Hustle: A case for informal enterprise in the African Continental Free Trade Area

By:

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Introduction

In this blog, I continue discussing the broad understanding of informality while briefly touching on informal enterprise. And I hope to, simultaneously, point out a couple of proposed solutions to challenges of the informal economy in Africa. My very strong suggestion, though, is that African countries should embrace informality as a reality on the continent. That they should consider it inevitable and an intrinsic part of development, not a problem to be solved. Thus considered, informal enterprise and labor becomes a potent catalyst for Africa's transformation.

Highlighting some of the challenges of and related to the informal economy should provide the basis for continued discussion of informality on this blog and the relevance of the informal economy to the success of the African Continental

Free Trade Area (AfCFTA), transformation and development. The African Union (AU) and, specifically, member states and governments of the AU will have to face up to the problems that relate to and affect the informal economy as the 21st century unfolds and they implement the AfCFTA. Member states of the AU commendably make provisions, albeit very briefly, for informal enterprises and actors in Article 27.2.(d) of the AfCFTA Agreement. They say they

"agree, where possible, to mobilize resources, in collaboration with development partners, and implement measures, in support of the domestic efforts of State Parties, with a view to, *inter alia*:

…improving the export capacity of both formal and informal service suppliers, with particular attention to micro, small and medium size; women and youth service suppliers…"

Ongoing misconceptions and conceptions of African informality

A couple of assumptions and observations about the informal economy in Africa are noteworthy. Modernization theory particularly considers informal enterprise a pre-modern activity. The contemporary academic literature, too, generally regards enterprises in the informal sector primitive and that the enterprises only received a new lease of life from globalization in the postmodern age. Structuralist, and a couple more other views, go on to say the informal sector is subordinated to the formal. The views assume that informal enterprises are functionally integrated into the global economic system through corporate capitalist entities. Those entities subcontract and outsource work to informal firms and/or workers. Thus, the informal economy is subservient to the formal in a binary hierarchical ranking. This argument leads to the view that informal firms could only become better if they were formalized. The formalization represents progress, as it would lead to desirable ends including, protecting workers, and incorporating them and informal economic firms into the formal or mainstream economy. This view also explains why the informal economy is somewhat stereotyped as a poor people's sector, where the poor seize opportunities such as surplus labor in the formal sector to earn incomes, sustain livelihoods and survive. The poor people are also said to work in precarious conditions without any alternative means of survival.

Of causes, sizes and necessity: The need to review the representation of African informality

But not all workers in or enterprises that operate in the informal economy work there because they have no other economic activities and alternatives available to them. Informal enterprise in particular is driven by much more than lack of alternatives, or poverty, or the need to survive or make ends meet. Some people want flexibility, independence and the satisfaction that comes with being independent. Others want the freedom to run their own businesses, and yet others desire to choose when to work and how to apply their creative skills.

Admittedly, a large proportion of economically active people in Africa operate in the informal economy as entrepreneurs or workers. They also include both males and females, although the sector is highly gendered. Further, informal enterprises and workers are also to be found in both urban and rural areas. This all confirms the fact that informal work and enterprise in Africa is extensive. Not only so, it is growing. The informal economy and informal enterprise are, therefore, not a disappearing residue of older modes of production, as theoretical postulations would have it.

In the 21st century, this extensive, persistent and growing sector is rather an outcome of a deregulated global economy. It is precipitated by liberalization, which is economically disruptive. This is insofar as liberalization promotes the restructuring of firms, state owned entities and government bureaucracies, and the consequent retrenchment of workers and casualization of labor.

The character of the informal economy and some of its causes raises questions about the way in which it is defined in some circles. The Organization for Economic Co-operation and Development (OECD), for example, defines informal enterprises as

“all illegal activities that are deliberately concealed from public authorities for the following kinds of reasons: to avoid payment of income, value added or other taxes; to avoid payment of social security contributions; to avoid having to meet certain legal standards such as minimum wages, maximum hours, safety or health standards, etc.”

