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**PROMOTING EMPLOYMENT GENERATION
POTENTIALS OF THE INFORMAL SECTOR:
EXPERIENCES FROM SOME AFRICAN
COUNTRIES**

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Table of Contents

Pages

I.	INTRODUCTION	1
II.	MAJOR PROBLEMS AND CONSTRAINTS LIMITING THE EFFECTIVE OPERATIONS OF INFORMAL SECTOR ENTERPRISES	3
	Constraints	6
	Impact of Regulations and Constraints	14
III.	SUPPORTIVE POLICY MEASURES FOR EMPLOYMENT PROMOTION IN THE INFORMAL SECTOR	17
	Recent Developments in Policy and Institutional Environment: Their Impact on the Informal Sector	18
	Proposed Policy Measures	22
	Specific Recommendations	24
IV.	OPERATIONAL MODALITIES	35
	Institutional Framework	46
V.	SUMMARY AND CONCLUSIONS	50

I. INTRODUCTION

1. Micro enterprises, commonly known as informal sector enterprises¹, constitute an important part of the African economies in terms of their contribution to gross domestic product (GDP), employment creation, skills development, production of goods and services and linkages with other sectors of the economy. Micro enterprises are playing an increasingly important role in Africa's development because of their growing potentials both in productive employment as well as income generation for a significant proportion of the African labour force. The increasing recognition of the employment generation potentials of the informal sector in Africa has been particularly notable since the early 1980s with the onslaught of the economic crisis and the implementation of structural adjustment programmes, which have given rise to increasing levels of unemployment and poverty due largely to retrenchment and cut back in the public sector, once the major employer of wage/salary earners in post-independent Africa. Faced with the low prospects of finding productive employment in the formal sector, increasing proportions of the labour force in urban and rural areas of many African countries are turning towards the informal sector for income-generating activities.

2. In the wake of the sluggish growth of modern sector employment and the increasing rate of urbanization of the continent, a high percentage of additional jobs in urban areas in the 1990s would have to come from informal sector enterprises. In the same vein, micro/informal sector enterprises would also continue to be the main source of employment and income, especially for women, in the light of the limited absorption capacity of the agricultural sector, where the majority of the economically active female labour force is absorbed. In view of the above realities and the growing labour force in the African region, a consensus has thus emerged that the development of the private sector, including the informal sector, is critical to achieving and sustaining African economic recovery and transformation. On the other hand, formal private sector in Africa is relatively underdeveloped, and in this regard micro enterprises can contribute significantly in the development of small-scale and medium-scale enterprises through their graduation into the latter. In this context, special attention needs to be directed towards the promotion and integration of the informal sector in African economies.

3. The main purpose of this technical publication is to propose policies and strategies that would enhance the employment creation potentials of the informal sector in Africa. In this regard, providing and improving upon an enabling environment by removing the major problems and constraints could assist in the more efficient functioning of the sector. Therefore, this study purports to examine and make recommendations on the main elements and

¹ The terms "micro enterprises" "informal enterprises" and the "informal sector" in this study are synonymous. Therefore, reference to one term may be treated as that to the others.

policies constituting an enabling environment for the promotion and development of the informal sector. The underlying contention of the argument is that the provision of an enabling environment for the development of the informal sector would facilitate and encourage: (i) the emergence and establishment of new micro enterprises; (ii) the expansion and growth of existing micro enterprises into small- and medium-scale enterprises; (iii) increase in productivity of existing and new enterprises; and (iv) promote and strengthen linkages with other sectors of the economy. All of these possibilities could contribute to creating and enhancing employment and income generation, thereby improving the welfare of the people.

4. The term informal sector in this study refers to very small/ micro enterprises -- home-based or individual -- employing very few people (up to 5 including the owner-manger), utilizing very little capital, employing low level of technology and entrepreneurial and managerial skills. Such enterprises are generally owned and managed by entrepreneurs who work in them, and have only limited access to productive resources, including markets. In the context of Africa, informal enterprises include the traditional family, cottage and artisanal enterprises as well as small modern enterprises, which operate outside the organized formal sector, covering both rural and urban areas.

5. The study builds primarily upon some of the recent work undertaken by ECA on entrepreneurship development and the informal sector.² It also draws upon the extensive work and literature on the subject of other international organizations, such as the International Labour Office, UNDP, World Bank, other institutions and individual researchers, among others. It was, however, not possible to collect primary data on the informal sector in some African countries through field missions.

