to foster productivity growth by increasing competition. However, this approach may not be effective where there is a wide variance in firms' attributes and productivity.

Benjamin and Mbaye (2012) examine TFP in addition to labour productivity. TFP controls for capital intensity, yet they find the same positive correlation between TFP and formality as for labour productivity. This shows that differences in capital intensity alone cannot explain differences in labour productivity between formal and informal firms.

Interviews and surveys in West Africa reveal that large informal firms, in particular, usually have fragile structures. They have sizeable sales and a large number of temporary workers but are run like a family firm insofar as they have a small number of permanent employees, no specialized departments, such as human resources or finance, and seldom survive the death of the owner or a falling-out with political patrons.

The informal sector's *modus operandi* and organizational structure are not conducive to productivity growth. These features include weak management structures, lack of transparency, reliance on rents associated with political and social connections, and sub-optimal allocation of productive factors (including reliance on family sources for credit). Informality also inhibits modern management skills and worker training, limiting growth potential and access to the world market. The fact that these informal firms pay little tax and can avoid regulations gives them an unfair competitive advantage over formal firms, thus discouraging domestic and foreign investment, although relations between formal and informal firms can also be complementary, as discussed in Chapters 3 and 4. Furthermore, tax evasion by the informal sector in general, and large informal firms in particular, entails a substantial loss of fiscal revenues.

## Institutional Environment

The crucial role of the institutional environment in fostering the informal sector is discussed in Chapters 3 and 4. Here we provide further evidence that the business environment remains quite hostile in Francophone African countries. Table 6.2 shows the time and costs involved in starting a business in Francophone Africa and in some more successful comparator countries. Costs remain very high in Francophone Africa and well above those of the comparator emerging economies by most measures. The number of steps required to start a business is not markedly different between the two groups, but the time involved and costs in Francophone Africa are much higher. Likewise, the number of taxes affecting businesses, and the tax rates on income, are high in almost all Francophone African countries. Labour market regulations are also perceived as onerous, as discussed in the following chapter. Furthermore, many of these nations face marked political instability and corruption.

### Infrastructure

As seen in Chapter 4, firm managers have a dim view of the quality of infrastructure and public services. The countries under study rank poorly in the World Bank Investment Climate Assessment for the criteria of ‘obtaining access to electricity’ and in ‘numbers of days of electrical

**Table 6.2**

Costs of starting a business and paying taxes in selected Francophone African countries and comparators, 2019

<i>Economy</i>	<i>Starting a business</i>			<i>Paying taxes</i>		
	<i>Procedures (number)</i>	<i>Time (days)</i>	<i>Costs (% of income per capita)</i>	<i>Payments (number per year)</i>	<i>Time (hours per year)</i>	<i>Total taxes (% gross profit)</i>
<b>Benin</b>	5	8	3.5	57	270	57.4
<b>Burkina Faso</b>	3	13	42.5	45	270	41.3
<b>Cameroon</b>	5	13	24.6	44	624	57.7
<b>Gabon</b>	7	31	6.1	50	632	47.1
<b>Senegal</b>	4	6	32.0	58	441	45.1
<b>Botswana</b>	9	48	0.6	34	120	25.1
<b>Chile</b>	7	6	5.7	7	296	34.0
<b>Malaysia</b>	9	13	11.6	8	188	39.2
<b>Mauritius</b>	4	5	0.9	8	152	22.1
<b>Vietnam</b>	8	17	5.9	10	498	37.8

Source: World Bank (2019) *Doing Business*

**Table 6.3**  
Average electricity tariff in select countries, around 2015

<i>Country</i>	<i>Average Electricity Tariff in USD</i>	<i>Price as a Percentage of GDP per capita</i>
<b>West/Central Africa</b>		
Gabon	0.21	1.0
Cameroon	0.12	3.4
Senegal	0.23	9.8
Benin	0.22	10.5
Burkina Faso	0.23	14.7
<b>East/Southern Africa</b>		
South Africa	0.06	0.4
Botswana	0.08	0.5
Mauritius	0.19	0.8
Ethiopia	0.04	3.2
Tanzania	0.15	7.1
Rwanda	0.21	13.4
<b>Developed Economies</b>		
USA	0.12	0.1
France	0.19	0.2
Australia	0.29	0.2
Japan	0.26	0.3

*Source:* Blimpo and Cosgrove-Davies (2019)

outages per year'. Table 6.3 further illustrates the lack of competitive electrical infrastructure in the countries of interest. Electricity prices in West and Central Africa are among the highest on the continent. However, as a ratio of GDP per capita, these prices are some of the highest in the world. The combination of low reliability, poor quality, and high prices is a substantial impediment to investment. Moreover, the percentage of paved roads is low.

### **Financing**

Even when commercial banks in West Africa are willing to lend to smaller firms, informal firms have a strong preference for other sources of financing, as shown by the low uptake on lines of credit offered by government and aid agencies. Chapter 4 reported an overwhelming reliance on personal savings, retained earnings, or loans from family members, even for formal firms.

Bank loans are expensive for all countries in West and Central Africa, as also seen in Chapter 4. Formal firms frequently pay 15% interest, while

informal firms report paying 20% or more, despite very low inflation rates. Further, many firms report difficulty in repaying loans, particularly informal firms.

### **Labour**

Formal wages are high relative to productivity in West Africa, particularly compared to the major exporters of East Asia. Golub et al. (2018) studied African competitiveness vis à vis China. In Table 6.4, overall productivity is proxied by GDP per capita, given the unavailability of employment data. Compared to per capita GDP, manufacturing wages are very high in SSA relative to a number of other countries. In 2010, most Asian countries, including China, had average annual manufacturing wages roughly equal to per capita income. The same is true in other regions. In SSA, however, wages are typically several times per capita GDP. The only exception is Mauritius and, to a lesser extent, South Africa. These high formal sector wages in Africa are far above informal sector wages, as previously noted.

### **High Factor Costs: Causes and Consequences**

Predictably, expensive infrastructure, high capital costs, and high formal sector wages lead to a large share of firms operating in the informal sector, where the main advantage is paying lower wages and lower taxes. Given the low international competitiveness revealed by the cross-country wage comparisons, export-oriented manufacturing production is almost non-existent. Formal firms are primarily foreign multinationals serving the domestic market that have no choice but to pay formal wages and formal taxes, but also benefit from import protection and other special advantages.

Mbaye, English, and Golub (2015) confirm that formal firms in Senegal in import-competing industries such as sugar, vegetable oil, and wheat flour benefit from protected rents, either in the form of high import taxes, monopoly rights to import key inputs, or privileged access to government contracts. The traditional saying is, “governments tax elites and elites tax the rest through high prices.” Large informal firms often benefit from rent protection as well. In particular, where the regulatory regime distinguishes a legal, regulated segment of a sector, large informal operators may benefit from protected rights to exploit the unregulated segment. This can include informal rights to smuggling routes, protected rights to engage in untaxed retail commerce, or informal rights to supplement the rationed public transport (with vans or motorcycle taxis).

**Table 6.4**

Annual manufacturing wages, selected countries in Africa and other regions (current USD)

Country	2000		2010	
	Level in USD	Relative to Per Capita GDP	Level in USD	Relative to Per Capita GDP
<b>sub-Saharan Africa</b>				
Burundi	NA	NA	3,261	14.9
Cameroon	3,088	5.3	NA	NA
Ethiopia	771	6.3	807	2.4
Ghana	1,832	4.9	NA	NA
Kenya	2,118	5.2	2,854	3.6
Malawi	436	2.8	2,045	5.7
Mauritius	3,254	0.8	6,285	0.8
Senegal	3,680	7.8	6,450	6.5
South Africa	7,981	2.6	12,331	1.7
Tanzania	2,296	7.5	1,581	3.0
<b>North Africa</b>				
Egypt	2,028	1.3	3,453	1.2
Morocco	4,123	3.2	6,654	2.4
Tunisia	4,066	1.8	5,455	1.3
<b>Latin America</b>				
Brazil	5,822	1.6	10,918	1.0
Colombia	4,096	1.6	4,680	0.8
Mexico	8,048	1.2	7,310	0.8
<b>Asia</b>				
Bangladesh	NA	NA	680	1.6
China	1,016	1.1	4,770	1.1
India	1,356	3.0	2,619	1.8
Indonesia	929	1.2	1,897	0.6
Malaysia	4,405	1.1	6,548	0.7
Vietnam	NA	NA	1,727	1.3
<b>Eastern Europe</b>				
Czech Republic	3,964	0.7	12,673	0.7
Latvia	3,689	1.1	9,191	0.8
Poland	5,829	1.1	10,162	0.8

Source: Golub et al. (2018)

In some cases, the informal participation of government officials in the business may help ensure this protection.

There are two main implications of these observations. First, the rents associated with protected sectors, even in poor countries, are worth the efforts of formal firms to capture a portion of them. Second, when certain firms have access to artificially high rents, labour will tend to demand its share (Azam and Ris 2001). Thus, high formal manufacturing wages, in part, reflect overall protected rents in the sector.

This kind of rent distribution is not unusual in developing countries. When a certain share is allocated to a small number of elite firms and their workers, adding high wages to the other expenses of formal operations discourages the entry of new formal or modern enterprises, the sector stagnates. An interesting example can be found in the literature debunking the myth that the Dutch suffered from Dutch disease following the exploitation of natural gas fields in the 1960s and 70s. The subsequent stagnation of the traditional manufacturing sector in the Netherlands was found not to derive from a foreign exchange windfall, but rather from policies that raised social welfare benefits leading to higher wage taxes and an economy-wide increase in labour costs (Kojo 2015; Kremers 1986). While the Dutch policy may have instigated an economy-wide labour cost increase, in West Africa the high wages occur in the public sector and the formal private sector. Oil production in Central Africa has undoubtedly contributed to high public sector wages.

The message for entrepreneurs is clear: either cultivate and capture rents or operate in the informal sector. The message for multinational firms is also clear: do not come to these countries to manufacture with cheap labour because the formal labour is not cheap. From the list in Table 6.4, only Mauritius, with manufacturing wages close to GDP per capita or overall productivity, has a strong record as a manufacturing exporter, and Ethiopia only recently so. The message is also a familiar one in West Africa: control of rents is more lucrative than raising productivity.

Given the strong advantage of paying the lower informal wage, it is understandable that formal firms hire people informally (off the books) in addition to their formally registered workers. Maintaining a formal veneer makes the company eligible for public contracts, cheaper credit, and more reliable infrastructure, while informal hiring provides access to workers at a lower wage and lower wage taxes. This occurs frequently in the construction sector where formal companies bid on projects, but informal workers provide much of the labour. Labour surveys in North Africa indicate that a majority of the people who report being informally employed are in fact working for formal companies (Gatti et al. 2014). Evidence from our surveys in Central and West Africa shows that formal



firms pay a significant number of workers less than the minimum wage; in Cameroon, around 10% of formal sector workers earn less than the official minimum wage of 36,000 FCFA per month.

In sum, international competitiveness is hampered by a number of constraints. The business environment is generally hostile, and it can be nearly impossible to operate in the formal sector without political connections. Infrastructure and public services are poor and factor costs are high. Competitive wages and eased labour market regulations are necessary to attract foreign investment in export-oriented manufacturing and other traded goods and services. Thus, formal firms are concentrated in protected import-competing and non-tradable sectors, and exports of labour-intensive manufactured goods are non-existent.

### **Why Formal Firms are not Better Engines for Jobs in the Informal Economy**

The abundant literature on foreign direct investment spillovers demonstrates that instances can certainly be found in which formal firms serve to improve the fortunes of informal enterprises. However, the relationships between formal and informal firms need to be examined in detail in order to understand the optimal conditions to make this happen, and how often this occurs. Chapters 3 and 4 demonstrate that relations between formal and informal firms can sometimes be fiercely competitive and sometimes cooperative in the form of outsourcing, but seldom of a nature that contributes to progress and development in the informal economy.

The sectors where we observe the most formal/informal competition over market share are those where government policy (i.e., a ban, regulation, tax, or subsidy) has created a kind of dual regulatory regime that is exploited by informal operators. In pharmaceuticals, formal quality standards allow room for informal products that may be cheaper, but lack quality control. Bans on the imports of used cars into Nigeria create opportunities for informal smuggling from Benin. Nigerian subsidies on gasoline lead to extensive smuggling into all neighbouring countries, including Benin. While all these activities create employment opportunities, the jobs are typical of informal commerce and do not appear to be a solid basis for development. And, where the business relies on publicly protected rents, formal/informal competition over these rents squelches any incentives for collaboration that would allow formal firms to contribute to modernization of the informal sector.

Narula and Pineli (2016) show that positive spillovers from multinational enterprises depend on the incentives they face. In West Africa,

formal firms limit their subcontracting to informal firms largely to distribute their own products rather than produce for export. For example, multinationals hire local distributors to market imported fabric. Formal cement-makers hire informal companies to distribute their product and telecommunications companies hire locals to sell prepaid phone cards. Those who have these jobs prefer them over most alternatives available in informal commerce, but they are hardly the path to prosperity.

As discussed in Chapter 4, surveys in West Africa show that while large firms frequently sell products to small firms, a much smaller share (as low as 2% in Dakar) buy from small firms. Thus, by and large, foreign firms are not outsourcing production of their products to Africa; they are outsourcing marketing of their own products in Africa.

As also noted in Chapter 3, among the more modern services, the IT sector is an area with high potential outsourcing from major operators to smaller ones. However, our interviews revealed that such outsourcing is limited by the weak capacity of SMEs and corruption in both public and the private sector procurement.

## **Implications for Structural Transformation**

Structural transformation typically consists of workers migrating out of agriculture, many at first move into manufacturing, and later increasingly into services as manufacturing plateaus. Evidence shows (Herrendorf, Rogerson, and Valentinyi 2014) that the plateau in manufacturing employment occurs at about the same level of GDP per capita in today's developing countries as it did in developed economies. However, the leveling off, or even contraction of manufacturing, is occurring at much lower levels of national income in Africa than for other developing countries (Rodrik 2016). The exodus from agriculture continues, but these migrating workers largely end up in low-productivity informal manufacturing and services, and connections to the modern sector are not strong. Informal urban incomes exceed those of subsistence agriculture but are still well below formal sector earnings.

Henderson et al. (2018) have pointed out that developed countries that underwent structural transformation 100 to 200 years ago did so at a time when transportation costs were still high, and thus local demand gave rise to local production. At present, lower transport costs and globalized production have landed cheap consumer goods at everyone's door, limiting the need for local production. As Fox et al. (2013) and others have observed, current demographic trends indicate that the modern sector in Africa will not be able to absorb the migration out of agriculture for

decades to come. Thus, informality plays an important role in present-day structural transformation, not only in absorbing the bulk of transitioning workers, but also in providing clues as to why modernization is not keeping pace and where policy can be most constructive.

Many of the pertinent issues come under the domain of governance and economic management. West African governments have not been successful in providing reliable infrastructure at reasonable prices. The sagas of several network utilities provide abundant evidence that rent-seeking interferes with service delivery. In the capital markets, poor contract enforcement leads to high borrowing costs. Similarly, government acts as the gatekeeper to formal, legal operations of firms in their countries, leading to high formal wages and stagnation of formal manufacturing. It also leads to a kind of dual regulatory regime where formal firms follow formal rules and informal firms, unable to meet these standards, are only partially regulated. Some institutional arrangements are designed specifically to accommodate informal firms, such as the presumptive tax regime that is practiced in most Francophone African countries (described in Chapter 2). However, loose enforcement of accounting standards and lax cross-checking across different agencies lead to abundant abuses of these regimes (Benjamin and Mbaye 2012). In particular, large informal firms with high revenues find ways to pay minimal taxes under the lower presumptive tax regime.

The informal economy is excluded from public services that benefit the formal regime. Health insurance and pensions are particularly lacking. Certification of skills for workers is a problem, especially in construction. Lagging certification of standards for services is also a barrier to modernization, particularly for the information technology sector.

The informal sector has low barriers to entry and opportunities for those with little education and no capital. However, this open entry generates large numbers of firms operating at low productivity, with ownership or management structures that fail to incorporate modern systems. Even the large and sophisticated informal firms, close in productivity to formal firms, still tend to operate like family firms in ways that keep them below the efficiency levels of their formal counterparts.

## **Recommendations**

While the characteristics of the informal economy can help point out some weak links in the modernization process, it can also indicate points of entry where policy can help improve the level of earnings in the sector, the largest employer in the Francophone African economies. The

most direct approach is to raise the skills of informal workers by providing better basic education and vocational training. Training in business management for SMEs has a decidedly mixed record, but, in certain targeted sectors, it could help.

Policy regarding formalization should focus on large informal firms (as also discussed in Chapter 8). These already have the capacity to function like formal firms, and a more rule-based regulatory enforcement could induce them to shift to formal firm status. It is difficult for any government to implement a viable development strategy when many major players are allowed to operate outside the system. Stricter rules should also apply to government officials involved in public or private businesses.

In between the large informal firms that could be formalized and the microenterprises that need basic assistance, there is a large segment of firms that are not able to follow formal rules and still need public goods and services. Important aspects of these firms' performance (i.e., productivity, profitability, employment, and longevity) can be improved along the informality spectrum, rather than following a simple formal-informal dichotomy. While all these aspects of firm performance are important, the issues of productivity and employment have the greatest social impact. For these firms, policy should focus less on registration and taxes and more on what inhibits modernization and access to the benefits of modernity.

When presented with the option of being formal or informal, these semi-informal firms have little reason to opt for formality. Yet surveys and interviews tell us that there are many intermediate bargains they would be willing to make. While firms want better governance and better public services, governments want better tax compliance (as do compliant tax-paying firms). A public-private bargain can enhance both public performance and private participation in the formal regulatory regime, including contributions to public finances. The dialogue on this mutual need for reform must include broad participation from the informal economy and not be confined to constituents focused on defending the status quo.

Most informal firms would be willing to pay a little more in taxes if they could be guaranteed an increase in public services. Where trust in the public sector is low, government may need to make the first move. The specific services that small informal businesses seek most vary across locations and across sectors, so learning about the type of public service improvements that are most highly sought by informal firms and workers remains an important task.

Morocco, for example, has launched a public program that subsidizes social insurance for informal workers (Mbaye and Gueye 2014). While

government ends up with the bill for social insurance, it encourages informal workers to formally register so at least the government knows about them.

In the capital markets, it is important to recognize that most formal credit instruments do not match the high-risk nature of informal businesses, hence the weak response to microcredit programs and the stronger preference for more personal sources of financing. The high-risk character of informal business income and their lack of collateral need to be considered when finding ways to increase access to credit.

Finally, governments need to alter the structure of protected rents and wages. The relative incentives of productivity growth versus rent capture need to be rebalanced. Structural transformation in the current globalized economy requires a new view of how developing countries can provide a welcoming environment for modernizing forces while ensuring the welfare of its informal workers.

The informal economy has, and will continue to have, a substantial role in structural transformation in Africa. However, while it continues to absorb workers migrating out of low-productivity agriculture, it will also limit the potential for growth and productivity until modernizing forces exert more influence. The large or sophisticated firms can be expected to formalize as governments are more systematic in ensuring the benefits to those that do so. Formal wages may continue to decline toward per capita GDP, and this might make more African locations competitive for international grade manufacturers. Regardless, governments should focus on improving the regulatory environment for non-retail services, including IT, as these sectors can make important contributions to modernization. Experience in providing public services to the middle layer of informal businesses and their workers should improve their civic participation and generate efficiencies from extending the coverage of the regulatory framework. However, institutions that restrict allocations of rents will need to be checked to avoid counteracting modernization.

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# The Role of Labour Market Regulation in Deterring Formal Employment, with a Focus on Senegal

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## Introduction

Disappointing job creation in SSA, despite improved economic growth, is drawing greater attention to the labour market. Research has highlighted the paucity of formal employment and large disparities between formal and informal sector incomes (Golub and Hayat 2015; Mbaye and Benjamin 2015; Mbaye et al. 2015; Roubaud and Torelli 2013). Formal private sector wage employment has grown too slowly to offset declines in public sector employment and to keep up with labour force growth, so employment remains overwhelmingly informal, with very low wages, no benefits or job security, and hazardous working conditions. Formal wage employment is much lower for women than men. Furthermore, African manufacturing sectors tend to suffer from high relative unit labour costs, i.e., elevated wages relative to productivity compared to other regions (Golub et al. 2018). The question arises as to whether labour market regulations play a role in limiting formal sector employment creation.

While labour market regulation has been studied extensively in developed countries, and more recently in India and Latin America, few studies have examined the nature and consequences of labour market regulation in SSA.

It is certainly plausible that labour market regulations impede formal employment creation and thus contribute to the dominance of informal employment in SSA. Most of the previous literature and Chapter 5 of this book find that labour market restrictions are less important for the business climate than other institutional constraints such as infrastructure, finance, and corruption. However, this does not mean that they do not play a role, particularly with regard to employment.

We begin with a review of the previous literature on labour market regulations with a focus on the implications for formal versus informal

employment in developing countries. The next section computes and analyzes indicators of labour market restrictions for 189 countries, showing that labour market restrictions are generally high in Francophone Africa. Since there is insufficient data on formal versus informal employment to conduct a statistical analysis of the effects of regulations on employment, we proxied formal employment by exports of labour-intensive manufactured products. We found no statistically significant effects of labour regulations on manufactured exports, consistent with previous studies. To probe further, we carried out a case study of Senegal, which has some of the most restrictive labour market regulations in the world. Our interviews with firm managers indicate that labour regulations do curtail their formal employment, although they are not the main constraint. We conclude that labour market regulations contribute to a paucity of formal sector jobs in Senegal and likely in other Francophone African countries, but that these regulations are less important than the overall business climate.

## **Literature Review on Labour Market Regulations in Developing Countries**

### ***Objectives and types of labour market regulation***

Virtually all countries, even the poorest ones, have legal statutes regulating some aspects of employment relations. In fact, as we will show, some of the lowest income countries have the most stringent labour market regulations. The intention is to protect workers, under the implicit assumption that employers wield excessive power and can abuse employees. While these regulations are well intentioned and, in some cases, beneficial, protection of existing jobs can deter creation of new jobs and impede productivity growth. In developing countries, where formal employment is scarce, particularly for younger people and women, the trade-off between protecting incumbent workers and generation of employment opportunities is particularly acute.

Two general types of concerns motivate labour market regulations:

1. 'Moral' imperatives to safeguard workers' fundamental human rights and
2. 'Economic' goals of promoting the well-being of workers (Golub 1997).

The former is covered by the International Labour Organization's (ILO) core Conventions, which ILO member nations can opt to ratify and enforce. ILO Conventions include rights to collective bargaining

and bans on forced labour, child labour, and discrimination. Economic considerations, on the other hand, refer to minimum wages, mandated benefits, and some aspects of working conditions. The levels of minimum wages, fringe benefits, and paid vacations in a country necessarily depend on overall labour productivity in that country, unlike fundamental rights that should not vary with economic circumstances.

There are some hazy areas of overlap between these two goals. For example, banning all forms of child labour may be unrealistic or even impossible for some poor countries. Ensuring workplace safety is likewise a matter of degree. While there is no excuse for locking fire exits, as infamously occurred in 2012 in Bangladesh, reducing workplace hazards is expensive and the level of acceptable risk depends on the ability to pay for health and safety improvements. Ultimately, given labour productivity, there is a trade-off between safety and remuneration of employees. Nevertheless, moral and economic considerations are clearly separable in principle. In this chapter, we focus mostly on the economic rather than the human rights aspects of labour market regulation.

A related debate concerns the effectiveness of labour market regulations. Do they constitute market distortions, impeding employment and productivity, or create institutions that overcome market failures (Freeman 2009)? We address the nature and consequences of labour market regulation through quantitative analysis and case studies.

Labour market regulations take several forms, including:

- Minimum wages
- Restrictions on temporary hiring and contracts
- Stipulations on working conditions including paid vacations, fringe benefits, and occupational health and safety
- Restrictions on layoffs
- Protections for unions and collective bargaining.

Previous studies usually focus on some subset of these categories of regulations. Minimum wages and restrictions on layoffs, also known as employment protection legislation (EPL), are usually the two topics receiving the most attention.

### ***Quantifying labour market regulations***

Since the 1990s, the Organisation for Economic Co-operation and Development (OECD) has computed a measure of EPL. The OECD EPL index is limited to restrictions on layoffs for OECD members and selected other non-member emerging economies. Botero et al. (2004) were among the first to formulate and implement a comprehensive quantitative index of employment laws for countries around the world. They identified and

compiled detailed data for a large group of countries on four categories of employment regulation: contracts, cost of increasing working hours, cost of firing workers, and dismissal procedures. These sub-indices each, in turn, aggregated several indicators. Botero et al. (2004) studied the sources of differential regulations and found that countries with French and Scandinavian legal heritages tend to have more stringent regulations, supporting the hypothesis that countries' regulatory styles are based on the 'transplantation of legal systems'.

The Botero et al. (2004) measures were the foundation for the World Bank's *Doing Business* (DB) indicators of labour market restrictions called the 'Employing Workers Indicator' (EWI), providing information on and ranking countries by the extent of their labour market restrictions. The EWI measures were in some respects quite similar to those of Botero et al., but they were more comprehensive in terms of country coverage, types of restrictions considered, and time period. The EWI measures and our use of them are described below. The EWI measures came under strong criticism from the ILO and labour unions, who argued that labour market legislation should be viewed from the angle of protecting worker rights, rather than as a cost of doing business and an impediment to labour market flexibility. In 2011, after considerable debate, the World Bank removed the EWI indicators from its system of rankings but continued to publish the underlying data on labour market restrictions with some modifications to the set of sub-indicators presented (Murphy 2014).

Aleksynska and Schindler (2011) also created a database of labour regulation covering 1980–2007 for the International Monetary Fund (IMF). While the longer time series of the IMF database relative to the DB measure is an advantage, this database is more circumscribed than Botero et al. (2004) and DB's EWI in terms of content of the indicators, limited to minimum wage and employment protection, and only includes advance notice requirements and severance payments in the latter.<sup>1</sup> Furthermore, the IMF database has not been updated to include more recent data, and data are missing for some countries.

### ***Effects of labour market restrictions***

The effects of labour market regulations in OECD countries have been studied extensively. Djankov and Ramalho's (2009) survey of the effects of labour market regulations notes that studies of developing countries' labour market regulations largely began in 2004, making use of the

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<sup>1</sup>The IMF database also includes unemployment insurance generosity, but that is not an indicator of labour market regulation.

newly available World Bank DB data. Studies on developing countries have multiplied. We focus on three reviews of the literature: Djankov and Ramalho (2009), Natataraj et al. (2012), and Betcherman (2015). All of these literature reviews are limited to articles in refereed professional journals.

Djankov and Ramalho (2009) discuss studies of India, Latin American countries, and cross-country comparisons. They find that the majority of studies reviewed support the hypothesis that labour market regulations have adverse effects on employment and productivity. These effects are particularly strong for India and more mixed for Latin America. Cross-country studies also tend to find that labour market regulations reduce investment and employment. Djankov and Ramalho (2009) also present their own cross-country analysis, which shows a statistically significant positive correlation between the DB EWI indicators with both the share of the informal economy in total GDP and the level of unemployment. Vandenberg (2010) also uses the DB EWI measures to examine labour regulations, finding little effect on unemployment. Vandenberg's study was limited to 90 countries, of which only seven were African.

Natataraj et al. (2012) limit their review to low-income countries (LICs) and former LICs. They note that few studies of labour market regulation in LICs have been conducted. Their combination of qualitative and quantitative analyses finds that minimum wage increases contribute to heightened self-employment and informal employment, and decrease formal employment, particularly for women, with little net effect on overall employment.

Betcherman (2015) conducts a more recent literature review of the effects of minimum wages and EPL, arriving at more ambiguous conclusions than Djankov and Ramalho (2009) and Natataraj et al. (2012). Betcherman finds that the negative impact of both minimum wages and EPL on unemployment is usually more muted than previous surveys indicated—if efficiency effects are found, they are modest at best. In the case of India, for example, Betcherman (2015) supports the previous research finding that EPL reduces employment but argues that other constraints such as electricity, tax administration, and corruption are more important.

A problem with these studies is that they often focus on unemployment. In Africa, especially, unemployment statistics are of poor quality and the distinction between unemployment and underemployment is very hazy. In many low-income African countries, recorded unemployment is low. This reflects the fact that most Africans are simply too poor not to work. The problem is not so much unemployment as underemployment in the informal sector (Golub and Hayat 2015). It would be desirable to assess the effects of labour market restrictions on formal

versus informal employment, but there is insufficient data to carry out systematic studies within and between countries.

Indeed, very few African countries are included in the literature reviews described above. Fallon and Lucas (1991, 1993), which included Zimbabwe along with India, and Andalón and Pagés (2009) on Kenya are among the few exceptions. The few available cross-country studies of African labour market regulations (Rama 2000; Fox and Oviedo 2013) suggest that minimum wages and labour market restrictions are not a major constraint on employment creation in Africa, unlike in other regions, despite often highly restrictive statutory provisions.

Rama (2000) found that formal sector wages in Francophone African countries (those using the FCFA) are very high relative to the level of per capita GDP and about double those of comparator countries with similar levels of per capita GDP. Minimum wages in FCFA countries are also higher than in other countries at similar levels of development, but ‘only’ by about 50% and are not high enough to account fully for the very high wages in these countries. Fox and Oviedo (2013) use the DB EWI data along with firm-level data from World Bank Enterprise Surveys. They find that the DB indicator is not strongly correlated with employment creation within SSA. This finding fits well with results from the World Bank Enterprise Surveys that labour market regulations are viewed as considerably less onerous than other aspects of the business environment such as infrastructure, access to finance, and corruption, as reported in Chapter 5 of this book. On the other hand, Fox and Oviedo (2013) also point out that firms say that they would boost hiring if labour market regulations were relaxed.

These findings of Rama (2000) and Fox and Oviedo (2013) suggest that labour market conflicts may be of lesser importance than other obstacles such as infrastructure or corruption, but these conflicts could still matter. Furthermore, some domestic firms, particularly in the informal sector, may be able to routinely disregard labour market statutes. Formal firms, especially foreign investors, however, may feel compelled to abide by local laws, due to lesser recourse to authority in the host country as well as pressures from labour rights activists at home. Therefore, they may simply eschew investing in countries with such laws even if they are not enforced often. Moreover, these laws may be enforced more vigorously for large formal firms or those lacking in political or kinship group connections.

Bhorat and Cheadle (2009) use the DB indicators to compare South African labour market regulations to those of other countries, combining this quantitative analysis with an in-depth qualitative study of South African laws. Our approach is quite similar but focuses on Senegal rather

than South Africa. In our previous work (Golub and Mbaye 2002), we found that large formal firms in Senegal cite legal conflicts with labour unions over dismissals and work rules as a significant problem. It is, therefore, worthwhile to review statutory regulations, the way they are enforced, and the perceptions of firms regarding these regulations in greater detail.

## **Indicators of Labour Market Regulations in African Countries**

### ***Comparisons of regulations across countries***

Given that it is more comprehensive and up to date than other databases, we used the World Bank DB EWI indicators to compare levels of labour market regulation across countries. As noted above, the World Bank no longer ranks employment regulation and has modified its labour market indicators over time, but still publishes the raw data. The raw DB EWI data cover five major categories of labour market regulations: difficulty of hiring, rigidity of hours, difficulty of redundancy, redundancy cost, and research questions (the latter referring to availability of social insurance and courts specializing in labour disputes). Each of these categories contains multiple sub-indicators. We reclassified the DB data into four categories: minimum wages, hiring, working conditions, and dismissal; each of which was given an equal weight of 0.25 in the overall labour market index we constructed. We considered variations in this 'baseline' equal weights scenario. Table 7.1 presents the sub-indicators and their weights within each of the four categories. Despite the rather large number of sub-indicators covered, the DB database does not include some important labour market features such as the mandated social insurance contributions of employers and protection of unions and collective bargaining. As noted above, however, the DB database is the most comprehensive available. Indicators of labour market restrictions are available from 2006 to 2014 for 189 countries.

All sub-index scores were adjusted to a 0 to 1 scale, where 0 represents no regulation and 1 the highest level of regulation in any country and then aggregated them using the weights in Table 7.1. Thus, composite scores close to zero indicate less stringent regulations and scores close to 1 indicate more stringent regulations.

Table 7.2 shows our comprehensive score on the DB labour market indicators in 2014, using the weights shown in Table 7.1, for selected countries. We experimented with alternative weights on the four main sub-indicators, but this did not greatly alter the country



**Table 7.1**  
Construction of the labour market restrictions index

<i>Indicator</i>	<i>Weight</i>
<b>Minimum wage</b>	0.25
Ratio of minimum wage to value added per worker	1
<b>Hiring</b>	0.25
Fixed-term contracts prohibited for permanent tasks	0.5
Maximum length of fixed-term contracts, including renewals	0.5
<b>Working conditions</b>	0.25
Standard work day	0.250
Maximum working days per week	0.250
Premium for night work (% of hourly pay)	0.063
Premium for weekly holiday work (% of hourly pay)	0.063
Major restrictions on night work	0.063
Major restrictions on weekly holiday work	0.063
Paid annual leave (average*)	0.250
<b>Dismissal</b>	0.25
Maximum length of probationary period	0.143
Dismissal due to redundancy allowed?	0.143
Third party notification if one worker dismissed?	0.036
Third party approval if one worker dismissed?	0.036
Third party notification if nine workers dismissed?	0.036
Third party approval if nine workers dismissed?	0.036
Retraining or reassignment obligation before redundancy?	0.143
Priority rules for redundancies?	0.071
Priority rules for reemployment?	0.071
Notice period for redundancy dismissal (average*)	0.143
Severance pay for redundancy dismissal (average*)	0.143

\*Average of 1-, 5-, and 10-year tenures.

Source: Authors' calculations based on World Bank 2013a: *Doing Business 2013* database.

rankings or the statistical correlations of the rankings with other economic variables.

Table 7.2 shows that there is a great deal of variation in the scores and rankings within regions. Among developed countries, Anglo-Saxon economies such as the United States and the United Kingdom have very low scores and rankings. However, France has a very high ranking, suggesting that France is one of the most tightly regulated labour markets in the world (185th out of 189 countries). Overall, labour regulations in

**Table 7.2**

Indexes and rank of labour market regulation, selected regions and countries\*

	<i>Index</i>	<i>Rank</i>		<i>Index</i>	<i>Rank</i>
<b>Developed Countries</b>			<b>Asia</b>		
France	0.58	185	Pakistan	0.53	177
USA	0.18	24	Indonesia	0.51	175
United Kingdom	0.16	12	India	0.28	71
<b>Africa</b>			China	0.27	68
Central African Rep.	0.60	188	Bangladesh	0.24	55
Senegal	0.60	187	Malaysia	0.18	21
Angola	0.54	180	Myanmar	0.11	5
Zimbabwe	0.51	173	<b>Latin America</b>		
Kenya	0.37	130	Panama	0.51	174
Cameroon	0.36	123	Argentina	0.48	160
Ethiopia	0.34	114	Brazil	0.46	155
South Africa	0.33	108	Mexico	0.34	116
Ghana	0.25	59	Chile	0.26	65
Uganda	0.14	7	Colombia	0.19	28

\*Indicator on a 0–1 scale, with 0 being least regulated; rank is out of 189 countries with 1 being least regulated.

Source: Authors' calculations based on World Bank 2013a: *Doing Business 2013* database.

Africa and Latin America are more restrictive than in Asia and in developed countries, but individual country rankings vary widely within each region.

African countries can be separated into three groups by language/colonial legacy: Anglophone, Francophone, and Other. This division reflects the findings of Botero et al. (2004) that legal origin is an important determinant of labour market regulations, as is suggested by the wide disparity between the scores for France and the United Kingdom as reported in Table 7.2.

Indeed, as found in Fox and Oviedo (2013), Table 7.3 confirms that Anglophone African countries tend to have much lower scores and ranks in labour market regulatory stringency than Francophone countries. 'Other' countries are in between, although closer to Francophone countries. Again, however, there is considerable variation, with some Anglophone countries having high scores (e.g., Zimbabwe) and some Francophone countries exhibiting low scores.

Table 7.3 also presents a subjective measure of labour market regulatory pressure, the proportion of firm managers that rank labour market

**Table 7.3**

Indexes and rankings of labour market regulation, and share of firms rating labour market regulations as a major constraint, African countries\*

	<i>Labour Regulation Index</i>	<i>Labour Regulation Rank</i>	<i>Firms Identifying Labour Regulation as a Major Constraint (percent)</i>		<i>Labour Regulation Index</i>	<i>Labour Regulation Rank</i>	<i>Firms Identifying Labour Regulation as a Major Constraint (percent)</i>
<b>Anglophone Countries</b>				<b>Francophone Countries</b>			
Botswana	0.21	41	14.0	Benin	0.35	121	15.6
Gambia	0.24	58	3.5	Burkina Faso	0.28	74	26.0
Ghana	0.25	59	3.6	Burundi	0.20	39	2.0
Kenya	0.37	130	20.8	Cameroon	0.36	123	21.5
Lesotho	0.22	46	11.3	Central Afr. Rep.	0.60	188	8.5
Liberia	0.30	91	2.6	Chad	0.42	146	28.4
Malawi	0.33	105	4.6	Congo, Dem. Rep.	0.55	181	10.4
Mauritius	0.30	92	8.8	Congo, Rep.	0.57	184	24.5
Namibia	0.16	15	4.3	Côte d'Ivoire	0.37	128	6.1
Nigeria	0.21	43	3.4	Djibouti	0.43	149	14.5
Sierra Leone	0.29	84	11.4	Equat. Guinea	0.55	182	NA
South Africa	0.33	108	5.9	Gabon	0.34	112	16.4
South Sudan	0.28	72	10.9	Madagascar	0.53	178	4.6
Sudan	0.33	111	13.5	Mali	0.44	151	6.4
Swaziland	0.19	29	9.9	Niger	0.54	179	5.3
Tanzania	0.37	127	31.7	Senegal	0.60	187	4.5
Uganda	0.14	7	18.5	Togo	0.48	164	3.1
Zambia	0.33	107	6.2	<b>Average</b>	<b>0.45</b>	<b>146</b>	<b>12.4</b>
Zimbabwe	0.51	173	9.6	<b>Other Countries</b>			
<b>Average</b>	<b>0.28</b>	<b>78.8</b>	<b>10.2</b>	Angola	0.54	180	26.1
				Ethiopia	0.34	114	1.6
				Guinea	0.31	94	2.5
				Guinea- Bissau	0.48	163	3.5
				Mauritania	0.41	145	29.4
				Mozambique	0.56	183	6.0
				Rwanda	0.29	82	8.9
				<b>Average</b>	<b>0.42</b>	<b>137</b>	<b>11.1</b>

\*Indicator on a 0–1 scale, with 0 being least regulated; rank is out of 189 countries with 1 being least regulated; firms identifying labour regulations as a major constraint as a ratio of all interviewed firms.