From a realistic and African perspective, the first image of an informal enterprise or worker that comes to mind after considering this definition is that of the over 100 Ghanaian women who participate in artisanal mining production chain. Besides lack of employment, some venture in the enterprise because their husbands neglected them, had lost their parents at a young age, had siblings to look after or their husbands had been retrenched from large formal firms. What is odd with the OECD definition, when juxtaposed with the experiences of the female Ghanaian artisanal mining entrepreneurs and workers, is that none of the "kinds of reasons" cited in the OECD definition fit their motivations for engaging in informal enterprise, or the way in which they perceive their activities. The Zambian government seems to have come to this realization, as its mining investment arm—ZCCM Investments Holdings Plc (ZCCM-IH)—has launched the purchase of gold from artisanal and small-scale miners. The idea, of course, is to eventually formalize the sector.

Non-compliant but compliant: The African informality paradox

Some paid informal work is actually legitimate in every sense, save for the fact that it is unregistered. Because it is unregistered, the state cannot capture the work for social security benefits and taxation. Still, informal entrepreneurs run startups or established businesses whose work is paid but undeclared and does not, therefore, pay some taxes or provide any social security. Such outfits should be distinguished from 'informal' economic undertakings that besides the stated qualifiers of informality, include additional features such as the production or distribution of illegal or banned substances such as hard narcotic drugs, or engage in human trafficking and human smuggling in order to exploit victims through forced labor, illicit sex, drug trafficking, etc. This latter form of activity is outrightly illegal, and deliberately so.

But informality does still raise legitimacy issues from a sociological perspective. This concern goes beyond legality and speaks to conformity with laid down laws and regulations in a given territory. That is, what is law in one country may not necessarily be in another. Cannabis or its legal use is a good case in point. Lesotho has, for example, legalized regulated production for medicinal purposes. But if a Sotho trader were to enter, say, Zambia—a member state, with Lesotho, of the Southern African Development Community (SADC)—with

even a byproduct of cannabis that meets legal standards (having had traces of the intoxicating elements removed), they would be arrested. Legitimacy, however, speaks to the desirability and appropriateness of an entity or actors' actions within a territorial space founded on a system of values, norms and beliefs, etc.

To leave and let live: Informality for whose benefit?

My interest based on the forgoing is clearly on informal outfits that, irrespective of economic and productive size, or number of people involved, produce services or goods that are legal. However, the entities are not registered as per government procedure or requirement. But they produce, supply and derive income from goods and services that are legal.

Such enterprises and work consists an estimated 50 percent to 80 percent of gross domestic product (GDP) in developing countries. In monetary terms, they averaged about $70 billion for a selected 22 African countries around the year 2000. Such informal firms play a significant role in Africa and the respective economies of AU member states.

The International Labor Organization (ILO) in 2002 actually realized that the informal economy is an incubator for business. This was besides the observation that informal entrepreneurs had real business acumen. In this fashion, the informal economy constitutes a seedbed and nursery for enterprise, both informal and formal. Some successful business enterprises start out as informal outfits and graduate into the formal sector. Informal enterprises contribute to development in their present state (by providing jobs, incomes and livelihoods) and also potentially—i.e., those that become successful formal enterprises.

The take-away message from this for policy makers in Africa is not to suppress or eliminate informal enterprises. Doing so stifles innovation and kills the entrepreneurial spirit. Rather let the cobblers; carpenters; welders; metal workers; mechanics; food processors; repairers of watches, home appliances and cars; masons; as well as childminders; guards; hairdressers and beauticians; and caterers and restaurateurs run their businesses.

And because the downside of operating informally for most of such firms in Africa is commonly the limitation imposed by the inability to get finance from banks to grow their businesses—because they are legally non-existent; because informal enterprises source finance through informal channels; and because although this works for them, but is insufficient to significantly boost their businesses; state authorities should create avenues through which to support these important contributors to Africa's economy.

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