² See for example, ECA, "Enabling environment for entrepreneurship development in Africa", Report of a Senior Policy Seminar on Enhancing Entrepreneurship in the Private and Public Sectors in Africa, Addis Ababa, ECA/AAPAM, 1990; ECA, "Policies and programmes for creating an enabling environment and raising incomes in the informal sector", Addis Ababa, 1990, ECA/PHSD/HRP/90/12[6.2(i)(OA)(a)]; ECA, "Mobilizing the informal sector and non-governmental organizations for Africa's economic recovery and development: Policy and management issues", Addis Ababa, ECA/AAPAM, 1991; ECA, "Measures for the stimulation, development and promotion of indigenous entrepreneurial capability in Africa", Development Management Series No. 1, 1992, Addis Ababa; ECA, "Strategic agenda for development in Africa in the 1990s", Addis Ababa, 1993; ECA, "The informal sector in Africa: Creating an enabling environment", Addis Ababa, ECA/PHSD/HRP/94/13[4(b)]; ECA, "Guidelines on policy measures and practices for improving informal sector productivity and its linkages with other sectors of the economy", Studies in Human Resources Development Series No. 17, Addis Ababa, ECA/PHSD/HRP/95/14[4(b)].

Thus this study relies largely on secondary sources of material. In this regard, where possible, data on the informal sector from Ghana, Nigeria, Tanzania, Kenya and Zimbabwe will be presented. In drawing upon the various secondary sources of material, this study focuses on examining the major constraints and problems, including and specifically the policy environment, which militate against the development and promotion of informal enterprises in Africa and which directly and indirectly impinge upon the employment creation and promotion prospects of the sector. It is hoped that analysis of such material would assist in guiding an in-depth examination of the major problems and constraints facing the informal sector. The study also reviews the experiences of some African countries in providing policy measures for due development of the informal sector in their respective countries.

6. This study is organized in five sections. Against a brief overview of the state of the informal sector in Africa, section II focuses on an analysis of the major constraints and problems and an examination of policies -- macro economic, institutional, legal and regulatory -- that negatively impact the development of the informal sector and micro enterprises in African countries. Section III discusses policy measures and strategies for promoting the employment generation potentials of the informal sector. In this regard, it recommends the type of supportive policies and an improved enabling environment that would need to be provided for the promotion of the informal sector. This would include the provision of corrective and complementary measures and programmes as well as an improvement in policy instruments. The modalities for implementation of the proposed strategies and measures are detailed in section IV. Finally, section V summarizes the major findings and conclusions, including the recommendations, of the study.

II. MAJOR PROBLEMS AND CONSTRAINTS LIMITING THE EFFECTIVE OPERATIONS OF INFORMAL SECTOR ENTERPRISES

7. Despite differences of interpretation and emphasis, policy makers in Africa are increasingly recognizing the important role of private enterprise or "entrepreneurship" in the 1990s in achieving and sustaining accelerated economic development in the region. In this regard, the promotion of small- and medium-scale enterprises as well as upgrading of informal enterprises are being considered as major vehicles for creating productive employment and incomes; reducing unemployment and alleviating poverty in African countries. Micro enterprises are crucial in providing productive employment and incomes to the growing labour force in Africa. Recent investigations showed that informal sector employment in Africa accounted for some 25 per cent of total

employment and about 62.5 per cent of urban employment.³ There are, however, variations at the individual country level regarding the share of informal sector employment. Table 1 below shows that the share of informal sector employment to urban employment ranged between 39 per cent in Cameroon to a high of 82.8 per cent in Togo.

Table 1
Share of Informal Sector Employment in Selected
African Countries, 1991*

Countries	Total LF	Urban LF	IS Emp.	IS Emp as % urban LF	IS Emp as % TLF
Cameroon	5,217.000	3,077.000	1,200.000	39.0	23.0
Ghana	5,577.000	2,439.000	1,292.000	53.0	23.2
Nigeria	38,489.000	17,149.000	11,819.000	69.0	30.1
Tanzania	11,000.000	4,300.000	2,200.000	51.2	20.0
Togo	1,278.000	461.000	382.000		29.9
Africa (Average)	95,044.000	37,129.000	23,220.000	62.5	24.4

* **Source:** ILO/JASPA (1993) African Employment Report 1992, op.cit., p. 103.