Source: Authors' calculations based on World Bank 2013a: *Doing Business 2013* database.

regulation as a major constraint on their business. In most cases, the percentage of such firms is very low, about 10% of all firms interviewed. This ratio is slightly higher in Francophone African countries, with a ratio of about 12%, as compared to Anglophone countries with a ratio of 10% and other countries with a ratio of 11%. Within each subgroup of African countries, there is considerable variation. In addition, examination of Table 7.3 suggests that the subjective measures of labour market restrictiveness do not correlate well with statutory measures of regulation. For all countries in the sample, the correlation coefficient between our statutory and subjective measures of regulation is only about 0.12.

### ***Effects of labour market regulations on exports***

It would be desirable to assess the effects of labour market regulation on the creation and existence of formal sector jobs, but measuring formal or informal employment is very difficult. Instead, we examined the effects of labour market regulations on exports of manufactured goods, and more specifically exports of clothing, on the grounds that export-led growth is a proven path to formal job creation (Golub and Hayat 2015). We scaled exports by working-age population. The independent variables were our measures of labour market regulation controlling for: per capita GDP, the overall DB indicator of the business climate covering all aspects of starting and operating a business other than labour regulations, a measure of real exchange rate over- or under-valuation, and a dummy variable for Africa.

Table 7.4 presents the results of the regressions. All the control variables were correctly signed and significant for both total manufacturing exports and clothing exports, except for the Africa dummy variable in the former. However, the labour regulation variable was incorrectly signed and insignificant in both cases. These results did not change using alternative weights on the various components of the labour regulation variable. The regression analysis therefore provides no evidence that tighter labour market regulations impede export-led growth.

### **Case Study: Senegal**

The complexity of this issue suggests that a close study of particular countries' institutions and policies would complement a cross-country comparison. Senegal is chosen as a case study both because it is an important and interesting case, and one with which the authors have familiarity and contacts that enabled us to obtain a better understanding of the nature and enforcement of regulations. Despite a favourable geographic

**Table 7.4**

Regression analysis of exports of all manufactured products and clothing as a ratio of working-age population, developing countries\*

	<i>Total manufacturing exports divided by working-age population, in 2013 dollars, in logs</i>	<i>Clothing manufacturing exports divided by working-age population, in 2013 dollars, in logs</i>
Labour regulation index (in logs)	0.08 (0.22)	0.30 (0.34)
Per capita GDP (in logs)	1.24*** (6.93)	0.95* (0.23)
Doing Business rank (in logs)	-0.73*** (3.60)	-1.21*** (2.70)
Real exchange rate overvaluation**	-2.66** (3.14)	-8.15*** (4.28)
Africa dummy (= 1 if country is in SSA)	-0.34 (0.96)	-2.69*** (3.30)
Constant	1.27 (0.66)	6.10 (1.41)
R-squared value	0.74	0.54
N	84	82

Source: Authors' calculations based on: World Bank 2013b: *World Development Indicators 2013 (English)*; World Trade Organization 2013: *Time Series Statistics Database*; and labour market regulation indicators reported in Table 7.2 and described in the text.

Notes: Statistics in parentheses: \* =  $p < 0.05$ , \*\* =  $p < 0.01$  and \*\*\* =  $p < 0.001$

\*Only for non-OECD countries and countries with working-age populations greater than 1 000 000

\*\*Purchasing Power Parity exchange rate divided by the nominal exchange rate (2013) based on data from World Bank *World Development Indicators*.

location, ethnic harmony, as well as a lack of natural resources and their 'curse', Senegal has been unable to generate much formal employment growth in industry and services. Consequently, poverty remains very high; it was estimated at 47% in 2011 (Ministère de la Jeunesse 2014).

In our earlier research on Senegal's investment climate (Golub and Mbaye 2002), we found some indications that labour market regulations were an important obstacle to Senegalese investment but did not investigate this issue in depth. This section provides an updated and more thorough investigation of Senegalese labour market performance and the role of regulation therein. Our analysis is based on documents and interviews conducted in June 2015 with a wide range of stakeholders in the Senegalese economy to obtain their perspective on barriers to employment in industry and services. The interviewees included representatives from large domestic and foreign businesses, small and medium enterprises, government agencies, and labour unions.

Senegal's Labour Code (*Code du Travail*) begins with its overarching objectives in article L.1:

The right to work for each citizen is sacred. The state pledges its full efforts to assist citizens in finding employment and maintaining it once they have obtained it.

Unfortunately, Senegal's Labour Code and institutions focus on preserving a small and stagnant pool of existing formal sector jobs, and the country has failed dismally in creating remunerative employment opportunities for the vast majority of its labour force.

### ***Demographics, labour force, and employment in Senegal***

Rapid population growth is having a major impact on Senegal's labour supply. The growth rate of the population between 2010–2015 averaged 2.9%, similar to other countries in Sahelian West Africa and among the highest in the world. Senegal's population is quite young, having a median age of 19 in 2011 (Ministère de la Jeunesse 2014). The surging numbers of young people entering the labour market and sluggish labour demand are creating conditions of massive unemployment and underemployment. In 2005, an estimated 35% of urban youth (ages 15–24) and 50% of rural youth were not employed or in school.

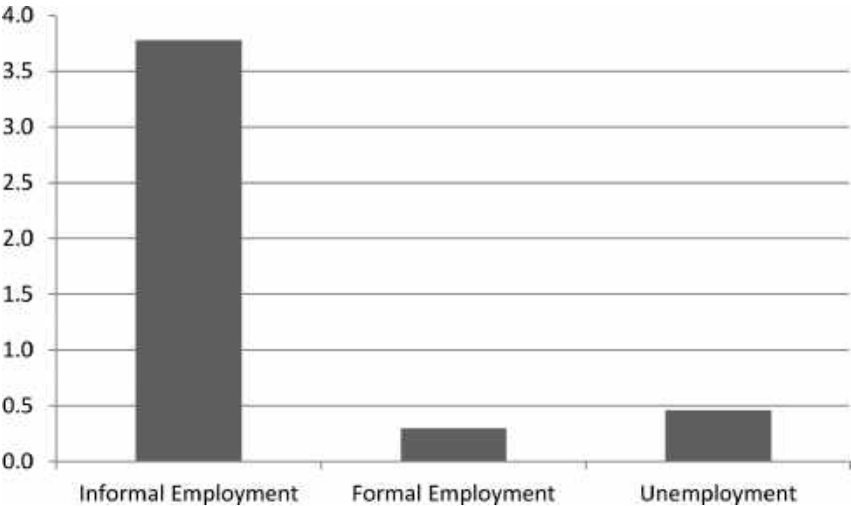
The working-age population numbers approximately nine million. In developing countries, it is difficult to separate the working-age population into strict categories, such as presence in the labour force, employment, and unemployment given that much of the adult population is engaged in informal sector work, which is often a form of disguised unemployment. ANSD (2011) estimated that the labour force numbers approximately 5 million, of which slightly more than half is rural. The low participation rate (below 60%) reflects the fact that many people, particularly women, work without pay in the household. The particularly high dependency on intra-household transfers within the extended family is characteristic of Senegalese society (World Bank 2007; Pfefferman 1968). The participation rate for women of 45% is far below the average in Africa, whereas the participation rate for men of about 78% is close to the average for the continent.

Less than 10% of the labour force is employed in the formal sector, although estimates vary depending on the definition of formal employment (Benjamin and Mbaye 2012). For example, the Ministère de la Jeunesse (2014) lists formal modern sector private employment at 109,000 (p. 27) and urban informal employment at 2.2 million (p. 42) in 2011. Elsewhere in the same document, the number of employees covered by social insurance is estimated at 245,000 (p. 93). About half of

the working-age population resides in rural areas where employment is overwhelmingly (98%) informal. Figure 7.1 shows the approximate breakdown of the labour force into formal employment, informal unemployment, and unemployment. Unemployment, defined as those without work but actively seeking it, amounts to about 10% of the labour force or about 500,000 people. Formal employment is roughly 400,000 and about 4 million are informally employed. A large proportion of the 4 million remainder of the working population, mostly women, is engaged in unremunerated household work.

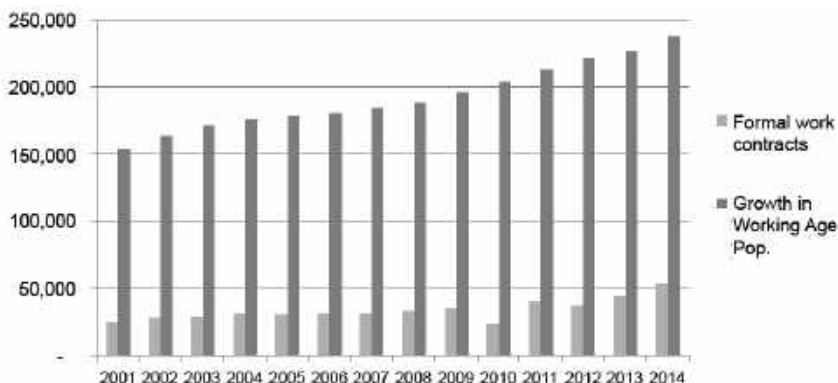
Furthermore, the situation has, if anything, deteriorated over the last 30 years. According to Terrell and Svejnar (1990), private modern sector employment was about 100,000 in 1980, suggesting that private formal sector employment has stagnated over the past 30 years. This finding is consistent with the demise of large industrial enterprises such as textiles, groundnut oil processing, and tuna canning in the 1990s and 2000s (Golub and Mbaye 2002), roughly offset by growth in the services sector.

Improved economic growth in Senegal, led by non-tradable sectors such as construction, commerce, communications, and information technology, has moderately boosted formal employment. Figure 7.2 shows an increasing trend of new registered employment contracts signed between 2001 and 2014. However, about two-thirds of these contracts are temporary. In contrast, in 1980, about 60% of employment contracts were



**Figure 7.1** Breakdown of Senegal's labour force into informal employment, formal employment, and unemployment, 2011

Source: ANSD (2011) and authors' calculations



**Figure 7.2**

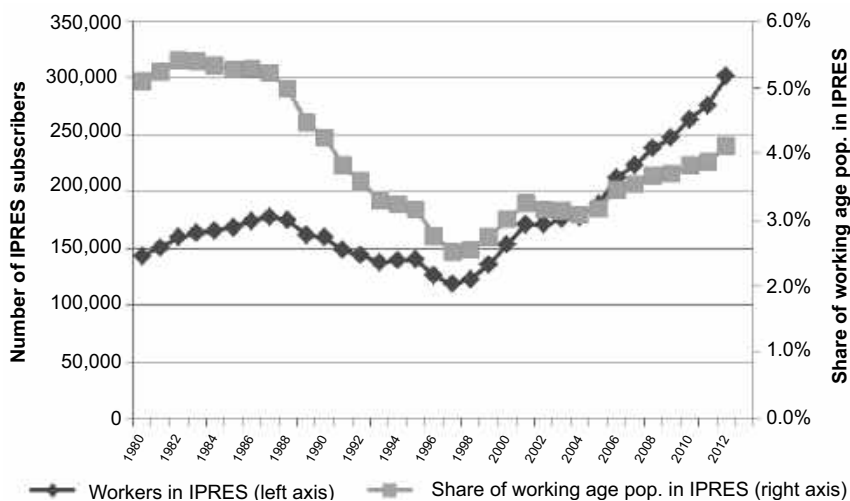
New registered employment contracts and labour force growth in Senegal

Source: Data provided by Senegal's Directorate of Employment

indefinite (Terrell and Svejnar 1990). Moreover, the number of gross new contracts substantially overstates net employment creation because some new contracts are renewals of existing contracts and some of the existing contracts may be terminated.

Figure 7.3 shows the total number of workers enrolled in the *Institution de Prévoyance Retraite du Sénégal* (IPRES) [Retirement Pension Fund of Senegal] retirement program, which is, in principle, mandatory for formal sector firms, both in levels (left axis) and as a ratio of the working-age population (right axis), for 1980–2012. In the early and mid-1980s, the number of IPRES participants rose from about 140,000 to 180,000, and then dropped steadily for about a decade in the aftermath of the economic crisis and the devaluation of the FCFA. In the late 1990s, as the economy recovered, the number of enrollees started rising again, reaching an estimated 300,000 in 2012. As a ratio of the working-age population (ages 15–64), the level of IPRES participants is very low, as also shown in Figure 7.3. This share peaked in the mid-1980s at a little above 5%, fell sharply over the next decade to a low of 2.5%, and then rose steadily over the 2000s, reaching about 4% in 2012—still very low and well below the ratio of the 1980s peak. In the mid-2000s, according to World Bank (2007), only 14,000 of some 175,000 IPRES participants were covered by the more generous supplemental plan. At that time, access to family allowances and disability compensation, managed by the Caisse de Sécurité Sociale, was slightly higher at 245,000. The vast majority of workers have no official social security coverage of any kind, relying instead on informal and traditional family as well as religious networks.





**Figure 7.3**

Number of workers enrolled in the IPRES retirement program, total and as a ratio of the working-age population

Source: Data provided by the Institution de Prévoyance Retraite du Sénégal (IPRES)

Only about 15% of workers receive a regular salary. The rest are self-employed, paid in kind, or paid by the task. In short, the current stock and new supply of formal sector jobs with regular wages and benefits are far below the level and growth of the labour force, respectively.

There are marked disparities in pay between formal and informal jobs in Senegal as well as other West African countries (Golub and Hayat 2015; Benjamin and Mbaye 2012; Roubaud and Torelli 2013). As illustrated in Table 7.5, informal sector workers' earnings average one-quarter of those in the public sector and one-third of the formal private sector wages. The vast majority of the labour force is engaged in the informal sector, with low pay, minimal benefits, no union representation, or job security, and often dangerous working conditions. Opportunities and working conditions for women are even worse than for men. While a small number of larger informal firms pay better than their smaller counterparts, most workers are engaged by small informal enterprises. Thus, having a formal job with benefits such as paid vacation, protection against abusive treatment, access to retirement programs, and health insurance can be considered a rare privilege.

For young people especially, the labour market situation is very difficult. While education levels have been rising, in 2011, 46% of young people (ages 15–35) still had no formal education. Even those with

**Table 7.5**  
Senegal: Monthly earnings, by sector (in Euros)

<i>Sector</i>	<i>Monthly Earnings</i>
<b>Government</b>	228
<b>Public enterprise</b>	205
<b>Formal private sector</b>	169
<b>Informal sector</b>	59

*Source:* Adapted from Roubaud and Torelli (2013, Table 1.14)

higher levels of education are rarely able to secure formal sector jobs. Recorded unemployment actually rises with the level of education, with university graduates having an unemployment rate of 31% in 2011, up from 16% in 2005. Due to a combination of lack of employment opportunities and the lack of skills of many young people, the labour force participation rate for young people is well below the national average at only 42% in 2011 (54% for men and 33% for women). Of young people classified as outside the labour market, 40% are ‘discouraged workers’ who have ceased looking for work due to poor prospects. Those who do have jobs are overwhelmingly in the informal sector. However, the classification of workers as out of the labour force or in the informal sector is often quite arbitrary, as noted above. The key point is that prospects of formal employment are even bleaker for young people than the rest of the workforce. As the Ministère de la Jeunesse (2014, p. 69) notes, the Labour Code and Collective Agreements disregard or even impede employment opportunities for young people.

### ***Senegalese labour market institutions***

Senegal’s Labour Code, as in many Francophone African countries, is modelled on France’s code. The 1961 Code, adopted upon Senegal’s independence, was very similar to the 1952 French Overseas Labour Code that governed labour regulations in France’s African colonies. Pfefferman (1968, p. 94) observes that the 1952 Code was in some respects even more restrictive than France’s version. “Social concern almost always predominated over economic considerations with French MP’s who were often ill-informed about colonial matters ...”. ‘Rigid and complex administrative regulations’ were implemented, which he rightly noted are difficult to modify once put in place.

Despite several partial liberalizations, most notably in 1997, Senegal’s Labour Code retains quite stringent provisions on employment contracts, layoffs, and working conditions. Using the measure of restrictiveness of labour market institutions discussed above, Senegal ranks 187th in the

**Table 7.6**

Senegal's rankings on *Doing Business* labour regulation indicators (1 = least restrictive, 189 = most restrictive)

<i>Overall</i>	<i>Minimum Wage</i>	<i>Hiring Difficulty</i>	<i>Working Conditions</i>	<i>Layoffs</i>
187	181	170	140	136

Source: World Bank *Doing Business Indicators* (2013a) and authors' calculations

severity of labour market regulations, with a score that is almost identical to that of France. Table 7.6 shows a breakdown of the overall restrictiveness score into the four main categories of our indicator: hiring, layoffs, working conditions, and minimum wages relative to labour productivity. Senegal ranks as very highly regulated on all sub-indexes and particularly so on the level of the minimum wage and hiring regulations.

### *Hiring*

The 1961 Code stipulated that hiring be centralized through the Service de la Main d'œuvre, a government employment agency (Terrell and Svejnar 1990). While that requirement was not fully enforced and was removed in 1988, Senegal retains one of the highest levels of restrictions on hiring in the world according to our index, and the restrictiveness of these provisions was confirmed in nearly all our interviews. One of the most significant provisions of the Labour Code, covered in Chapter 3, concerns restrictions on contracts. The Code specifies several permissible forms of contracts, the most important of which are fixed-term, seasonal, and open-ended. The overall objective is to promote long-term job security by limiting the extent to which firms can hire on a temporary basis and lay off workers. In particular, limitations are placed on use of seasonal and especially fixed-term contracts and termination of these contracts. Seasonal contracts must be limited to very short and non-consecutive time periods for tasks that are seasonal in nature, and, in principle, workers should get a new contract every day they work. Likewise, fixed-term contracts are to be confined to situations where the tasks involved are temporary in nature (Article 44). If the provisions of fixed-term and seasonal contracts are violated, the worker is automatically defaulted to an indefinite-term contract.

Fixed-term contracts are for a maximum of two years and can be renewed only once (Article 42). The Office of Labour and Social Security Inspections must be notified of all fixed-term contracts of more than three months.

Hiring provisions have been partially relaxed. In 2008, a government decree granted exceptions to the number of renewals of fixed-term

contracts for certain job classifications and specific sectors.<sup>2</sup> The general exceptions include activities related to maintenance and repair; security; sports, theatre, and other public shows; surveys and polling; forestry; ship repairs; and anything that depends on short-term financing. In addition, fixed-term contracts are liberalized for some types of work within construction, agriculture, telecommunications, and tourism. However, this decree specifies that any such waivers of the Labour Code's provisions cannot be intended to or have the effect of displacing permanent jobs, subject to penalties. Furthermore, managers assert that these exceptions to the Labour Code's provisions on fixed-term contracts are usually not upheld in practice when challenged at the Labour Tribunal.

In 2009, a decree permitting 'temporary contracts' for workers provided by temp agencies was established but again with numerous restrictions and limitations.<sup>3</sup> In February 2015, President Sall signed law 2015-14 modifying the Labour Code to introduce provisions on internships.

### *Layoffs*

Terminations of fixed-term contracts before their term ends are not permitted except for flagrant violations, mutual agreement of employer and employee, or unusually severe external circumstances. Failure of firms to adhere to these stipulations results in liability for damage claims by workers. Although restrictions have been eased on terminations of indefinite-term contracts for 'economic reasons' since the 1990s, layoffs of workers on indefinite term contracts remain subject to complex procedures, advance notice, review by labour inspectors, and challenge, in many cases leading to litigation at the employment tribunal. Layoffs of shop representatives ('*délégués du personnel*') require authorization from the Minister and firings of these representatives are subject to particularly tight restrictions and heavy fines for violations.

Many managers decry the lack of flexibility in layoffs even in cases of gross incompetence, preventing hiring more qualified or motivated workers, and the inability to sanction poor performance undermines productivity.

### *Working conditions*

The Labour Code also provides numerous specific prescriptions on working hours, overtime pay, paid vacation, compensation for relocation

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<sup>2</sup>Ministerial Order No. 1887 (March 2008) provided a list of sectors of activity in which it is customary not to use a contract of indefinite duration.

<sup>3</sup>Order No. 2009-1412 established special protections for the employees of temporary work agencies and the obligations to which these enterprises are subject.

costs, health and safety, and many other workplace conditions. For example, Senegalese workers are entitled to nearly 10 more days of leave than those in France, and 20 more than in the United States and China (World Bank 2007). In addition to national holidays, employers must provide two paid vacation days per month to any employee with a year of seniority of more (Articles 148–150).

In addition to strict limitations on temporary contracts and complex recruitment procedures, the Labour Code imposes restrictions on altering workers' job classifications and employment locations. Employers are required to provide nutrition to workers and their families in the event that the worker is unable to procure food (Article 107). Where collective bargaining has not superseded national regulations, the government is entrusted with setting minimum wage scales, differential pay for overtime, holiday and night work, as well as seniority and merit bonuses (Article 109).

Labour inspectors from the Directorate of Labour Inspection and Social Security (DLISS) are authorized to carry out unannounced visits to firms to assess compliance with the Labour Code (Article 197). Although officials say the number of inspectors and vehicles is insufficient to adequately monitor compliance, the number of inspections rose sharply in 2014 to nearly 1,600, up from about 600 in previous years. Officials from DLISS claim to oversee the informal sector, but the bulk of inspections and disputes concern formal sector firms and workers.

Compliance with the provisions of the Labour Code is highly variable, even among foreign investors. According to some of our interviews, Chinese and Lebanese investors usually completely ignore labour market regulations, whereas European firms tend to comply quite scrupulously. Firms also resort to temp agencies for some tasks, despite the 5–10% higher cost, to avoid intrusive regulatory oversight.

### *Minimum wages*

As in many African countries, Senegalese formal sector wages are high relative to per capita GDP and levels in countries with similar income levels in other regions (World Bank 2007; Golub and Hayat 2015; Golub et al. 2018). The differentials between formal and informal sector labour incomes are very large. The World Bank (2007) reports that median formal sector salaries were about 100,000 FCFA per month (200 USD); whereas, for informal workers, it is 34,000 FCFA per month (about 60 USD).

Senegal's overall minimum wage for non-agricultural work is set at 209.10 FCFA per hour, or about 40,000 FCFA (about 80 USD) per month. Thus, the minimum wage is generally not binding for the formal sector but would be for the informal sector were it applied (which it is not).

However, collective agreements (*Conventions collectives*) at the industry level set minimum wages that generally exceed the national minimum wage, with a grid of step-ups based on experience and skills. These wage and salary scales are supposed to be updated regularly, but the current rates were established in 2009. For most industries, for the lowest level of experience, the collective agreements establish minimum monthly wages of around 60,000 FCFA per month and/or hourly rates of about 350 FCFA.<sup>4</sup>

Most of the managers and human resource personnel we interviewed do not view the national minimum wages as a constraint, but opinion is more divided on the pay scales set by collective bargaining agreements. Some managers state that minimum wages are too high in some sectors, but surprisingly, in a few instances, others argue that they are too low and that firms must pay bonuses and supplements (*primes* and *sursalaires*) over the specified grids to retain their skilled workers. Several suggest that the collective conventions are out of date and should be renegotiated.

### **Mandatory social insurance contributions**

Mandatory social insurance contributions, more so than wages, are particularly elevated in Senegal. The main levies are for:

1. retirement, managed by a private agency, the IPRES, under government supervision,
2. family allowances and disability compensation, managed by the *Caisse de Sécurité Sociale*, and
3. health insurance.

For firms that comply with all required payroll contributions, the cost can amount to 25–30% of base salary (Table 7.7). Counting employee contributions, the ratio rises to about 40%.

Most managers we talked to view these payroll taxes as very onerous. However, only a small number of formal sector firms participate, meaning just a few workers are covered by any of these social insurance programs, and even fewer are covered by all of them as indicated earlier.

### **Labour unions and collective bargaining**

Most of the formal workforce is unionized, and most industries have their own unions. A few umbrella organizations group industry-level unions into larger entities. The *Confédération Nationale des Travailleurs du Sénégal* (CNTS) and the *Union Nationale des Syndicats Autonomes*

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<sup>4</sup>Ministry of Public Service, Labor, Employment and Professional Organizations, Senegal. (2009). New Salary Scales.

**Table 7.7**

Senegal social insurance mandatory payroll contributions (percent of gross wages)

	<i>Overall Rate</i>	<i>Employer Share</i>	<i>Employee Share</i>
<b>Retirement (IPRES)</b>			
Public Pension Plan	14	8.4	5.6
Supplementary Plan	6	3.6	2.4
<b>Social Security</b>			
Family Allowances	7	7	
Occupational Injury	1 to 5	1 to 5	
<b>Health Insurance</b>	6	3	
<b>Vocational Training Tax</b>	3	3	
<b>Total</b>	<b>37 to 41</b>	<b>26 to 30</b>	<b>11</b>

Source: World Bank (2007), interviews

*du Sénégal* (UNSA) are the most important. The CNTS encompasses 65 industry-level unions and has some 65,000 members. UNSA has 56,000 members from 54 unions.

The major umbrella unions are politically powerful. They constitute an important component of the tripartite social dialogue along with business representatives and government officials. The situation has not been fundamentally altered since the 1980s, and the “trade unions are, and have been, generally aligned with powerful political groups and somewhat divorced from the workers’ interests” (Terrell and Svejnar 1990, p. 50).

Unions recognize the paucity of employment opportunities but favour increased import protection and crackdowns on informal firms that flout regulations, rather than deregulation of the labour market. Many firms cheat, failing to declare the majority of their employees. Union representatives claim that Chinese- and Lebanese-owned firms are far less compliant in respecting the Labour Code than European investors.

### ***Conflicts between labour and management***

Many firm managers made clear that they recognize the necessary role of unions but decried their politicized and confrontational function in Senegal. Strikes have become increasingly infrequent in Senegal, but conflicts between labour and management are quite common and, according to some firms, have been increasing in frequency and severity. Several firm managers deplored the confrontational attitude of unions, although some also said that good relations with workers could be attained through cooperation with unions.

The Labour Code prescribes procedures and compensation in the event of violations of labour protections. Workers can bring alleged abuses to the attention of labour inspectors at the DLISS. Before taking legal action, workers and employers can attempt to find agreement through arbitration procedures, with the oversight of inspectors, or workers can opt to take the case directly to the Labour Tribunal. If arbitration fails, cases are usually referred to the Tribunal, although a few cases are dropped by the plaintiffs. Many cases do go to the Tribunal, but, even if they do not, the threat of costly litigation hangs over the arbitration process.

Table 7.8 shows the number of cases going to arbitration and to the Tribunal in 2008 and 2011–2014, the years for which information is available. The total number of arbitration cases has varied around 1,000 annually in this period, with the highest level in 2014. Of these arbitration cases, approximately half have been resolved successfully and slightly less than that were not resolved. Most of the latter were referred to the Tribunal.

### **Overall assessment**

Labour relations were not usually cited as the main obstacle to greater formal sector employment in Senegal during our interviews, but are widely viewed as a significant problem. Generally, labour relations are ranked as less important than infrastructure, particularly power, access to finance, corruption and red tape, and access to land. Two main factors

**Table 7.8**  
Indicators of labour market conflict

	2008	2011	2012	2013	2014
<b>Activities of labour inspectors</b>					
Organizations inspected	452	458	592	644	1587
Number of arbitration cases	930	866	634	983	1078
Cases not successfully arbitrated	526	780	417	619	983
Cases forwarded to the Tribunal	NA	NA	457	526	806
<b>Payments to workers</b>					
Severance payments (thousand USD)	NA	1304	4911	8315	9456
Arbitration payments (thousand USD)	578	339	669	685	674
<b>Social dialogue</b>					
Election of worker representatives overseen	128	119	NA	125	137
Authorized layoffs of worker representatives	18	9	29	28	12
Refused layoffs of worker representatives	NA	11	25	27	13

Source: Direction Générale du Travail et de la Sécurité Sociale (2014)



explain the relative lack of concern about labour market rigidities: other constraints are even more onerous and many firms disregard or violate the rules. Nevertheless, a majority of the firms interviewed are frustrated by the rigidity of labour regulations and the antagonistic relationship between unions and management.

Many firm managers have decried the archaic nature of the Code, saying it needs to be more flexible to adapt to modern realities. While the provisions of the Labour Code are frequently flouted, for larger formal firms the risks of doing so can be significant. As discussed above, workers can sue employers, with the assistance of unions, at the Labour Tribunal, generating substantial costs and adverse publicity. The Code enshrines a confrontational dynamic between labour and management, with conflicts often litigated at the Labour Tribunal, resulting in high costs to firms. The functioning of labour unions also contributes to the often-adversarial relationship between workers and employers.

Based on our interviews, the greatest concerns of firms are the inflexibility of contracts and the confrontational tactics of unions. Mandatory social insurance contributions are also viewed as high. Many firms claim they are constrained by their inability to renew fixed-term contracts, and, as a result, curtail hiring and training of workers. Firm managers cite low profitability, fluctuating revenues, changing consumer preferences, and rapid technological change as factors that require more flexible labour structures. Some firms also view the restrictions on layoffs and other regulations as impediments, but these were less widely cited than the rigidities associated with contracts. In addition to the restrictions imposed by some provisions of the Labour Code, the way that alleged violations of these rules are used by unions to take or threaten legal action is equally important. On the other hand, some managers have observed that enlightened practices by employers to treat workers fairly and engender a spirit of cooperation have reduced conflicts.

The inflexible and adversarial nature of formal labour market functioning is in the end harmful not only to business profitability but also to the creation of employment. As some of our interviewees have pointed out, there is an absence of creation of large formal firms. Domestic manufacturing factories have largely disappeared. While there are multiple causes of the dismal performance of the Senegalese labour market in creating remunerative employment opportunities, our interviews left no doubt that labour relations is a contributing factor. The excessive focus on preservation of existing jobs and employee privileges has contributed to the near absence of formal jobs.

Human resource managers with experience in other countries reported that problems with rigid regulations and confrontational unions also

occurred in other Francophone countries, but are worse in Senegal. The situation is much better in Anglophone African countries such as Ghana and Tanzania in their view. Our indicators of labour market restrictions confirm this assessment.

A complete overhaul of the Labour Code is not feasible, but increased flexibility in hiring is essential. Some reforms easing the use of fixed-term contracts have occurred, but these are not really applied. Lack of trust between labour and employers is equally salient. The government should undertake a new social dialogue to create a less confrontational attitude from unions, as well as management, and one that is more welcoming to new investments.

According to most of the managers we spoke to, the Labour Tribunal is biased toward the interests of labour, and workers win the overwhelming majority of cases. Several managers stated that the proportion of labour victories was 98%, although a few firms claimed that careful documentation of cases led to better outcomes. Labour unions and government officials agreed that workers won the vast majority of cases at the Labour Tribunal, but attributed that to the unions only taking on strong cases or workers almost always being in the right.

Firms are often hit with damage awards of about 5 million FCFA (about 10,000 USD) to individual workers, and sometimes to many workers at once, resulting in payments of as much as 70 million FCFA (over 100,000 USD). For wrongful firing of a staff representative, fines have reached 200 million FCFA (400,000 USD). Unions collect a percentage of these fines (around 20%), providing a strong interest in pursuing firms.

The threat of costly litigation leads firms to pay out large settlements. Table 7.8 shows voluntary severance payments to employees by firms and payments agreed at arbitration. Data on fines paid resulting from convictions at the Tribunal are not available. The figures show that severance payments are quite large, reaching nearly 10 million USD in 2014, up sharply from 2011, and amounting to about 2% of total formal sector labour compensation. The level of fines imposed by DLISS is considerably smaller but still quite onerous for some firms, according to our interviews.

As noted above, the DLISS must approve layoffs of workers' representatives. Table 7.8 shows that about half of employer requests are granted, and the other half rejected.

Employers generally call for reforms of certain provisions and more flexible implementation rather than complete overhaul. Unions fiercely resist liberalization of the Labour Code, claiming that it leads to job insecurity. Incremental reform may be all that is feasible under the present circumstances.

Some firms argue that good managerial practices, treating employees as ‘social partners’, and regular communication with them minimizes conflicts. In this view, the problems associated with the Labour Code are manageable if employers gain workers’ trust. This view is in the minority, however, with most decrying the lack of flexibility and high costs the Labour Code imposes. Nevertheless, the point that managers can do their part to move toward more cooperative labour market relations is important.

## Conclusions

Labour market regulations can be justified as a protection of worker rights but can also dissuade formal employment creation. We have used a combination of quantitative and qualitative approaches to describe and analyze labour market regulations in Africa. The quantitative analysis used the World Bank *Doing Business* indicators to develop a synthetic measure of labour market regulation with four sub-indexes on: minimum wages, hiring, firing, and working conditions. We found that African countries tend to have high levels of regulation relative to Asian developing countries, with Francophone countries generally more regulated than Anglophone countries. There is considerable variation within these groups, however. A regression analysis failed to uncover an effect of labour market regulations on export competitiveness in manufacturing—a proxy for formal employment creation. Instead, we found that measures of the general business climate and exchange-rate overvaluation had strong and statistically significant influences on manufactured exports.

To delve deeper into the nature and effects of labour market regulations, we carried out a case study of Senegal. According to our indicators, Senegal has one of the most heavily regulated labour markets in the world, so, if these regulations matter at all, their effects should be discernible in Senegal.

Senegal’s Labour Code and labour unions focus on protecting existing jobs rather than creating new ones, lowering productivity and creating disincentives for hiring. Thus, Senegal’s institutions support a small fraction of the workforce to the detriment of a vast number of unemployed or underemployed in the informal sector. As such, the Labour Code is a manifestation of and contributor to the marked dualism of Senegal’s labour markets: a small minority of workers in formal enterprises benefit from detailed protections about benefits, paid vacations, working hours,

relocation restrictions, etc., on a par with those in France, while the vast majority in the informal sector have no protection at all.

Our interviews in Dakar confirm that many firm managers do view inflexible labour market regulations and confrontational labour relations as a significant problem. The most problematic aspects of the Labour Code and its enforcement involve limitations on temporary contracts. The ability of disgruntled workers to bring cases to the Labour Tribunal is also an important source of costs and frustration for employers. Beyond legal statutes, the confrontational character of labour relations undermines productivity and competitiveness. It is incumbent upon both employers and unions to foster a more cooperative approach to labour relations that will ultimately benefit both groups.

While managers in Senegal consider labour market regulation an impediment, few rank it as among the most important obstacles to investment and formal employment creation. Poor infrastructure, lack of access to finance, corruption, and land use dominate labour market issues. In this regard, the case study helps explain why there is no statistical relationship between labour market regulations and export competitiveness, despite the nearly universal complaints about the Labour Code.

In summary, labour market regulation is not among the most important impediments to competitiveness and formal employment creation in Africa. Nevertheless, the case study shows that it protects fundamental labour rights, to the detriment of investment and formal employment creation, and thus contributes to the predominance of informal employment.

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## CHAPTER 8

# What Policies Can Support Small Informal Businesses in Africa?

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### Introduction

There is profound disagreement among economists and policymakers on whether the informal sector should be repressed or assisted, as discussed in detail in Mbaye (2014), Benjamin and Mbaye (2012), and some of the other chapters in this book. Some stress the negative effects of the informal sector such as tax evasion and unfair competition with the formal sector. Others point to the role of the informal sector as a provider of employment of last resort. Many of these analyses do not consider the heterogeneous nature of the informal sector, in particular the distinction between large and small informal firms. Thus, Mbaye (2014) favours a targeted strategy with different policies toward large versus small informal firms. Overall, in the case of larger firms, sanctions to enforce formalization are often in order. For smaller informal firms, however, providing assistance makes better sense. In this chapter, we will examine policies directed toward the small informal sector, particularly the family, individual, and micro businesses that are so prevalent in the countries under study.

The business censuses conducted in Cameroon and Senegal show that small informal businesses represent more than 95% of total private enterprises. Self-employment represents more than 80% of total employment in Francophone Africa. These jobs are characterized by an extreme level of vulnerability and underemployment. Helping small firms develop will boost technological progress, productivity, and employment. This chapter addresses the following issues regarding the small informal sector: policies and institutions to support entrepreneurship, the role of professional organizations, the role of the Francophone legal system OHADA, and lessons from Morocco.



## **Supporting Entrepreneurship**

One of the main weaknesses of the informal sector is the lack of effective support for development of entrepreneurial skills and attitudes. Given the overwhelming proportion of SMEs, support to the private sector should feature a coherent strategy to support these firms, almost all of which are informal. Throughout the world, on average, more than three out of five SMEs do not survive to their third anniversary (Zogning and Mbaye 2015). The rate of failure is considerably higher in West Africa. Benjamin and Mbaye (2012) report that in Benin only 25% of the informal firms sampled in 2007 were still in business two years later. Among the many reasons for this higher failure rate in West Africa, we repeatedly see insufficient financing, a lack of planning, over-indebtedness, poor cash management, a lack of experience, weak customer service, non-compliance with regulations, and an inability to innovate (Mbaye et al. 2015).

More generally, the high failure rate indicates that most informal entrepreneurs lack the skills and attitudes to develop, operate, and grow their businesses to attain the standards of a modern enterprise. A successful entrepreneurial policy should centre on the following points: vocational training adapted to the requisite skills, incubating institutions that nurture business creation, financing in the form of loans and grants at different stages of the business life cycle, and support services. In the remainder of this section, we provide a detailed explanation of each of these components of a coherent policy package.

### ***Vocational and entrepreneurial training***

For most SMEs, especially those in the informal sector, business organization revolves around a single person who is both owner and manager. This owner/manager may be highly skilled in certain technical tasks, for example car repair or plumbing, but may have no idea of how to run a business.

