

The Informal Sector in Francophone Africa

Firm Size, Productivity, and Institutions

Nancy Benjamin and Ahmadou Aly Mbaye

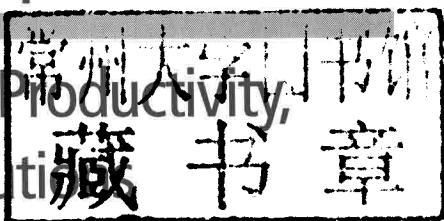
with Ibrahima Thione Diop, Stephen S. Golub,
Dominique Haughton, and Birahim Bouna Niang



THE WORLD BANK

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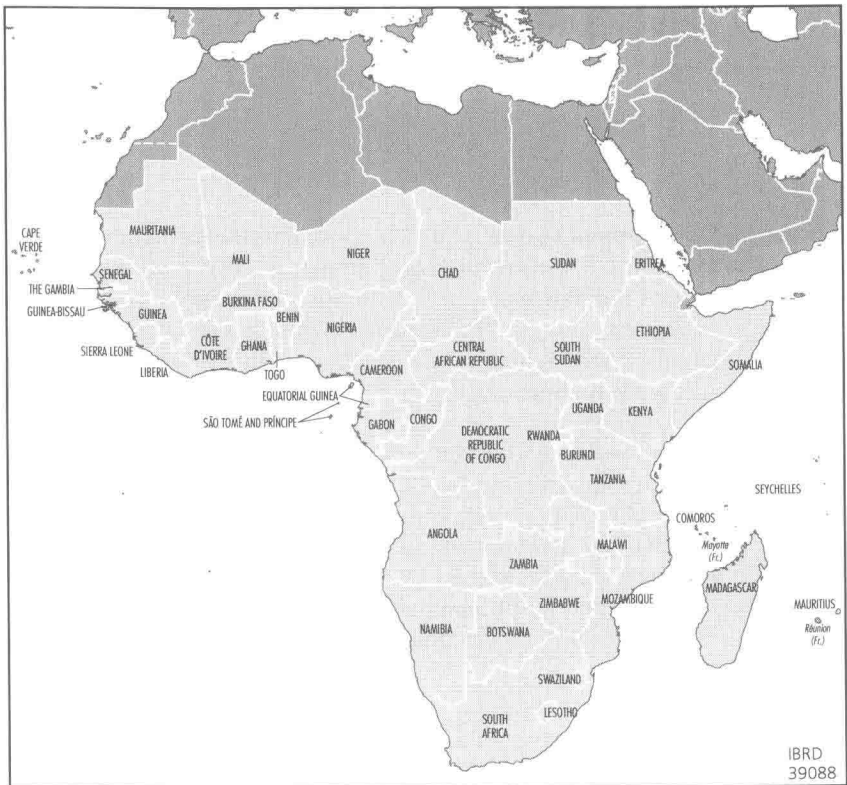
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Foreword

As Africa grows and modernizes, it is crucial to understand how to better translate these positive trends into poverty reduction through productive employment, especially for the 7–10 million young people entering the labor force every year.

Until now, there have been few systematic studies on the informal sector, despite the fact that most Africans work there, and it clearly plays a central role in shaping the continent's growth and social inclusion outlook.

This book is a major step towards improving the understanding of the complex reality of informal sector firms in francophone West Africa. It innovates by concentrating on informal *firms* rather than informal *employment* (as other studies do), and identifying “large informal” sector firms whose sales rival those of large formal-sector firms but operate in ways that are similar to small informal operators. Not only is the regulatory environment facing these two types of informal firms distinct, but policies aimed at improving their productivity need to be differentiated.

The study also breaks new ground with an eclectic methodology and primary data collection. Quantitative and qualitative firm-level data were collected involving a unique and fruitful collaboration among academic researchers, government officials, the West African Economic and Monetary Union Commission, informal and formal sector business associations, and labor unions.

The result is a comprehensive study of the multiple facets of the informal sector—its economic significance, the socio-demographic characteristics of managers and employees, the sector distribution, relationship with government, sources of financing, firm-level productivity, social networks, and the role of culture.

In identifying ways of improving the productivity of informal firms, the book identifies institutional and governance weaknesses, but also highlights social and cultural hurdles to formalization.

This book is not only a window into the workings of the informal sector in West Africa; it is a contribution to understanding how to raise the productivity of these workers. As such, it is more than a compendium of information: it is a useful tool for those who work for an Africa free of poverty.