Note: The informal sector employment figures include rural informal sector employment.

8. Micro enterprises are also important in rural areas. Between 10-20 per cent of the rural labour force in Africa is self-employed in or earns significant income from non-farm informal sector activities. More recent studies show an upward trend in the size of informal sector employment, both urban and non-farm rural. Under conditions of slower economic growth and implementation of structural adjustment programmes, informal sector is being compelled to play an increasing role in job creation. The retrenchment in the public sector, the abolition of the various employment creation schemes, such as guaranteed employment programmes for secondary school and tertiary level graduates,

³ ILO/JASPA (1993) African Employment Report 1992, Addis Ababa, p. 76

have meant that the informal sector is called upon to play a more active role in absorbing the growing labour force.

9. In addition to their important role in productive employment and income generation, informal enterprises, if provided with an appropriate enabling environment, can graduate into small- and medium-scale enterprises. In this way, they can fill in the gap of the missing-middle, (so much talked-about) in Africa's industrial development process. The economic and social benefits of small and micro enterprises in Africa are numerous and they include, inter alia:

- generation of productive employment and income, particularly for the poor and vulnerable sections of the population in urban and rural areas;
- contribution to the economy in terms of production of goods and services at affordable prices;
- developing and strengthening inter-sectoral linkages;
- provision of an excellent breeding ground for entrepreneurial and managerial skills and technology;
- contribution to human resources development and skills training through non-formal apprenticeship and on-the-job training arrangements;
- providing opportunities for developing and adapting appropriate technology; and
- stimulating innovativeness both in product and production processes, and thus enhance markets for informal sector goods and services.

10. While small and micro enterprises have the potentials to contribute significantly to social and economic development of African countries, their development and growth requires a sound combination of technological, entrepreneurial and managerial skills and competence on the one hand, and access to productive resources, including market opportunities, on the other. Allied to these elements, the existence and provision of a favourable political and economic environment backed by a set of institutional, legal and regulatory mechanisms are important conditions for the growth and development of micro enterprises. This section attempts to examine the factors, both internal and external, that constrain the development of the informal sector in African countries. In this regard, some of the recent country studies on policy environment for the informal sector in African countries would be reviewed to examine

the functioning of micro enterprises and the informal sector and the problems encountered by them.⁴ Based on the findings of some of the studies, this section attempts to: (a) review and analyze the major constraints, both internal and external, to micro enterprise development in Africa; (b) take stock of prevailing government policies with a view to identifying the conflicting and discriminatory policies which directly or indirectly militate against the development of the informal sector; and (c) assess the effectiveness of the corrective policies and programmes undertaken by governments for the promotion of the informal sector in the some African countries.

Constraints

11. Despite its potential economic and social benefits, the effective operations of the informal sector in many African countries are being mitigated and compromised by the often ambiguous policy, weak institutional and rigid and outmoded regulatory framework. Allied to this, a number of problems and constraints face the micro enterprise sector which tend to further inhibit or constrain its growth and development. These may be categorized as internal and external constraints. Internal constraints relate to those found within an enterprise itself. These include: (i) its size in terms of the number of people working; (ii) the quality of the labour force in terms of the level of education and training and the age of workers/operators; and (iii) the organization of work in terms of the number of hours worked per day, the number of days worked per week and year. On the other hand, external constraints relate to the factors which are beyond the control of or external to micro entrepreneurs. A number of external problems and constraints negatively impact the growth and development of the informal sector in Africa. Some of the principal problems and constraints facing the informal sector in many African countries include the lack of or limited access to capital and credit; suitable business premises; appropriate technologies, including working tools, implements and machines; markets and marketing information; and the lack of a favourable policy and institutional environment. These are discussed below.

⁴ See for example, ILO/JASPA (1993), Development policies and institutional environment for employment promotion in the informal sector in Ghana. Addis Ababa; ILO/JASPA (1993) Development policies and institutional environment for employment promotion in the informal sector in Nigeria: The case of Kano. Addis Ababa; ILO/JASPA (1992); The state and the informal sector in Tanzania. Addis Ababa; PTO Pedro Assuncao (1993) Government policies and the urban informal sector in sub-saharan Africa: A comparative study on Kenya, Tanzania, Mozambique and Angola, World Employment Working Paper. Geneva: ILO; ILO/SAMAT (1995) Design on policies and programmes for growth and employment promotion in the non-formal sectors in Zimbabwe, Harare.