A few African countries, including South Africa, Benin, Ethiopia, and Senegal, are planning to establish training programs for entrepreneurs in the informal economy. Such programs must accompany an overhaul of formal education, which fails to provide job-relevant skills, resulting in a mismatch between skills employers seek and those that employees offer.

The lack of relevant vocational and entrepreneurial training is a significant obstacle to informal business development in Africa. Table 8.1, derived from the surveys described in Chapters 2 and 4, shows that between 40% and 63% of entrepreneurs in the small informal sector were self-taught. Entrepreneurs in the formal economy and large informal enterprises had higher levels of vocational training than small informal

**Table 8.1**

Source of training of employees and managers according to firm status (percent)

<i>City</i>	<i>Company's status</i>	<i>Vocational school</i>	<i>Large business</i>	<i>Small business</i>	<i>Self-taught</i>	<i>Other</i>	<i>Total</i>
<b>Libreville</b>	Formal	22.0	11.6	2.4	11.6	52.4	100
	Large informal	28.9	4.4	6.7	33.3	26.7	100
	Small informal	14.0	0.7	7.0	42.0	36.4	100
	Total	19.6	6.3	4.8	26.7	42.6	100
<b>Douala</b>	Formal	43.6	24.0	8.4	18.8	5.2	100
	Large informal	32.7	4.1	0.0	40.8	22.4	100
	Small informal	12.8	2.6	24.5	55.6	4.6	100
	Total	35.2	17.4	11.9	29.4	6.1	100
<b>Yaounde</b>	Formal	38.0	17.5	5.2	35.0	4.3	100
	Large informal	38.5	11.5	3.8	46.2	0.0	100
	Small informal	19.9	3.5	9.9	63.7	2.9	100
	Total	32.1	12.6	6.7	44.9	3.6	100

*Source:* Authors' survey and calculations

firms. For example, in Douala only 13% had vocational training whereas 80% were either self-taught or received on-the-job training.

African countries lack adequate vocational and entrepreneurial training, both in terms of availability and quality (Mbaye 2002). Many authors pointed out that the overly general training provided in formal education systems in Africa is of very little use to informal actors.

Vocational training for the informal sector actors should be very practical and provide the skills specific to their occupation. It should encompass well-designed workshops that mimic actual workplaces, individualized training, coaching and follow-up visits, and placement in relevant internships. Entrepreneurs would thus acquire the necessary tools to successfully launch and manage an SME. The training should provide the opportunity to test and refine the business idea with the help of experienced professionals. The training should also help each participant conduct their market analysis and develop their marketing strategy, operating structure, human resources, and financial plan. Each participant must spend much of the time in the field gathering the information needed for their project and benefiting from feedback and coaching in analyzing and processing this information. Meetings and seminars with business professionals should be provided. These meetings with specialists in taxation, accounting, and notarial and business laws would allow future entrepreneurs to become more familiar with the administrative,

legal, and financial procedures, and the challenges associated with starting a business. Such training must be accessible to a broad spectrum of potential entrepreneurs, including those with minimal education and prior general training. Trainees should leave with a complete and well-designed business plan, ready to start his or her business with a viable project.

In addition to the ‘hard’ skills developed by well-designed vocational training programs, complementary ‘soft’ skill abilities must be fostered. As Fox and Kaul (2017) similarly argue, in order to be effective, informal education needs to develop both cognitive (reading, numeracy, and problem solving) and non-cognitive knowledge that relates to a set of attitudes and behaviours important to business. Among these are perseverance, self-esteem, self-control, motivation, ability to communicate effectively and interact with the rest of society, and to engage effectively with business networks.

Through surveys conducted in different southern African countries for four years, Friedrich et al. (2006) examined the differences in success between entrepreneurs in the same industry. Some of these entrepreneurs had taken or been taking a training program to provide them with entrepreneurial initiative, planning, operations, and innovation skills. The training program was offered using a ‘problem-based learning’ approach, which links learning to activity, and is based on the assumption that skills and behavioural patterns can be learned. Their results show that it is these entrepreneurs who have made much better progress in their commercial performance.

### ***Business incubator and accelerator programs***

While vocational training for entrepreneurs addresses the lack of experience and managerial competence of entrepreneurs, it does not answer the perennial questions of financing and high set-up costs. New entrepreneurs start out in an environment in which few factors are under their control. It usually takes a long time to develop a clientele. During the initial period in which most businesses make little to no income, the unavoidable costs of rent, labour, marketing, and capital can lead to serious cash-flow problems in the absence of an adequate financial plan. A business incubator can help newly created enterprises address some of these challenges by providing them with pooled physical facilities, professional advice, and management tools to help them get through this challenging period in their development. The services offered by the incubators generally include low rents with access to workspaces with electricity, telephone, and internet at lower costs, and improved access to finance. The incubator is able to provide these facilities and services

at reduced cost for several reasons: governments, donors, or NGOs may provide subsidies; economies of scale from encompassing a large number of firms; and, in the case of financing, the incubator's credibility increases bank confidence. The incubators also provide helpful technical support and professional services (market research, bookkeeping, tax returns, etc.), mentorship (learning from seasoned entrepreneurs), and networking opportunities with other entrepreneurs within the same incubator.

Business incubators can have a significant long-term impact on the economy because they enhance entrepreneurial culture, support new businesses with high growth potential, help to establish closer ties with other entrepreneurs in the same sector and transmit knowledge from partner research centres and universities, and thus considerably increase the rate of survival and success of SMEs. In Canada, where incubators flourish, they exhibit a success rate of 87%.<sup>1</sup> In Africa, there is no comparable available data, but there is every reason to believe that the effects of incubators would be even more favourable, provided that the incubators are effective.

The business incubator model has changed significantly over time. Throughout the 1990s, incubators shifted focus from providing physical and financial resources toward a broader range of more intangible high value-added services. More recently, this shift is exemplified by the rise of accelerator programs (Pauwels, Clarysse, Wright, and Van Hove 2016). Like incubators, accelerators support and develop new businesses. While incubators are usually non-profit entities, including universities and national and local government agencies, accelerators are for-profit venture capital organizations that provide financing, technical and logistical support, and expertise in return for stakes in the business; whereas incubators typically feature an open-ended timeline and are concerned with the longevity of businesses, accelerators operate on a time-limited basis, with a focus on growing companies quickly and sustainably (Zajicek 2017). Accelerators can be understood as holistic business advisory services, often bearing a strong resemblance to traditional management consulting practices but adjusted to fit small- and medium-sized organizations (Sepulveda 2012).

The role of these incubators and accelerators in the performance of new businesses has been tested under similar policies in South America, as illustrated by the work of Gonzalez-Uribe and Leatherbee (2017). It shows that incubators equipped with basic financing services, co-working spaces, and additional entrepreneurship training significantly increase

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<sup>1</sup>Key factors in developing effective, successful, and sustainable business incubators. See [pced.uwaterloo.ca/index.php/pced/article/download/10/6](http://pced.uwaterloo.ca/index.php/pced/article/download/10/6).

the performance of new businesses. The results are significantly relevant for young people who are in the midst of starting their first business.

In Africa, incubators and accelerators have both risen in popularity. Increased smartphone adoption, lower overall internet costs, and the large size of the African market has drawn significant investment from high-profile investors and tech giants such as Facebook and Google, leading to the rapid development of what are locally known as ‘tech hubs’ across Africa; as of early March 2018, a total of 442 active incubators, accelerators, and co-working spaces were recorded on the continent (Bayen and Giuliani 2018), representing a 40% increase in the last two years alone.

Although tech hubs, accelerators, and incubators are relatively new additions to the African continent, past experiences from around the world provide a source of policy recommendations. For example, some of what incubators provide to entrepreneurs may be inconsistent with the needs of nascent firms; ventures might develop in a manner not optimal for the business environment they occupy, such that survival is only possible inside the incubator but not outside of it (Cohen 2013). Recent developments suggest that organic, multi-stakeholder ecosystems work better than initiatives led by government, the private sector, or academia alone (World Bank Group 2016; Kelly and Firestone 2016). As a general observation, large government assistance programs for SMEs have proven unsuccessful since mass-scale, template approaches fail to address heterogeneous business needs; entrepreneurs are best assisted either by other entrepreneurs or established industry experts (Fal 2013). Specific to Africa, while the sheer number of tech hubs represent a considerable opportunity for improving the entrepreneurial environment, the absence of close links to academic centres of innovation is seen as a missed opportunity, preventing cross-pollination of ideas and skills (Adegoke 2018).

### ***Improving access to credit***

Financing constraints are a significant obstacle to SME development in Africa. Mbaye, Diop, and Gueye (2017) found that in Benin only 15.6% of SMEs had access to bank loans, versus 59.5% of large enterprises.<sup>2</sup> The corresponding figures are 14.2% and 70.6% in Senegal and 17.6% and 56.9% in Niger. Likewise, small firms are subject to much more onerous collateral requirements than large firms. Collateral is required for 95.6% of small enterprises versus only 58.8% of large enterprises in Benin; in Niger, the corresponding proportions are 100% and 72.4%. The level of

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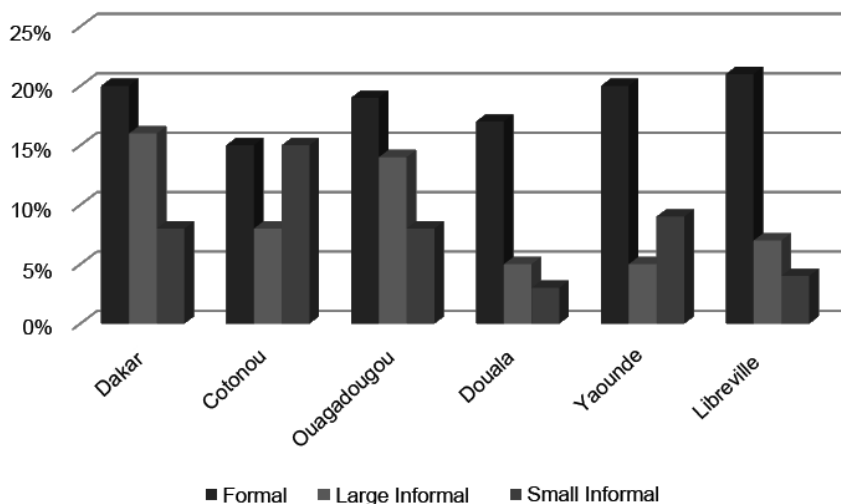
<sup>2</sup>This study used World Bank data where SMEs are defined as firms with 5–19 employees and large enterprises have 100 or more.

collateral required for smaller firms is also higher. In Benin, it averages 209.6% of the loan value for small enterprises versus 127.4% for large enterprises. In Burkina Faso, the corresponding proportions are 127.4% and 88.4%.

Our survey data, presented in Figure 8.1, and in more detail in Chapter 4, show access to credit, distinguishing between formal, large informal, and small informal firms. A tiny proportion of small informal enterprises in West and Central Africa have access to bank credit. For example, in Douala, 2% of small informal enterprises have access to credit versus 5% in Dakar.

Interest rates are high in West and Central Africa, and small informal enterprises are faced with particularly high rates, as also discussed in Chapter 4 in more detail. Formal enterprises in Dakar, Cotonou, and Libreville generally pay rates of about 15%, while formal enterprises in Yaounde and Douala face rates over 20%. In Libreville, informal enterprises must deal with rates of about 20%, while rates in Yaounde and Douala can be as high as 50%.

Unfortunately, most projects aiming at easing the financing constraint weighing on SMEs in general, and on the informal sector in particular, are surprisingly ineffective (Fox and Kaul 2017; Blattman et al. 2018). Blattman et al.'s (2018) evaluation of microfinance programs in conflict areas finds that grant funding is more effective than loans. Fox and



**Figure 8.1**  
Proportion of firms that have received bank financing  
Source: Authors' calculations

Kaul (2017) also recommend cash transfers as a means of funding SMEs instead of credit. From an operational point of view, zero-rate loans could, in our opinion, constitute a more sustainable alternative.

## **The Role of Professional Organizations**

Government policies are mainly oriented toward the formal sector. One important reason for the neglect of the informal sector is that it is difficult to craft policies for informal activities when little is known about the sales, characteristics, aspirations, and challenges of informal businesses. The failure of African governments to implement policies adapted to small enterprises in the informal sector has not been covered extensively in the literature; the few exceptions include McKenzie (2015) and Zogning and Mbaye (2015). As discussed in Mbaye and Gueye (2014), and further below in the Moroccan case, the government's neglect of small firms can be attributed to several factors, including the inadequacy of support services.

More importantly, tax collection agencies are usually the most powerful government institutions, and they typically have little interest in the informal sector beyond increasing the tax base. Often, the tax authorities offer reduced tax rates to informal firms to encourage payment. However, offering tax cuts to entrepreneurs who do not pay any taxes seems a rather strange approach. Moreover, prioritization of tax collection over assistance only adds to the informal firm managers' wariness of government.

Professional organizations can play a more constructive role than the government in some respects. They are often much less bureaucratic and corrupt than public servants and agencies that oversee the informal sector and SMEs. Unfortunately, our surveys show that very few informal firms belong to professional associations, especially in Central Africa, where only about 2% of informal firms in Yaounde and Libreville are members, and 4% in Douala. The figures are slightly higher in West Africa, especially in Dakar where it is 19% (Table 8.2).

As a first step toward designing more targeted policies, professional organizations could survey informal sector firms to ascertain their geographical and sectoral distribution. For one thing, this would be helpful in bringing to light the very significant role that the informal sector plays in many industries. Better knowledge of the informal sector would also facilitate the design of more targeted policies, especially for improving quality control. Publicly available registers of informal firms would also enable these firms to network, exchange information, and collaborate.

**Table 8.2**

Proportion of firms that belong to a professional association (percent)

<i>City</i>	<i>Formal</i>	<i>Large informal</i>	<i>Small informal</i>	<i>Total</i>
<b>Dakar</b>	29.7	40.0	19.0	25.0
<b>Cotonou</b>	35.3	28.9	13.0	20.7
<b>Ouagadougou</b>	18.0	21.2	7.5	10.4
<b>Douala</b>	39.8	11.1	4.1	18.8
<b>Yaounde</b>	14.8	30.0	2.2	8.5
<b>Libreville</b>	20.0	5.3	2.3	6.2

Source: Authors' surveys and calculations

To promote quality and professionalism in the informal sector, it is imperative that rating systems for vocational training programs be developed and disseminated. Professional organizations can play a key role in this regard by fostering the emergence of more modern training systems. The governments should support and, when needed, finance training programs endorsed by professional organizations. Belonging to a professional organization or association provides a positive signal to the potential partners of SMEs.

## **OHADA and the Informal Economy in Francophone Africa**

Business law in Francophone Africa is governed by the Organization for the Harmonization of Business Law in Africa (OHADA: *Organisation pour l'Harmonisation en Afrique du Droit des Affaires*) treaty. Increasingly, its regulations are being modified to be more relevant to the informal sector. This treaty underpins business law in 17 African countries: the eight countries in the *Union Économique et Monétaire Ouest Africaine* (UEMOA), the six countries in the *Communauté Économique et Monétaire d'Afrique Centrale* (CEMAC), and Comoros, Guinea, and the Democratic Republic of Congo. From both an accounting and legal perspective, this treaty has introduced a number of provisions to promote formalization of SMEs and better manage the informal sector. These provisions concern, among others, the concept of 'entrepreneur', the reform of limited liability corporations (LLCs), the introduction of simplified joint stock corporations, and the notarial deed of incorporating a company.



### **Aspiring entrepreneurs**

OHADA has provisions for very small entrepreneurs and would-be entrepreneurs. Thus, OHADA considers entrepreneurs who use the informal sector as a starting point to test the market or a product before launching it in the more challenging formal business environment.

Section 30 of the Uniform Act indicates that “the entrepreneur is an individual, a natural person who, upon making a simple declaration as provided for in this uniform Act, engages in a professional, civil, commercial, artisanal or agricultural activity.” The status of ‘aspiring entrepreneur’ is maintained if sales do not exceed 30 million FCFA for wholesale/retail distribution, 20 million FCFA for handicrafts and similar enterprises, and 10 million for other services. If the business sales exceed these thresholds for two consecutive years, the firm must shift to corporate status. In addition, an aspiring entrepreneur can use the minimum cash flow system, which is a relatively simplified form of cash accounting under the presumptive lump-sum tax regime. In May 2015, Benin became the first of 17 countries in OHADA to implement the aspiring entrepreneur status, following a one-year pilot project that involved 3,600 informal micro-enterprises (2,400 in the sample group and 1,200 in the control group). Moving from informal status to aspiring entrepreneur is not only free but, more importantly, simplified through the *Guichet unique de formalisation des entreprises* (Single Window for Business Formalization). Since the pilot project demonstrated that making formalization free or easy was not a sufficient inducement to push small enterprises to formalize, the authorities in Benin granted those with aspiring entrepreneur status considerable benefits. In addition to making formalization easier, they offered business management training at accredited management training centres, access to banking services and mediation with tax authorities, and a tax system adapted to their level of operation.

### **The reform of LLCs and creation of SAS (*Société par Actions Simplifiée* or *simplified joint-stock company*)**

The minimum capital for an LLC was previously set at FCFA one million, according to the provisions of OHADA. The underlying reason for this capital requirement was to provide security to third parties transacting with the enterprise. However, this requirement became a barrier to formalization. At the same time, this one million in capital did not really provide any guarantee of solvency because firms borrowed against it or ended up spending it; nor did it suffice to gain access to bank credit. The Uniform Act on Commercial Company Law, as revised in 2013, sharply reduced the capital requirement for distribution services companies. Similarly, this revision made notarization of the creation of an LLC

optional. These measures sought to encourage informal entrepreneurs to formalize.

The SAS was introduced for the same reason. The requirements for forming an LLC are rather stringent and rules regarding adding members to the partnership and changes in capital are quite rigid, as are the partners' responsibilities regarding social obligations. The SAS is therefore more flexible than LLC and stock corporations. The capital requirement is therefore variable, which facilitates the entry of new investors into the capital structure. Furthermore, investors are not responsible for social obligations exceeding their equity contribution. The company can also have just one shareholder. The flexible governance of this type of company allows it to function without a board of directors, and even without an auditor, as long as it does not exceed specified sales thresholds.

Despite all these well-intentioned and seemingly appropriate reforms, there is little indication of their effectiveness. The fundamental reason is that OHADA is limited to the legal and regulatory framework. The business environment involves a wider range of issues including the quality of infrastructure and state capacity to implement the OHADA dispensations. The discrepancy between official statements and their implementation is a recurrent problem in Africa. Investment in infrastructure, corruption, administrative delays, especially at Customs, fall completely outside OHADA's scope.

In Ethiopia, where the informal sector still accounts for a large share of employment, business law reform has produced interesting results, since 2000, in a previously rigid business environment. This has stimulated the creation of productive start-ups and skilled jobs. This implementation of a business-friendly environment is one of the factors that is making the Ethiopian economy one of the fastest growing economies in the world and enabling it to regain a high productivity balance (Brixiová and Ncube 2015).

## **Lessons from Morocco on Assisting Small Informal Firms**

The size of the informal sector in Morocco is not well known, as is true of other African countries; it is estimated at around 40% of GDP. The informal economy encompasses nearly all sectors as in the other Francophone African countries. In September 2015, we conducted a series of semi-structured interviews and focus groups with accountants, formal and informal businesses, and government officials in Morocco.

Our investigations revealed important similarities to countries in West Africa, but also significant differences. The Moroccan government's view

is that the informal sector should be formalized because it fails to comply with all social and hygiene standards, as well as tax obligations, among others. This perspective differs from that of Francophone SSA, where the goal of formalization is not paramount. In Morocco, numerous government agencies are involved in a national effort to contain the informal sector. But the strategy is more to assist businesses rather than punish them, except for large informal enterprises. Morocco also has the lump-sum presumptive tax regime and, as in West Africa, large informal firms take advantage of this by massively underreporting sales. Enterprises which we designate as the '*gros informel*' [large informal enterprises] in SSA are known as '*faux forfaitaires*' [false flat raters] in Morocco. This designates economic operators that exceed the sales threshold for the lump-sum tax regime, but that underreport their sales to be eligible for the lump-sum regime. For this segment of the informal sector, the government adopts a crackdown rather than an inducement, as illustrated by the vast campaign against *faux forfaitaires* launched in 2013. The effectiveness of the intelligence services in Morocco is such that any informal activities are brought to the attention of the police, who then decide whether to report them to the tax authorities or not. Another difference from the rest of Africa is that the Moroccan agricultural sector is not fully informal. Indeed, many farms are known to the tax authorities and pay their taxes.

The Moroccan government created a special legal category of 'auto-entrepreneur', equivalent to the 'aspiring entrepreneur' in the OHADA system, whereby taxes are reduced to a much lower level when the enterprise is below a certain sales threshold. As an inducement to register and pay this tax, small entrepreneurs receive social security benefits such as health insurance and retirement plans. Registration is also simplified with a one-stop-shop process, there are no capital requirements for the business, and there is an amnesty on all past due tax liabilities. For the government, the advantages are that it receives some tax revenue and, perhaps more importantly, it has greater knowledge and control over the informal sector. This system is much more effective than that in Francophone Africa where firms have no incentive to register—the only effect is to raise their taxes. The Moroccan system makes it advantageous for firms to register and is mutually beneficial.

The auto-entrepreneur regime covers all sectors of the economy, but is particularly important for small merchants. For commercial, handcraft and industrial activities, the tax rate is 1% of sales, and the eligibility threshold is equivalent to about 50,000 EUR. For other services, the tax rate is 2% and the threshold is lower, at about 10,000 EUR. Firms get a single tax identifier for all tax administration purposes and a separate

identifier for customs. However, there is a connection between the customs and tax databases, such that when someone enters the customs file for clearance, the tax authorities see it immediately.

In addition to these efforts to formalize firms, the Moroccan government is making significant efforts to improve the general business climate through investing in infrastructure, facilitating access to banking, and fostering better relations with the private sector. Unlike the countries of SSA, which mostly offer only short-term credits, in Morocco, banks make long-term loans for investment financing. To improve vocational training, the National Initiative for Human Development (INDH: *Initiative nationale pour le développement humain*) was established with an initial fund of about 100 million EUR to boost skills, foster cooperatives for small firms, and raise general and computer literacy. Women's empowerment has been promoted. There are proportionately more women in the formal sector than in the informal sector, unlike in Francophone and other African countries. Women are approaching parity in the Moroccan public sector.

Nevertheless, despite some real improvements, firms still face a challenging business environment in some respects. Credit is still difficult to access and labour regulations remain problematic for many employers. There is no doubt that greater progress in the business environment would lead to further growth of the formal sector.

### ***Upgrading and formalization for street vendors and small road-side shops***

There are an estimated 276,000 street vendors in Moroccan cities, providing income for nearly 1.3 million people. About 90% of street vendors are self-employed; 60% of them report having worked in this business for over 10 years. Of these vendors, 70% have no more than elementary schooling (Mbaye and Gueye 2014). The Ministry of the Interior and the Ministry of Investment jointly established a new program to encourage registration of street vendors, focusing on the following measures:

1. Provide some designated spaces with the equipment and services required for this business
2. Promote upgrading of equipment to improve the health of and food safety for both vendors and consumers
3. Like other small informal operators, street vendors must register and then they are eligible for a special legal and tax status
4. To raise participation in this program, training and awareness sessions are held for street vendors.

Similarly, a program to upgrade small roadside shops (*rawaj* in Arabic) has been established. These shops are much like street vending in that

they operate at a very small scale, except that they have a stall. The program aims to raise quality, hygiene, and safety for consumers; improve the stalls' visual appearance; and strengthen the vendor's knowledge. To this end, between 2008 and 2012,<sup>3</sup> the *Rawaj* financed the modernization of stalls for around 2,500 EUR per vendor. The bulk of the expenditure is for equipment upgrading, toward which the *Rawaj* program covered 75% and the vendor 25%. The remaining funds are devoted to advice and training. By the end of 2012, over 22,000 points of sale were modernized, reaching 90% of the target of 25,000. This modernization was carried out in all regions of Morocco, resulting in significantly increased sales and improved bookkeeping.

The Moroccan model is certainly not a panacea for the rest of the continent. The business environment reforms have not yet been fully implemented; the informal sector therefore remains pervasive. To our knowledge, there has been no systematic evaluation of the program to determine its full effects. However, Morocco deserves credit for devising and implementing a well-thought-out and comprehensive strategy for small informal enterprises. This approach could be a model for the countries of SSA.

## Conclusion

The informal sector is highly diverse. In particular, large informal firms could quite easily formalize, but choose not to do so; whereas, small informal firms are in dire need of assistance and provide employment of last resort for many people. In this chapter, we have focused on policies directed toward the latter. This is of crucial importance given the overwhelming predominance of small informal firms and their precarious status. We reviewed the regulatory environment in Francophone African countries and the OHADA legal system, variants of which are in force in all these countries. While there are some provisions that address SMEs, in general, relatively little attention is devoted to small informal businesses. The main preoccupation of the authorities is just to tax them more, with little or any effort to provide services and encourage them to formalize through carrots rather than sticks.

We have proposed a number of steps to assist small informal operators. Business incubator and accelerator programs, whereby the government, NGOs, or donors bring together a number of small firms to provide

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<sup>3</sup>The new offer that covers the 2013–2014 period consists of financing equipment for 2,300 EUR and expertise and training for 200 EUR.

coaching and various types of support, have proven effective in developed and some developing countries. While data is lacking on their effectiveness in Africa, there is reason to believe they can be even more beneficial due to the severe constraints facing entrepreneurs. Professional associations can also play a larger role in gathering information about the small informal sector and coordinating assistance programs. Grants or loans with zero interest rates have been found to be more effective in spurring SME development than loans at market rates. Governments should work with the private sector to explore and implement such measures.

We also investigated Morocco's policies related to the small informal sector. While much remains to be done in Morocco in terms of improving the business climate, the country provides a fascinating and encouraging model for sub-Saharan African countries. Rather than harass small firms in a vain effort to raise tax revenues, the Moroccan government provides attractive inducements for small firms to register and pay a minimal tax. Firms that register are enrolled in the social security program, which provides very significant benefits such as medical coverage and retirement income. Moreover, the Moroccan government has established several targeted programs directed at the most vulnerable informal activities, street hawking and road-side shops. These programs fund improved facilities and equipment, along with training to raise health and safety levels for both the vendors and their customers. Countries in Francophone Africa under study here would do well to learn from Morocco's and other countries' experiences and begin to implement similar programs.

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## **PART II**

# The Informal Sector in Central Africa, with a Focus on Cameroon



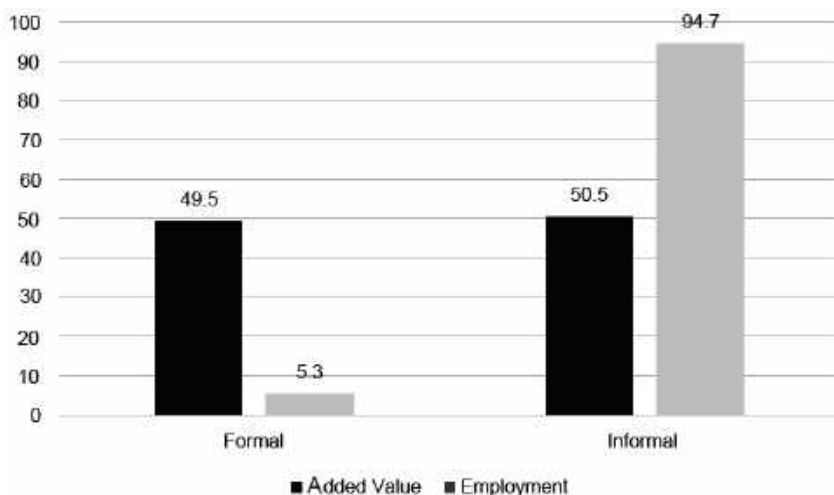
# The Informal Sector in Cameroon: Practices and Productivity

*Nancy Claire Benjamin, Fatou Gueye, Dominique Haughton, Ahmadou Aly Mbaye, Romain Tchakoute, and Joël Maturin Tinga Yepdo*

## Introduction

This chapter applies the methodology described in Chapter 2 to study firm-level productivity in Cameroon using the stratified sample of formal and informal firms in Yaounde and Douala, including both large and small informal firms. We show that productivity is higher among large informal firms than among small informal firms and rises with the degree of formality along the continuum. This result is similar to that in West Africa (Benjamin and Mbaye 2012). In addition, the sector of operation is significantly correlated with productivity.

Whichever way informality is defined, it is overwhelming in Cameroon. The informal sector accounts for 50.5% of GDP and close to 95% of total employment (Figure 9.1). The informal sector also disproportionately employs the most vulnerable segments of the population, including the less educated, less connected, and geographically disadvantaged. A viable strategy for inclusive growth in Cameroon must therefore take the informal sector into account. However, while the government has announced ambitious employment objectives, through a succession of reports and strategy documents, there is not an integrated approach that includes the informal sector. Furthermore, despite its importance as a job provider, the informal sector has not been the object of any explicit program. The government seems to have preferred to handle this sector indirectly through programs targeting related issues rather than directly addressing specific constraints facing informal firms and their employees. In addition, although various local government interventions aim to assist urban informal businesses, many municipalities are still trying to contain or repress the informal economy.



**Figure 9.1**  
 Structure of value added and employment by formal/informal status in the Cameroonian economy  
 Source: INS (2015)

## Informality and Productivity

Most previous studies show that productivity is negatively correlated with informality. Fajnzylber et al. (2011) found that formality increased firm employment by 40–50% in Brazil and increased the probability of having a fixed location by 30–50%, leading to large increases in revenues and profits. Analogously, in Vietnam, Rand and Torm (2012) found that firms that formalized had greater growth of profits and investments than similar firms that remained informal. McKenzie and Sakho (2010) found evidence in Bolivia that firms that become formal have greater sales and remit higher tax proceeds to the government. Branstetter et al. (2010) and Bruhn (2011) find that the relaxation of entry regulations leads to an increase in registration of enterprises, although mostly of ‘marginal’ firms that are small and have low survival rates.

Steel and Snodgrass (2008) found that the productivity differential between formal and informal firms is due mainly to differential access to public services. Gelb et al. (2009) compared the productivity of formal firms and informal firms using surveys on the investment climate for several countries in southern and eastern Africa. Their results confirm that formal sector firms are on average more productive than informal ones but the gap between formal and informal firms is much lower for

East African countries than for those in Southern Africa. They attribute this to the difference in the quality of the business environment and the enforcement of regulations. The weakness of the state in East Africa reduces the benefits of formalization and thus undermines incentives for more productive informal firms to formalize, thereby lowering the gap between formal and informal firm productivity.

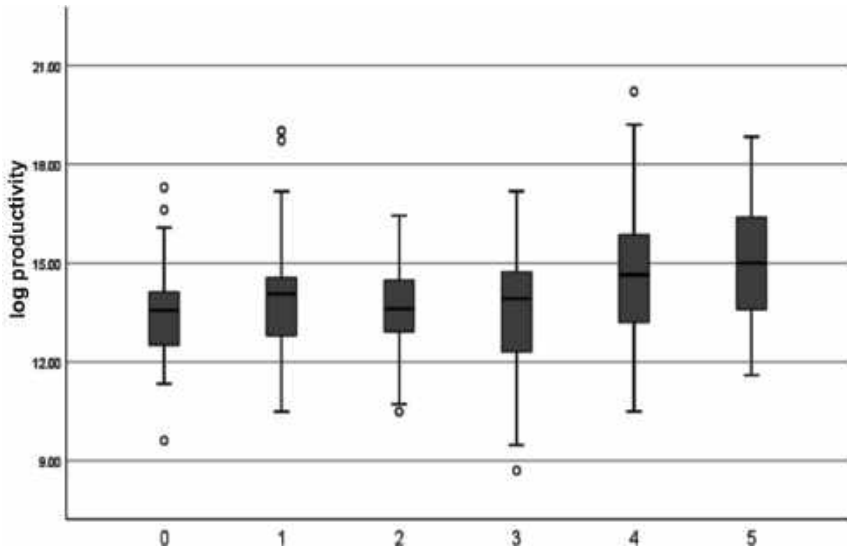
La Porta and Shleifer (2008) analyzed productivity differentials between formal and informal firms using World Bank informal sector surveys for India and 13 African countries. Their most salient finding was that the productivity of formal firms is substantially greater than that of informal firms, although most strongly so in India. However, once they controlled for expenditure on inputs, human capital of the top manager, and firm size, registration had little additional impact on productivity. By contrast, Perry et al. (2007) found a residual negative impact of informality on productivity, even when there was control for other characteristics. La Porta and Schleifer (2008), Haan (2006), and Gelb et al. (2009) all found substantially lower education levels in the informal sector, resulting in differences in skills, productivity, and earnings. On the other hand, Perry et al. (2007) found that the connection between informality and low productivity is more nuanced in Latin America. According to this study, informal entrepreneurs are well aware of their lack of access to capital and skilled labour. Therefore, they tend to operate in sectors where it is possible to produce more efficiently on a small scale.

Benjamin and Mbaye (2012) corroborate the negative correlation between informality and productivity of firms in West Africa when informality is broken down into degrees along a continuum of firm characteristics as described in Chapters 2 and 4. Mourji (2010) found a similar correlation in Morocco and Backiny-Yetna (2013) found increasing degrees of formality to be correlated with higher tax payments in Niger.

The picture is less clear-cut in Cameroon than in some of the above studies. Figure 9.2 displays boxplots of the logarithm of productivity against levels of formality ranging from 0 to 5, where 0 is the most informal level and 5 the most formal, as explained in more detail below.<sup>1</sup> The figure does show productivity rising when formality increases, but only modestly. This issue will be explored in detail in this chapter using econometric methods to control for other determinants of productivity.

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<sup>1</sup>In this chapter, unlike previous chapters, higher values of the indicator reflect increasing levels of formality.



**Figure 9.2**  
 Boxplot of (log) productivity by formality levels (0 = most informal, 5 = most formal) in Cameroon  
 Source: Authors' calculations

## Analytic Approach

In our analysis, the dependent variable is (the logarithm of) productivity, and a non-parametric analysis is used to correlate productivity with varying degrees of informality. The non-parametric method of *gradient boosting* (Friedman 1999) is used to explain the logarithm of productivity in terms of a number of variables including the formality level, and of random forests (Breiman 2001) for obtaining an acceptable instrument for formality. A random forest model was found to provide an instrument for formality, which is much more predictive than that obtained by a linear regression. As a result, whether formality is used directly as a predictor in a model for productivity or whether its instrument is used instead makes essentially no difference to the gradient boosting model of productivity. Of course, it is not entirely clear whether using an instrument for formality is necessary in a gradient boosting model, but the question would arise if a classical linear model was used.

Benjamin and Mbaye (2012) found that these multiple approaches provided useful results and helped confirm the results obtained with linear models where endogeneity may affect regression parameters, when it is not certain that even the use of an instrument would address the problem, particularly if the instrument is weak, as is commonly the case.

As explained in Chapter 2, data were collected on firms using a stratified sample of enterprises, with nine strata for both cities covered (Douala and Yaounde). Firms were divided into three subsets: formal enterprises, large informal enterprises, and remaining informal enterprises, and three sectors: industry, commerce, and other services. Within each stratum, enterprises were randomly selected, in suitable number, so that the distribution of the sample into its nine sub-samples is representative of the city as a whole while also oversampling large informal and formal firms.

The variables used to explain productivity alongside formality levels are listed below:

- socio-demographic characteristics of the head of the enterprise: age, gender, marital status, level of education, illiteracy, etc.
- characteristics of the sector in which the firm operates: capital intensity, exposure to competition, extent to which the firm is affected by trade liberalization and deregulation, export orientation, etc.
- evolution of the business: growth of sales, investments, technology upgrading, etc.
- perceptions of business regulation and the institutional environment: cost of labour, taxes, the ease of obtaining permits, etc.

The data used in this chapter included six of the seven firm-level criteria of informality described in Chapter 2: size, registration, honesty of accounts, fixity of the workplace, access to credit, and tax status. The one criterion of social security was not included to make the results comparable to those of Benjamin and Mbaye (2012), where only the above six criteria were used. Also, large informal firms may have some employees who are covered by social security. Thus, whether workers are covered by social insurance does not constitute a major difference between formal and large informal firms.

These six criteria can be combined to create indicators of levels of formality depending on how many of the six a particular firm meets. The two extremes of purely informal firms satisfying none of the criteria and purely formal firms satisfying all six criteria are relatively rare in Cameroon.

### ***A non-parametric model of productivity***

In this section, a non-parametric model for productivity in terms of informality levels, controlling for a number of variables, is proposed.

#### *Definition and computation of productivity*

To compare productivity levels between the formal and informal sectors, two alternative measures of productivity are computed using the survey



data: labour productivity and total factor productivity (Harrigan 1997; World Bank 2003; Golub and Mbaye 2002).

Labour productivity (LP) is measured using the following ratio:

$$1. \quad LP_i = \frac{Q_i}{L_i},$$

where Q is output, and L is the number of employees for firm  $i$ , both permanent and impermanent.

To measure TFP, we use the Cobb-Douglas production function,  $Q_i = AL_i^\alpha K_i^\beta$ , where K is capital stock and  $\alpha$  and  $\beta$  are the respective shares of labour and capital in total factor income.

$$2. \quad TFP_i = \frac{Q_i}{L_i^\alpha K_i^\beta} = A$$

Under the usual assumption of constant returns to scale, we have  $\alpha + \beta = 1$ . TFP can be estimated using a log-linear version of the Cobb-Douglas production function, where  $\varepsilon$  is random error.

$$3. \quad \text{Log}Q = A + \alpha \text{Log}L + \beta \text{Log}K + \varepsilon$$

TFP is usually computed as the constant term in Equation 3. Equation 3 would then be run separately for each of the three subgroups in the sample (formal, large informal, and small informal sectors). This provides measures of average TFP for the various firms in the three categories, assuming the production functions for the individual firms are of the Cobb-Douglas type with constant returns to scale.

LP and TFP are related as follows:

$$4. \quad LP = \frac{AL^\alpha K^\beta}{L} = TFP \left( \frac{K}{L} \right)^\beta$$

$$5. \quad \ln \left( \frac{LP_t}{LP_{t-1}} \right) = \ln \left( \frac{TFP_t}{TFP_{t-1}} \right) + \beta \ln \left( \frac{K_t / L_t}{K_{t-1} / L_{t-1}} \right)$$

Recall that  $\beta$  represents the capital share of income.

