

WIEGO Think Piece on African Informal Economies

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Deciphering African Informal Economies

Introduction:

The study of African informal economies has undergone yet another about-face in attitudes to informality. Associated with poverty and marginality in the 1970s and 1980s (ILO 1972), as a seedbed of entrepreneurship in the 1990s (MacGaffey 1991), and as a source of criminality and corruption from the late 1990s into the first decade of the new millennium (Bayart et al. 1999), African informal economies have once more been re-branded as a new frontier of growth and innovation (Daniels 2010). In the era of 'Africa Rising', Africa informal economies are widely touted as a fount of entrepreneurial dynamism, and as a source of workers and new consumer markets capable of driving ongoing economic growth. What is noteworthy in this panoply of representations of Africa informal economies is not just how often the characterization and attendant policy advice shifts, but the tendency to shift from one blanket representation of African informal economies to another, without ever focusing on the possibility of differences among African informal economies within the region, except for the conventional division between Sub-Saharan and North Africa (Meagher 2014). I will confine my comments here to Sub-Saharan Africa.

Size Matters

The tendency toward homogeneous representations of informality in Sub-Saharan Africa seems to have been reinforced by the rise of statistical information on informality, even though it is increasingly available at the country level. Sub-Saharan Africa remains the most informalized region in the world, with informality measured at nearly three-quarters of the non-agricultural labour force.¹ Because African informal economies are generally quite large, little attention has been paid to the significant variations in the size of informal economies within the region. While many West African countries have exceptionally large informal economies, in the range of 70-90% of non-agricultural workers, Southern African countries tend to have much smaller informal economies, in the range of 20-40 % of the non-agricultural labour force.

Thandika Mkandawire (2010) has recently drawn attention to these differences in the size of African informal economies, and to the role of the state in this variation. While others have analysed why South Africa has a relatively small informal economy, Mkandawire explains historically why not only South Africa, but a range of Southern African countries and some East African countries such as Kenya, have noticeably smaller informal economies than are found in other parts of Africa. He traces to the differential capacities and economic objectives of colonial states in cash crop and labour reserve economies. This reinforces the recognition that informal economies are not

¹ Although ILO figures in 2013 indicated that Sub-Saharan Africa had fallen to the second most informalized region, this was based on a failure to recognize a bias toward the smaller informal economies in Southern Africa. Recent figures to be released in 2017 restore Sub-Saharan Africa to its position as the most informalized region.

something that emerges purely outside the state, but that the state shapes the nature of informal economies.

Making African Informal Economies Legible

While some attention is now being paid to variations in size, less attention has been paid to differences in local informal institutions that create additional variations between of African informal economies. To be sure, there has been a growing interest in the internal regulatory character of African informal economies since the early 1990s. As Julia Elyachar (2005:73) explains, where vast areas of urban enterprise and national resource flows take place completely outside the control of the state, 'informality has become too central ... to be relegated to the sphere of negative phenomena – 'the "not formal"'. This recognition invites a closer look at the informal institutional systems that shape how informal economies are regulated. Particularly in many African countries, where the informal economy is such a significant force, understanding its implications for economic change requires a focus on the actual institutional processes at play, rather than simply assuming how informal economies work on the basis of ideological assumptions and pattern variables. As Keith Hart (2006:33) observed, 'We need to know...what social forms have emerged to organize the informal economy' and to 'examine the institutional particulars sustaining whatever takes place beyond the law'.

Growing interest in the regulatory capacities of informal institutions within African informal economies has cast new light on informality as something with its own modes of organization. The 'new institutionalist turn' has motivated economists and political scientists to take a closer look at the regulatory systems operating within African informal economies, leading to the recognition that the informal economy is not 'unorganized' or criminal by definition, but involves a cornucopia of trading networks, credit systems, and institutions of labour control that seem to operate outside the regulatory ambit of the state. Management research grounded in the Bottom of the Pyramid (BoP) approach, and corporate desire to penetrate new markets in emerging economies have also generated growing interest in the institutional organization of informal economic activities. This has been accompanied by a new emphasis on making African informal spaces and economic activities 'legible' to large scale capital, not by rationalizing and formalizing them, but by deciphering their inner workings. BoP specialists Stuart Hart and Ted London (2005) insist on the need to for business investors to develop 'native capability' in order to engage more effectively with local informal markets and workers. This has been accompanied by a wider 'inclusive turn' in international development thinking, in which engagement with informal actors and greater inclusion in processes of economic growth are the order of the day.

Informal Economic Inclusion in Whose Interest?