(i) *Enterprise size*

12. The typical informal sector enterprise in most African countries is either a one-person firm or employs less than 5 persons, including the owner-manager. According to the available evidence, some 60 per cent of informal enterprises employ less than 5 persons, while only 40 per cent employ between 5-10 persons. In other words, the majority of informal sector firms employ very few people. This has negative implications for the generation and promotion of productive employment, turnover, profit and incomes. The operations of informal sector enterprises are inefficient partly due to their small size resulting in the low turnover and profits. The short life span or low average age of such informal sector enterprises suggests high rates of disappearance or demise of such enterprises.

(ii) *The quality of the labour force*

13. A second major obstacle limiting the effectiveness of informal sector enterprises is the quality of the labour force. The lack of education, business experience and skills as well as business networks or connections tends to negatively affect the operations of informal sector enterprises. Available evidence from the surveys of the informal sector in African countries suggests that about one half of informal sector entrepreneurs as well as apprentices are either illiterate or without full primary education. For example, some 53.9 per cent of informal sector entrepreneurs/ workers in Kano (Nigeria) had either no schooling or full primary education⁵; and in Malawi about 60.7 per cent were in this category.⁶ Similar figures were obtained from the informal sector surveys of other African countries. In the same vein, the level of skills training among informal sector entrepreneurs is low. Skills are generally acquired on-the-job through relatives and other craftsmen. The main source of skills for operating and managing informal enterprises being apprenticeship.

14. The educational and training profile of informal sector operators/workers is, however, changing rapidly, in that the average number of years of education and training of informal sector operators is increasing. For example, an ILO Report showed that the average number of years of schooling of informal sector operators increased from eight years in 1985 to 10 years in 1991; and the proportion of those with formal vocational training also increased from 20

⁵ ILO/JASPA (1993) Development policies and institutional environment for employment promotion in the informal sector in Nigeria: The case of Kano, op. cit. p. 13

⁶ ILO/JASPA (1986) Informal sector in Lilongwe. A survey of informal activities in garages, metal fabricating, tin smiting and woodworking. Addis Ababa, p.31

per cent to 44 per cent during the same period.⁷ The proportion of informal sector entrepreneurs with post-secondary education was as high as 18 per cent in 1991.⁸

15. It should be noted that the educational and training background of entrepreneurs does have an impact on their ability to operate their businesses efficiently and the extent to which they can absorb the management and technical skills. These factors (i.e. management and technical skills, education and training) are relevant to the successful operations or collapse of informal sector businesses. There is also a relationship between the level of education and training and the nature of informal businesses/ activities in which an entrepreneur enters. There is a general tendency among the relatively less educated and trained entrepreneurs to pursue those activities which require little technical and managerial skills. The findings of various surveys show that skill intensive activities require a high level of education and training background of the entrepreneur. The introduction of good management and technical skills into the sector is important in order to develop high quality products and new ones to increase markets and marketability of informal sector products and services.

(iii) *Labour use*

16. Available research and policy studies on the informal sector in Africa have paid little attention to the importance of the organization of work in the development and promotion of the informal sector. The organization of work relates to labour use (in terms of the number of hours worked per day and per week by informal sector entrepreneurs/ managers or the seasonal pattern of labour use) and its impact on the efficiency of the enterprise. It is common knowledge that informal sector managers spend a considerable amount of time chasing and recovering debts from customers, purchasing and transporting business inputs and goods to business premises, participating in ceremonial and other social and familial duties. Thus only few hours a day are actually spent on the principal business activity. The major part of the day or week is generally spent on activities unrelated to the principal business activity. This has adverse impact on the overall production and efficiency of the business and thus the level of profit and income realized from the business.

⁷ ILO/JASPA (1993) African Employment Report 1992, op. cit., p.76

⁸ Ibid.

(iv) *Access to capital and credit*

17. Various studies on the informal sector in African countries show that the lack of or limited access to capital and credit is one of the key problems inhibiting the successful operations of micro enterprises. Informal sector entrepreneurs in Africa depend mainly on their own or their family/ friends for start-up capital as well as the operation of their businesses. Their access to credit from external sources and formal financial institutions is extremely limited. For example, a 1992 survey of the informal sector in Ghana showed that 56.4 per cent of the entrepreneurs generated start-up capital from their own savings, 24.9 per cent received as loans from friends and relatives, only 1.1 per cent of them had loans from banks and government institutions, 0.3 per cent from traditional/ non-formal credit associations.⁹ Similar findings were obtained from the informal sector surveys in other African countries. It follows, therefore, that the majority of micro entrepreneurs rely for capital on own savings and loans from friends and relatives. Credit from the traditional as well as formal financial institutions plays an insignificant role in providing business capital to informal entrepreneurs. As a matter of fact, formal financial institutions tend not to provide the initial or start-up capital, except, sometimes, working capital for the established informal businesses.