Estimations of TFP, using regressions like Equation 3, have given rise to several criticisms in the literature:

1. TFP is computed under the assumption of constant returns to scale, which might lead one to unduly attribute to technological variation the effect of scale on input efficacy; and

2. The computation assumes that factor shares in total costs are identical across sectors, which is not always the case since technology may vary across firms and industries (Harrigan 1997; World Bank 2003).

The World Bank (2003) research team tested the first hypothesis regarding returns to scale using the Wald test, as well as an alternative specification of the TFP equation, and ruled out the scale effect in both cases for Senegal; we assume that the scale effect would be ruled out in Cameroon as well. To allow for different production functions and technologies across firms, factor shares were calculated at the firm level. Equation 4 indicates that LP is a function of TFP and capital intensity, while Equation 5 shows the same relationship in rates of change. A rise in capital intensity will lead to a rise in LP, holding  $A$  constant. These equations suggest that productivity differentials between sectors could be due to efficiency/technological differences (TFP) or differences in capital-labour ratios. Differences in capital-labour ratios could in turn reflect different levels of access to finance between formal and informal firms, or between large and small firms.

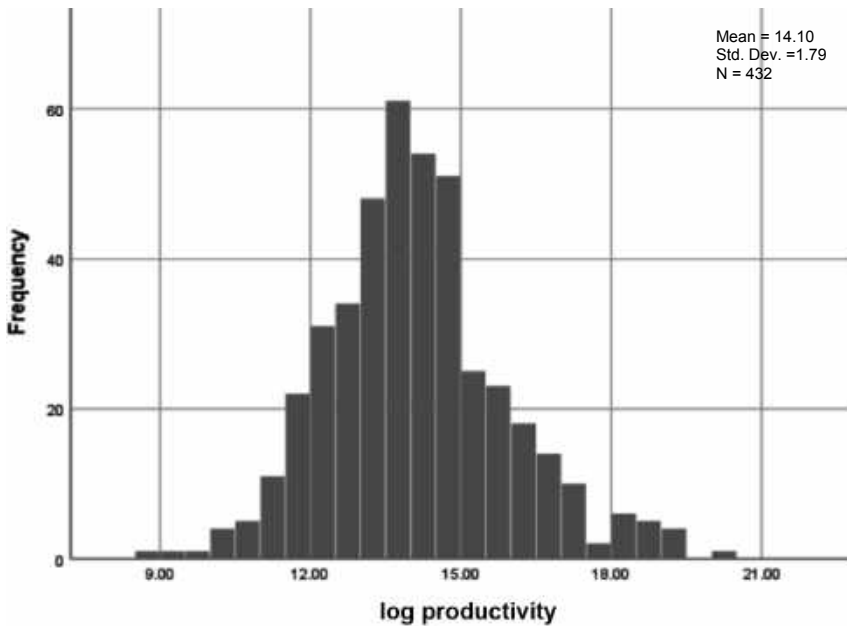
This chapter focuses on gross labour productivity (GLP), i.e., using gross sales as a measure of output rather than value added, and examines the extent to which it is associated with informality levels. When the distribution of GLP was examined, it was found to be strongly right skewed. After a logarithmic transformation, the shape dramatically changed and displayed a normal distribution (Figure 9.3). Thus, we focus henceforth on the log of productivity (Logprod).

We now briefly describe our non-parametric methodology, an extension of the Classification and Regression Trees algorithm introduced by Friedman (1999) and implemented by Salford Systems under the name TreeNet.

### ***Gradient boosting TreeNet model: methodology***

The TreeNet method is based on a gradient boosting technique for approximating functions introduced by Friedman in a 1999 seminal paper. A decision tree can be viewed as a function of the predictors (referred to as a step-function) that is constant on each terminal node. First, consider a continuous target variable  $Y$  as is the case in this chapter. The procedure can be modified when the target variable is binary.

The concept of the TreeNet procedure is to use not just one step function corresponding to one tree as an approximation of the true function which links  $Y$  to a set of predictors  $X$ , but instead to propose a sum of



**Figure 9.3**  
 Histogram of the logarithm of labour productivity  
 Source: Authors' calculations

such step functions, each corresponding to a tree with a fairly small number of nodes. Each added tree acts as a ‘boost’ to the performance of the previous approximation.

To summarize, the approximation proposed by TreeNet is of the form:

$$F(X) = \bar{Y} + \beta^1 tree_1(X) + \beta^2 tree_2(X) + \dots + \beta^M tree_M(X)$$

In this expression, the  $\beta^i$  as well as the splits in the successive trees are determined by a gradient descent algorithm (see Friedman 1999) which, at each added tree, aims to minimize the mean squared error of the approximation. To avoid the risk of overfitting, the number of trees involved in the approximation is controlled by cross-validation or evaluation of the approximation on a test sample. In the case of a binary target variable, the mean squared error is replaced by a suitable error function in the gradient descent algorithm (see Friedman 1999).

We next discuss a non-parametric approach to constructing an instrument for informality levels.

### ***Construction of an instrument for informality levels via random forests***

One important potential problem is the likelihood that we have a bidirectional causality link between informality and productivity, which could induce an endogeneity bias. To address this potential problem, mainstream literature recommends the use of an estimated informality level (an instrument) that is as close to actual informality levels as possible but is not correlated—conditionally on other covariates—with the error in a regression of productivity. In order to construct the instrument, the following variables are used: a) the number of employees at firm creation, b) the gender of the firm manager, c) the number of salaried women at firm creation, and d) the number of non-salaried staff at firm creation.

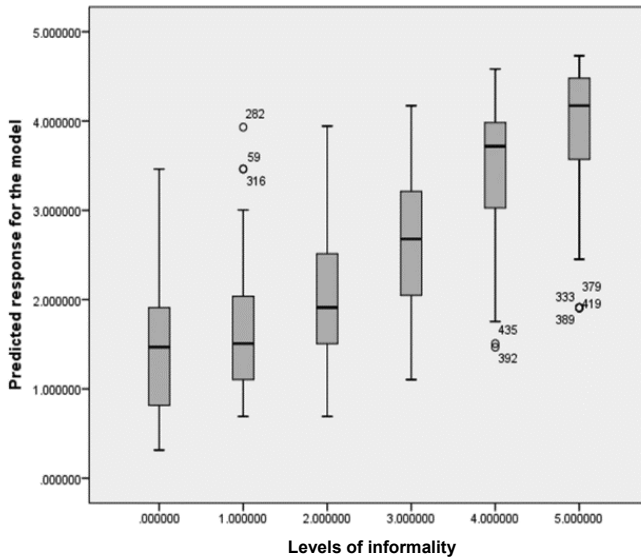
A decision of whether to use predicted values of informality from standard regression analysis or from exploratory random forest analysis followed. Boxplots of predicted informality levels by actual informality levels are given for both options in Figure 9.4. It is clear that a random forest approach yields much better predictions than standard regression analysis.

### ***Variable importance in the TreeNet model***

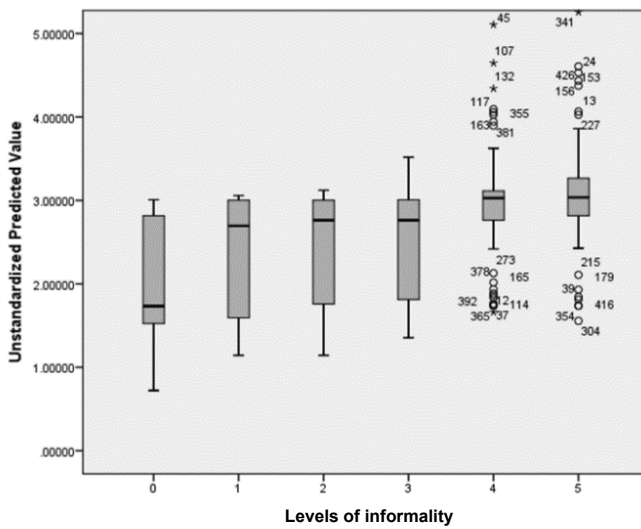
Table 9.1 displays the importance of the 13 most important variables in our gradient boosting model; the most important variable (scaled importance of 100) is ownership status of the firm. The sector of the firm is very important, as are the capital intensity, age of firm, demographics of the head of firm, exporting activity, etc. When other variables are controlled, informality (instrumentalized) is the 13th most important variable. Figures 9.9 to 9.18 display, *ceteris paribus*, the relationship between a change in each independent variable and the corresponding change in labour productivity, beginning with informality (instrumentalized). This discussion focuses on the most informative relationships, especially the one between productivity and informality.

Quite interestingly, extreme levels of formality (very formal or very informal) appear to be associated with less productivity, *ceteris paribus* (Figure 9.5), though these effects are quite small (the scale in the vertical axis in Figure 9.5 is graded in steps of .01). It is, however, possible that an interaction exists between the sector of the firm and informality. In other words, the impact of informality on productivity may depend on the sector. Our discussion returns to this issue below.

Figure 9.6 reveals that the public works and construction sector (13 firms in the sample, see Table 9.2) is associated with higher productivity, as are the sectors of trade and transportation to a lesser extent. These effects are quite large when compared to the effects of informality.



Random forest instrument



Linear regression instrument

**Figure 9.4**

Comparative analysis of the level of formality predicted from random forest and linear regression (vertical axis), using four variables: gender of head (ID0), number of employees at firm creation (MO1AA), number of female salaried staff at firm creation (MO1AB), and number of non-salaried staff at firm creation (MO1BA). Actual formality levels on the horizontal axis (0 most informal, 5 most formal).

Note: Given this analysis, a model of productivity varying with informality levels (replaced by their instrument) and a number of control variables can be constructed.

Source: Authors' calculations

**Table 9.1**

Importance of the 13 most important variables in a gradient boosting model for productivity

<i>Short-form Name</i>	<i>Importance</i>	<i>Variable</i>
<b>IG7</b>	100	Ownership status
<b>INTENSITECAP</b>	72.2	Capital intensity
<b>CI2</b>	72.12	Main difficulty
<b>IG3</b>	70.58	Sector of firm
<b>ID1</b>	58.85	Age of the head of the enterprise
<b>CFC4A</b>	48.51	Exports
<b>IG8</b>	47.44	Number of firms owned
<b>AGE</b>	47.1	Age of firm
<b>IG9</b>	46.85	Time needed to launch activity
<b>ID2</b>	35.8	Marital status of head
<b>FEM</b>	33.3	Proportion females in firm
<b>IS3B</b>	32.23	Number of electricity cuts
<b>FORMALITEINS</b>	31.57	Formality level instrument

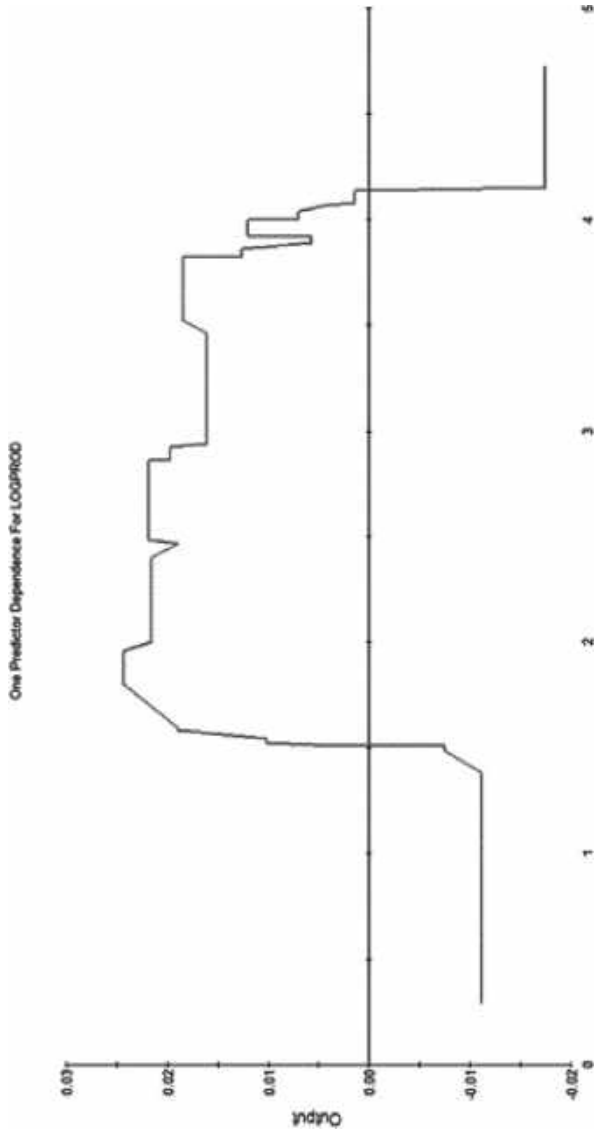
Source: Authors' calculations

The TreeNet methodology allows convenient examinations of interactions between pairs of variables. Figure 9.7 gives a three dimensional graph of the joint effect of informality and sector on productivity, and Figure 9.8 displays slices of this graph, one for each of the seven sectors.

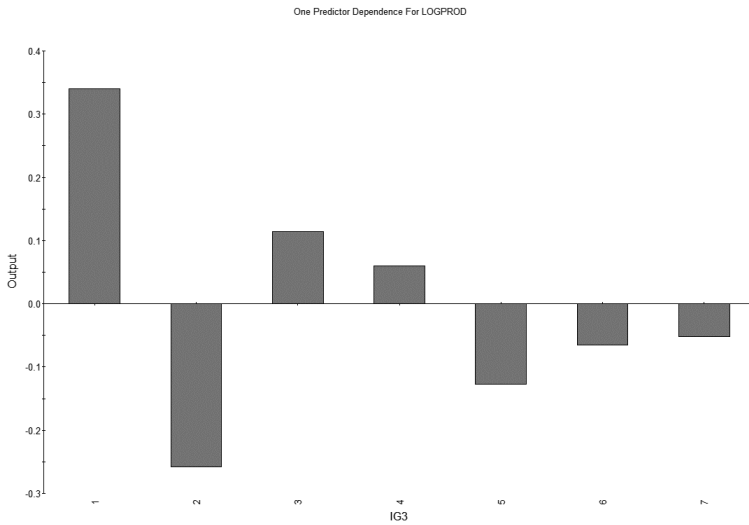
The main insight is that firms in the public works and construction sector tend to exhibit high productivity, which does not depend much on informality. Most firms in that sector are quite formal.

The sizeable trade sector and the other services sector display the trend discussed above, with higher productivity for moderate formality levels. However, the transportation sector displays a dip in mid-range and extreme formality levels. Interestingly, the picture is more complex—and flatter in general—in the restaurant sector. Note that the scales of the vertical axes are different for each of the slices in Figure 9.8, making Figure 9.8 useful for a more detailed picture of the dependence of productivity on informality for each sector separately, but not for comparing productivity across sectors. This is better accomplished with Figure 9.7.

Firms owned by those who are self-employed or that are owned by a relative or another individual are negatively linked to log productivity, while incorporated companies show a strong positive relationship to productivity (Figure 9.9).



**Figure 9.5**  
 Formality instrument and productivity (0 = most informal, 5 = most formal)  
 Source: Authors' calculations



Sector:

1. Public works and construction	4. Transport
2. Other industry	5. Catering
3. Trade	6. Other services
	7. Other

**Figure 9.6**

Sector of firm (IG3)

Source: Authors' calculations

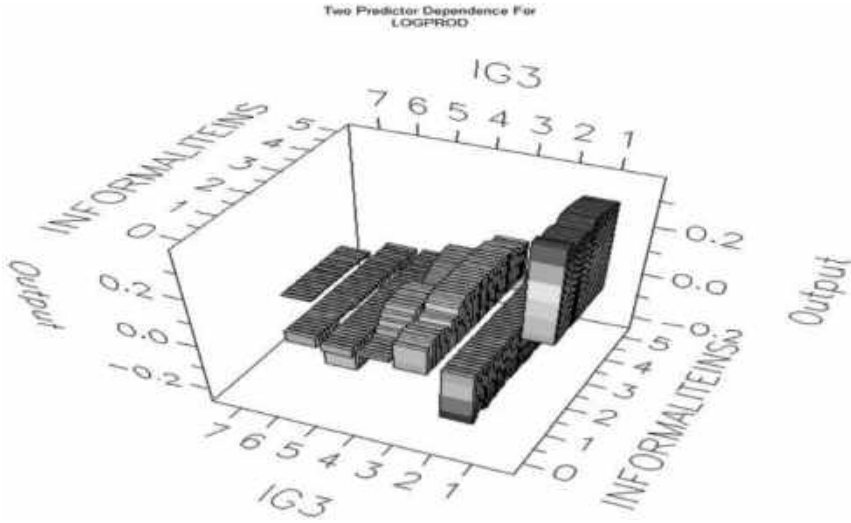
**Table 9.2**

Breakdown of firms in the sample by sector

Sector	Frequency	Percent
Valid		
1: Construction; public works	13.0	3.0
2: Other industries	103.0	23.8
3: Trade	157.0	36.3
4: Transport	29.0	6.7
5: Catering	30.0	6.9
6: Other services	92.0	21.3
7: Other	8.0	1.9
Total	432.0	100.0

Source: Authors' calculations





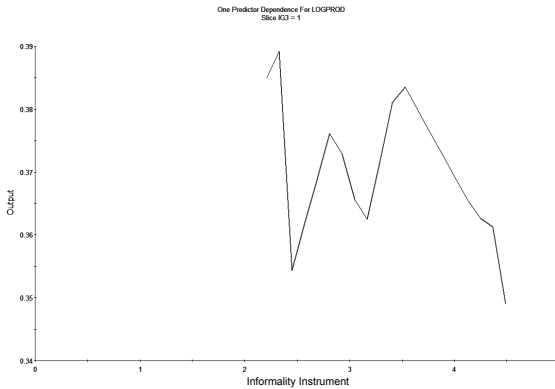
Sector:

- |                                  |                   |
|----------------------------------|-------------------|
| 1. Public works and construction | 5. Catering       |
| 2. Other industry                | 6. Other services |
| 3. Trade                         | 7. Other          |
| 4. Transport                     |                   |

**Figure 9.7**

Interaction of the informality instrument and sector

Source: Authors' calculations

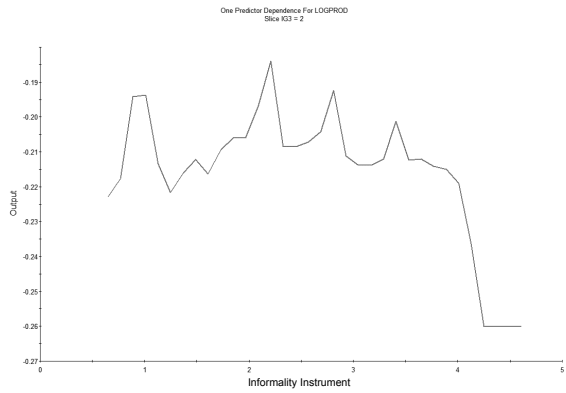


Public works and construction

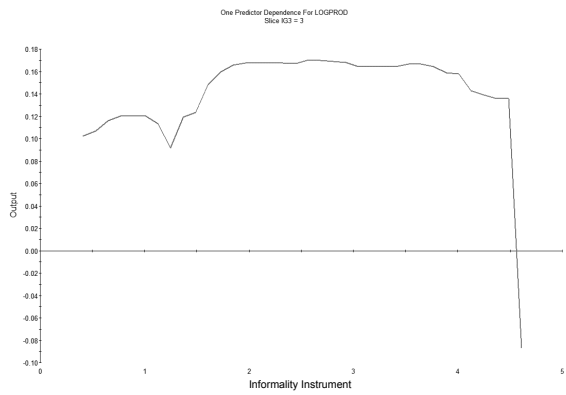
**Figure 9.8** (Continues)

Interaction of the informality instrument and sector

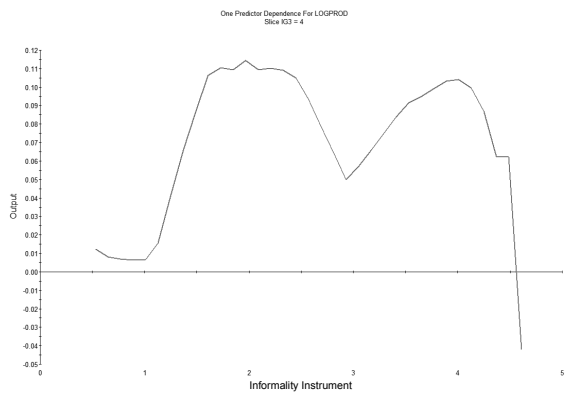
Source: Authors' calculations



### Other industry

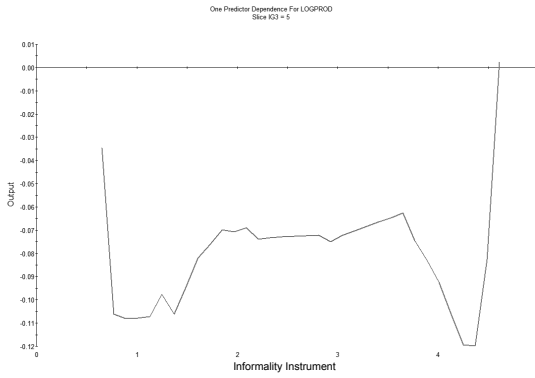


### Trade

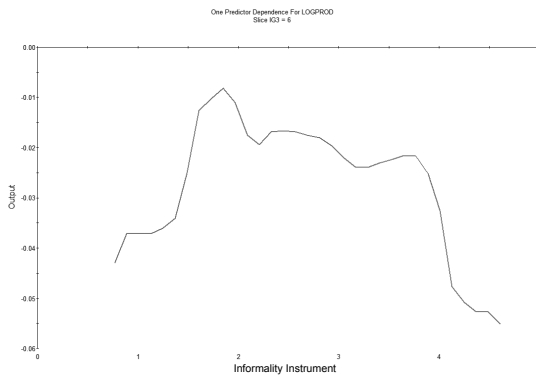


### Transportation

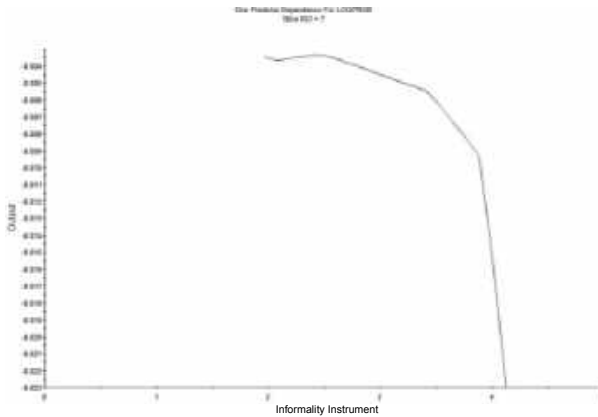
**Figure 9.8** (Continues)



### Catering

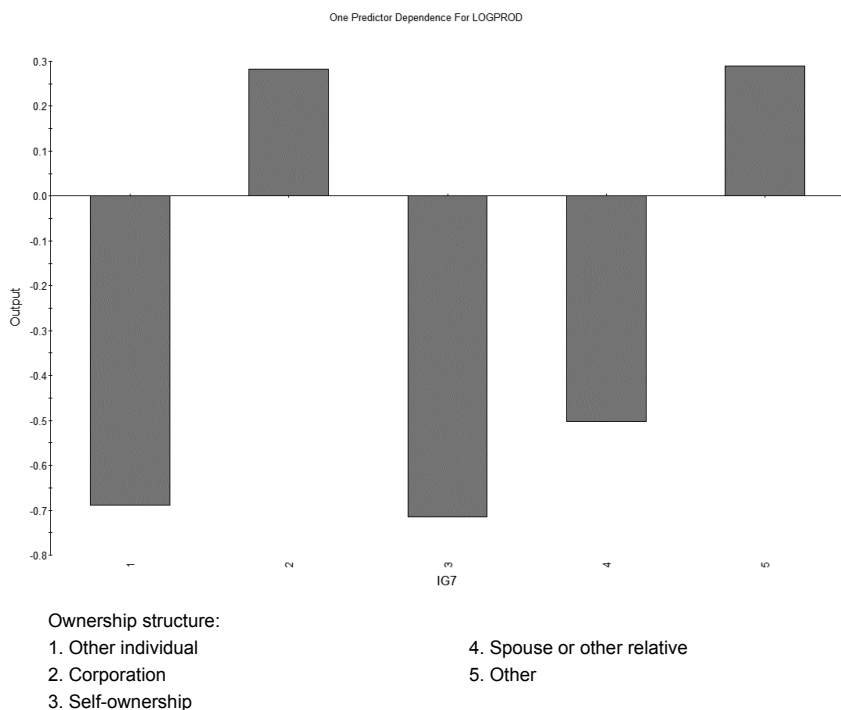


### Other services



### Other

**Figure 9.8** (Continued)



**Figure 9.9**

Ownership status (IG7)

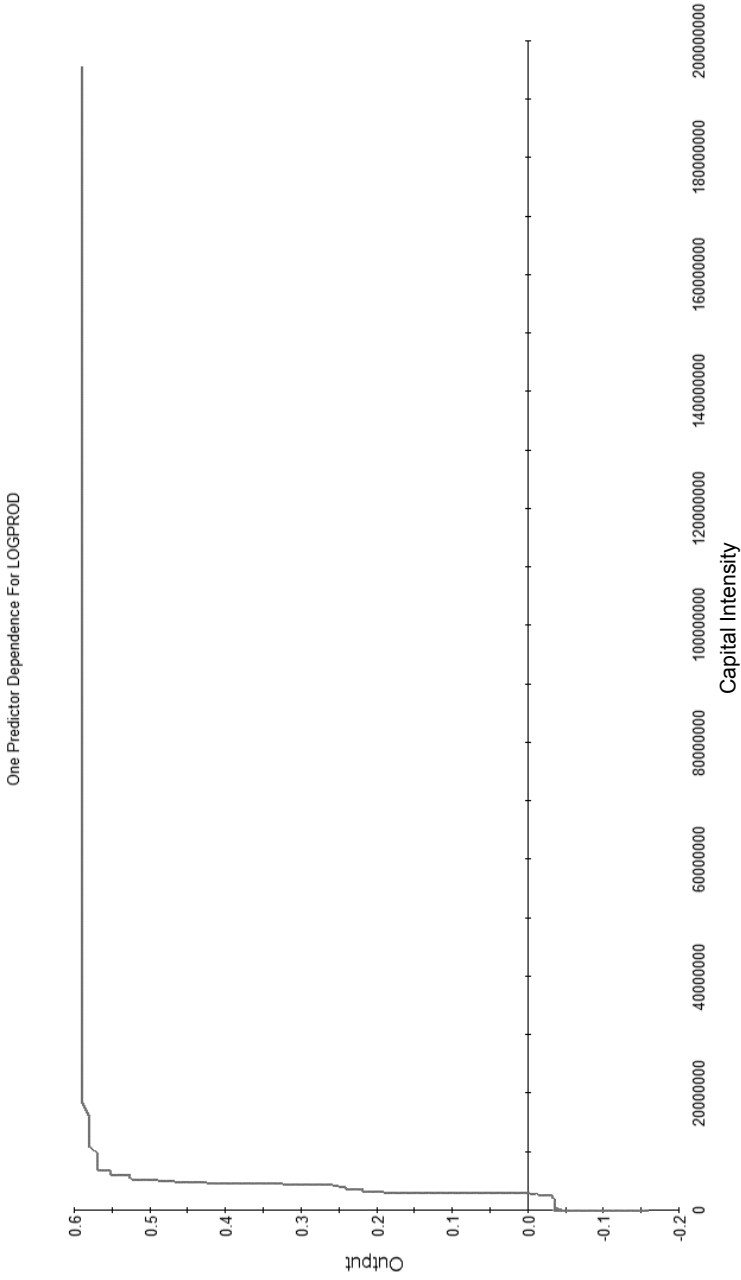
Source: Authors' calculations

Productivity increases very rapidly as capital intensity begins to rise (Figure 9.10).

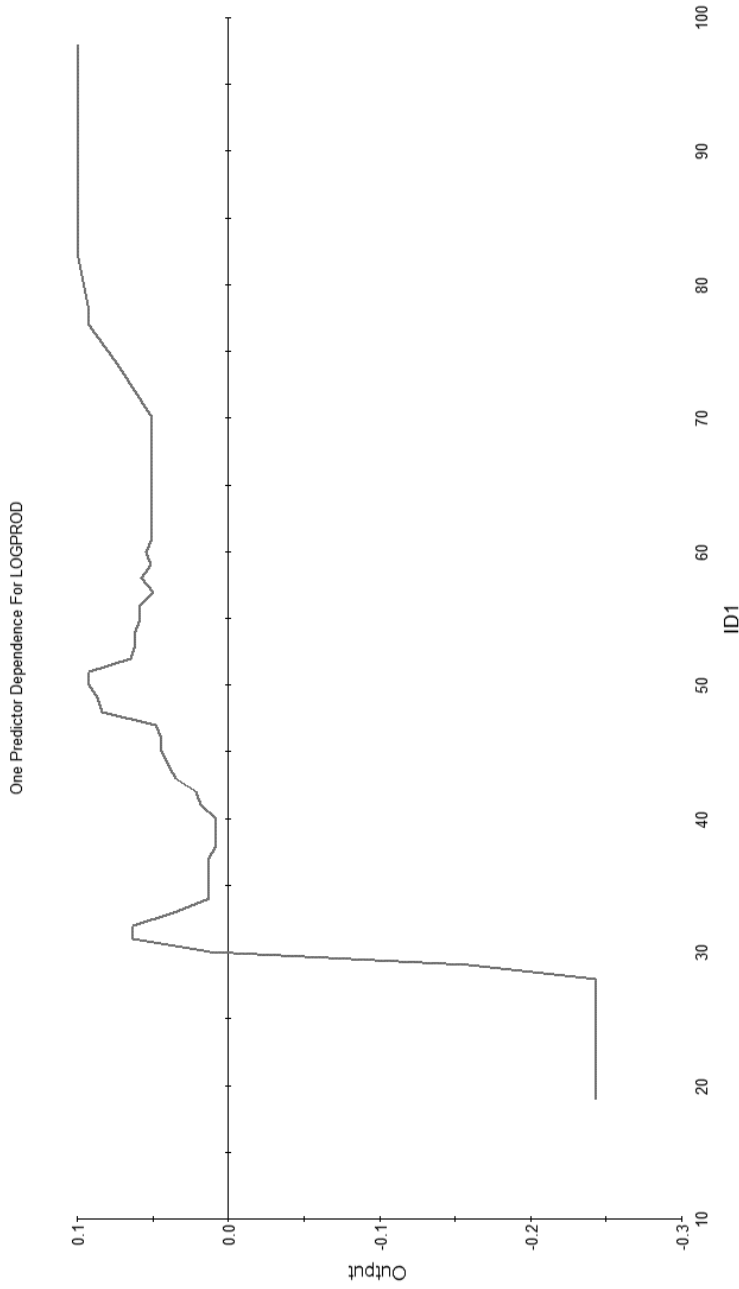
The age of the firm's owner is strongly related to productivity (*ceteris paribus*). Productivity increases sharply with age up to age 30 and then tapers off (Figure 9.11).

Productivity increases as the age of the firm increases and remains constant for firms older than 30 years (Figure 9.12).

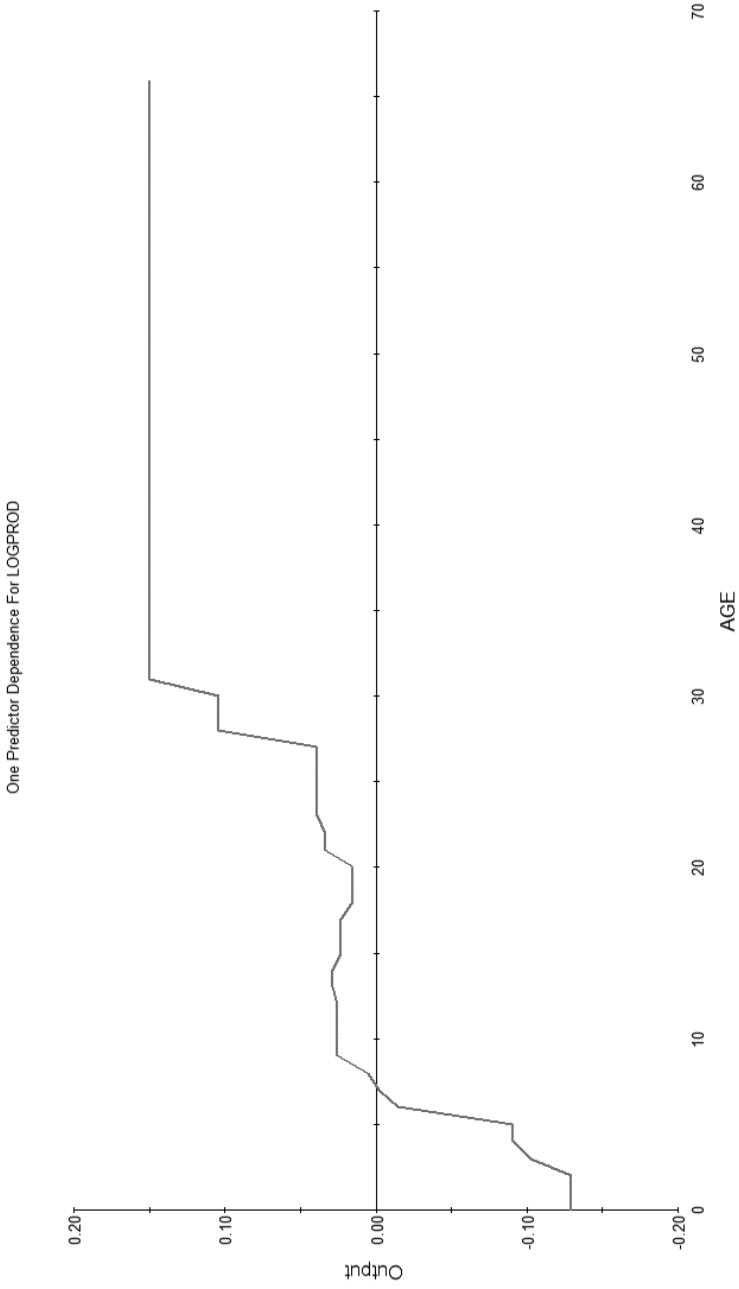
Firms headed by someone with a partner (married or not, monogamous or not) are associated with higher productivity (Figure 9.13), and Figure 9.14 seems to reveal an intriguing trend of decreasing productivity as the proportion of female employees increases, *ceteris paribus*. Both these demographic effects are small; the scales in Figures 9.13 and 9.14 are graded in steps of .01.



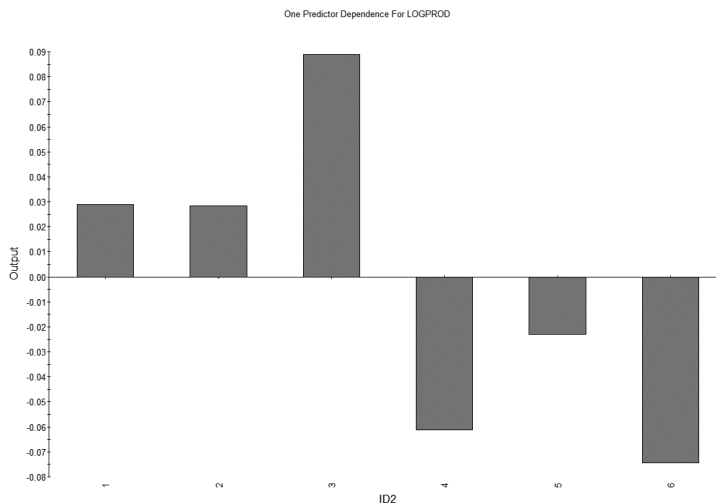
**Figure 9.10**  
 Capital intensity  
*Source:* Authors' calculations



**Figure 9.11**  
 Age of the head of the enterprise (ID1)  
 Source: Authors' calculations



**Figure 9.12**  
 Age of firm  
 Source: Authors' calculations



Manager's marital status:

1. Married monogamous
2. Married polygamous
3. Free union

4. Single
5. Divorced
6. Widowed

**Figure 9.13**

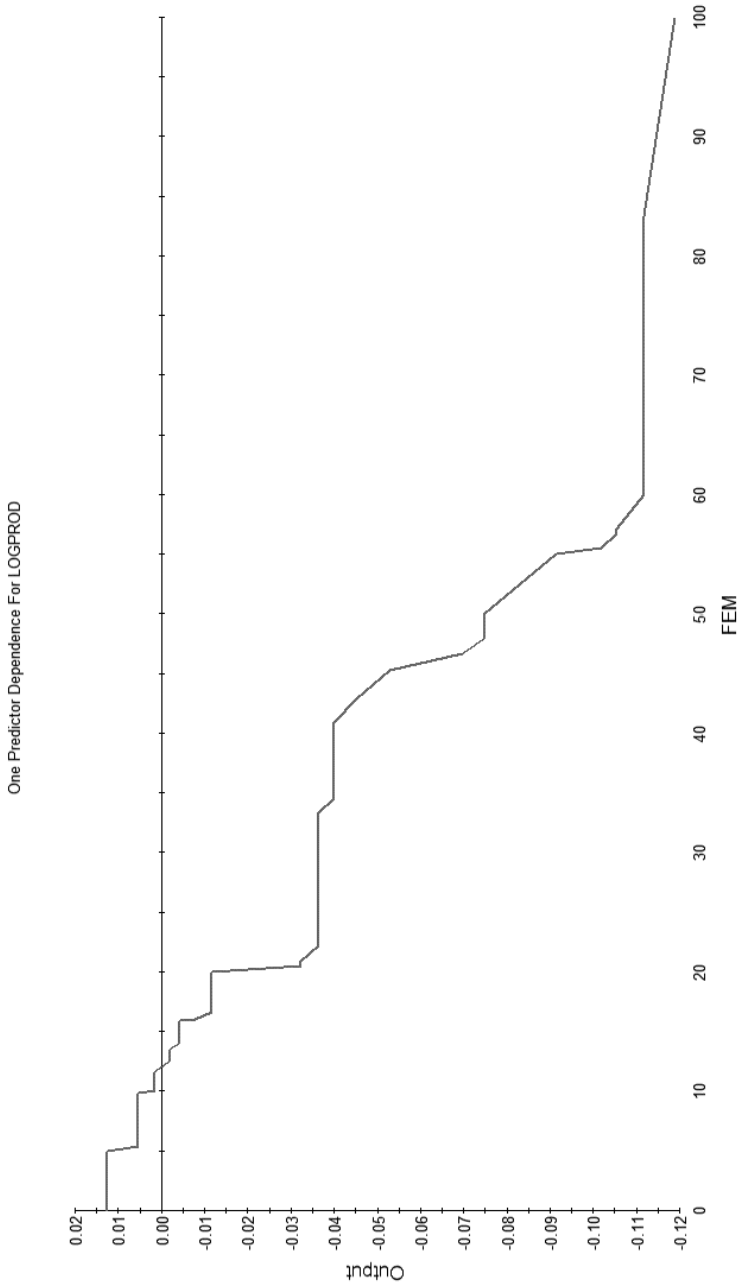
Marital status of manager (ID2)

Source: Authors' calculations

## Conclusion

This study draws on the method and data described in Chapters 2 and 4 for formal and informal firms in two cities in Cameroon, Yaounde and Douala, to analyze the connections between informality and productivity. Previous studies have found a negative correlation between informality and productivity. The findings in this chapter somewhat nuance this result for Cameroon. We use a more sophisticated instrumental technique to control for a number of other factors that may be correlated with informality. While the econometric estimates corroborate the visual evidence that productivity is higher among large informal firms when compared with small informal firms and rises with the degree of formality along the continuum, the effects are quite small. Moreover, when controlling for various firm characteristics and the sector of operation of the firm, the effects of informality are even smaller. The policy implication is that cracking down on the informal sector by itself may do little to boost productivity. The ultimate reason for low productivity growth is not informality in itself but deeper issues in the institutional environment that inhibit structural transformation and give rise to the informal sector, as discussed in Chapter 6.