Despite the apparently benign focus on inclusion, efforts to grasp the logic of informal organization often disguise more interventionist goals. Engagement with the internal organization of informal economies is grounded in a tendency to regard them as a pool of workers and institutions that can be tapped to facilitate access to informal markets. The focus on making informal economies legible to capital is not just about learning to understand and engage with their needs; it is about engaging with those aspects of informal labour or collective action institutions that are useful for reducing costs and facilitating access to vast informal consumer markets. A business emphasis on non-traditional partnerships with informal actors is often used to reduce the transaction costs of

distribution systems in slums and rural areas by allowing multinational partners to benefit from local entrepreneurs' commercial skills, entrepreneurial instincts, and deep knowledge of the local environment.

Treated as a pool of informal labour and resources, inclusive engagement with African informal economies tends to involve forms of interaction that are highly selective. Efforts to make informal economies legible allows useful informal workers and informal institutions to be identified and 'included', while unusable informal actors and institutions are further marginalized, and even criminalized. In the process, informal economic inclusion is turned into an exercise in restructuring and governing African informal economies in line with the needs of global markets. As Dolan and Roll (2013) and others explain, building inclusive markets involves 'working' informal economic spaces – classifying, restructuring and managing informal economic systems to meet the needs of global business. These 'techniques of governance' serve to reformat informal economic systems and value chains in ways that privilege the reduction of formal sector costs and the increase of formal sector control, while preserving the 'advantages' of low cost informal employment. Instead of addressing informality as a condition of vulnerability, it is viewed as an array of labour and institutional resources to be harnessed rather than transformed.

As a result, deeper ethnographic attention to the organization of African informal economies has done little to dispel the essentialist perspectives on African informality. Viewed as an assortment of organizational resources, African informal economies are differentiated only in terms of useful and unuseful types of enterprises, workers and institutions – that is, those that are useful or useless to global capital. All African informal economies tend to be looked at in the same way, as international business and development actors scan them for institutional and labour resources that can help to penetrate African markets. Attention is focused on the micro-end of informal economic value chains, while larger informal enterprises such as informal wholesalers or remittance systems are denigrated as exploiters or 'rapacious middlemen', cutting out the very nodes of accumulation through which micro-entrepreneurs improve their livelihoods and move out of poverty. Efforts to cut out avenues of accumulation within the informal economy have been accompanied by an emphasis on minimalist social protection for informal workers and micro-producers. The risk of this approach is that supporting the micro-end of the informal economy with social protection doesn't reverse the expansion of informality; it just makes it more sustainable (Ferguson 2007). While James Ferguson (2015) now suggests in his recent book that using social protection to sustain informality is a good thing, he has done so by suggesting that African informal economies are disconnected from global capital, failing to recognize the numerous ways in which they are increasingly linked to and shaped by the wider capitalist system. There is also an ongoing unwillingness to see African informal economies as systems in their own right rather than merely collections of institutional resources and workers that can be engaged or marginalized at will.

Varieties of African Informal Economies

What has been missing from the emphasis on the legibility of African informal economies is a clear focus on informal economies as systems, rather than as pools of institutional resources and labour to be plundered at will. How do informal regulatory systems differ among various African countries? There is little recognition of the possibility that differences in history, colonial states, post-independence governments, and the nature of engagement with the global economy might have shaped African informal economies differently. Have strong informal entrepreneurial systems been allowed to persist in some countries and crushed in others? Are trading networks or migrant labour

systems the dominant form of informal labour organization? Is informality more strongly associated with poverty or criminality in some countries than in others? Are the policy needs of informal actors different in different contexts? Do some need preferential credit more than social protection, and are there variations in regulatory inputs needed from the state? Should policy approaches to informality be more responsive to these variations? Does social protection promote or distract from social and economic transformation? Should we be focusing more on typologies of informal economies, and building up policy advocacy on the basis of the needs of particular sorts of informal economies?

There is a need look at African informal economies from the perspective of economic systems, which are shaped by their interaction with the state, but also by historical, institutional and economic differences as well as by distinctive forms of engagement with the global economy. More attention is needed to how differences in pre-colonial economic organization have created complex informal business systems in some parts of Africa which are absent in others. Mkandawire (2010) has shown how different types of colonial states gave free reign to informal business networks in former cash crop economies concentrated in West Africa, while smashing and criminalizing them in former labour reserve economies located predominantly in Southern Africa, and fostering violent modes of informal labour organization and control in former concession economies of Central Africa. Differences in the post-colonial state have created a new layer of variation, as some states focused on developing manufacturing industries, others focused on liberal import-export regimes, and still others suffered prolonged periods of war. Distinctive patterns of smuggling networks, informal manufacturing clusters, migrant labour and criminal gangs emerged from these varied forms of interface between contemporary informal economies and the state. Engagement with the global economy has also contributed to variations among African informal economies. Bureaucratically effective states, weak entrepreneurial capacities and large pools of informal labour have facilitated engagement with global value chains and BoP initiatives. More bureaucratically lackadaisical states and higher levels of informal entrepreneurship have created challenges for the global penetration of global value chains, but have also been associated with a higher incidence of informal economic networks penetrating into the global economy in a form of 'globalization from below'.