18. The lack of capital and investment for informal businesses is one of the critical constraints to the growth and development of the informal sector in most African countries. Since their access to credit through formal sector institutions is limited, some micro entrepreneurs obtain start-up capital from money lenders at high interest rates. The exorbitant lending rates exert pressure on working capital or investment into businesses, making business expansion rather difficult. One of the reasons for the frequent demise or short-lived nature of informal enterprises is precisely their lack of working capital, which acts as a break on the growth of their activities.

(v) *Business premises*

19. Most informal enterprises in African countries do not operate from fixed location. However, the findings of the recent surveys of the informal sector in Accra (Ghana) and Kano (Nigeria) showed that between 79 and 87 per cent of the entrepreneurs surveyed operated from fixed locations, while some 10-11 per cent did not have access to fixed premises.¹⁰ Thus out of the entrepre-

⁹ ILO/JASPA (1993) Development policies and institutional environment for employment promotion in the informal sector in Ghana, op.cit., p.6

¹⁰ ibid., pp.5-6; ILO/JASPA (1993) Development policies and institutional environment for employment promotion in the informal sector in Nigeria: The case of Kano, op.cit., p.10

neurs surveyed in the two countries, the majority operated from fixed location. However, it is important to consider the quality of the location in terms of facilities available, such as water, electricity, sewage disposal services, telephones, as an important aspect of the business premises. Such facilities and services on site can contribute to efficient operations of informal sector activities. For example, the Kano survey showed that some 53.5 per cent of the surveyed businesses had access to both water and electricity, while the others had either water or electricity only. The availability of infrastructural facilities in such fixed premises was not satisfactory and this became evident from the views of the majority (57%) of the entrepreneurs who were willing to move to other locations and premises.

20. Although the lack of adequate business premises is a constraint to the successful operations of informal sector activities, the lack of adequate infrastructural facilities, such as water, electricity, sewage disposal services, etc., and the affordability of rent can be a real problem in many African cities where micro enterprises operate. For example, the recently built municipal markets for informal enterprises in Windhoek (Namibia) are equipped with excellent infrastructural facilities, but the problem is the high rents which are generally beyond the reach of micro entrepreneurs.¹¹ Therefore, the availability of quality premises at affordable rents still constitutes a constraint to the development and expansion of the informal sector in most African countries.

(vi) *Business inputs and technologies*

21. Other constraints include the lack of adequate supply of business inputs (such as raw materials, intermediate goods and spare parts) and technologies (tools, implements and machinery) used in the production of goods and services produced in the informal sector. They are generally obsolete, inefficient and require constant repair and maintenance, and spare parts which may require foreign exchange. This is particularly true in the case of the informal sector businesses which use imported inputs and machineries. It should be emphasised that presently due to liberalization policies pursued in most of African countries, most raw materials, intermediate business goods, tools, spare parts, etc., are locally available. However, the main problem is that they are very expensive, especially so due to the frequent devaluation of national currencies and the general level of domestic inflation. Furthermore, informal sector entrepreneurs do not directly import such inputs and machineries. They have to purchase them from large scale importers who charge exorbitant price for such imported items to recover foreign exchange bought at

¹¹ ECA (1996) Report of the National Workshop on Technical Innovation and Entrepreneurial Development in the Informal Sector in Namibia. Addis Ababa, ECA/PHSD/HRP/96/1[5(b)]

parallel market price. Thus the combination of devaluation of local currencies, soaring inflation and high mark-ups make it very difficult for informal entrepreneurs to afford the required business inputs even when they are available locally. Such a state of affairs has negative impact on the operations of micro enterprises.