**Figure 9.14**  
 Proportion of females in the firm  
*Source:* Authors' calculations

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# Cameroon's Informal Cross-Border Trade<sup>1</sup>

*Stephen S. Golub and Georges Kobou*

## Introduction

Cameroon is well situated to serve as a trading hub in Central Africa, as it borders Africa's largest economy, Nigeria, with which it shares a long North-South frontier of about 1,700 kilometres, and five other countries: Equatorial Guinea, Gabon, The Republic of the Congo, Central African Republic, and Chad (Figure 10.1). With the exception of Nigeria, Cameroon and its neighbours are all members of the *Communauté Économique et Monétaire de l'Afrique Centrale* (CEMAC). As for many other African countries, notwithstanding regional trade agreements such as CEMAC, and Cameroon's strategic location, official trade statistics suggest that Cameroon engages in little trade with its neighbours. Table 10.1 shows the share of Cameroon's official trade flows with its neighbours, averaged over 2000–2012.

Official exports to CEMAC countries as a group are under 10% of Cameroon's total recorded exports. Official exports to Nigeria are also very low at about 1.4% of total exports. Imports from CEMAC countries are minuscule, at about 2.5% of Cameroon's total imports, and mostly from Equatorial Guinea. Official imports from Nigeria are larger, averaging 13% of total imports, but highly variable and almost entirely consisting of oil. Official non-oil Cameroonian imports from and exports to Nigeria are vastly underestimated (World Bank 2013), as are Nigeria's oil exports to Cameroon. The low level of official interregional trade in part reflects the low levels of income and poor transport networks. Most importantly,

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<sup>1</sup>This study draws on capable field research by two sets of students in 2014 and 2016. Titan Labemba, Cédric Foyet Kamga, Mohammed Abdoullahi Maiwoda, Samuel Mbiagzi Ndjjudji, and Dimitri Tchakounte Tchumimi capably carried out surveys conducted in border regions in 2014. Yves Momo, Dominique Salla, Bertrand Nyambe Bonono, Raoul Michel Guiole, and Hugues Brice Djoumessi Zambou visited border regions to provide updates in 2016. We also thank Ahmadou Aly Mbaye for his support and comments.

however, these statistics do not reflect informal trade flows, which arise from institutional factors, which are described in this chapter.

Informal cross-border trade (ICBT) can involve two types of illegality: in the goods themselves (e.g., narcotics) or in the manner of trading (evasion of customs duties and regulations). Both types of illegal trade



**Figure 10.1**  
Cameroon and its neighbours  
*Source:* Authors

**Table 10.1**

Share of Cameroon's official exports and imports with neighbouring countries (percent of total trade), 2000–2012 annual average

	<i>Exports</i>	<i>Imports</i>
<b>CEMAC</b>		
Central African Rep.	0.8	0.0
Chad	2.5	0.0
Congo	1.6	0.6
Equatorial Guinea	1.5	1.6
Gabon	2.6	0.2
<b>CEMAC Total</b>	<b>9.1</b>	<b>2.5</b>
<b>Nigeria</b>	<b>1.4</b>	<b>13.3</b>
<b>Total Neighbours</b>	<b>10.5</b>	<b>15.8</b>

*Source:* UN Comtrade (2018) and authors' calculations

occur in Cameroon. Violent social conflicts in neighbouring countries, epitomized by the Boko Haram insurgency in Northern Nigeria, have been fed by armaments transiting through Cameroon. In Cameroon as elsewhere in Africa, however, the bulk of ICBT is in ordinary consumer products that are not in themselves illegal. Such trade in legal goods has varying degrees of illegality in terms of its intentions and compliance with tax and regulatory statutes. The extent of compliance itself varies, so illegality is a matter of degree. The terms used to describe this trade are suggestive of its heterogeneity: unrecorded, informal, unofficial, parallel, underground, smuggling, contraband.

Several previous studies have examined ICBT between Cameroon and its neighbours (Herrera 1995; Bennafla 2002; Nkendah 2013; World Bank 2013), but these studies are either somewhat dated, or focus on a limited part of cross-border trade. World Bank (2013) focuses on Cameroon's non-oil trade with Nigeria, while Nkendah (2013) is limited to Cameroon's agricultural exports to other CEMAC countries.

The purpose of this chapter is to provide an overview of unofficial cross-border trade between Cameroon and its neighbours, particularly Nigeria. We will focus on key border regions, products, and kinship groups, using both qualitative and quantitative analysis. The analysis is based on secondary literature, press reports, interviews, and a survey carried out in four different border regions: one with Equatorial Guinea at Kyé-Ossi, and three with Nigeria, Banki in the Far North, Sabongari in the North-West, and Idenau in the South-West (Figure 10.1). These surveys were carried out in August 2014 with a duration of one week. The chapter begins with a discussion of the underlying causes of ICBT

in Cameroon; the next sections discuss Cameroon's unofficial trade with Nigeria and CEMAC, and the roles of kinship groups. Chapter 11 of this book examines the effects of a new road on ICBT in North-West Cameroon.

## **Sources of Cameroon's ICBT**

A confluence of factors contribute to the prominence of ICBT in Africa, including Cameroon. These factors are long traditions of regional trade preceding the colonial era; artificial borders imposed by the colonial powers, largely maintained as African nations became independent in the early 1960s; strong ethnic and religious ties uniting people across borders; uncoordinated and often highly interventionist policies in the newly independent states, particularly with regard to trade policies, price controls, and subsidies; weak state institutions, which inhibit enforcement of these policies and widespread corruption; and inability of governments to control movements of people and goods across arbitrary and porous borders (Golub 2015).

### ***Cameroon's geography, history, and trading traditions***

Cameroon's geography and history have shaped distinct trading traditions in different parts of the country. Cameroon is sometimes described as a microcosm of Africa as it encompasses coastal regions in the South, grasslands in the West, tropical forests and mountains in the Centre, and near-desert savanna in the North. The Adamoua Mountains form a natural barrier, separating the northern and southern parts of the country into two distinct entities. This North-South divide, along with longstanding historical East-West trading traditions in West and Central Africa predating the colonial period, leads to widely different trading traditions in the largely-Muslim North and Far-North regions versus the mostly Christian regions south of the Adamoua region.<sup>2</sup>

Major roads and rail did not connect Douala to the major cities in the North, such as Garoua and Maroua, until about 1980 (Herrera 1995). The construction of roads linking northern and southern Cameroon did not fundamentally alter the longstanding ties between the Sahelian regions of Nigeria and Cameroon. The North and Far-North borders with Nigeria are savanna and are more porous than the forests and highlands south of the Adamoua Mountains, and thus smuggling that avoids official border crossings is easier in the North.

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<sup>2</sup>Confusingly, a region named North-West is in the southern half of the country.

Trading in the North and Far-North, as discussed below, is largely controlled by Muslim Hausa-Fulani ethnic groups, and is predominantly with Northern Nigeria and Southern Chad, where these same ethnic groups also operate. Trading with Nigeria is also prevalent in the southern half of the country, particularly in the South-West and North-West regions, with the Ibo and Bamiléké kinship groups playing important roles. The South region is also involved in trading with Gabon and Equatorial Guinea, to which it is adjacent.

Cameroon is typical of the arbitrary and ambiguous nature of colonial and post-colonial borders in Africa. The Germans colonized the area in the 1880s, with German Kamerun encompassing present-day Cameroon and parts of Eastern Nigeria. After Germany's defeat in World War I, the French and British took over, with the French gaining most of the country ('French Cameroons') and the British controlling a sliver of the country's West ('British Cameroons') bordering Nigeria. The British Cameroons was governed by the British as a *de facto* part of Nigeria, with free movement of people and goods between them (Konings 2005). A large number of migrants from Nigeria, predominantly Ibo, moved into British Cameroons, especially the southern part. French Cameroons became independent in 1960. In 1961, the northern two-thirds of British Cameroons ('Northern Cameroons') voted to join Nigeria while the southern one-third ('Southern Cameroons') opted to join Cameroon, largely due to resentment against Nigerian control. The former Southern Cameroons nevertheless remained Anglophone in contrast to the rest of Cameroon, which is Francophone. This historical legacy set the stage for the strong connections between present-day Nigeria and Cameroon, operating in distinctly different ways in the North and South of both countries. Ethnic groups also straddle the border, notably the Fulani and the Hausa in the North, and the Ibo in the South, discussed below.

The border between Nigeria and Cameroon has sometimes been a source of tension, particularly the peninsula of Bakassi (Konings 2005). Both Nigeria and Cameroon claim sovereignty and clashes have frequently broken out, with tensions particularly high in the early 1990s. In 2002, the International Court of Justice ruled in Cameroon's favour, but Nigeria never fully accepted this ruling. Recently, unrest has occurred in English-speaking Cameroon over simmering resentments that the government discriminates in favour of the Francophone population.<sup>3</sup>

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<sup>3</sup>See "A Bilingual Cameroon Teeters After English Speakers Protest Treatment" (9 February 2017), *New York Times*. <https://www.nytimes.com/2017/02/09/world/africa/a-bilingual-cameroon-teeters-after-english-speakers-protest-treatment.html>.



### ***Divergence of economic policies and prices***

Notwithstanding the historical connections between Cameroon and Nigeria, these two countries have pursued divergent economic policies, leading to pricing disparities that spur smuggling. Cameroon joined the other Francophone Central African countries in CEMAC, with a customs union and a common currency pegged to the French franc and then the Euro. Nigeria, on the other hand, has pursued an independent monetary policy, frequently leading to high inflation with large exchange rate fluctuations. Since the late 1960s, Nigeria's currency, the naira, has been inconvertible into other currencies. Prior to the mid-2000s, Nigeria had a highly controlled and overvalued official exchange rate and a much cheaper and volatile parallel exchange rate. Cross-border traders used the parallel exchange rate to covert nairas to FCFA. Nigeria is a member of the Economic Community of West African States (ECOWAS), but ECOWAS has no agreements with CEMAC, and ECOWAS has made little progress in harmonizing trade policies, largely because of Nigeria's reluctance to cede sovereignty.

Nigeria has engaged in highly discretionary and often protectionist trade policies, including tariffs of 100% or more and import bans on 'sensitive' products such as rice. These tariffs and import bans are frequently modified and not fully applied, but nevertheless inhibit official trade and raise domestic prices in Nigeria relative to those of its Francophone neighbours. While Cameroon's trade policies are not as extreme as those of Nigeria, Cameroon has elevated import taxes on final products. CEMAC customs duties for many goods are set at 30% and, inclusive of value added taxes (VAT) and other special taxes, the statutory import taxation cumulates at 57%. In addition, Cameroon sometimes institutes discretionary customs valuations, especially on goods from Asia, further raising actual rates of protection (World Bank 2013).

Nigeria also keeps gasoline prices far below world levels. The price differences between Nigeria and Cameroon resulting from these divergent policies are the main proximate cause of smuggling, as discussed below.

### ***Weak states and strong informal sectors***

ICBT is an integral part of the informal sector. The pervasiveness of ICBT reflects a vicious circle of weak governments that are unwilling and/or unable to control smuggling and other forms of tax evasion, corruption, and lack of state legitimacy. Smart (2013) points out that the inability to eradicate smuggling ('illegal persistence') reflects social attitudes regarding the legitimacy of government rules as much as the economic distortions created by those rules usually stressed by economists. As Roitman (2004) puts it, the illegal becomes licit and even legitimate in

the face of the generalized corruption of the state. The general perception that governments are corrupt undermines tax morale (Perry et al. 2007) and reduces the sense of obligation to comply with civic and legal obligations. Cameroon and Nigeria have been notorious for their widespread corruption, even if some moderate progress has occurred in their rankings on world corruption indicators. Violent social conflicts in several of Cameroon's neighbours, most recently the Boko Haram insurgency in Northern Nigeria, spill over into Cameroon, further destabilizing social order. In Cameroon, smugglers obtain legitimacy as part of the struggle against oppression and for survival (Roitman 2004).

### ***Porous borders***

The combination of geographical contiguity and weak border enforcement makes border crossing relatively straightforward. Nigerian authorities estimate that there are over 1,400 illegal entry points along its borders, compared to 84 legal border crossings.<sup>4</sup>

### ***Poverty and unemployment***

Again in Cameroon, as in many other African countries, the relatively prosperous post-independence decades of the 1960s and 70s were supported by unsustainable fiscal and trade policies, setting the stage for the deep crises of the 1980s. The structural adjustment policies of the 1980s and 1990s led to severe cutbacks in government spending and bankruptcies in the private sector, resulting in falling formal employment and incomes. Informal sector activities, including ICBT, have filled the gap through a combination of consumers seeking inexpensive goods and entry of unemployed workers into trading. For example, most of the street vendors of smuggled gasoline from Nigeria are young men seeking employment of last resort.

### ***Kinship networks***

Kinship networks play a major role in ICBT in Africa (Golub 2015), both substituting for and undermining official institutions. Numerous ethnic groups operate in Cameroon, not all of which are active in cross-border trade (Bennafla 2002). The most prominent are the Ibo in the South-West, the Bamiléké in the West, and the Hausa-Fulani in the North, although the spheres of these groups and others overlap. The role of these groups is described in more detail below.

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<sup>4</sup>See Nigeria's porous borders (*Business Day*, 28 April 2014). <https://businessday.ng/editorial/article/nigerias-porous-borders/>.

## Trade with Nigeria

### *Trade patterns*

Nigeria is the dominant economic power of the region and correspondingly has loomed large in Cameroon's recorded and unrecorded trade since the 1970s petroleum boom in Nigeria, as documented in World Bank (2013) and Herrera (1995). These studies report that petroleum products have been by far the largest of Nigeria's exports to Cameroon. These studies also report that Nigeria exports a large variety of generally low-quality manufactured products to Cameroon, consisting both of goods made in Nigeria and, increasingly, re-exported imports from Asia, especially China, for those goods are not subject to elevated import protection in Nigeria. Some of the goods passing through Nigeria on the way to Cameroon, notably used cars, enter Nigeria through Benin. The products Nigeria exports include auto parts, textiles, clothing, counterfeit pharmaceuticals, bicycles, and motorcycles. Cameroon's exports to Nigeria also consist both of domestically produced and re-exported goods. The main domestically manufactured good exported by Cameroon to Nigeria is soap, which is aided by the price ceiling on palm oil in Cameroon and Nigeria's high import duties on soap and palm oil. Cameroon's re-exports consist of some other products heavily protected in Nigeria, especially rice. Agricultural produce and livestock flow in both directions along the Cameroon-Nigeria border, depending on location, seasonal factors, etc. The composition of unrecorded products moving across borders change as a function of evolving price differentials in the two countries. There are also reports that Nigerian cashew nuts are being smuggled into Cameroon in large quantities.<sup>5</sup>

ICBT between Cameroon and Nigeria is concentrated in three areas of Cameroon: the North and Far-North, the North-West and South-West, and the coastal area in the South. We carried out surveys in the three most important border markets in each of these regions: Banki, Sabongari, and Idenau, respectively. Figure 10.1 shows the location of these three border towns and the larger cities in the interior to which these markets are connected.

### *Banki*

The most important northern corridors connect Maiduguri in Nigeria to Cameroon's cities of Maroua or Garoua. Trade between Nigeria and

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<sup>5</sup>See Nigeria: Rundown on cashew situation (*International Trade Centre*, 3 February 2015). <http://www.intracen.org/itc/blogs/market-insider/Nigeria-rundown-on-cashew-situation/>.

Chad also transits through Cameroon in this region. The roads are in very poor condition (World Bank 2013). Numerous markets straddle the borders of these three countries, reflecting the high level of trade and historical connections among the region's people. Typically, however, border towns, such as Banki and Keroua, are much smaller than the big cities the roads link in Northern Nigeria and Northern Cameroon—Kano and Maiduguri in Nigeria and Maroua and Garoua in Cameroon. The activities in these market towns ebb and flow depending on developments in the bigger cities, the quality of the roads linking them, and, perhaps most importantly, the degree of predation by local customs and police authorities (Bennafla 2002).

The Boko Haram insurgency has had a major impact on trade in the Far North. Boko Haram has used the porous border in the Far North with Cameroon to smuggle arms into Northern Nigeria. In September 2013, 5,400 AK-47 rifles were seized on a truck in Maroua, and, in January 2014, a man was caught in Cameroon transporting 655 guns to Nigeria. Women carry smaller numbers of weapons and bombs on their backs, disguised as babies, for which they receive sizable sums of money.<sup>6</sup> While trade in armaments is booming, trade in ordinary products has been disrupted by the Boko Haram insurgency. To limit Boko Haram movements, Nigeria closed the border with Cameroon in November 2011. After Cameroon shut down Koranic schools and extradited Boko Haram suspects to Nigeria, the latter reopened the border in 2012, but with stepped-up security checks, reinforced when a French family was kidnapped in February 2012. These measures have greatly impeded ICBT in the region. One trader in Maroua said, "Tight border security and checks are making business impossible for us... Today all the goods must be checked before entry and taxes are so high."<sup>7</sup> Impediments to trading in smuggled Nigerian gasoline, known as 'zoa zoa' in this region, have caused the price to rise from 400 to 600 FCFA per litre. The cattle trade has also been adversely affected. A cattle trader complained: "More than 1,000 cattle are traded into Nigeria weekly from Cameroon. Less than half the normal cattle supply into Nigeria is possible and only through very difficult terrain." Customs receipts have also dropped precipitously.<sup>8</sup>

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<sup>6</sup>Boko Haram: Coffers and Coffins; A Pandora's Box - the Vast Financing Options for Boko Haram (*Terrorism Research and Analysis Consortium*, March 2014).

<sup>7</sup>Boko Haram threat chokes trade with Cameroon (*The New Humanitarian*, 29 April 2013). <http://www.irinnews.org/report/97942/boko-haram-threat-chokes-trade-with-cameroon>.

<sup>8</sup>*Ibid.*

### *Sabongari*

South of the Adamoua Mountains, most of Cameroon's trade with Nigeria uses the road connecting Onitsha (Nigeria), Bamenda (Anglophone Cameroon controlled largely by the Ibo ethnic group discussed below), and Bafoussam (in Francophone Cameroon, dominated by the Bamiléké) (Herrera 1995). Until recently, the road conditions on the Cameroonian side were poor, severely impeding trade in the rainy season. This road was upgraded as discussed in detail in the following chapter. Survey findings reported here were carried out in the rainy season before the upgrade and observed trade was consequently seasonally low in this area.

### *Idenau*

Goods also travel by sea, with ships transporting 15–20 trucks between Nigeria and Cameroon per day (World Bank 2013). The Cameroonian coast between Douala and Idenau also offers numerous points for docking smaller boats arriving from Nigeria.

Seasonal weather patterns affect the flow of trade. The sea becomes very dangerous and some roads are nearly impassable in the rainy season, although traders can adjust in part by using smaller vehicles that are more suited to flooded roads. On the other hand, some rivers become more navigable in the rainy season (Herrera 1995). Non-weather related seasonal factors are also at play: the beginning of the school year and Christmas are associated with increased flows of school uniforms and gift items, respectively. The bulk of trade between Nigeria and Cameroon in our surveys went through Idenau, since trade in the North has been severely disrupted by Boko Haram and trade levels in the North-West were low due to normal seasonal factors. On-site field research found that re-exported and domestically produced rice was the main product exported to Nigeria until recently. With a Cameroonian ban on rice exports in effect since late 2016, rice trading fell sharply but still continues.

### ***Magnitude of trade***

The World Bank (2013) provides detailed estimates of the value of non-oil trade between Nigeria and Cameroon using several on-site estimation methods: information from customs, observations at markets, and counting the number of trucks crossing borders at various locations while estimating the average value of their loads. This study finds that official statistics massively underestimate trade. Table 10.2 summarizes the World Bank findings. Official import statistics in Cameroon and Nigeria indicate that Cameroon exports less than 2 million USD and imports 8 million USD worth of non-oil goods from Nigeria, for

a total of about 10 million USD. The World Bank team estimated the value of Cameroon's actual non-oil exports to Nigeria at 226 million USD, of which 76 million USD are goods produced in Cameroon, and the value of Cameroon's imports at 769 million USD, of which 176 million are made in Nigeria. That is, actual trade, inclusive of re-exports, is about 100 times the official estimates! Even these figures are underestimates, as they do not include petroleum products, by far Nigeria's largest unofficial export, and make no allowance for small-scale smuggling by motorcycles that entirely evade official border posts, especially in the Far North during the dry season.

The World Bank (2013) also provides a breakdown of the value of trade by region. The northern region of Cameroon, particularly the Far-North crossing at Limani connecting Maiduguri and Maroua, accounts for about half of all non-oil trade. About 10% of the trade passes through the South-West, mainly via Ekok/Mfum linking Onitsha and Bamenda. The remaining 40% is estimated to transit by sea.

The findings of our surveys confirm in some respects those of the World Bank (2013), but differ in others. Table 10.3 shows the magnitude and composition of trade on an annualized basis extrapolated from one week of observations in August 2014. Total trade value of just above 800 million USD is remarkably close to the World Bank estimate. Our surveys included petroleum products, while the World Bank excluded this sector. Petroleum products were a very small part of total trade in our surveys, as shown in Table 10.3. However, unlike the World Bank (2013), our surveys found that Cameroonian exports to Nigeria of 500 million USD exceeded Cameroonian imports of 300 million USD. Also, as noted above, the bulk of trade observed during the week our surveys were carried out was via the sea route from Idenau, whereas the World Bank (2013) reports that trade in the North and Far North is very large. These discrepancies could reflect the conditions at the particular time our surveys were carried out. Also, we are unable to separate domestically produced goods from re-exports.

**Table 10.2**

World Bank estimates of Cameroon-Nigeria non-oil ICBT (USD, in millions)

	<i>Cameroon imports</i>	<i>Cameroon exports</i>
<b>Official data</b>	8	2
<b>World Bank (2013) total, including re-exports</b>	789	226
<b>World Bank (2013) domestically produced goods only</b>	176	62

Source: World Bank (2013)

**Table 10.3**  
Survey estimates of Cameroon-Nigeria ICBT (USD, in millions)

	Banki			Idenau			Sabongari			Total		
	Imports	Exports	Total	Imports	Exports	Total	Imports	Exports	Total	Imports	Exports	Total
Rice	0.0	25.5	25.5	2.1	380.0	382.1	0.0	2.9	2.9	2.1	408.4	410.5
Petroleum products	1.1	0.0	1.1	25.6	0.0	25.6	2.2	0.0	2.2	28.9	0.0	28.9
Motor vehicle parts	1.8	0.0	1.8	104.3	0.0	104.3	2.1	0.0	2.1	108.2	0.0	108.2
Produce	0.3	4.4	4.8	0.2	14.6	14.8	0.0	3.6	3.6	0.5	22.6	23.1
Food products	2.4	0.5	2.9	46.2	0.0	46.2	0.0	0.0	0.0	48.6	0.5	49.1
Other manufacturers	0.7	0.0	0.7	35.4	0.3	35.7	33.1	0.0	33.1	69.2	0.3	69.6
Pharmaceuticals	0.5	0.0	0.5	40.5	0.0	40.5	0.1	0.0	0.1	41.1	0.0	107.9
Soap	0.0	0.1	0.1	0.0	66.6	66.6	0.0	0.0	0.0	0.0	66.7	0.0
Other	5.3	1.5	6.8	0.0	1.4	1.4	0.0	0.1	0.1	5.3	3.0	8.3
<b>Total</b>	<b>12.2</b>	<b>32.0</b>	<b>44.2</b>	<b>254.4</b>	<b>463.0</b>	<b>717.4</b>	<b>37.5</b>	<b>6.6</b>	<b>44.0</b>	<b>304.0</b>	<b>501.5</b>	<b>805.6</b>

Source: Authors' surveys and calculations

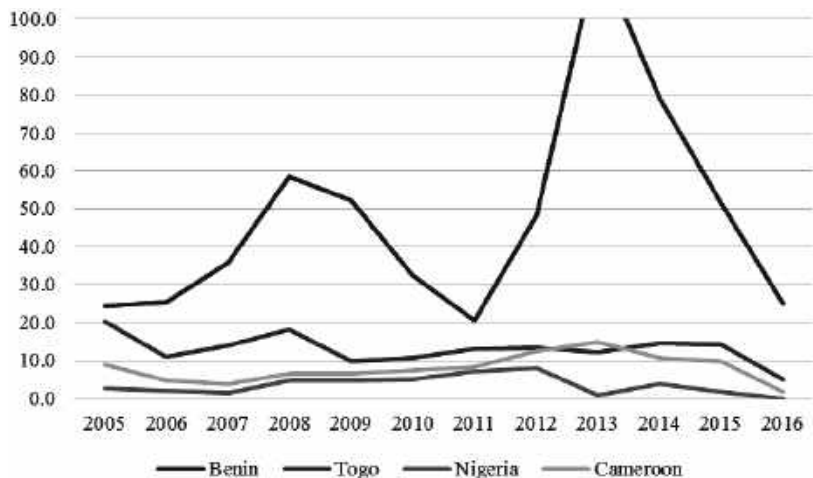
Like the World Bank (2013), we find that rice is by far the largest Cameroonian export to Nigeria. Soap and agricultural produce are also found to be significant Cameroonian exports. Surprisingly, as just noted, our surveys did not detect a substantial volume of petroleum imports from Nigeria, in contrast to the known importance of this product in Cameroonian imports, as discussed below. This could reflect several considerations: most petroleum imports are smuggled through the bush rather than via official border posts, the Boko Haram insurgency is severely inhibiting trade in the Far North, the normal reduction of trade in the rainy season, and the recent decrease in Nigerian subsidies. As expected, vehicle spare parts, other manufactured goods, food products, and pharmaceuticals are important Nigerian exports. Overall, our results should be treated with caution in view of the short timeframe during which the data were collected. Nevertheless, like the World Bank (2013), our findings suggest that actual trade with Nigeria greatly exceeds officially recorded bilateral trade and amounts to approximately 3% of Cameroonian GDP.

### **Rice**

In Nigeria, some import-competing goods face very high tariffs or even outright import bans, including used cars, clothing and textiles, used clothes, rice, vegetable oil, and frozen poultry. These import restrictions are more stringently enforced at Nigerian seaports than at land crossings, providing an incentive to import the goods into neighbouring countries and then re-export to Nigeria. Since the mid-1970s, Benin and Togo have deliberately sought to maintain low trade barriers so as to serve as entrepôts for re-exports to Nigeria. Indeed, the volumes imported into Benin and Togo of goods that are heavily protected in Nigeria greatly exceed national consumption and are known to be re-exported to Nigeria (Golub 2012; Benjamin, Golub, and Mbaye 2015). To a lesser extent than Benin and Togo, Cameroon is also a source of smuggling into Nigeria, particularly for rice.

Rice is the largest item imported into Cameroon for re-export to Nigeria, according to the World Bank (2013) and our surveys. Both Nigeria and Cameroon produce rice, but output is far lower than domestic consumption, with imports filling the gap. Figure 10.2 shows rice imports per person in Cameroon, Nigeria, Benin, and Togo. Despite the fact that Nigeria is a major consumer of rice, with domestic production accounting for only a small part of consumption, Nigeria's recorded per capita imports are well below those of its neighbours. Benin's rice imports per capita dwarf those of the other countries in Figure 10.2, but it can be seen that Cameroon and Togo's imports in recent years consistently





**Figure 10.2**

Rice imports per capita (USD) in Cameroon, Nigeria, Benin, and Togo

Source: UN Comtrade (2018), World Bank *World Development Indicators*, and authors' calculations

exceeded Nigeria's, suggesting that imports into these countries are in large part intended for Nigeria. This interpretation is validated by the fact that much of the imports into Nigeria's neighbours consist of par-boiled rice, a favourite of Nigerian consumers but not of those in Benin and Cameroon.<sup>9</sup> In 2016, imports of rice dropped sharply in Cameroon, as in Benin and Togo, in response to the steep recession in Nigeria associated with plunging oil prices.

As for Benin and Togo, Cameroon's re-exports of rice are driven by differences in trade policies. As noted above, rice is one of the most heavily protected goods in Nigeria, as the government has sought to boost domestic production by curtailing imports through tariffs of 100% or more and import bans. Cameroon, on the other hand, eliminated import duties on imported rice in 2008, during the global run-up in commodity prices. Thus, there is a very large discrepancy in import protection and import prices. In late 2011, the retail price of rice in Nigeria was the equivalent of 462 FCFA per kg compared to 330 FCFA per kg in Douala (World Bank 2013). Without smuggling from Benin, Togo, and Nigeria, the price discrepancies would undoubtedly be much greater.

<sup>9</sup>Benin Republic, Cameroon crash import duty on rice to cash in on Nigeria's folly (*Ships & Ports*, 11 February 2014). [shipsandports.com.ng/benin-republic-cameroon-crash-import-duty-on-rice-to-cash-in-on-nigerias-folly/](http://shipsandports.com.ng/benin-republic-cameroon-crash-import-duty-on-rice-to-cash-in-on-nigerias-folly/).

In 2013, rice smuggling into Nigeria reached unprecedented levels as the government raised the import taxes from 50 to 110% (10% import duty and 100% ‘rice levy’). Only one rice ship unloaded at Lagos port compared to over 500 in 2012. Nigeria’s customs revenues from rice plummeted to almost zero, too. Meanwhile, Benin’s port of Cotonou recorded an astounding increase in rice imports to 2.2 million metric tons, tripling from an already high 2012 level of 65,000 tons.<sup>10</sup> Although not as dramatic as in Benin, Cameroon also saw a 50% jump in rice imports in 2013, from 550,000 tons in 2012 to 820,000 tons in 2013, which can only be explained in the context of Nigeria’s high import taxes, given that Cameroon’s consumption is about 300,000 tons, and domestic production about 100,000 tons.<sup>11</sup>

### **Gasoline**

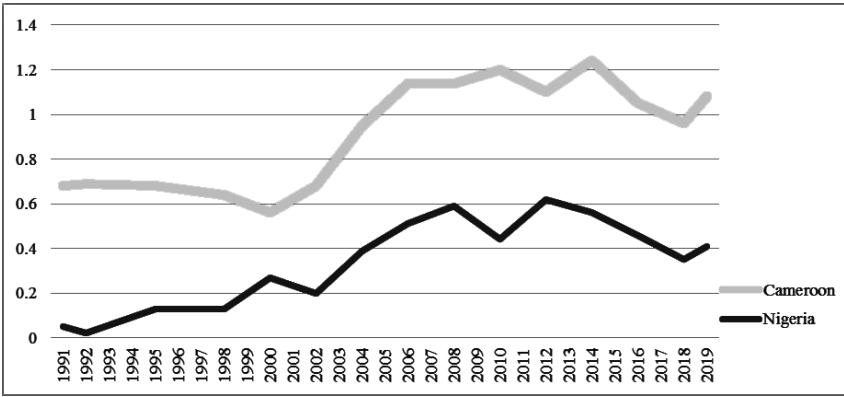
Historically, the largest informal export from Nigeria to Cameroon has been refined petroleum products, especially gasoline. Differential domestic pricing policies for gasoline and other petroleum products are the main driver of informal trade, with low prices in Nigeria providing a great incentive to smuggle gasoline into neighbouring countries. Nigeria has long delinked domestic and world prices of fuel and set very low domestic prices, whereas the Francophone countries have to a greater extent aligned domestic prices with world prices, particularly since the late 1980s. Figures 10.3 and 10.4 show the prices of gasoline and diesel fuel in the two countries since 1991.

The Nigerian government’s pricing policy has oscillated in response to conflicting political pressures to keep prices low versus improving the government fiscal balance. Fluctuations of the exchange rate have also been very large. Consequently, the gap between Nigerian and Cameroonian gasoline prices has also varied greatly. As world oil prices rose following the second oil shock in the early 1980s and then the Nigerian parallel exchange rate plummeted in the late 1980s, the discrepancy between Nigerian and world prices of gasoline ballooned (Herrera 1997). Between 1980 and the early 1990s, the ratio of the official price of Nigerian gasoline to Cameroon’s official price fell from about 40% to under 10% and smuggling of Nigerian gasoline into Cameroon became

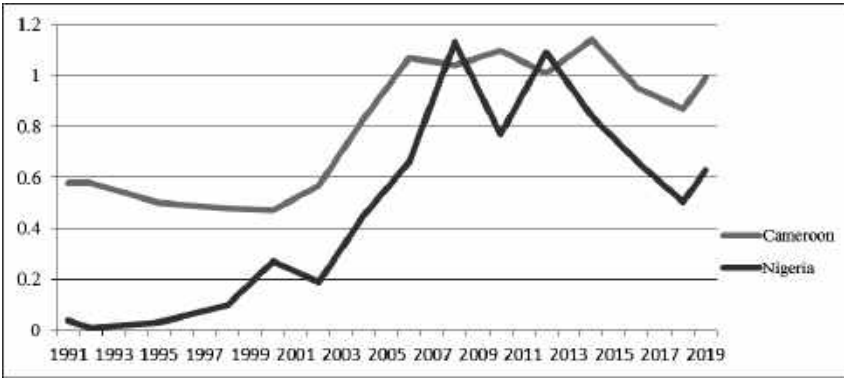
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<sup>10</sup> Ibid.

<sup>11</sup> Cameroun – Consommation: Selon l’Institut national de la statistique (INS), 728,443 tonnes de riz ont été importées en 2017 pour 183.7 milliards de FCFA [Cameroon – Consumption: According to the National Institute of Statistics (INS), 728,443 tons of rice were imported in 2017 for 183.7 billion FCFA] (*Cameroun-Info.Net*, 14 September 2018). <http://www.cameroon-info.net/article/cameroun-consommation-selon-linstitut-national-de-la-statistique-ins-728-443-tonnes-de-riz-327582.html>.



**Figure 10.3**  
Average official gasoline prices in Cameroon and Nigeria, 1991–2019 (USD/litre)  
Source: World Development Indicators and Globalpetrolprices.com



**Figure 10.4**  
Average official diesel fuel prices in Cameroon and Nigeria, 1991–2019 (USD/litre)  
Source: World Development Indicators and Globalpetrolprices.com

endemic. In 1994, the Nigerian government raised prices, pushing up the ratio to a still low 20% (Herrera 1998). Since 2000, the Nigerian government has raised domestic prices, lowering the subsidy of the Nigerian price to about half the world level.<sup>12</sup> However, the cost of the subsidies has become more explicit as production problems at local refineries have forced the Nigerian government to import gasoline at world prices and resell at lower controlled domestic prices. This led the Nigerian government to double the domestic price of gasoline from \$1.70 to \$3.50 on 1 January 2012. Social unrest forced the government to partially

<sup>12</sup>Fuel Prices Nigeria, *Energypedia*. [https://energypedia.info/wiki/Fuel\\_Prices\\_Nigeria](https://energypedia.info/wiki/Fuel_Prices_Nigeria).

reinstate the gasoline subsidies two weeks later, with the price set at \$2.27 per gallon (World Bank 2013).

Smuggled gasoline is omnipresent in some parts of Cameroon, sold under the evocative nicknames of 'fédéral', 'zoa-zoa', 'bush wine', and 'fungé' (Herrera 1997). In Northern Cameroon, about two-thirds of petroleum products consumed are smuggled in from Nigeria. South of the Adamoua region, the presence of contraband gasoline is more variable and has declined. The volume of these exports fluctuates considerably over time depending on the extent to which Nigeria and Cameroon's pricing policies diverge and the magnitude of Cameroon's efforts to crack down on smuggling when its national refinery is particularly threatened. For commercial motorcyclists and other informal sector workers, the cheaper Nigerian gasoline is a necessity for survival as they eke out a meagre living. The quality of this gasoline is often poor, as traders adulterate it to raise their profits.

When Cameroon raised the price of a litre of gas from 185 to 280 FCFA in July 1988, a massive influx of 'fédéral' forced the government to lower the price back to 190 FCFA in April 1989 as the national refinery SONARA faced bankruptcy when its sales plummeted. In the early 1990s, smuggled Nigerian gasoline represented about 30% of national consumption, dropping below 10% in the mid-1990s as Nigeria raised its price and Cameroon clamped down on smugglers (Herrera 1997).

Petroleum products are shipped from Nigeria through a large variety of routes and types of vehicles in both the South and North of Cameroon. The travel is often very arduous, with the traders taking poor quality roads over rough terrain. A reporter accompanied traders on the mountainous route between Gembu in Nigeria to Sabongari in North-West Cameroon in 2011.