Makhtar Diop
Vice President
Africa Region
The World Bank

Preface

The informal sector in Africa is poorly understood, having received less systematic attention than the informal sector in other developing countries, particularly in Latin America. In particular, a crucial but little studied characteristic of the informal sector in Africa is the coexistence of large and small informal operators. Usually, the term informal sector connotes very small and precarious firms. While such firms are indeed prevalent in Africa, there are also very large informal firms and powerful ethnic and religious informal networks linking large and small enterprises. One of the main objectives of this work is to provide a detailed understanding of the phenomenon of the informal sector in West Africa through case studies in three countries: Benin, Burkina Faso, and Senegal.

This volume represents the culmination of a long collaboration between the Centre de Recherches Economiques Appliquées (CREA) at the University Cheikh Anta Diop of Dakar and the World Bank. In early 2007, the CREA and the World Bank's Research Department agreed to develop and fund a research proposal developed by Ahmadou Aly Mbaye, then director of the CREA and now dean of the School of Economics and Management at Cheikh Anta Diop University, and Nancy Benjamin, at that time the Senegal economist at the World Bank. For the Bank, this study was the logical continuation of a Country Economic Memorandum on Senegal, drafted and coordinated by Ms. Benjamin, that strongly recommended follow-up investigations of the informal sector as crucial to understanding the business environment in Senegal and West Africa. The CREA has extensive experience with fieldwork in Senegal and other countries of the region.

Most previous economic studies on the informal sector in Africa have focused on the labor market, households, and employment, premised on the idea that informal enterprises are small and household based. Our approach instead centers on surveys of urban enterprises. There are several reasons for this approach. First, we are interested in the role of the business climate and the

institutional environment in fostering the informal sector, a topic that is largely outside the purview of previous studies. Second, previous studies have used somewhat different concepts of informality, making cross-country comparisons problematic. Third, previous studies have ignored the role of large informal firms—what we call the “large informal” sector.

Our sampling strategy ensured coverage of the small informal, large informal, and formal sectors. We used data from a variety of sources, including surveys of 300 firms in each of the three countries, less structured interviews with a subset of large informal firms and government officials, as well as various knowledgeable people, and secondary information from the national accounts and other sources. Our results and analysis shed light on multiple facets of the informal sector, including sociodemographic characteristics of actors, the impact of the informal sector on tax collections, the effects of the business climate, the productivity of firms, and more.

The on-site fieldwork involved a unique and fruitful collaboration among academic researchers, government officials in the countries concerned, the West African Economic and Monetary Union (WAEMU) Commission, business associations in the formal and informal sectors, and unions. These individuals and institutions were invaluable sources of information, and without their assistance, gathering the data for this study would have been impossible. We would like to take this opportunity to offer them our deepest gratitude for contributing to our study by obliging our continuing requests for data and explanations. Particular thanks are due to the Department of Tax Policy, Trade, and Customs and the Department of Economic Policy in the WAEMU Commission at that time. Indeed, the WAEMU Commission always dispatched officials to accompany and assist us during meetings with national government agencies and private sector organizations. It also assisted us in obtaining quantitative data, official documents, and reports of all sorts and played a key role in sessions to disseminate the results of this study in Benin, Burkina Faso, and Senegal. We would like to express our deep gratitude to the president of the WAEMU Commission at the time, Soumaila Cissé; commissioners at that time Pape Abdou Sakho and Joseph Marie Dabiré; and their respective chiefs of staff, notably Serigne Mbacké Sougou; as well as the various department heads.

We would also like to thank the governments of the three countries for their generosity in providing data as well as their willingness to speak openly with the team leaders of the study. Officials from customs, tax departments, ministries of commerce, and various informal sector support organizations in the three countries were unfailingly generous and helpful. The national statistical services in the three countries also assisted in sampling and data collection. Their vast expertise and experience in this field have been very useful, and we sincerely thank the Ministry of Sustainable Development, Finance, and Commerce, to which these services are attached in the case of Benin. We would like

to particularly express our gratitude to Mr. Antonin Dossou, Chief of Cabinet of the Ministry for Sustainable Development in Benin at that time, for his personal involvement in our project throughout all stages of the process.