While this suggests a high degree of complexity, it can also lead to the identification of patterns of informal economic organization. How the state relates to the informal economy must necessarily be different in different contexts. In some cases, where informal economies have developed strong entrepreneurial systems, state support may be constructive. Where informal economies consist largely of networks of vulnerable labour, very different kinds of support may be needed, and facilitating the inclusion of informal labour in wider formal systems expand rather than address the root causes of vulnerability. Where informal economic systems involve a high degree of criminality and coercion, plans for informal economic inclusion seem ill-conceived.

Concluding Thoughts

This think piece reflects on the need to pay more attention to the fact that African informal economies have developed in very different ways. While informal economies in some African countries offer constructive possibilities for the development of a locally embedded and dynamic private sector, others are fostering development trajectories of intensifying economic exclusion, vulnerability and poverty. In the current era of jobless growth, labour informalization and corporate linkages across the formal-informal divide, a progressive developmental project requires an informed engagement with the divergent regulatory tendencies of Africa's informal economies. This

demands similar variation in policy thinking about how informal economies relate to the state. I offer three suggestions to facilitate a more differentiated approach to these issues.

The first is to move beyond essentialist perspectives on economic informality, generally, and within the African context in particular. African informal economies do not represent a single regulatory logic of non-state organization, based either on markets or on broad cultural stereotypes. On the contrary, distinctive historical patterns have led to the prevalence of very different regulatory logics in informal economies in different African societies, shaped as much by varied experiences of the state and forms of global integration as by cultural and institutional logics. Where former cash crop economies, largely in West Africa, are endowed with efficient commercial institutions of credit, apprenticeship, warehousing and ethno-religiously embedded governance arrangements, few of such institutions have survived in former labour reserve or concession economies in Southern or Central Africa. These have instead inherited more top-down systems of coercive labour control embedded in the formal as well as the informal economy. These distinctive informal regulatory logics have varied effects on contemporary governance and development prospects, ranging from resilient entrepreneurial systems across many parts of West Africa, to systems of vulnerable employment in much of East and Southern Africa, shading into economies of unfree labour in parts of Central Africa.

A second suggestion is that a more historical approach to economic informality can help to identify how positive as well as negative informal economic trajectories emerge. Deciphering these institutional trajectories requires reconnecting them with the specific institutional and political histories that have shaped informal institutional repertoires in the pre-colonial, colonial, and post-colonial periods. Grounding contemporary informal economic organization in a richer pre-colonial and colonial institutional context offers new possibilities not only for deciphering old patterns, but for recognizing historical continuities in the incorporation of informal economies into contemporary processes of capitalist development. Processes of liberalization and globalization have unleashed informal entrepreneurship in many former cash crop economies which continue to expand markets while confounding capitalist discipline. Conversely, former labour reserve economies have given rise to 21st century labour reserve economies with limited capacity for entrepreneurship, and former concession economies tend toward more brutal systems of unfree labour in which market forces foster coercive systems of informal labour control. It is important to note that the state and the global economy are as central to the development of these varied outcomes as are indigenous institutions, given the important role of the state and international corporate actors in selectively promoting, suppressing, or hijacking socially embedded economic arrangements (Meagher 2014).

Finally, a more comparative, historical approach to the analysis of contemporary informality may offer the possibility for more constructive and appropriate policy engagement with African informal economies. This contrasts with contemporary approaches to informal economic governance in Africa, dominated by the delegitimization and suppression of informal economic institutions by state officials and academic modernizers, while global corporations and a growing number of international development organizations encourage engagement with any informal institutional arrangements that help to serve business and service provision objectives. Inclusive arrangements being promoted through BoP initiatives and donor experiments with hybrid governance should be treated with caution. More questions need to be raised about agendas for informal economic inclusion. Inclusion of informal actors in whose interest, and on what terms? Does the state play a key role in developing agendas for informal economic inclusion, or are African states simply being called in to implement agendas developed elsewhere? It matters whether informal economies of entrepreneurship, vulnerable employment or unfree labour are being embedded in the formal

economy, and whether these informal arrangements are being harnessed in the interest of global capital, political expediency, or local economic transformation.

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