It is a nightmare crossing the muddy Mayo Wukari, taking a down course meander through the green mountains. The journey from *Gembu...to Mbamnga to Bang, and to neighbouring villages and towns* in Cameroon, where the smuggled fuel is sold, takes two to five dreary days, depending on how lucky the driver is. The antiquated Steyr mini trucks load up to 80 of 60-litre gallons, and they move at a snail speed wobbling through the muddy valleys, and laboriously climbing the slippery hills. If the driver is unlucky and he suffers a breakdown, he spends longer time getting to the market...At Mayo Wukari, the journey becomes pretty tough. The 80 gallons of petrol are offloaded. Painstakingly, 20 to 40 of the gallons are tied on an elastic rubber rope and floated across the river...After spending half a day crossing the murky river, the

dreary journey continues. But this time, about 20 gallons are left behind to lessen the weight, so that the Steyr truck would be able to pass through the roughest part of the road. After Bang where the terrain is a bit plain, the 60 gallons are dumped, and a U-turn is made to get the remaining 20 gallons at the riverbank.<sup>13</sup>

The price differentials between Nigeria and Cameroon are sufficient to make this arduous and dangerous trip profitable. Herrera (1995, p. 70) provided an illustration of the costs and profits of a dealing in 'fédéral': purchase price of 40 litres of gasoline in Nigeria at the parallel exchange is 28 FCFA per litre and selling price is 65 FCFA, but profit of only 12 FCFA after deducting costs of transport (12 FCFA) and bribes (18 FCFA).

On the Nigerian side, the trade is well organized with high-level officials widely known to be complicit in the operation. The driver in the above story explains that 'he is only a middleman in the business...the real smugglers are big men in Gembu, Jalingo and Abuja'. In Cameroon, however, the retailers are independent small-scale operators, nicknamed 'Koweitians', young men averaging 20 years of age with at least a primary school education yet unable to find remunerative regular employment or fund higher levels of studies, who take on the dangerous job of illegally selling 'fédéral' as a temporary measure to make a living. There are no associations organizing and protecting traders.

The 'Koweitians' load their gasoline into jerricans of 10–50 litres. The only other equipment necessary for entry into selling 'fédéral' are a funnel and a cloth to filter impurities, for a total capital outlay of some 15,000 FCFA (\$30).

The traders are also at constant risk of conflict with the authorities, resulting in confiscation of their goods and worse. Most often, though, it is a matter of paying off officials, which amounts to a larger share of total costs than transport, as noted above. A 2008 Inter Press Service (IPS) article describes the interactions of traders and customs officials:<sup>14</sup>

The uncountable security checkpoints on both sides of the divide only serve as a cover-up. One smuggler – who for obvious reasons declined to give his name – told IPS that he offers bribes at every checkpoint. "You must 'settle' or bribe them, else they seize your fuel and sell it," he said, adding that they have devised all

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<sup>13</sup>Nigeria: The Rough Road to Fuel Smuggling Across Taraba-Cameroon Border (*Daily Trust*, 27 October 2011). <http://allafrica.com/stories/201110270559.html>.

<sup>14</sup>See TRADE-CAMEROON: Borders – Where Two Economies Meet (*Inter Press Service News Agency*, 13 November 2008). <http://www.ipsnews.net/2008/11/trade-cameroon-borders-where-two-economies-meet/>.

kinds of tactics to escape being tracked by the security chain, lest bribes drain their trip of profit in the end.

“But it is a chop I chop business,” a nearby custom official was overheard saying. The numerous security control points reveal the true story. A junior police officer confided that he works for his boss on the supply chain. He said everybody is involved. “From top to bottom, all of us are living on it,” he declared, adding that he is building his third house, despite having been in police service only for six years. How else would one explain the fact that retailers are visible after every 500 metres, while custom officials claim they are fighting to stop the trade.

“Once the fuel is on the street, you cannot seize or stop them from selling it,” claims Customs Field Operations Officer Toudjani Abouya, adding that officers risk being burnt if they should venture to seize fuel on the streets. But another smuggler who begged to remain anonymous told IPS that many security officials are also involved in the smuggling. “Some of us are working for them,” he intimated.

At times, the Cameroonian government permitted sale of ‘fédéral’ in a few geographically isolated departments, but it is now illegal everywhere in the country. When the difficulties of the SONARA became particularly acute in the early 1990s, the government ordered the army to take charge of the efforts to control the trade. While not stopping the smuggling altogether, the brutality of the army’s repression led to a sharp decline. At present, ‘fédéral’ is mainly present in the North and Far North regions, but also in Adamoua, the South-West, and the North-West.

The massive parallel economy in fraudulent fuel sales encapsulates all the complexities and dilemmas facing West African economies. On the positive side, as is the case for other informal services, the informal distribution of petroleum is a massive source of employment in a situation where formal sector jobs are few and far between. For young graduates who cannot get jobs in the government, farmers barely able to survive in subsistence conditions, and numerous others without viable alternatives for earning a decent living, the informal sector is their only recourse.

There are, however, serious downsides. Illicit and unregulated sales of gasoline pose large threats to public health, environmental sustainability, and fiscal stability. As reported by the vendors themselves, these products are of very dubious quality, and may be dangerous to vehicle engines. Mixtures that are made of different petroleum products are not subject to any control or inspection. The fuel is often

adulterated and the frequent use of containers for different kinds of products leads to dangers, even if there is no deliberate mixing of incompatible products. Using a low-quality, adulterated, or inappropriate fuel damages engines, increasing maintenance costs. The petroleum products are also handled in the open air, which results in significant levels of pollutants. Moreover, as petroleum products are highly flammable and very little precaution is taken in handling them, tragedies involving explosions and fires in ships, motor vehicles, and tricycles are common. Frequent spills also lead to chemical residues seeping into the ground and destroying fauna and flora.

The financial losses incurred by the state oil companies due to reduced sales are also considerable, even if it is very difficult to get an exact level due to lack of data on the volume of informal transactions.

The oscillation between violent crackdowns by the state and tacit collusion, or even participation by officials at all levels, damages the credibility of the government and undermines legitimate development policy. In order to break this vicious circle of poverty, illegal behaviour, and state connivance and/or violent crackdowns, the best approach would be to remove the underlying causes of informal trade by harmonizing pricing policies among neighbouring countries. However, there is little that Cameroon can do to induce Nigeria to eradicate distortions. At the same time, as described in Chapter 8, the government should develop alternative formal training and employment opportunities for the masses of desperate young people, while enforcing the rule of law fairly.

## **Trade with Other CEMAC Countries**

Cameroon's ICBT with other CEMAC countries is less intense than with Nigeria and involves mainly agricultural produce and livestock (Nkendah 2013; Bennafla 2002). Nevertheless, Cameroon is the main trading partner within CEMAC for the other members given its relatively large size and diversified economy, in comparison to its neighbours. According to Bennafla (2002), Cameroon also exported a smaller value of manufactured products to its CEMAC partners as of the late 1990s.

Due to the lesser importance of trade with CEMAC compared to Nigeria, our surveys were confined to Cameroon's border with Equatorial Guinea at Kyé-Ossi. Kyé-Ossi is the most significant market on the southern border of Cameroon, gaining in relative importance since the 1990s due in part to its location as the vertex where Cameroon, Gabon, and Equatorial Guinea meet (Bennafla 2002). Total trade between Cameroon and Equatorial Guinea in our survey was a mere 9 million USD, about

1% of Cameroon's trade with Nigeria, almost all of which consisted of agricultural exports from Cameroon.

Bennafla (2002) and Nkendah (2013) report that Cameroon has a chronic surplus in agricultural products with Equatorial Guinea and other CEMAC countries. Chad and Central African Republic tend to be exporters of livestock; Gabon, Equatorial Guinea, and Congo import produce from Cameroon but export very little produce in return except a few products such as plantains. Equatorial Guinea, however, engages in significant re-export of alcoholic drinks imported from its former colonizer Spain, which was confirmed in our surveys.

Trade in agricultural products between Cameroon and Gabon can occur either by land or sea, both of which have been subject to recurrent problems. An obstacle on the Douala-Libreville land trajectory is crossing the Ntem River. The ferries are poorly maintained and frequently out of order, and the pirogues<sup>15</sup> charge erratic and often exorbitant prices (Bennafla 2002). Consequently, when the ferry is out of service, traders often opt for shipping by sea, but this too is often expensive and unreliable. When the ferry reopened in 1995 after several years out of service, traders returned to the land route.

Goods from Nigeria transit through Cameroon on their way to other CEMAC countries, particularly through the bustling market at Mbaiboum that supplies Bangui in the Central African Republic with Nigerian as well as Cameroonian goods. Ibo from Southern Nigeria and Fulani, Hausa, and others from Northern Nigeria, and Cameroon serve Chadian and Central African Republic buyers at Mbaiboum (Bennafla 2002).

Douala serves as an entry and exit point for goods in transit to and from Chad, Central African Republic, and Congo. In the dry season (November to June), trucks can accomplish the trips quite rapidly, with about 4 days between Douala and the capital of Chad, N'Djamena, and a week to 10 days between Douala and Bangui in Central African Republic. In the rainy season, however, the roads are often impassable and these trips can take a month. Bilateral quota agreements between Cameroon and its land-locked neighbours specify the shares of trucks in transit trade at 65–35% for Chad-Cameroon, and 60–40% for Central African Republic-Cameroon, but Cameroon's share tends to exceed its quotas due to insufficient availability of trucks in the other two countries (Bennafla 2002). Chad can also be reached via Nigeria, but the insecurity in Nigeria, particularly in the port of Lagos, favours Douala despite lower costs of land transport in Nigeria.

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<sup>15</sup>A small wooden boat for traditional subsistence (artinasal) fishing.



Nkendah (2013) provides estimates of the value of informal exports of agricultural products from Cameroon to other CEMAC countries (Nigeria was not covered), using data collected by the Ministry of Agriculture and Rural Development (MINADER) in 2008. These data were collected by observing the volume of products passing through border posts at various Cameroonian borders for 12 months in 2008, supplemented with survey questionnaires. Nkendah (2013) found that Cameroon's total unrecorded exports of informal agricultural products to CEMAC countries amounted to 38 billion FCFA (about 75 million USD), just below the value of Cameroon's recorded exports of these same goods. Equatorial Guinea is the largest destination of unrecorded Cameroonian exports, with a share of 41.2%, followed by Chad (29.5%), Gabon (12.4%), Congo (11.5%), and Central African Republic (5.6%).

Interviews and surveys were carried out at the large market in Kyé-Ossi in Cameroon, bordering on both Equatorial Guinea and Gabon. The situation is little changed from that described in Bennafla (2002). Cameroon imports manufactured products from Equatorial Guinea that are re-exported (alcoholic drinks, food products, pharmaceuticals, plastic products, shoes, and clothing, etc.) and exports mainly agricultural products to both Equatorial Guinea and Gabon.

## **Traders and Kinship Groups**

The spread of ICBT in Central Africa reflects a pervasive phenomenon in Africa of the marginalization, indeed near disappearance, of the formal sector, reflecting the weaknesses of African states and their lack of social legitimacy. As Bennafla (2002) stresses, African states are still present, and their role remains significant at the borders, but governmental practices have also become increasingly informal and officials at all levels are often in collusion with traders.

Certainly, there are many small operators working independently seeking incomes and employment of last resort in unregistered border trading, due to its low costs of entry. However, much of what is called informal trading is paradoxically often highly organized into national and even international networks. In an environment characterized by weak rule of law and widespread corruption and even banditry, traders seek to reduce uncertainty through networks of social relations. By far the most powerful and longstanding such relationships derive from ethnic and religious kinship groups. Religious and ethnic bonds create an alternative to state institutions in providing the 'social capital' market transactions require: trust, contract enforcement, finance, and information (Golub

2015). Trading across borders imposes risks over and beyond those involved in doing business within a country. Kinship groups established on both sides of national borders are well positioned to mitigate these risks. While Bennafla (2002) cautions against overstating the role of kinship groups, noting that traders often interact with others outside the group, her own analysis of the operation of these groups shows how important they remain.

Three main ethnic groups are known to control the bulk of ICBT in Cameroon: the Fulani-Hausa centred in the North, the Bamiléké in the West and South, and the Ibo in the South-West and North-West provinces (Nkendah 2013; World Bank 2013; Herrera 1995). Figure 10.5 shows their regions of origin in Cameroon and neighbouring countries. As described below, these groups' operations extend well beyond their native regions to other parts of Cameroon and into other Central African countries. Nkendah's (2013) survey of agricultural trade in CEMAC countries found that 27% of traders were Fulani-Hausa, 52% were Bamiléké or other Grassfields, and 13% were Ibo, leaving only 8% for other groups. If Nigeria were included, the Bamiléké share would likely be lower in favour of a larger proportion for the Fulani-Hausa and Ibo.

Our surveys analyzed the membership of traders in kinship groups. Table 10.4 shows the distribution of the number of traders by kinship group in each of the four regions surveyed and in aggregate. As expected, the Hausa-Fulani are the overwhelming majority in the Far North area of Banki. In other regions, the composition of traders is more balanced between several groups. The Bamiléké have a strong presence in all four surveyed border regions. The Ibo are less numerous than expected, but have a presence in all three of the Cameroonian border regions with Nigeria in our surveys, although not at the border with Equatorial Guinea. Several other ethnic groups are also involved, notably the Bamoun, Beti, and Sawa, but their activities are more localized to one or two border posts. Overall, in all four surveyed regions combined, Hausa-Fulani are the most prevalent at 41%, followed by Bamiléké at 17%, with the Ibo accounting for only 8% of the traders surveyed.

The proportion represented by the various groups is quite different when assessed according to the value of trade rather than the number of traders, as shown in Table 10.5. The role of the Ibo is much greater. Despite their low numbers, the Ibo control 48% of the value of total trade in the survey, by far the largest of the groups in Table 10.5. The Bamiléké are second at 27%, followed by the Fulani-Hausa at 13%. The implication is that Ibo traders are engaging in much higher shipment values while Hausa-Fulani activities involve very small volumes per border crossing. The large-scale trades carried out by the Ibo are predominantly occurring



**Figure 10.5**  
 Cameroon's main trading groups  
*Source:* Authors

at Idenau. The Bamiléké are also heavily involved at Idenau both in value terms and the number of traders.

Table 10.6 shows that the number of women involved in ICBT is quite important for the two Grassfield groups, the Bamiléké and Bamoun. However, the Bamoun are very small players in terms of value of trade.

**Table 10.4**

Survey distribution of number of traders by zone and kinship group

<i>Kinship Group</i>	<i>Nigerian border</i>			<i>Equatorial Guinea border</i>	<i>All locations</i>	
	<i>Banki</i>	<i>Idenau</i>	<i>Sabongari</i>	<i>Kyé-ossi</i>	<i>Total</i>	<i>Share by kinship groups (percent)</i>
<b>Bamiléké</b>	5	29	8	13	55	17
<b>Bamoun</b>	0	0	0	31	31	10
<b>Beti</b>	0	7	0	23	30	10
<b>Fulani-Hausa</b>	60	15	47	7	129	41
<b>Ibo</b>	7	14	5	0	26	8
<b>Sawa</b>	0	19	0	1	20	6
<b>Others</b>	0	1	20	2	23	7
<b>Total</b>	<b>72</b>	<b>85</b>	<b>81</b>	<b>77</b>	<b>315</b>	<b>100</b>

Source: Authors' surveys and calculations

**Table 10.5**

Survey distribution of value of trade by zone and kinship group (USD, in millions)

<i>Kinship Group</i>	<i>Nigerian border</i>			<i>Equatorial Guinea border</i>	<i>All locations</i>	
	<i>Banki</i>	<i>Idenau</i>	<i>Sabongari</i>	<i>Kyé-ossi</i>	<i>Total</i>	<i>Share by kinship groups (percent)</i>
<b>Bamiléké</b>	0.8	214.0	1.0	2.4	218.1	27
<b>Bamoun</b>	0.0	0.0	0.0	4.5	4.5	1
<b>Beti</b>	0.0	11.2	0.0	1.2	12.4	2
<b>Fulani-Hausa</b>	41.8	33.3	29.9	0.9	105.9	13
<b>Ibo</b>	1.6	374.0	12.8	0.0	388.5	48
<b>Sawa</b>	0.0	73.9	0.0	0.2	74.1	9
<b>Others</b>	0.0	10.9	0.3	0.1	11.3	1
<b>Total</b>	<b>44.2</b>	<b>717.4</b>	<b>44.0</b>	<b>9.3</b>	<b>814.9</b>	<b>100</b>

Source: Authors' surveys and calculations

Not surprisingly, given the restricted role of women in Muslim cultures, the Fulani-Hausa had a smaller share of women traders. The representation of women among the Ibo traders was found to be even lower, although the small proportion of Ibo in the sample might partially account for this. Again, the distribution of trade by value rather than number of traders provides a rather different picture, as shown in Table 10.7. Female traders account for just 3% of total trade value despite the fact that they constitute 23% of traders for the sample as whole. This reflects the fact that women are generally relegated to small-scale retail

**Table 10.6**

Survey distribution of number of traders, by kinship group and gender (percent)

<i>Kinship Group</i>	<i>Women</i>	<i>Men</i>
<b>Bamiléké</b>	36	64
<b>Bamoun</b>	55	45
<b>Beti</b>	33	67
<b>Fulani-Hausa</b>	12	88
<b>Ibo</b>	4	96
<b>Sawa</b>	25	75
<b>Others</b>	26	74
<b>Total</b>	<b>23</b>	<b>77</b>

*Source:* Authors' surveys and calculations

**Table 10.7**

Survey distribution of value of trade, distribution by kinship group and gender (percent)

<i>Kinship Group</i>	<i>Women</i>	<i>Men</i>
<b>Bamiléké</b>	4.4	95.6
<b>Bamoun</b>	42.2	58.2
<b>Beti</b>	28.2	71.8
<b>Fulani-Hausa</b>	5.2	94.8
<b>Ibo</b>	0.1	99.9
<b>Sawa</b>	6.2	93.8
<b>Others</b>	0.5	99.3
<b>Total</b>	<b>3.1</b>	<b>96.9</b>

*Source:* Authors' surveys and calculations

activities in domestic and cross-border trade, particularly selling local produce, that is often cooked, and a few household supplies. However, the 1970s women's roles are gradually changing among the Bamiléké and other groups. Women have had increasing opportunities to operate in larger-scale and longer-distance trading beginning in the 1980s due in part to the greater educational attainment of girls (Bennafla 2002).

On the Cameroonian side of the borders where our surveys were conducted, the majority of traders reported themselves as Cameroonian citizens. Nevertheless, about one-third of the traders were found to be Nigerian. All the Ibo and about a third of the Fulani-Hausa described themselves as Nigerian.

We now examine the operation of the three main kinship groups in more detail.

### ***North and Far North: Fulani-Hausa Muslim groups***

In the regions north of the Adamoua mountain range, various Muslim kinship groups, most prominently Hausa and Fulani, straddle the Nigeria-Cameroon-Chad borders and dominate cross-border trade. These Muslim traders also extend to other parts of Cameroon and Central Africa and all through Sahelian West Africa (Grégoire 1993). For example, a large group of Hausa traders operate in Bangui in the Central African Republic and some Fulani traders reside in Gabon (Bennafla 2002). They are the modern descendants of a long trading tradition among Sahelian populations. The Hausa, mostly based on the Nigerian side, and Fulani, largely residing in Cameroon, are both heavily involved in ICBT between the two countries, with a certain division of labour. The World Bank (2013) reports that Fulani transport imported rice from Douala to major cities in the North such as Maroua and Garoua, which is then sold to Hausa traders who bring it across the border into Nigeria.

In the Sahel, Islam and trading have long gone together. These traders have for the most part eschewed the state educational system in favour of Koranic schools, limiting their access to formal sector jobs. Even more important, shared beliefs and values unite the traders and cement trust, ensuring respect of agreements without any formal contracts. A similar phenomenon underlies the success of the Mouride Islamic brotherhood in Senegal (Golub and Hansen-Lewis 2012). Pilgrimage and trading are intertwined.

The older generation of Fulani and Hausa traders began with almost nothing, starting out as street vendors or other petty traders and gradually accumulating savings that enabled them to invest in their own businesses. Even as some of them succeed and grow into large enterprises, their management style remains highly personalized and not very different from the multitude of small informal operators operating in these locations. A younger generation of traders is far more educated and sophisticated in their management, with many of them having attended universities and travelled abroad (Bennafla 2002).

As noted above, women play little role in these Muslim trading groups, given the subordinate role of women more generally in most Islamic cultures, including the Fulani and the Hausa.

### ***The Bamiléké and other 'Grassfields' operators***

The Grassfields refers to the highlands in the South-West of Cameroon, covering parts of four regions, mainly the West and North-West. The

dominant ethnic groups are the Bamenda, Bamoun, and Bamiléké, with the latter being, by far, the most important in commerce. The Bamiléké are famous for their aptitude in business and trade. They dominate trading in their region and ICBT with Gabon, primarily in agricultural produce (Nkendah 2013; Bennafla 2002; Herrera 1995). The Bamiléké are also involved in other regions, but to a much lesser extent, and in roles that are subservient to the Fulani and Hausa north of the Adamoua and to the Ibo on the southern border with Nigeria.

The commercial success of the Bamiléké has received considerable attention and is ascribed to diverse factors. Several studies (Champaud 1981; Warnier 1993) identify Bamiléké cultural traditions that value and promote worldly success. In particular, given the high population density of their native West region, heads of household do not split property evenly among their heirs. Instead, one son, not necessarily the eldest, is secretly designated as the heir of the family homestead and land holdings, with the outcome revealed only upon the father's death. The other sons, and increasingly daughters, must make their way in the world, often gravitating toward commerce in other parts of Cameroon and abroad, especially Gabon, as they strive to match the respect and status within their family of their chosen brother.

In a manner similar to other successful itinerant trading diasporas such as the Mourides in Senegal (Golub and Hansen-Lewis 2012), newly arrived Bamiléké travellers are housed and assisted by members of their group who are already established in the area. Like the Mourides, living frugally, saving their initially meagre earnings and through participating in their famous tontines, they strive to acquire enough capital to open their own businesses. Tontines are a longstanding and widely used source of informal business financing for the Bamiléké. Participants in the tontine deposit funds into a pool each month, with the proceeds going to each member on a rotating basis. Tontines also serve as a cultural and social gathering point for Bamiléké. Another similarity with the Mourides is the ease with which Bamiléké integrate into the global capitalist system while still adhering to their traditions. The Bamiléké migrants have had great business success in agricultural plantations, urban industry, and commerce in Cameroon. Bamiléké businessmen are prominent in all of Cameroon's major cities and those of other CEMAC countries (Champaud 1981; Herrera 1995).

In contrast to the Mourides, however, the Bamiléké migrant's network tends to be more circumscribed to the extended family rather than the ethnic group as a whole. Likewise, in their businesses, the Bamiléké tend to operate individually rather than in cooperation with other members of the group, unlike their Ibo competitors described below. Few African societies are so encouraging of individual achievement (Champaud 1981).

Herrera (1995) adopts another perspective on the Bamiléké's over-representation and success in business and commerce in Cameroon, ascribing it to historical factors rather than cultural traits. According to this view, the Bamiléké's region was less adversely impacted by colonialism than others.

These migrants maintain close ties with their family of origin in the Grassfields of Cameroon, aspiring to return having achieved commercial success. Even when they grow, Bamiléké businesses often remain largely informal, completely controlled by the owner himself, such as the case of 'Celestin M.', a self-made man and one of the largest traders at the Cameroon-Gabon-Equatorial Guinea border, profiled by Bennafla (2002, pp. 130–131).<sup>16</sup> Like the Muslim traders described above, however, the sons of these entrepreneurs often have Western education and are beginning to modernize some aspects of Bamiléké businesses while retaining the core elements that contribute to their success.

### ***The Ibo in Southern Cameroon and Nigeria***

As noted earlier, substantial migrations of Ibo from Nigeria to the Southern Cameroons occurred in the colonial era. These migrations entailed enduring frictions with the native population of Cameroonians, despite their common Anglophone language and similar cultural heritage (Konings 2005). It was in part resentment against Nigerian immigrants that led this part of the British Cameroons to vote to join Cameroon rather than Nigeria in the 1961 plebiscite. Paradoxically, however, immigration continued to increase after Southern Cameroons became the South-West and North-West regions of Cameroon, in part because the creation of the border, along with the divergent monetary and trade policies followed in Nigeria and Cameroon, boosted opportunities for trading, at which the Ibo excel.

The Ibo are perhaps even more renowned than the Bamiléké for their aptitude in trading. Although their cultural traditions are in some respects quite different than the Bamiléké, some of the drivers of their success are similar. Limited availability of land in their native region drives the Ibo to migrate in search of economic opportunities, and their work ethic and frugality are conducive to success. The Ibo are more egalitarian than the Bamiléké and work together to a much greater extent through organized structures such as commercial associations (Bennafla 2002; Herrera 1995). Their trade associations enable them to benefit from economies of scale in purchasing, shipping, clearing customs, and marketing. The

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<sup>16</sup>Benjamin and Mbaye (2012) observe a similar phenomenon in West Africa. Large informal firms typically behave much like small informal firms rather than formal enterprises.



backing of the group means that entrepreneurs need lower start-up capital and face lower payments at border crossings.

As for the Bamiléké, in addition to cultural factors, the Ibo's success derives from the legacy of colonialism. The Ibo were converted to Christianity and schooled in English relatively early in the 19th century, and became allies of the British colonial administration (Bennafla 2002). As early as the 1920s, the British encouraged the Ibo to settle in what was then the Southern Cameroons but governed as part of Nigeria. Thanks to their higher levels of education and ties to the British, the Ibo gained the upper hand over the local Bamenda ethnic group. When this area became part of modern Anglophone Cameroon in 1961 as described above, the Ibo were well established. The Biafra war in Nigeria (lasting from 1967 to 1970), when the Ibo-dominated province of Biafra unsuccessfully sought to secede from Nigeria, led to a further exodus of Ibo toward Cameroon and other Central African countries. These migrations from Nigeria to Cameroon have situated the Ibo as strategic actors in cross-border trade.

As of the late 1980s, Nigerian immigrants in Cameroon were estimated to be about 1.3% of the population, but 8.5% of those engaged in commerce, the vast majority of them Ibo (Herrera 1995). In addition to their aptitude for commerce, the Ibo increasingly concentrated on informal trading due to their exclusion from government employment and the formal private sector as xenophobic tensions escalated the 'Ibo scare' (Konings 2005). The Ibo presence is particularly strong in Bamenda, the major commercial centre in Anglophone Cameroon, in the North-West region. Kumba in the South-West is also a significant trading centre with a dominant Ibo presence. Herrera's (1995) surveys found that Nigerians controlled more than half the shops distributing Nigerian imports of manufactured consumer goods in Bamenda and Kumba. Merchants from Douala and Yaounde come to Bamenda, and to a lesser extent Kumba, to source for their stores.

The most prominent Ibo organizations are the Bamenda Organized Traders Association (BOTA) and the Kumba Organized Traders Association (KOTA), founded in the late 1970s (Herrera 1995). BOTA and KOTA initially stood for Bamenda Onitsha Trade Association and Kumba Onitsha Trade Association, but the names were modified in the late 1980s to downplay the Nigerian connection as the immigrant Ibos sought to maintain a low profile to reduce rising hostility from native Cameroonian ethnic groups. BOTA's and KOTA's mottos are 'unity and help' and 'unity and progress', respectively. Ibo traders meet at the Anglican Church to discuss business strategies. The head of BOTA has considerable authority as the *de facto* chief of the Ibos in Cameroon, and negotiates the rates traders pay at various border posts with customs.

BOTA and KOTA also act as an agent for traders in arranging transport and other services. In addition, these organizations provide social insurance to members, distributing funds to bereaved family members following a death, and foster social connections among members, thus strengthening the group's solidarity. This solidarity is essential for the Ibo to survive in Cameroon in the face of enduring hostility. In Cameroon, however, organized support agencies, like BOTA and KOTA active in Nigeria, do not operate.

### ***Cooperation and conflict between kinship groups***

In most cases, various ethnic groups mingle without major problems in border zones, but conflicts can flare up and reveal underlying ethnic and nationalistic tensions (Bennafla 2002). The mix of cooperation and conflict between immigrant and local trading networks has been particularly significant in the North-West and South-West regions of Cameroon where the Ibo presence is strong (Herrera 1995). In Bamenda and Kumba, the Ibo and Bamiléké have developed a division of labour in the distribution chain of informally traded products. The Ibo control the wholesale trade of manufactured goods produced or imported into Nigeria, such as plastic products and generic pharmaceuticals, with the Bamiléké's role in these products confined at most to retailing on the edges of the main markets. On the other hand, the Bamiléké and other local groups play a larger role in the value chain of goods that are or have been subject to import bans or very high taxes in Nigeria, especially rice, but also wheat, vegetable oil, and new and used clothes. Bafoussam, the commercial centre of the Bamiléké's native West region, is the hub for the distribution of used clothes in Cameroon. Herrera (1995) confirmed that used clothes are cheaper in Bafoussam than in Bamenda. This division of labour among ethnic groups continues into the present, reflecting some continuity in the factors driving cross-border trade.

The commercial success of the Ibo in Bamenda and Kumba has been the source of considerable tension. It reached a peak in the early 1990s with the escalation of the dispute between the two governments over the Bakassi Peninsula and the aftermath of the economic crisis and structural adjustment policies that resulted in widespread formal sector job losses and consequent influx of displaced workers into informal trading. Responding to and stoking anti-immigrant attitudes, the Cameroonian authorities took a number of measures in 1993 to restrict the activities of Ibo traders and raise fees for them. Newspapers ran exaggerated stories about the dominance of the Ibo and their allegedly predatory practices.

The Bamiléké largely control Cameroon's exports of agricultural products to Gabon and Equatorial Guinea (Nkendah 2013). In a reversal of the situation in Bamenda and Kumba, the Ibo play a secondary role in Gabon as vendors of the products imported by the Bamiléké. The Ibo are present in the North of Cameroon as well, but again in niche roles as retailers of Nigerian manufactured goods rather than wholesalers. Ibo stores in Northern Cameroon are generally on the edges of the main areas in markets such as Banki, Keroua, and Mbaiboum, which are dominated by Muslim traders (Bennafla 2002).

Tensions also occur over different nationalities' share of trucking with agreements often specifying market shares of different nationalities in shipping to border regions. Trucks cannot normally cross the border, and goods must be unloaded and reloaded onto a truck in the recipient country. Even within CEMAC, which in principle allows for freedom of movement within the region, in practice trucks are confined to national borders (Bennafla 2002).

## Conclusion

ICBT is an integral part of the informal sector, and the causes, consequences, and policy implications of ICBT are broadly similar to those for informality of the domestic economy. The preponderance of trade between Cameroon and its neighbours is informal.

ICBT encompasses a spectrum of activities in terms of illegality and organization. Traders range from small-scale independent 'Koweities' selling smuggled gasoline to wide-ranging kinship networks extending over several countries, including some very wealthy merchants. Most ICBT is in legal products and even crosses borders at official border posts and traders pay 'taxes', but these taxes bear little resemblance to official rates and informal side payments to customs officials, police, and other authorities are usually larger than official payments.

The causes of this trade are complex, involving a combination of uncoordinated economic policies in countries sharing artificial and porous borders inherited from the colonial era, kinship groups straddling these borders, weak administrative capacities, and corruption of customs and the police, large numbers of underemployed people seeking to survive, and long traditions of short- and long-distance trading.

The consequences of ICBT are likewise complex, with a mix of positive and negative effects on economic development. Informal trading creates work for large numbers of people with no prospects of wage employment, and provides inexpensive goods to households with low incomes.

It also creates an alternative form of regional integration from below, much deeper and more active than official integration within CEMAC. Smuggling, like the rest of the informal sector, has serious drawbacks too. It deprives the government of revenue, undermines formal enterprises that comply with legal tax obligations, and contributes to a culture of illegality and opposition to state authority.

In both Nigeria and Cameroon, smuggling and informal imports have been highly detrimental to efforts to promote import-substitution industrialization, as smuggling undercuts attempts to protect domestic industries. This is not entirely undesirable insofar as industry in Central and West Africa is often woefully inefficient. This situation underlines the necessity for Cameroon and other countries of the region to develop efficient export-oriented industries that can compete internationally without high subsidies and import barriers. Export competitiveness, however, requires the institution of a 'development state' that prioritizes improvements in the business climate to foster long-term investment rather than predation and protection of special interests, the ultimate cause of the pervasive informalization of African economies, including their trade.

A positive agenda for encouraging investment is more promising than cracking down on informal trade with Nigeria. The latter largely depends on Nigeria adopting more sensible policies while the former is much more in Cameroon's control. In terms of the availability of resources, there is no need to eradicate informal trade with Nigeria for Cameroon to expand formal production of goods and services. There are plenty of underemployed people who will gladly switch to better-paying and less hazardous formal sector jobs if these were to be created. The binding constraint is the adverse business climate that deters foreign and domestic investments in productive activities.

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# Road Infrastructure, Corruption, and Cross-Border Trade: The Case of the Mamfe-Ekok Road Linking Cameroon and Nigeria

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## Introduction

The previous chapter described informal cross border trade (ICBT) between Cameroon and neighbouring countries. This chapter analyzes the institutional environment affecting ICBT through a case study of one of the major corridors for ICBT. The focus is on impediments to trade from hard and soft infrastructure. Traders face choices on whether to operate formally or informally. The quality of infrastructure and trade facilitation conditions this choice as well as affecting the magnitude and benefits from ICBT (Jouanjean et al. 2015; Lesser and Moise-Leeman 2009).

Poor road infrastructure is a major impediment to economic growth and regional integration in SSA (Ondiege et al. 2013; Jerome and Nabena 2016; Adejumobi 2016). A 2008 study by the African Development Bank (AfDB) showed that poor infrastructure lowered SSA annual growth by at least 2% (Ravenhill 2016). Lack of investment in and maintenance of the road network contributes to the low level of formal, and even informal, cross-border trade between Cameroon and its neighbours, described in the previous chapter and by the World Bank (2013). In Cameroon, only 22.7% of roads were paved in 2011.<sup>1</sup> The velocity of freight movement averaged only 6 kilometres per hour (Ranganathan and Foster 2011). Deficient ‘social infrastructure’ (i.e., institutional weaknesses resulting in opacity, corruption, and bureaucratic complexity) also hobbles

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<sup>1</sup>Transportation in Cameroon. *Cameroon Data Portal: Open Data for Africa*. <http://cameroon.opendataforafrica.org/vywxftd/transportation>.



cross-border trade in Africa in general (Beuran et al. 2015; Barka 2012) and in Cameroon in particular (World Bank 2013).

The World Bank (2013) provided a detailed analysis of the effects of transport infrastructure and corruption for ICBT between Cameroon and Nigeria. In road transport, governance failures manifest in long delays in crossing borders and numerous checkpoints along roads at which traders suffer harassment and must make unofficial payments to proceed. The World Bank (2013) estimated that these payments constitute about half of total shipping costs along the Bamenda-Ekok corridor linking Cameroon and Nigeria. Such unofficial payments are not a significant cost throughout SSA but are well above the continental average in Cameroon and Nigeria.

Most of ICBT between Cameroon and Nigeria centres on 10 major corridors. This chapter focuses on the Onitsha/Enugu-Bamenda corridor in Eastern Nigeria and Western Cameroon. This road, particularly the part between Mamfe and Ekok in the Manyu Division in the Southwest Province of Cameroon, was previously considered one of the world's worst roads due to near complete inaccessibility during rainy seasons. It underwent construction and rehabilitation from 2010 until late 2016 under the AfDB's Cameroon-Nigeria Transport Facilitation Programme project (African Development Bank 2008). The AfDB is the lead organization implementing the New Partnership for Africa's Development (NEPAD) Short Term Action Plan for Infrastructure, through its Trade and Transport Facilitation Programme projects. The AfDB's programs involve improvements in both physical and social infrastructure.

The World Bank (2013) provided a preliminary analysis of the Onitsha-Bamenda Road project, highlighting the importance of both improving the road and its governance. This study suggested that these two aspects would be complementary, as better road quality would entail both more rapid movement of goods and a reduced number of unofficial payments due to greater transparency. The World Bank (2013) also advocated simultaneous institutional reforms to lower corruption. These reforms would raise trader incomes and are of particular importance for raising women's participation in ICBT, as their profit margins are typically lower than for men.

Now that the road is completed, the effects can be studied. One of the authors of this chapter, Dominique S. Salla, carried out two one-week field visits to the region in February and May 2017, observing the situation and interviewing traders, government officials, and other stakeholders. As expected, travel times and transport costs decreased sharply, boosting trade and incomes in the region. Surprisingly, however, the number of checkpoints and fees extorted from traders rose sharply, rather than

falling, partially offsetting the rise in profitability of trading. Some of the interview respondents provided a simple explanation: the higher quality roads made it easier to establish checkpoints. A deeper explanation is also possible: government officials were able to extract higher fees from traders, absorbing a significant fraction of the lower costs of transport. In a highly competitive environment, where the cost of entry into trading is low, corrupt government officials can extract all the benefits of lower costs.

While the situation is not that extreme in practice, our findings suggest that the benefits of improvements in physical infrastructure, in terms of boosting trade and income, may be lost unless simultaneous efforts to reign in corruption also are instituted. Our results should be treated with caution as we operated with a limited budget over a short period of time. Furthermore, the political crisis in the region at the time of our interviews, involving conflicts between Anglophone and Francophone speakers, could also have contributed to the greater number of checkpoints—although even if so, the crisis does not justify greater extortion from traders. Despite the limitations of this study, the intriguing and novel result that corrupt practices actually increase with better roads is important and merits further study.