This study was implemented with the assistance of the economic research centers of three major universities in each of the three countries: the University of Abomey-Calavi in Benin, the University of Ouagadougou in Burkina Faso, and the University Cheikh Anta Diop in Dakar. These three teams, respectively, were led by professors Fulbert Gero Amoussouga, Kimsey Savadogo, and Ahmadou Aly Mbaye. The researchers and investigators (more than 100) who carried out the fieldwork are too numerous to be thanked individually. However, we would like to take this opportunity to single out and thank Fatou Guèye, Adama Guèye, Léon Akpo, Allé Nar Diop, Bamba Diop, Mbacké Ba, Lassana Cissokho, Sophie Pascaline Faye, and Alain Akanni in Dakar; Michel Soede, Jean-Claude Kaka, Damien Agbodji, and the many other team members in Benin; and Bamory Ouatarara, Namaro Yago, Aladari Traoré, and other team members in Burkina Faso. Ndèye Amy Diallo and Germaine Mendes Diaw administratively managed the grant for the CREA side.

Ahmadou Aly Mbaye and Nancy Benjamin were responsible for coordinating all stages of this study, with substantial contributions from other members of the coordinating team in the drafting and editing of certain chapters. These other members of the coordination team are Stephen Golub (Swarthmore College), Dominique Haughton (Bentley University), and Birahim Bouna Niang and Ibrahima Thione Diop (CREA). Ahmadou Aly Mbaye and Nancy Benjamin designed the questionnaire, carried out the sampling, and led the data collection process in the three cities. They were directly responsible for collecting qualitative data through interviews, with the support of Birahim Bouna Niang and Ibrahima Thione Diop. They are also the authors of all chapters in this volume (unless otherwise noted below) and led the dissemination process with government officials and various stakeholders in the three cities, as well as the WAEMU Commission. Stephen Golub is the author of chapters 8 and 9 on cross-border trade and the social networks of the informal sector in West Africa. He was also responsible for translating chapters 1–7 from French into English, with the help of four of his students, Arielle Bernhardt, Peter Davies, Dina Emam, and Zach Schmidt, and participated in the editing of the final document. Dominique Haughton gave advice on sampling strategy and is a coauthor of chapter 7 on productivity and the informal sector. Birahim Bouna Niang and Ibrahima Thione Diop are coauthors of chapter 6, on the institutional environment of the informal sector in West Africa. Ibrahima Thione Diop also codirected the second phase of the surveys carried out in the three countries.

In addition to funding from the World Bank Research Committee, this project received funding from the World Bank Africa Region funds as well as from the Luxemburg Poverty Reduction Partnership (LPRP) Trust Funds. The LPRP

was also instrumental in funding both extensive workshops to disseminate the main results in all three countries and in funding the final publication costs. In addition, support for publication and dissemination was provided by the Diagnostic Facility for Shared Growth Trust Fund. The Agence Française de Développement (AFD) also granted some resources to CREA to support field-work in the three capital cities.

Finally, we are very grateful to two anonymous referees, as well as to Stephen McGroarty, acquisition editor for this volume, for valuable comments and helpful assistance throughout the manuscript revision process.

Abbreviations

BCEAO	Central Bank of the West African States (Banque Centrale des Etats de l'Afrique de l'Ouest)
BNP	Banque Nationale de Paris (BNP)
CART	classification and regression tree
CET	common external tariff (<i>tariff extérieur commun</i>)
CFA	African Financial Community (Communauté Financière Africaine)
CFAF	CFA franc
CREA	Centre de Recherches Economiques Appliquées
DAG	directed acyclic graph
DGE	Division of Large Enterprises (Direction Générale des Entreprises)
DIAL	Développement, Institutions et Ajustement à Long Terme
ECOWAS	Economic Community of West African States
FCI	full conditional independence
GDP	gross domestic product
GIE	<i>groupements d'intérêts économiques</i>
HDI	Human Development Indicator (UNDP)
HIPC	Heavily Indebted Poor Countries
ICA	Investment Climate Assessment (World Bank)
ICT	information and communication technology
ILO	International Labour Organisation
IMF	International Monetary Fund
KSB	Keur Serigne Bi
LPRP	Luxembourg Poverty Reduction Partnership
OECD	Organisation for Economic Co-operation and Development

OHADA	Organization for the Harmonization of Business Law (Organisation pour l'Harmonisation du Droit des Affaires en Afrique)
OLS	ordinary least squares
ONATEL	Office National des Télécommunications
ROES	Rassemblement des Opérateurs Economiques du Sénégal
SAR	Special Administrative Region
SME	small and medium enterprises
SONABEL	Société National d'Electricité du Burkina
SONATEL	Société Nationale des Télécommunications
SOPAM	Société d'Outillage de Précision et d'Accessoires Mécaniques
TFP	total factor productivity
TIN	tax identification number
TUTR	road transport tax (<i>taxe unique sur le transport routier</i>)
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development
VAT	value added tax
WAEMU	West African Economic and Monetary Union

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