## **Background on the Region and the Road**

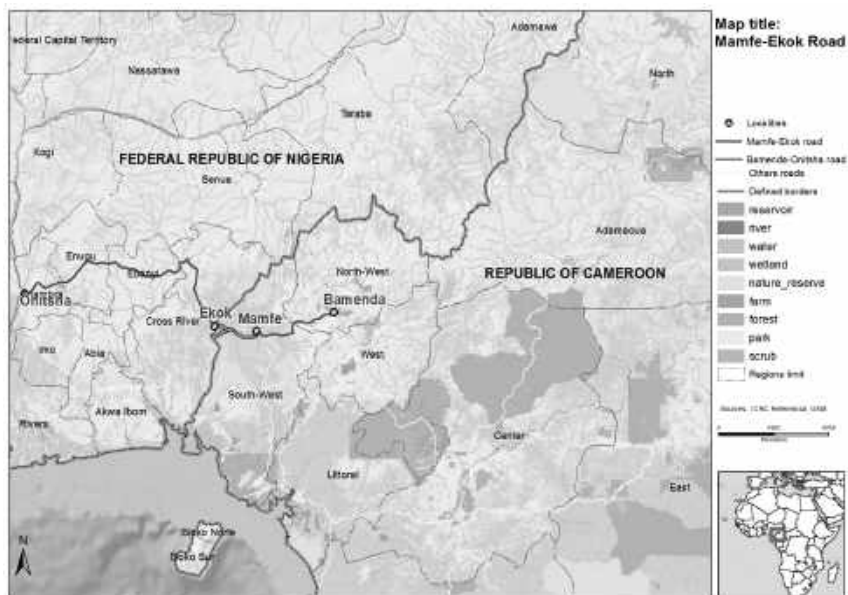
### ***An overview of the region***

Figure 11.1 shows the road from Mamfe in Cameroon to the Nigerian border at Ekok. The distance between Mamfe and Ekok is 70 kilometres. Ekok is just inside Cameroon; Mfum is the Nigerian town on the other side of the border.

As noted in the previous chapter, the Bamenda and the Bamiléke groups are prevalent in South-West Cameroon and are involved in the organization of cross-border trade. Agriculture is the dominant economic activity in the area (60% of GDP), followed by trade and government service.

### ***The Mamfe-Ekok Road***

Prior to the beginning of the construction period in 2010, the corridor between Bamenda and Ekok was in poor condition, a dirt road that was almost completely impassable in the rainy season. Even in the dry season, transport between Ekok and Mamfe took about two days (Ministry of Public Works 2013). High transport costs, resulting from the poor road conditions, severely impeded trade (World Bank 2013).



**Figure 11.1**  
The Mamfe-Ekok Road<sup>2</sup>  
Source: Authors

The multiplicity of border posts and additional checkpoints contributed to lengthy travel times and high costs. The crossing at Ekok and Mfum has two border posts for each respective country. Delays at the Mfum border post generally inhibited the large-scale importation of goods from Cameroon into Nigeria. Traders entering Nigeria from this post had to leave their goods at Mfum, travel eight hours roundtrip to Calabar to have the goods assessed and pay the corresponding fee, return to Mfum to present documents to customs agents there, and retrieve their goods to continue to Nigeria. Such convoluted procedures and lack of harmonization of trade policy lead to lengthy delays, increased transit costs, and ultimately reduced exports for Cameroon (World Bank 2013).

Along the route, various unofficial control points, with seemingly little policy value, extracted additional fees from traders and other people using the road. Along the road from Ekok to Bamenda in Cameroon, the World Bank (2013) reported 12 control points, or a roadblock every 15 kilometres, adding a cost of about 633 USD for each 20 metric ton

<sup>2</sup>For more information, see [http://www.scielo.org.mx/scielo.php?script=sci\\_arttext&pid=S0016-71692007000200003](http://www.scielo.org.mx/scielo.php?script=sci_arttext&pid=S0016-71692007000200003).

truck passing on the road. The checkpoints were a mix of permanent and temporary, with the latter erected when traders are expected to come through. The checkpoints are manned by police officers, customs agents, gendarmerie, army officers, or other government officials. Sometimes these groups operate together and sometimes independently. The World Bank (2013) suggests that poor road conditions exacerbate informal rent<sup>3</sup> extraction, as slow movement along the poorly maintained roads allows trucks to be ‘easily stopped’ by authorities seeking rent extraction. Lack of computerized customs valuation systems also facilitates corrupt practices.

Other non-tariff barriers inhibit the free flow of trade, including impediments to cross-border trucking as trucking must be operated by nationals from the respective country (i.e., a Cameroonian trucker cannot freely pass into Nigeria). Typically, trucks must stop at the border, and unload and reload goods onto a truck in the next country. This leads not only to increased direct loading and reloading costs but also to increased overall transport costs resulting from traders’ need to contract with two transport agents, coordinate shipments, and hire ‘crossers’ or ‘specialized service providers to help move goods across the border’ (World Bank 2013).

This AfDB Trade and Transport Facilitation Programme, initiated in 2008, aimed to complete the Lagos-Mombasa section of the Trans-African Highway. The particular section under study, the 443 kilometre Bamenda-Enugu corridor, straddles the Cameroonian Bamenda-Mamfe-Ekok corridor on the RN 6 (203 kilometres), Nigerian road sections (240 kilometres), a bridge over the Muyana River in Cameroon, and a border bridge over the Cross River. In addition to the AfDB, the Japan Bank Investment Corporation (JBIC), the World Bank, and the governments of Nigeria and Cameroon provided financing. The JBIC loan was mostly used to fund the cost of road work between Mamfe and Ekok. The project was expected to directly benefit users of transport services, along with an additional 11 million people (3 million in Cameroon and 8 million in Nigeria) in the region.

Specific objectives of the project included the development and paving of 90 kilometres of new roadway, the reconstruction of 109 kilometres of existing roads, improved maintenance, and the construction of highway structures. In terms of institutional improvements, the project featured the creation and operation of a common border checkpoint for the two countries to reduce transit times spent at customs at both the Nigerian

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<sup>3</sup>The term “rent” refers to cases where people earn an income which is not commensurate with their level of effort nor the level of risk involved in the endeavour.

and Cameroonian sides of the border. The number of checkpoints along the entire Bamenda-Onitsha corridor was to be reduced from about 30 to 2 (World Bank 2013). Other ancillary features included the rehabilitation and construction of social and market infrastructure, such as market sheds, drying areas for agriculture, and school buildings. Other key objectives included cutting back the number of checkpoints and controlling the axle load of vehicles (African Development Bank 2008; World Bank 2013).

The World Bank (2013) projected (based on trader estimates) a reduction of anywhere from 40 to 70% of the transport costs on the 200-kilometre stretch from Ekok to Bamenda, going from about 650,000 FCFA in the rainy season and 350,000 FCFA in the dry season to about 200,000 FCFA year-round, boosting production, trade and income in the area. The reduction in the number of checkpoints would further lower costs, although the World Bank study noted that there were no efforts to implement these changes as of 2013, and, as we discuss below, the number of checkpoints has actually increased.

## **Analysis of the Impact of the Road**

The 70-kilometre stretch between Mamfe and Ekok was completed at the end of 2016. We relied on both news sources and primary field research conducted in February and May 2017 to evaluate the results of the completion of this road segment. The research consisted of in-depth interviews with traders, customs officials, carriers, freight forwarders, and other market participants (mainly wholesalers and retailers) along the Mamfe-Ekok corridor in Mamfe, Ekok, and Eyumodjock, for a week in both February and May of 2017. Interviews were conducted with 41 people, of which 82.2% were male and 17.8% were female.

News reports suggest some positive economic impacts from the road improvements. Some people (even those from the major cities) have moved to areas near the new road to take advantage of the new economic opportunities, including more people crossing the border into Cameroon to buy fruits and vegetables (Kindzeka 2015).

Several interview respondents reported an increase in the number of ‘newcomers’ arriving in the region, typically because of the increased economic and trading opportunities provided by the completion of the road. They noted the increase in vehicles, new homes, and the number of people in the region since the road was finished. An official census to reflect such activity remains outdated (from 2010 or earlier) and thus cannot corroborate the anecdotal evidence provided by respondents.

Some interviewees reported price inflation in the region for housing and consumer goods, including food products, resulting from the increased demand stemming from the growing population and rising incomes. In the stretch between Mamfe and Ekok, apartments once renting at 5,000 FCFA per month cost 20,000 FCFA and higher, according to one trader. Several respondents also noted the high prices of food and other goods in Eyumodjock (a town midway between Ekok and Mamfe), although some cite other reasons for rising prices. An examination of regional price indexes did not show a significant increase in this region compared to others in Cameroon. Employment was also reported to be growing.

### ***Reduced travel times and costs***

Interviews confirmed that travel time has dropped dramatically. As noted previously, the World Bank (2013) projected reduced travel times of about 40 to 70% for the 200-kilometre section from Ekok to Bamenda. Results from the interviews confirmed that transport costs for the Ekok-Bamenda route fell by 50 to 90%, even more than the World Bank estimates. The travel from Eyumodjock to Mamfe previously took anywhere from 5 hours to a day depending on the season; since the completion of the road, the same journey takes approximately 20 minutes, according to a government official working in Eyumodjock since 2002, and about 40 minutes according to Google Maps.

Table 11.1 summarizes the responses of interviewees on the change in transport costs, comparing costs from before the completion of the road to costs estimated by traders in February 2017. All respondents reported lower transport costs, but magnitudes varied based on several factors, including the length of the journey, the number of years of experience of the trader, the relationship between the trader and the driver, and the means of transport (smaller vehicle, large trucks, ‘motos’, etc.). The estimates in the table reflect broad averages.

### ***Prevalence of checkpoints***

Several (nine) respondents noted an increased number of checkpoints and agents seeking bribes. The higher number of checkpoints implies an increase in fees, reducing profits of traders and others involved in related activities, and pushing up the prices of goods for consumers.

Table 11.2 shows a comparison of the number of checkpoints observed in 2017 on the Ekok-Bamenda 200-kilometre corridor in 2013 and 2017, with a breakdown into two segments: Ekok-Mamfe and Mamfe-Bamenda. The 2013 numbers are from the World Bank (2013) and the 2017 numbers are from our field research. The World Bank

**Table 11.1**

Costs of traversing sections of the road, pre- and post-construction

<i>Route</i>	<i>Distance (km)</i>	<i>Season</i>	<i>Costs pre-construction (FCFA)</i>	<i>Costs post-construction (FCFA)</i>	<i>Decrease in costs (%)</i>
<b>Mamfe - Ekok</b>	61	Rainy	10,000 – 15,000	2,500 – 3,000	70 to 80
		Dry	4,000 – 8,000		25 to 63
<b>Eyumodjock - Mamfe</b>	45	Rainy	10,000 – 15,000	2,000	80 to 87
		Dry	4,000 – 8,000		50 to 75
<b>Eyumodjock - Ekok</b>	16	Rainy	5,000	500 – 1,000	80 to 90
		Dry	2,000		50 to 75
<b>Bamenda - Ekok</b>	200	Rainy	20,000 – 23,000	6,000	70 to 74
		Dry	12,000 – 18,000		50 to 67

*Source:* Costs pre-construction (World Bank 2013) and costs post-construction (interviews conducted in February and May 2017). The decrease in costs (percent) reflects a conservative range, using both the higher and lower costs pre-construction and the higher cost post-construction, wherever there is a range.

**Table 11.2**

Number of checkpoints on the road between Ekok and Bamenda, 2013 and 2017

<i>Corridor</i>	<i>Distance (km)</i>	<i>Number of Checkpoints, May 2017</i>	<i>Number of Checkpoints, 2013<sup>a</sup></i>	<i>Frequency of Controls, 2017 (km)</i>
<b>Ekok - Bamenda Total</b>	200	16 – 18	12	Every 11 – 12
<b>Ekok - Mamfe</b>	70	8	4	Every 9
<b>Mamfe - Bamenda</b>	130	8 – 10 <sup>b</sup>	8	Every 13 – 16

<sup>a</sup>The breakdown of the number of checkpoints between the two segments is not available for 2013 and is estimated on a pro-rata basis.

<sup>b</sup>Our field researcher counted eight while interviewees reported 10.

*Source:* World Bank (2013) and interviews and observations in 2017.

(2013) did not break down the total into the two segments and we pro-rated based on the distance of each segment.<sup>4,5</sup> In 2013, there were 12 checkpoints over the Ekok-Bamenda route. In 2017, we estimated 16–18 checkpoints, an increase of 33 to 50%.

<sup>4</sup>The number of posts between Ekok and Mamfe in 2013 is an interpolated estimate of the number of control posts, since the World Bank did not specify the number of control posts between Ekok and Mamfe specifically. If the distance between Ekok and Bamenda is about 200 kilometres, and World Bank 2013 counted 12 posts, then there is a post about every 15 kilometres. If the road from Ekok to Mamfe is about 70 kilometres, then one can assume there are about 4 checkpoints on this shorter stretch of land.

<sup>5</sup>From the stretch from Bamenda to Mamfe, the field researcher counted 8, while interview respondents counted 10.

## **Checkpoint fee costs and charges**

The World Bank hypothesized that

... improved road conditions are likely to reduce transport costs, while fewer control points and more transparent procedures will reduce informal trade costs... In addition, where procedures are clear and less costly, traders will face fewer incentives to use small crossings where road conditions are bad ...

(World Bank 2013, p. 52)

However, our research findings, while preliminary, suggest the opposite: upgrading the road increased the number of checkpoints and bribes.

Charges at checkpoints, typically benefitting the official soliciting the payment (as opposed to being used as state tax revenues), vary based on location, vehicle type, amount of goods being transported, ethnicity of the transporters, existing trade relationships and participation in merchant networks, the type of goods being transported, or the whim of the demander/official asking for the payment (World Bank 2013; our interviews). Results from the field research reveal a range, usually between 1,000 to 20,000 FCFA and occasionally 100,000 FCFA in certain circumstances, according to one trader. A truck driver claimed fees at Eyumodjock ranged from 2,000 FCFA to 15,000 FCFA if lacking the proper vaccination card, to 10,000 FCFA at customs posts. Fees vary depending on the nature of the goods, particularly if transporting goods subject to import or export bans, such as rice. One trader cited fees of 1,000 to 2,000 FCFA to the police and 500 FCFA at border posts. A trader in rice, a good subject to an import ban in Nigeria, reports much higher figures of 3,000 FCFA at checkpoints and 5,000 FCFA at customs posts.

One male trader observed that the poor quality of the road in the past limited the ability of various government agents, including police officers, gendarmes, and customs agents to establish checkpoints, citing the incongruity of demanding surcharges while travellers pushed cars in the mud. Another respondent, a female trader, corroborated the increase in number of checkpoints, also associating the lack of checkpoints in the past to the poor road conditions.

Traders find the rise in checkpoints and fees to be very burdensome. One retailer with 30 years of experience in trading in Mamfe called the increase in number of checkpoints “deplorable,” claiming that the high frequency of the checkpoints impedes his cross-border merchandising trips and the job prospects of drivers, who remain less likely to undertake trips along the road due to frequent stops and bribe requirements. One wholesaler even describes the Mamfe-Ekok route as “the route of theft” on which police, gendarmes, and customs agents “steal” from the



traders through extracting hefty surcharges rife with elements of bribery and corruption.

Fee collection reflects the dual objectives of meeting the revenue goals set by the regional government and the desire to collect informal payments for personal enrichment. As described by the World Bank (2013) and corroborated through our field research, local customs agents fall under the jurisdiction of the regional administration, with regional and national customs agents setting the revenue objectives for particular border posts, as is the case at the Ekok border.

Some traders interviewed in the study confirmed the prevalence of corrupt practices rather than customs objectives in setting surcharge rates, as the World Bank (2013) documented in detail. A wholesaler noted that when passing the customs post with goods valued at about 3 million FCFA, customs agents demanded from him a fee of 90,000 FCFA but gave him a receipt showing a payment of only 20,000 FCFA, with the difference in amounts going “into their [the customs agent’s] pocket.” According to this wholesaler, smuggling is rampant at this border post. The wholesaler suggested that, even though the customs agents say certain goods cannot pass, they “turn a blind eye” once the smuggler provides an adequate bribe. Typically, if presented with an ‘inadequate’ bribe or if the informal payment is ‘poorly negotiated’, customs agents will alert local media of their capture of smugglers.

Naturally, customs agents have a more favourable view of the situation. While traders and their suppliers and agents decry informal payments as expensive, cumbersome, and corrupt, customs officials defend the checkpoint and customs duties as a means of recouping revenue lost from smugglers’ evasion of taxes. Customs agents also cited the positive effects of fees on imports on promoting production and consumption of domestic products. Customs officials further claimed that some traders plead with them for low estimates of the value of the merchandise on their receipts, so they can present them to the officials at checkpoints as the latter often base their demands for bribes on the stated values of the goods on customs receipts. While defending their work, customs officials viewed the role of other agencies less favourably. One customs official complained that “everyone wants to do customs’ work” and acknowledged that the “numerous checkpoints make traders less willing to pay customs duties, which is regrettable.”

### ***Effects of increased checkpoint fees on trading profits and choice of route***

The World Bank (2013) showed that prior to the upgrading of the road, the profit margins of traders were generally very low. With the improved

road between Mamfe and Ekok, the AfDB and the World Bank expected transport costs to decrease, thereby leaving traders and other participants in inter-state commerce with increased revenues and profits. However, this analysis failed to consider the effect of the increase in the number of checkpoints and resulting fees on profit margins.

We computed a rough estimate of the net effect of lower transport costs and higher unofficial fees on the profitability of transport between Mamfe and Ekok in the rainy season, both before and after the construction of the road, conservatively assuming fees of 1,000 FCFA per checkpoint encountered.

The number of checkpoints on the Mamfe and Ekok segment (as opposed to the larger Mamfe-Bamenda corridor), before completion of the highway, was not available but can be estimated at about four or five. If estimated on a pro-rata basis based on the length of the road, as in Table 11.2, the number is four. If proportional to the number of checkpoints in 2017, the number would be six. Assuming a checkpoint fee of 1,000 FCFA and using an estimate of 10,000 FCFA for transport costs, the total cost to the trader pre-completion of the road, in the rainy season, amounted to about 14,000–16,000 FCFA. Post completion of the road, with transport costs around 2,500 to 3,000 FCFA and eight checkpoints over the same distance from Mamfe to Ekok, the total cost to the trader amounted to about 11,000 FCFA. The net decrease in costs thus is only about 3,000–5,000 FCFA, well below the reduction in transport costs of over 7,000 FCFA. In other words, unofficial fees absorbed a sizeable portion of the surplus from the new road, perhaps as much as 50%. This estimate is tentative, but nonetheless is highly suggestive of the ability of government officials to extract rents from traders. Anecdotes from traders, while also inconclusive, point in the same direction. Furthermore, this calculation does not take into consideration the aggravation and lost time when stopped at checkpoints. Taking this factor into consideration would reduce the net gains from taking the modern road further.

It is possible that our results were affected by the onset of the Anglophone crisis in November 2016. However, most of the road construction was completed prior to this time and the traders' comments referred to the general changes over time since the project began and they did not cite an increased number of checkpoints as resulting from the crisis. Traders and customs officials did agree that the strikes and violence had led to a steep decline in trade. Officials estimated that customs posts collected somewhere between 20–25 million FCFA per day prior to the crisis; this amount has dwindled to under 5 million FCFA per day since the onset of the crisis.

The fact that a number of respondents stated that traders increasingly opted for other routes due to the checkpoints confirms that the increased costs associated with them may be enough to deter use of the new road. Like the customs official quoted above, traders reported that they are willing to pay some customs duties, but when they are too numerous and too costly, they may either exit or more likely travel on alternative routes. While we do not have data to quantify the volume of trade that is eliminated or diverted to less formal routes, our interviews provided suggestive evidence that the effects are substantial. We provide below four separate statements of traders that vividly illustrate the impact of the checkpoints on trading.

“The [Anglophone] crisis hasn’t had an impact on the number of checkpoints. Due to these numerous checkpoints, traders are avoiding the road... What bothers us is that we don’t see what the police and gendarmerie are accomplishing. They are duplicating each other. Why multiply the number of checkpoints on a small sliver of the road to verify that the vehicle documents are in order and the identity of passengers. The police and gendarmerie are doing the work of customs officials, wanting to know what merchandise we are transporting, checking our receipts and releases. Some traders who previously were afraid to take the maritime route [to Nigeria] have decided to risk drowning to avoid the multiplying checkpoints. The maritime traffic has picked up relative to the land route except when boats are not functioning. Traders’ profits are plummeting due to the ‘settlements’ at various checkpoints. I know several who have exited the business.”

“You can see for yourself that the station [for departures] is deserted. The business is dead. Traders are discouraged by the elevated number of checkpoints and prefer to go by boat now.”

“There are numerous checkpoints and this dissuades traders. The police, customs officials, and gendarmes demand a lot of money.”

“I deplore the number of checkpoints (police, gendarmerie, army, customs, etc.). If you go to Nigeria to buy containers like those I sell, the number of times you are stopped will make you sorry you did.”

The new road might have been expected to boost formal trading or at least payment of customs duties. Instead it may have the opposite effect to the extent that traders have to adopt informal strategies to avoid paying the increased number of fees.

### **Effects on women**

As noted by the World Bank (2013), men dominated the cross-border trade activity in the Mamfe-Ekok region. This prevalence in cross-border trade activity was attributed to the conditions of the road prior to construction and rehabilitation. Drivers preferred men to help push cars when stuck on the pre-construction mud roads; women participating in trade typically rode on motorcycles, or ‘motos’. Women typically also travelled into Nigeria no further than Ikon, a town close to the border not far from Mfum, while men went further west into the heart of the country. The greater prevalence of women may be due to the reduced need for men to push vehicles through the mud, and, if so, this occurrence constitutes a positive effect of the new road.

### **Conclusion**

Deficient infrastructure, including roads, is widely regarded as a primary impediment to formal and informal cross border trade in Africa. Social infrastructure—governance and institutional strength—is also important. The AfDB transport projects in Africa aim both to improve the quality of roads and the institutional environment governing them. The World Bank (2013) hypothesized that improved roads linking South-West Cameroon and Nigeria would contribute to reduced corruption by increasing transparency and thus entail reduced costs for traders. We found the reverse to be true: reduced transport costs were partially offset by higher unofficial fees collected at checkpoints, considerably reducing the growth of trade and incomes of traders, and leading them to seek alternate, more informal routes.

Our findings are based primarily on field research carried out in South-West Cameroon in 2017 on the Mamfe-Ekok section of the road linking Onitsha in Nigeria and Bamenda in Cameroon. Improvement of the Mamfe-Ekok Road did have a number of discernible positive effects. These benefits include reduced travel times and transport costs, more employment opportunities, and facilitation of the inclusion of women in trade. However, much of the reduction in cost was absorbed by the increased number of checkpoints and the fees extracted by corrupt government officials. While our calculations are preliminary, we found that as much as half of the reduction in costs was transferred to officials manning checkpoints. This effect is related to the failure of the project to reduce bureaucratic obstacles and corruption. As an example, no progress has been made on the planned joint border post for Cameroon and Nigeria at Ekok-Mfum.

Upon reflection, this perverse outcome is consistent with an economic analysis and the setting in Central Africa. With a rather elastic supply of trading due to pervasive underemployment and a severe lack of accountability of public officials, customs agents, and police are in a strong bargaining position to divert much of the cost reduction to themselves, at least in the short run. In the long run, traders can shift to alternative, albeit more expensive routes, and/or curtail their activities, to the detriment of the standard of living of local people and the wider goal of boosting regional economic integration and economic growth. Indeed, interviewees reported a tendency for trade to shift to maritime routes, although some of these effects may be due to the political crisis pitting Anglophones in South-West Cameroon against the Francophone central authorities.

This finding suggests a larger point: the benefits of physical infrastructure for boosting trade and reducing informality can only be fully reaped if social infrastructure is addressed simultaneously. Although investments in infrastructure, such as roads and power, are critical, they must be accompanied by improved governance or officials may be able to appropriate much of the reduced costs.

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# Gender and the Labour Market in Cameroon

*Jacques Charmes and Rosalie Njonkam*

### Introduction

Female labour force participation is lower than that of males in most countries. There are various reasons for this: in countries where female labour force participation rates are relatively high, the main reason for the gender differential is maternity, a relatively long period when women devote most of their time to their young child. Time dedicated to domestic duties and care of household members (so-called unpaid work) is almost always the reason women have less time to devote to economic activities. In some countries with high female labour force participation rates, this may have a strong impact on time dedicated to total work (paid and unpaid), while in other countries a part of these domestic activities can be delegated to paid domestic workers. In other countries where social norms are particularly strict, maternity can have a stronger impact on female labour force participation rates: this is particularly the case in Northern African countries and in some sub-Saharan African countries of the Sahel as well as in the Middle East and South Asia, where female labour force participation rates are especially low. Unpaid care work in relation with paid work in the labour force has garnered a good deal of attention (Antonopoulos and Hirway 2010; Hirway 2017; Charmes 2015, 2017) and several reports by international institutions have featured this topic (UN2 2015; UNDP 2015; UN Women 2015).

Lower female labour force participation rates are also due to greater involvement in informal activities (ILO 2013; Charmes 2012). Furthermore, women's informal activities take place at home or outside enterprise premises more often than men's and consequently may be more invisible. These activities are more likely to be merged with domestic activities (an example is the processing of agricultural or food products, some of which will be consumed by the household while the rest will be sold on the market).



It is interesting to look at these issues in the case of Cameroon, where recent data collection allows more in-depth analyses of the role of women in the labour market.

Three main sources can be used to analyze gender and the labour market in Cameroon:

1. the 2005 Survey of Employment and the Informal Sector (*Enquête sur l'Emploi et le Secteur Informel*, EESI), updated in 2010, with an initial employment survey (INS 2006) and updated in 2010 (EESI 2, INS 2011);
2. the 2007 Cameroon Household Survey (*l'Enquête Camerounaise Auprès des Ménages*, ECAM 3) (INS 2007), updated in 2014 and completed the same year with a section on time use; and
3. the 2009 General Enterprise Census (*Recensement Général des Entreprises*, RGE) (INS 2010).

These three surveys provide an overview of the macro- and meso-economic framework for which the results of the 2012 Survey on Formal and Informal Enterprises (*Enquête sur les Entreprises du Formel et de l'Informel*, EEFI) (INS 2012c) for Yaounde and Douala can be a useful supplemental source of information for a clearer understanding of the specific characteristics of the interaction of gender and informal employment.

## **Female Participation Rates Lower than Those for Males, but Still Well above Global and Regional Averages**

The participation rate is the ratio of the labour force (employed and unemployed) to the working-age population (i.e., those 15 years of age and over). As Table 12.1 shows, sub-Saharan Africa (SSA) has a very high female participation rate, far above the world average of 51.2% in 2010, compared to the male participation rate, which is typically below the world average. East Africa is by far the region with the highest female (77.3%) and male (84.5%) participation rates, well above the world average; the gender gap is also lowest there, at 7.7 points. Of all the regions in SSA, Southern Africa has the lowest participation rates, below the world average.

Central Africa is behind East Africa (by nearly 10 points), with a high female participation rate (67.4%) and a narrow gender gap (7.2 points). West Africa is next, with a female participation rate of 53.5% but a very wide gender gap (17.3 points). Female participation rates there have been growing rapidly since the 1990s, while the gender gap has dropped from 30.9 points in 1990 to 21.3 points in 2000, and then to 17.3 points in 2010.

**Table 12.1**

Female and male participation rates over the past two decades

<i>Region</i>	<i>Women</i>			<i>Men</i>		
	<i>1990</i>	<i>2000</i>	<i>2010</i>	<i>1990</i>	<i>2000</i>	<i>2010</i>
<b>West Africa</b>	46.7	51.6	53.5	77.6	72.9	70.8
<b>Central Africa</b>	64.5	67.7	67.4	76.9	75.1	75.1
<b>East Africa</b>	75.7	75.3	77.3	85.9	85.1	84.5
<b>Southern Africa</b>	36.2	45.7	45.7	65.5	62.6	62.1
<b>World</b>	52.2	52.0	51.2	80.5	78.6	77.2

Source: LABOURSTA, [www.ilo.org](http://www.ilo.org)

These figures are estimates from the International Labour Office (ILO) prepared using national data (population censuses and household surveys). Table 12.2, developed based on the database created by the ILO, shows the extreme variability of national data for the survey years available. As these years differ from country to country, we have presented the results by distinguishing two periods for each country: the oldest—period 1—applies to the 1990s or the very early 2000s (for some countries), and the most recent—period 2—applies to the 2000s, or even 2010. The years follow the country name. The countries are ranked by female participation rate in the most recent period available.

Very high female participation rates (and narrow gender gaps) are observed in Central Africa, with Rwanda leading the way (86.4% in 2001, a rate higher even than the male rate of 84.5%), in the Democratic Republic of the Congo (70.5% in 2005), and Congo (67.5% in 2005 as well). Gabon, however, had a participation rate of just 39.9% in 2010 (but also a very low male rate of 58.2%).

Some of these figures raise legitimate questions about reliability: too great of a dependence on survey methods or an insufficient grasp of labour force concepts suggest that greater harmonization of surveys would be useful, particularly as concerns the measure of employment. Many countries have never conducted an employment survey; employment is measured in those countries only through multi-purpose survey modules or population censuses. Moreover, survey periods (during the year) can give very different results because of seasonal swings in employment.

Figure 12.1 presents labour force participation rates for the most recent year for all African countries (except the Central African Republic): countries are ranked by female participation rate in increasing order. Although there may be discrepancies with Table 12.2 due to more recent data for

**Table 12.2**

Participation rate by gender over the past two decades in Central Africa

Country (year)	Women		Men	
	Period 1	Period 2	Period 1	Period 2
Rwanda (1996/2001)	85.6	86.4	88.4	84.5
DRC (2005)		70.5		72.3
Congo (2005)		67.5		71.6
Chad (1993/2011)	64.7	48.5	80.8	77.1
Cameroon (1996/2010)	61.0	64.2	77.1	74.1
Gabon (1993/2010)	55.0	39.9	70.8	58.2

Source: LABOURSTA and ILOSTAT database, [www.ilo.org](http://www.ilo.org).

Note: The countries are ranked by the most recent female participation rate in decreasing order (women, period 2)

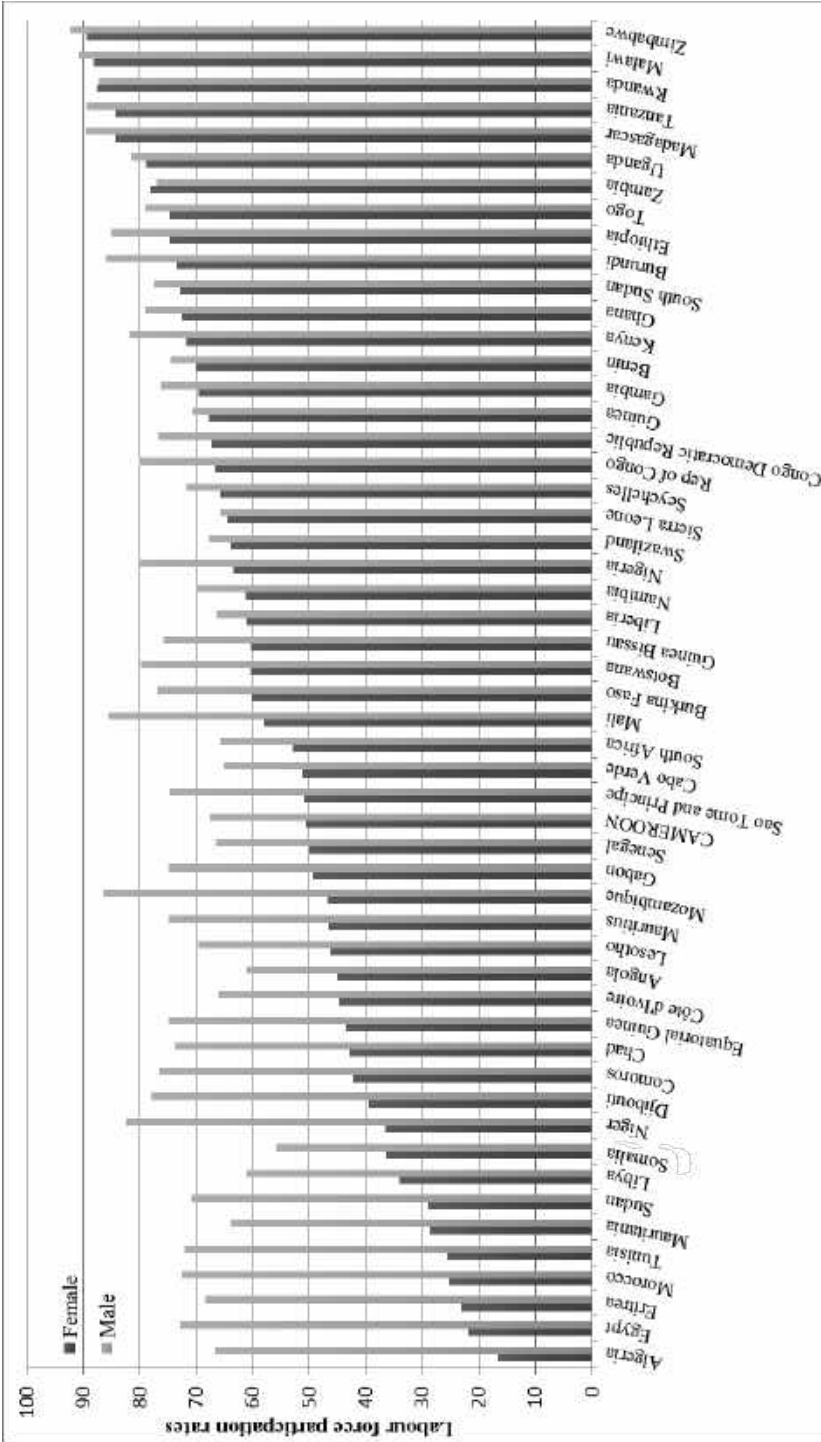
some countries shown in Table 12.2, it is interesting to note that Cameroon falls in the middle. Northern African countries, in comparison, have the lowest female participation rates and the highest gender gaps (left-hand side of the figure), and the Eastern and Southern African countries (on the right-hand side) have the highest female labour force participation rates and the lowest gender gaps (including Zambia and Rwanda, where female labour force participation rates are higher than those for males).

Most African countries have fairly high female participation in the labour force (compared with other regions). It is this type of general characteristic that should inform the gender analysis of labour markets.

An analysis of national data for Cameroon helps clarify some of the questions raised above (see Table 12.3). We see that defining participation from age 10 (rather than 15) considerably reduces participation rates among both men and women. While the effort to measure child labour explains such a choice, age 15 should nonetheless be used for the sake of international comparisons. Additionally, in these cases, the gender gap becomes very small in rural areas (2 points), where virtually as many women as men participate in the labour force; however, the gap was still 6 to 7 points in 2010 for age 10 and over.

Overall, the gender gap is close to 7 points nationally for the 15 to 64 age group and 15 points in urban areas. Given the general profile depicted by this indicator, it is possible that the gap observed in urban areas is due to a poor understanding of some of the informal activities carried out by women, who tend to do those activities at home or from home, making them difficult to separate from purely domestic duties.

Table 12.4 shows participation rates based on the broad concept of unemployment. This broader definition excludes the active job search



**Figure 12.1**  
Labour force participation rates by gender in African countries (most recent year)  
Source: Author's compilations based on the most recent national household surveys

**Table 12.3**

Participation rate as defined by the ILO by gender and location in Cameroon

Location	2005 EESI 1 (10 years +)			2007 ECAM 3 (15–64 years)			2010 EESI 2 (10 years +)		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
<b>Douala</b>	52.4	69.7	61.2	63.2	79.3	71.4	54.4	70.7	62.4
<b>Yaounde</b>	47.7	63.2	55.5	62.2	78.1	70.2	51.0	64.0	57.3
<b>Urban</b>	51.6	66.1	58.9	64.2	79.1	71.6	52.2	67.2	59.5
<b>Rural</b>	77.4	80.2	78.8	89.2	91.2	90.2	72.6	79.0	75.7
<b>Cameroon</b>	68.3	74.8	71.5	79.5	86.2	82.8	64.2	74.1	69.0

Source: INS, EESI 1, ECAM 3, EESI 2 (INS 2006, 2007, 2011, 2012a, 2012b)

**Table 12.4**Participation rate by gender and location in Cameroon  
(age 15–64) in 2007

Location	Women	Men	Both sexes
<b>Douala</b>	70.1	81.3	75.8
<b>Yaounde</b>	71.2	80.5	75.9
<b>Urban</b>	70.4	81.0	75.7
<b>Rural</b>	90.0	91.7	90.8
<b>Cameroon</b>	82.4	87.3	84.7

Source: INS, ECAM 3 (INS 2007)

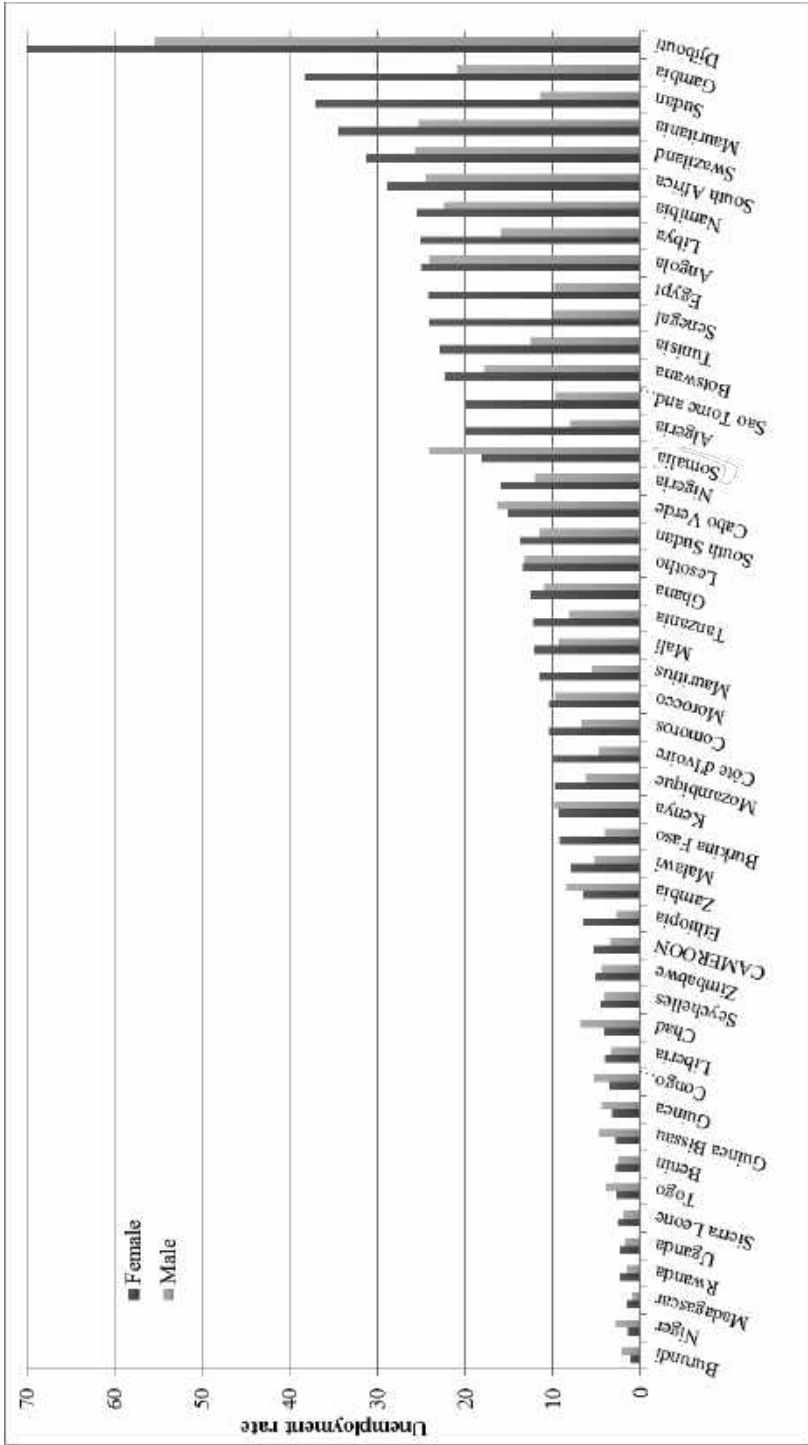
criterion in order to include ‘discouraged unemployed persons,’ which further reduces the gender gap because female unemployment rates are still higher than male unemployment rates.

## Female Unemployment Rate Higher than Male Rates and Underemployment Rates Even Higher

As Figure 12.2 and Table 12.5 show, the female unemployment rate is generally higher than the male rate (the only exceptions are for rural areas in both the 2005 and 2010 EESI, which again is due to the inclusion of the 10- to 14-year-old population).

In urban areas, especially in Yaounde and Douala, the gender gap in the unemployment rates is very high (from more than 10 points to more than 14 points in the 2007 ECAM, and 5 to 8 points in the 2010 EESI).

The gender gap is also considerable (but less than for unemployment; see Figure 12.3) in relation to underemployment (defined as weekly work hours involuntarily lower than the hourly volume established by law, and as insufficient income, that is, earnings that are lower than the minimum



**Figure 12.2**  
 Unemployment rates by gender in African countries (most recent year)  
 Source: Author's compilations based on the most recent national household surveys

**Table 12.5**

Unemployment rate as defined by the ILO by gender and location in Cameroon

Location	2005 EESI 1 (10 years +)			2007 ECAM 3 (15–64 years)			2010 EESI 2 (10 years +)		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
<b>Douala</b>	15.1	10.6	12.5	23.5	10.1	16.2	13.4	5.7	9.1
<b>Yaounde</b>	19.2	11.4	14.7	24.1	9.3	16.2	13.0	7.4	10.0
<b>Urban</b>	13.2	8.8	10.7	18.0	7.8	12.6	10.8	5.8	8.1
<b>Rural</b>	1.7	1.9	1.7	1.6	1.3	1.4	1.3	1.5	1.4
<b>Cameroon</b>	4.6	4.2	4.4	7.0	3.8	5.4	4.5	3.1	3.8

Source: INS, EESI 1, ECAM 3, EESI 2 (INS 2006, 2007, 2011, 2012a, 2012b)

**Table 12.6**

Underemployment rate as defined by the ILO by gender and location in Cameroon

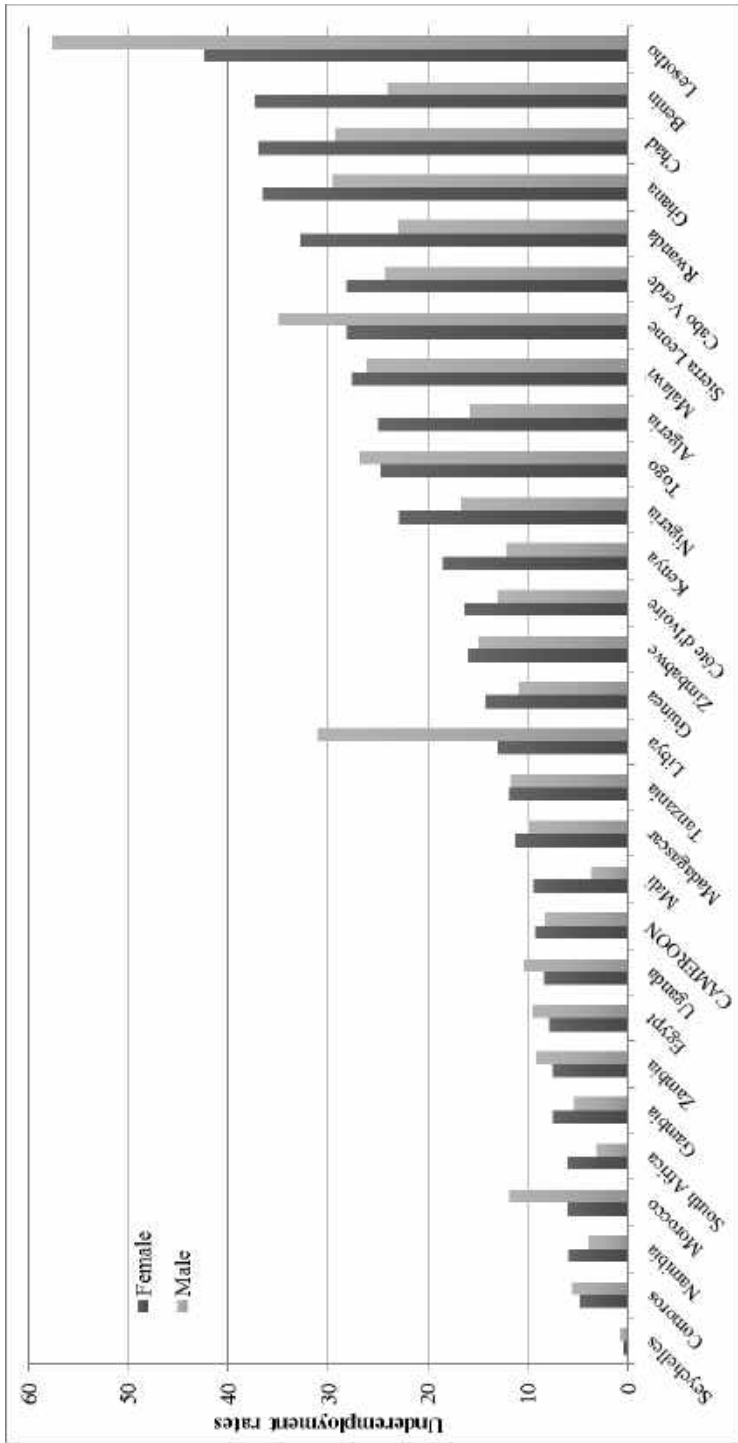
Location	2005 EESI 1 (10 years +)			2007 ECAM 3 (15–64 years)			2010 EESI 2 (10 years +)		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
<b>Douala</b>			53.7	62.2	34.3	47.2			44.3
<b>Yaounde</b>			53.7	66.3	41.7	53.1			56.3
<b>Urban</b>			59.6	67.0	44.3	54.9			55.7
<b>Rural</b>			82.9	84.1	69.1	77.0			78.8
<b>Cameroon</b>	83.6	68.3	75.8	78.8	60.2	69.6	78.0	63.7	70.6

Source: INS, EESI 1, ECAM 3, EESI 2 (INS 2006, 2007, 2011, 2012a, 2012b)

income established by law). According to the 2007 ECAM (INS 2007), the phenomenon affects more than two-thirds of the labour force and over three-quarters of working women (Table 12.6). More prevalent in rural areas (over three-quarters of the rural labour force is underemployed) than in urban areas, the female underemployment rate exceeds the male rate by more than 15 points in rural areas and by close to 23 points in urban areas (up to 25 points in Yaounde). The differences in definition of working age between the 2007 and 2010 surveys have less impact than they do on the participation and unemployment rates.

### **Female Employment is Characterized by a Higher Rate of Informality and Vulnerability Status (Contributing Family Workers and Own-Account Workers)**

Western and Central Africa are the sub-regions of Africa (and of the developing world) where informal employment is most common, as shown in Table 12.7 below.



**Figure 12.3**  
Underemployment rates by gender in African countries (most recent year)  
Source: Author's compilations based on the most recent national household surveys



**Table 12.7**

Employment in the informal economy as a share of total employment by country and region, non-agricultural economy, 2000–2010 (percent)

<i>Regions/Countries</i>	<i>2000–10</i>
<b>Northern Africa</b>	<b>53.0</b>
<b>sub-Saharan Africa</b>	<b>72.2</b>
<b>Western Africa</b>	<b>79.1</b>
Benin	96.3
Burkina Faso	90.5
Côte d'Ivoire	73.8
Ghana	65.3
Liberia	56.4
Mali	82.8
Niger	88.8
Nigeria	78.6
<b>Central Africa</b>	<b>78.3</b>
Cameroon	79.5
Democratic Rep. Congo	77.0
<b>Eastern Africa</b>	<b>71.6</b>
Kenya	76.8
Madagascar	73.7
Mauritius	56.9
Mozambique	87.2
Tanzania	76.7
Uganda	73.5
Zambia	76.3
Zimbabwe	51.6
<b>Southern Africa</b>	<b>51.2</b>
Lesotho	70.7
Namibia	43.8
South Africa	39.1
<b>Latin America</b>	<b>57.7</b>
<b>Southern and South-Eastern Asia</b>	<b>69.7</b>

Notes: Averages are not weighted by region. Numbers appearing in italics reflect employment in the informal sector only and do not include informal employment outside the informal sector.

Source: Charmes (2012) updated with more countries

With 79.5% of the non-farm population occupied in the informal economy, Cameroon's proportion of informality is well above the sub-Saharan African and even the Western and Central African averages.

In 2007, 95.9% of female jobs were informal, 68.6% of them were in agriculture, and only 4.1% were formal (Table 12.8). The 2010 EESI paints a slightly different picture: 93.8% of female jobs were informal (including 57.9% in agriculture), leaving 6.2% formal jobs. The discrepancy between the two surveys is again due to the difference in the survey age of participation (15 years in ECAM 3 versus 10 years in EESI 2). Informal non-agricultural employment accounts for 27 to 36% (in 2007 and 2010, respectively) of female jobs, compared to 30 to 39% of male jobs. Although the published data cannot be used to strictly distinguish non-agricultural employment (since the public sector and the formal private sector may include agricultural components), it can be estimated that 87.8% (in 2007) and 85.3% (in 2010) of non-agricultural female jobs were informal, whereas informal employment represented only 71.5% of non-agricultural male jobs (75.5% in 2010).

The breakdown by industry (Table 12.9) shows the significance of agriculture and the importance of the (non-commerce) services sector for both women and men. In 2010, the share of industrial jobs was higher in female as well as in male employment, exceeding jobs in commerce.

Lastly, Table 12.10 shows the breakdown by employment status. In the 2007 survey, 86.6% of female jobs fell under the own-account or contributing family workers category (compared to 74.7% of male jobs), whereas in the 2010 survey (INS 2011), 87.2% of female jobs had this status, compared to 66.6% for men. The gender gap in wage employment

**Table 12.8**  
Breakdown of labour force by gender and sector (percent)

	2005 EESI 1 (10 years +)			2007 ECAM 3 (5 years +)			2010 EESI 2 (10 years +)		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
<b>Public</b>			4.9	2.2	5.4	3.8	4.3	7.2	5.8
<b>Formal private</b>			4.7	1.9	6.5	4.2	1.9	5.3	3.7
<b>Agricultural informal</b>			55.2	68.6	58.6	63.5	57.9	48.5	53.0
<b>Non-agricultural informal</b>			35.2	27.3	29.6	28.5	35.9	38.9	37.5
<b>Cameroon</b>			100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: INS, EESI 1, ECAM 3, EESI 2 (INS 2006, 2007, 2011, 2012a, 2012b)

**Table 12.9**  
Breakdown of labour force by industry (percent)

	2005 EESI 1 (10 years +)			2007 ECAM 3 (5 years +)			2010 EESI 2 (10 years +)		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
<b>Primary</b>			55.7	69.1	59.4	64.2	58.1	48.9	53.3
<b>Industry</b>			14.1	8.4	10.0	9.2	12.2	12.9	12.6
<b>Commerce</b>			10.4	10.3	9.3	9.7	11.6	10.6	11.1
<b>Services</b>			19.8	12.3	21.4	16.9	18.1	27.5	23.0
<b>Cameroon</b>			100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: INS, EESI 1, ECAM 3, EESI 2 (INS 2006, 2007, 2011, 2012a, 2012b)

**Table 12.10**  
Breakdown of labour force by employment status (percent)

	2005 EESI 1 (10 years +)			2007 ECAM 3 (5 years +)			2010 EESI 2 (10 years +)		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
<b>Wage employees</b>			18.0	12.3	22.7	17.6	11.3	28.6	20.4
<b>Own-account workers</b>			53.0	46.6	46.1	46.3	50.0	44.3	47.0
<b>Contributing family workers</b>			29.0	40.0	28.6	34.2	37.2	22.3	29.5
<b>Employers</b>			-	1.1	2.6	1.9	1.6	4.8	3.3
<b>Cameroon</b>			100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: INS, EESI 1, ECAM 3, EESI 2 (INS 2006, 2007, 2011, 2012a, 2012b)

and employer statuses is very wide, and it worsened in 2010. Similarly, the reverse gap in own-account or contributing family workers statuses among women worsened between the two surveys.

### ***Some characteristics of Cameroonian enterprises by gender, according to the 2009 General Enterprise Census (RGE)***

The RGE (INS 2010) covered all units located in fixed and permanent business premises, excluding street vendors, taxis, and motorcycle taxis (thus omitting more than three-quarters of informal workers, who, according to the 2005 EESI (INS 2006), do not work in fixed business locations). This census identified 93,969 enterprises (including 35.1% in Douala and 23.9% in Yaounde), representing 386,263 permanent jobs (including 47.1% in Douala and 21.3% in Yaounde), 43,495 temporary

jobs, and an overall turnover of FCFA 10.2 billion (59.7% in Douala and 14.1% in Yaounde). Women account for 31.7% of business owners and 27% of permanent jobs.

In the tables below, the total number of enterprises and jobs may differ from aggregate figures, as non-responses to certain criteria were not considered.

The RGE makes it possible to better assess the place that female business owners hold by not mixing own-account workers and employers and by excluding agriculture; the fact that women account for more than 30% of all entrepreneurs demonstrates their real place in the Cameroonian economy. However, like most of the other surveys examined, the place given to gender analyses remains limited. In particular, the survey results for turnover and added value are not connected with the entrepreneur's gender.

Table 12.11 shows that there are more women in sole proprietorship businesses than in corporations: the former represents 94.8% of female-run enterprises and 87.8% of male-run enterprises.

As expected, the proportion of female business owners decreases as the size of the enterprise increases: they account for 30.5% of enterprises with fewer than five employees, 16% of enterprises with five to nine employees, 12.6% of enterprises with 10 to 49 employees, and only 5.2% of enterprises with 50 or more employees (see Table 12.12 below).

### **EEFI 2012 results**

The Survey on Formal and Informal Enterprises (EEFI) for Yaounde and Douala presents an opportunity for more nuanced gender analysis. It allows for a comparison of the respective situations of women and men, business owners and employees, in each major sector of the economy: formal, large informal, and small informal (see definitions in Chapter 2) across two major cities.

The numbers presented in the tables are those of a self-weighted sample; although their structures are significant, they cannot be aggregated.

**Table 12.11**

Breakdown of enterprises by entrepreneur's gender and legal status (2009 RGE)

<i>Gender of business owner</i>	<i>Number of enterprises</i>	<i>Percent</i>	<i>Among which: sole proprietorships</i>		<i>Percent</i>	<i>Percent of sole proprietorships among all enterprises</i>
<b>Women</b>	25,467	30.6	24,150	33.4	94.8	
<b>Men</b>	54,808	69.4	48,149	66.6	87.8	
<b>Total</b>	80,275	100.0	72,299	100.0	90.1	

Source: INS, 2009 RGE (INS 2010), according to Table 12.5, p. 161

**Table 12.12**

Breakdown of enterprises by size and entrepreneur's gender (2009 RGE)

<i>Gender of business owner</i>	<i>&lt;5 employees</i>		<i>5–9</i>		<i>10–49</i>		<i>50+</i>		<i>Total</i>
	<i>employees</i>	<i>Percent</i>	<i>employees</i>	<i>Percent</i>	<i>employees</i>	<i>Percent</i>	<i>employees</i>	<i>Percent</i>	
<b>Women</b>	23,814	30.5	995	16.0	411	12.6	31	5.2	25,251
<b>Men</b>	46,389	59.4	3,493	56.3	1,835	56.2	432	71.9	52,149
<b>Total*</b>	78,069	88.6	6,207	7.0	3,267	3.7	601	0.7	88,144

Source: INS, 2009 RGE (INS 2010)

Note: \* The 'Total' category includes those 'not determined'.

**Table 12.13**

Breakdown of business owners by gender, firm status, and industry

<i>Firm Status</i>	<i>Sector</i>	<i>Women</i>	<i>Men</i>	<i>Both sexes combined</i>	<i>Percent women</i>
<b>Formal</b>	Industry	1	43	44	2.3
	Construction	0	6	6	0.0
	Commerce	2	28	30	6.7
	Services	1	27	28	3.6
	Total*	4	105	109	3.7
<b>Large informal</b>	Industry	6	36	42	14.3
	Construction	0	4	4	0.0
	Commerce	12	31	43	27.9
	Services	14	29	43	32.6
	Total*	33	102	135	24.4
<b>Small informal</b>	Industry	17	26	43	39.5
	Construction	0	6	6	0.0
	Commerce	29	35	64	45.3
	Services	37	49	86	43.0
	Total*	83	117	200	41.5

Source: 2012 EEFI, weighted sample (INS 2012c)

Note: \* The 'Total' category includes those 'not determined'. Consequently, it is higher than the industries total.

Table 12.13 shows the breakdown of business owners by sector and gender, and Table 12.14 shows the breakdown of jobs according to the same criteria.

Completely absent from the construction sector as business owners, women have an increasing presence going down the hierarchy of sectors (from formal to large informal and then small informal: 3.7%, 24.4%, and 41.5%, respectively) and moving from industry to services. Apart from

**Table 12.14**

Breakdown of employment by gender, firm status, and sector

<i>Firm Status</i>	<i>Sector</i>	<i>Women</i>	<i>Men</i>	<i>Both sexes combined</i>	<i>Percent women</i>
<b>Formal</b>	Industry	1,866	8,072	10,511	17.8
	Construction	18	115	133	13.5
	Commerce	521	1,847	2,899	18.0
	Services	984	4,480	7,041	14.0
	Total*	3,408	14,586	20,675	16.5
<b>Large informal</b>	Industry	70	217	285	24.6
	Construction	2	8	10	20.0
	Commerce	39	109	148	26.4
	Services	174	456	679	25.6
	Total*	288	801	1,136	25.4
<b>Small informal</b>	Industry	31	67	94	33.0
	Construction	0	26	26	0.0
	Commerce	57	52	106	53.8
	Services	58	77	133	43.6
	Total*	146	223	360	40.6

Source: 2012 EEFI, weighted sample (INS 2012c)

Note: \* The 'Total' category includes those 'not determined.' Consequently, it is higher than the industries total.

the large informal sector, their number is greater in commerce than in the rest of services; women's parity is closest (45.3%) in the small informal sector of commerce, followed by the small informal sector of the rest of services. The proportion of women business owners is systematically the lowest in industry (2.3%, 14.3%, and 39.5%, respectively). For the small informal sector, it is not impossible that this proportion has been underestimated, since women's involvement in commerce can often reflect a second, home-based activity (particularly in agriculture and food product processing).

The same hierarchy is observed in employment (Table 12.14), where the proportion of women employed in enterprises increases with the degree of informality, rising from 16.5% in the formal sector to 25.4% in the large informal sector, and to 40.6% in the small informal sector. Aside from construction, where their jobs are limited to administrative fields, their numbers are relatively high in commerce (18%, 26.4%, and 53.8%, respectively, on an increasing scale of informality). The small informal commerce sector is the only one where parity is exceeded and where

**Table 12.15**

Employment structure by gender, firm status, and sector (percent)

<i>Firm Status</i>	<i>Sector</i>	<i>Women</i>	<i>Men</i>	<i>Both sexes combined</i>
<b>Formal</b>	Industry	54.8	55.3	50.8
	Construction	0.5	0.8	0.6
	Commerce	15.3	12.7	14.0
	Services	28.9	30.7	34.1
	Total*	100.0	100.0	100.0
<b>Large informal</b>	Industry	24.3	27.1	25.1
	Construction	0.7	1.0	0.9
	Commerce	13.5	13.6	13.0
	Services	60.4	56.9	59.8
	Total*	100.0	100.0	100.0
<b>Small informal</b>	Industry	21.2	30.0	26.1
	Construction	0.0	11.7	7.2
	Commerce	39.0	23.3	29.4
	Services	39.7	34.5	36.9
	Total*	100.0	100.0	100.0

Source: 2012 EEFI, weighted sample (INS 2012c)

Note: \* The 'Total' category includes those 'not determined'.

women can be said to dominate (53.8%), followed by the small informal services sector (43.6%, excluding commerce).

Looking at the job structure (Table 12.15), we see that industry is the largest provider of employment for women in the formal sector (54.8% of formal jobs) as well as for men (55.3%).

Of course, these statistics do not take jobs in administration or in the primary sector into account.

In the large informal sector, the services industry dominates among both women (60.4%) and men (56.9%); whereas, in the small informal sector, services and commerce are head-to-head at 39.7% and 39%, respectively, for women, with services clearly dominating for men (34.5%), followed by industry (30%).

Generally speaking, low school attainment (primary education or less) is the predominant characteristic of employment in the three sectors. There is, however, an interesting phenomenon: while secondary- or higher-level workers account for 1.1% of formal jobs and 0.4% of the large informal sector, they represent 4.2% of jobs in the small informal sector, confirming the safe haven role of this sector in the labour market in both Douala and Yaounde, particularly for women (6.8%, compared to 4% for men).

Table 12.16 shows employment status in the various sectors. While women represent 6.7% of business owners and 26.2% of employment in the formal sector, they account for 31% of employers in the large informal sector, 22.2% of its own-account workers, 38.9% of its paid employees, and 70.8% of its paid apprentices. In the small informal sector, this structure is even more pronounced, as women account for 37.9% of employers, 48.8% of own-account workers, 26.3% of paid employees, and 46.7% of contributing family workers.

With respect to the average number of hours worked in the last month of participation, and if full-time is taken to mean around 200 hours per month (five 8-hour days per week), we see (in Table 12.17) that the formal sector is slightly below full-time (which may be due to annual vacation

**Table 12.16**  
Breakdown of employment by firm status, gender, and employment status

<i>Firm Status</i>	<i>Employment Status</i>	<i>Gender</i>		<i>Both sexes combined</i>	<i>Percent women</i>
		<i>Women</i>	<i>Men</i>		
<b>Formal</b>	Manager/owner	1	14	15	6.7
	Self-employed	0	1	1	0.0
	Employee	167	470	637	26.2
	Paid apprentice	4	4	8	50.0
	Partner	0	1	1	0.0
	Total	172	490	662	26.0
<b>Large informal</b>	Manager/owner	18	40	58	31.0
	Self-employed	2	7	9	22.2
	Employee	102	160	262	38.9
	Paid apprentice	1	5	6	16.7
	Contributing family workers	3	5	8	37.5
	Paid apprentice	17	7	24	70.8
	Partner	1	0	1	100.0
	Total	144	224	368	39.1
<b>Small informal</b>	Manager/owner	39	64	103	37.9
	Own-account worker	40	42	82	48.8
	Employee	15	42	57	26.3
	Paid apprentice	1	3	4	25.0
	Contributing family workers	9	10	19	47.4
	Paid apprentice	5	3	8	62.5
	Total	109	164	273	39.9

Source: 2012 EEFI (INS 2012c)



**Table 12.17**

Average number of hours worked in the last month by gender, sector, and firm status

<i>Firm Status</i>	<i>Sector</i>	<i>Women</i>	<i>Men</i>	<i>Both sexes combined</i>	<i>Parity index (percent)</i>
<b>Formal</b>	Industry	176	176	176	100.0
	Construction	222	258	252	86.0
	Commerce	201	196	197	102.4
	Services	196	209	205	93.8
	Total	188	193	192	97.4
<b>Large informal</b>	Industry	291	251	262	115.7
	Construction	170	144	151	118.2
	Commerce	209	203	205	102.5
	Services	217	197	208	110.2
	Total	236	223	228	105.9
<b>Small informal</b>	Industry	203	244	229	83.3
	Construction	0	224	224	—
	Commerce	204	276	243	73.7
	Services	237	252	246	93.8
	Total	218	255	240	85.6

Source: 2012 EEFI (INS 2012c)

and sick leave), the large informal sector very much above (114%), and the small informal sector higher still (120%).

In the formal sector, the parity index is below 100%, meaning that women work fewer hours than men, which may be voluntary, in order to take care of domestic duties, or involuntary (underemployment). The only exception is commerce, where the parity index is 102.4%.

In the large informal sector, women work more than men across all sectors (the index is 105.9%), particularly in industry (115.7%), if construction is excluded where their numbers are low. Above all, it is in this industry that women work the most: 291 hours per month (1.46 times more than 200 hours).

In the small informal sector, although the average is well above the norm (120%), the parity index is at 85.6%, especially in commerce (73.7%) and industry (83.3%), bringing women closer to the 200-hour norm. Since the small informal sector is characterized, particularly for women, by a large proportion of own-account workers, it is likely to be seen as a form of adaptation, reconciling time spent in paid work with time spent in unpaid work (domestic duties and child care). The 2014 ECAM 4 results tell us more about the burden of these duties, which weigh almost

exclusively on women, and on these modes of reconciliation. The survey's module on time-use had the following results: women spend 212 minutes per day in unpaid care work, against only 74 minutes for men (2.9 times more), and spend 203 minutes in paid work (against 284 for men). As a result, they spend 415 minutes per day, or approximately 7 hours, in total work (against 358 minutes, or approximately 6 hours, for men) (Charmes 2017).

It is worth discussing these results to determine whether they are in line with the national data presented at the beginning of this chapter regarding underemployment. According to various ECAM and EESI surveys, the underemployment rate among women is very high, and much higher than that among men. The EEFI data above pertain only to underemployment in connection with hours of work and should be compared with data on remuneration. The first thing to determine is whether women are more involved than men in secondary activities, which would mean that their primary activity is insufficient to meet their needs or the needs of their households.

Table 12.18 shows the multiple job-holding rate observed in the EEFI survey.

**Table 12.18**

Having a secondary occupation during the year by gender, sector, and firm status (percent)

<i>Firm Status</i>	<i>Sector</i>	<i>Women</i>	<i>Men</i>	<i>Both sexes</i>	<i>Parity index</i>
<b>Formal</b>	Industry	0.3	0.2	0.2	185.4
	Construction	5.6	2.6	3.0	213.0
	Commerce	0.0	0.5	0.3	0.0
	Services	0.1	0.1	0.1	113.8
	Total	0.2	0.2	0.2	114.1
<b>Large informal</b>	Industry	4.3	4.6	4.6	93.0
	Construction	0.0	25.0	20.0	0.0
	Commerce	5.1	6.4	6.1	79.9
	Services	1.1	2.6	2.1	43.7
	Total	2.4	3.9	3.3	62.8
<b>Small informal</b>	Industry	9.7	6.0	7.4	162.1
	Construction		7.7	7.7	0.0
	Commerce	12.3	9.6	11.3	127.7
	Services	5.2	7.8	6.8	66.4
	Total	8.9	7.6	8.3	116.8

Source: 2012 EEFI (INS 2012c)

The multiple job-holding rate is higher among women than men in the formal sector (114.1%) and in the small informal sector (116.8%), but it is considerably lower in the large informal sector (62.8%). It is much higher in industry, with 185.4% for the formal sector and 162.1% for the small informal sector. This could be reflective of a seasonal effect, since women are often involved in agricultural and food product processing activities, which are subject to strong seasonal swings. A high multiple job-holding rate is a sign of insufficient income from the primary activity.

These findings show the importance of analyzing the data on remuneration, particularly wages. Tables 12.19 and 12.20 (and related figures) show that the gender disparity is very strong in the small informal sector (the average female wage is only 73.9% of that of men), especially in industry (72.3%).

Overall, the parity index is above 100% in the formal sector (105.1%) and the large informal sector (106%), but this hides very large disparities. In the formal sector, women are better paid than men in industry (110.6%) and especially in non-commerce services (135.8%), whereas the opposite is true in commerce (75.8%).

**Table 12.19**

Average employee remuneration in the last month by gender, sector, and firm status

<i>Firm Status</i>	<i>Sector</i>	<i>Women</i>	<i>Men</i>	<i>Both sexes</i>	<i>Parity index (percent)</i>
<b>Formal</b>	Industry	271	245	252	110.6
	Construction	80	193	173	41.4
	Commerce	207	273	256	75.8
	Services	498	366	400	135.8
	Total	299	285	288	105.1
<b>Large informal</b>	Industry	58	69	66	84.0
	Construction	80	—	80	—
	Commerce	109	150	138	72.7
	Services	3,572	8,586	5,474	41.6
	Total	1,754	1,654	1,693	106.0
<b>Small informal</b>	Industry	45	62	61	72.3
	Construction	—	91	91	—
	Commerce	65	47	49	138.1
	Services	38	45	41	83.6
	Total	43	58	54	73.9

Source: 2012 EEFI (INS 2012c)

**Table 12.20**

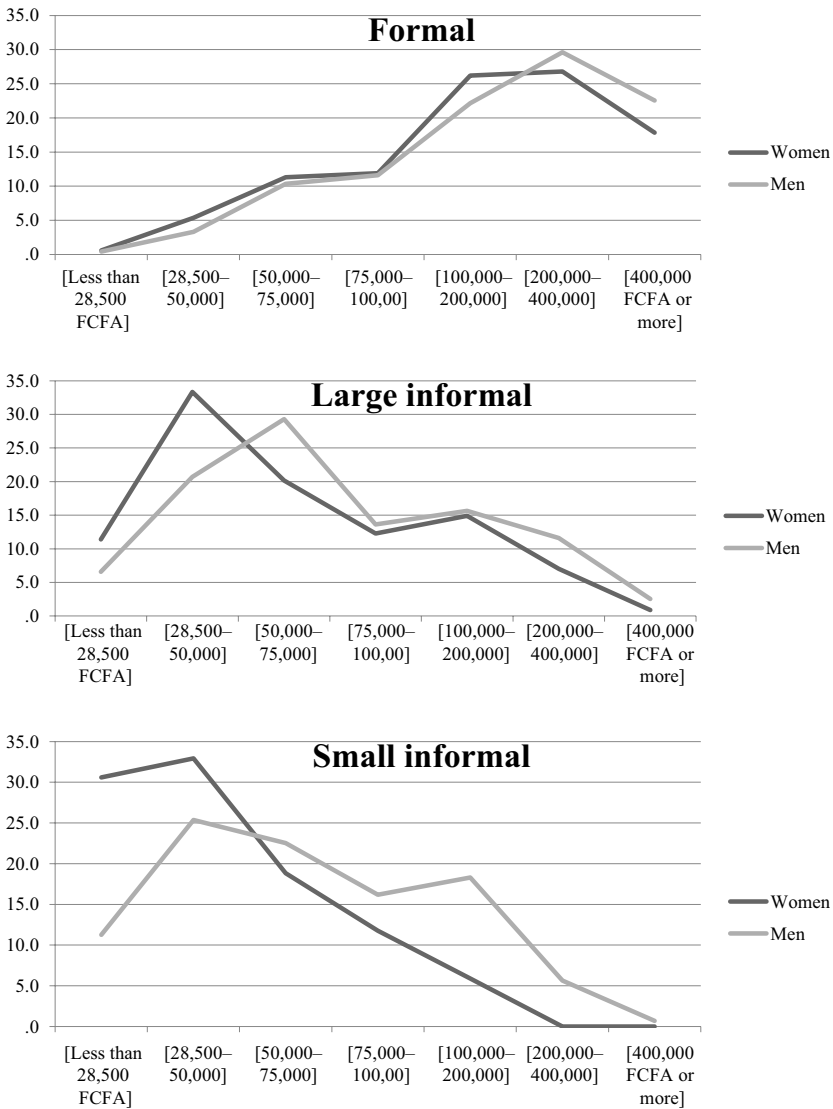
Breakdown of workers by wage bracket, gender, and firm status (percent)

<i>Firm Status</i>	<i>Wage bracket</i>	<i>Women</i>	<i>Men</i>
<b>Formal</b>	Less than FCFA 28,500	0.6	0.4
	[28,500–50,000]	5.4	3.3
	[50,000–75,000]	11.3	10.4
	[75,000–100,000]	11.9	11.6
	[100,000–200,000]	26.2	22.2
	[200,000–400,000]	26.8	29.6
	FCFA 400 000 and +	17.9	22.6
<b>Large informal</b>	Less than FCFA 28,500	11.4	6.6
	[28,500–50,000]	33.3	20.7
	[50,000–75,000]	20.2	29.3
	[75,000–100,000]	12.3	13.6
	[100,000–200,000]	14.9	15.7
	[200,000–400,000]	7.0	11.6
	CFA 400,000 and +	0.9	2.5
<b>Small informal</b>	Less than FCFA 28,500	30.6	11.3
	[28,500–50,000]	32.9	25.4
	[50,000–75,000]	18.8	22.5
	[75,000–100,000]	11.8	16.2
	[100,000–200,000]	5.9	18.3
	[200,000–400,000]	0.0	5.6
	FCFA 400,000 and +	0.0	0.7

Source: 2012 EEFI (INS 2012c)

In the large informal sector, the disparities are even more glaring: remuneration is 62 times higher in services than in industry for women, and more than 88 times higher for men. In services, where remuneration is highest, women's average wage is only 41.6% of men's average wage, while disparities are lower in industry, where remuneration is lowest (84% in industry and 72.7% in commerce). It is the distribution of female employment between industries that falsely makes it appear that women do not suffer from wage disparity in the large informal sector.

The breakdown of employees by wage bracket (Table 12.20 and related figures) shows very different breakdowns by gender depending on the sector. While the formal sector has slightly more women in the lowest wage brackets, the number decreases in the two highest brackets, where the curves intersect to the detriment of women and where the



**Figure 12.4**  
 Breakdown of workers by wage bracket, gender, and firm status (percent)  
 Source: Table 12.20 above

numbers are highest for both sexes. In the large informal sector, however, the highest numbers are observed in the second bracket for women (with considerably more women than men in this bracket) and in the third bracket for men (with considerably more men than women in this bracket). In all higher brackets, there are more men than women.

The pattern is similar in the small informal sector: there are far more women than men in the first two wage brackets, with those numbers decreasing considerably in higher brackets. This is reflective of an uneven distribution among industries, with women concentrated in the lowest-paying activities.

## Conclusion

From a gender perspective, the Cameroonian labour market is around the African average, with a relatively high female labour force participation rate and high gender gaps in unemployment and underemployment rates. The country is near the top of the African average and even of the Western and Central African averages (which are the highest in the world) in terms of informality, and the prevalence of informality is more important for women than men. In-depth gender analysis of the Cameroonian labour market is thus of utmost importance.

Although they provide disaggregated results by gender, Cameroon's major household surveys are not a good tool for gender analysis in the labour market, as only a handful of variables can be analyzed from the survey results. In addition, changing definitions of the labour force in terms of minimum age complicate the analysis. A harmonized analysis of data is necessary, especially of data collected in the past decade. A more disaggregated analysis of the EEFI survey nevertheless reveals extremely high female participation rates, multiple job-holding rates, and resulting high underemployment rates. This underemployment, whether voluntary or not, points to the burden of domestic duties, which seem to be very unequally divided between women and men.

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While the duality of African economies is well recognized in economic literature, only a few comprehensive studies have examined the formal and informal economies using the same instruments. The research presented in this book uses a unique dataset carefully collected on both formal and informal firms, and an analytical approach based on a continuum of formality/informality characteristics, to analyze both private entrepreneurship and employment. Focusing on Francophone Africa, with particular emphasis on Benin, Burkina Faso, Cameroon, Gabon, and Senegal, the book also includes comparisons with other countries in Africa and in developing regions. The formal economy is shaped by institutions largely determined by their French colonial legacy, reflected in traits such as stringent labour market regulation. This, coupled with weak governance and high factor costs, prevents firms from growing and, thereby, incentivizes informality. Meanwhile, the informal sector is the major source of income and employment, typically accounting for about half of aggregate output and 90 percent of employment. Informal firms embody traditional economic practices, nurtured by deeply entrenched customs and well-established kinship networks, often spanning national borders. The book sheds light on some important and previously understudied aspects of the sector, using case studies, surveys and original data, and interviews. It also makes well targeted policy recommendations, taking into account firm heterogeneity and differentiated responses to various policy stimuli.

This book is recommended for undergraduate and graduate students studying economic development in Africa, and economics researchers at universities and think tanks.

#### **About the editors**

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*This book makes a novel and significant contribution to the understanding of informality in Africa. It generates a unique dataset on the wide spectrum of formal/informal firms to understand how the two sets of firms cooperate or compete in various value chains and how this interaction shapes jobs and productivity. It also explores the barriers to firm growth and recommends compelling policy options to address them.*

— Brahima Coulibaly, Vice President of Global Economy and Development, Brookings Institution

*This book is an important contribution to the economic literature on the informal economy. It provides a nice peek inside the black box of the informal firms in Francophone Africa and their complex interactions with formal firms. It spotlights 'large' informal firms thriving in a weak institutional and governance environment, especially in resource-rich countries. A must read for every policymaker, specialist, and student of development worldwide.*

— Albert G. Zeufack, Chief Economist for Africa, The World Bank



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