(vii) Management

22. Another problem relates to the management techniques, such as information, experience, planning and related aspects of organization and administration of business in the informal sector. The management techniques utilized in the informal sector are generally crude and cumbersome, involving time consuming and inefficient business practices, which tend to encroach on the actual time spent on principal activity. The crude and inefficient business management techniques and practices utilized in the informal sector may be attributed to the low level of education and training of micro entrepreneurs and thus their inability to source, acquire, adapt and utilize sophisticated and complex, but efficient and productive, technologies. Micro entrepreneurs also lack the knowledge or information on more effective management techniques, their lack of or limited business contacts and access to capital/ credit further constrain their ability to acquire and use the more efficient production and management techniques and technologies. This state of affairs tends to negatively impact the development of the sector.

(viii) Markets and marketing information

23. On the demand side, the major constraint facing the informal enterprises is the limited and segmented markets. The limited demand for informal sector products may be attributed largely to poor marketing systems, competition from protected formal sector firms, lack of marketing skills and information and sometimes poor or sub-standard quality of products and services. It should be emphasised that the size of the market for informal sector products depends on personal relationships between the owner/ manager of a micro enterprise and a limited number of customers, generally from the local area or vicinity from where a business is operated. Thus the market size is small and segmented and the potential for intra-enterprise is limited. Under the circumstances, it is not possible to realize the economies of scale, so important for cost-efficiency and profits. On the other hand, the small and segmented markets for informal sector goods and services constrain the levels of production of such products and thus the size of and the number of people employed in the enterprise.

(ix) *Institutional and regulatory environment*

24. The institutional, legal and policy environment in most African countries is not conducive to the development of the informal sector. Some of the most important instruments in this regard concern the licensing and registration requirements, legislation on standards, fiscal policy and the labour code. The overall economic policy environment and biases in public policy operate to the disadvantage of the informal sector.

25. Legal constraints: The prevailing legal framework in most African countries tends to discriminate against the development of the micro enterprise sector. Among these are the zoning regulations, registration and licensing requirements, quality, health and safety standards. The zoning regulations affect the micro enterprise sector more severely, due to the limited and segmented nature of their markets. For example, attempts made in certain countries to relocate existing micro enterprises to places outside the city centre in industrial estates have not met with much success. Allied to this, application of the zoning regulations is inconsistent and arbitrary and this practice tends to discriminate against the micro enterprise sector.

26. Similarly, registration requirements for micro enterprises are problematic with public authorities. This is partly due to the inability to deal with lengthy bureaucratic requirements and partly out of a desire to evade payment of tax. Some countries are relaxing the registration requirements, so as to facilitate and encourage the establishment of micro enterprises. For example, Namibia has relaxed the registration requirements for small businesses, however, the licensing requirements for business are still in force.

27. The important legislations that tend to negatively impact the operations of the micro enterprise sector are the Factories Act, the Public Health, the Local Government Act. In Tanzania, for example, the Public Health Act empowers local authorities to set standards for food, sewage and buildings.¹² The enforcement of this Act is for the purpose of controlling communicable diseases, such as cholera, in the interest of public health. However, legal quality standards reflecting more than adequate public health and safety requirements will naturally discriminate against micro and small enterprise development. It is argued that it is the manner in which some of these regulations on health and safety standards in African countries are enforced which tends to discriminate against and undermine the development of the micro enterprise sector.

28. Macro economic policy environment: The various industrial, trade, monetary and fiscal policies instituted to guide the industrialization programme of the 1960s and 1970s in African countries affected the small- and large-scale industries differently. They favoured the large scale industries, which are capital intensive. For example, the overvalued exchange rates increase the benefits to large scale industries by facilitating their access to imported inputs at subsidized prices. Small enterprises, on the other hand, do not directly import the required business inputs but have to buy them through retailers at high prices.

29. Similarly, the structure of tariffs also adversely affects the small enterprises. The imported inputs of small enterprises are generally final consumer goods which attract higher tariff rates than those of large scale enterprises which import machinery, equipment and intermediate business inputs, which are either exempted from duty or attract low tariff. One of the main factors which seems to adversely affect the development of the informal sector relate to the taxation policy, particularly within the context of structural adjustment programmes initiated since the 1980s. For example in Togo, some 90 per cent of informal sector inputs are imported. The import duty increased from 20 per cent in 1980 to 26 per cent in 1989. Within the framework of new tax structure, informal sector operators have to pay tax on their turnover. Because of the difficulty of estimating the turnover of informal sector businesses, taxes are arbitrarily determined and some times the operators are overcharged.

30. The lack of institutional arrangements or information for entrepreneurs in the sector has given rise to a situation of conflict between the enforcement agencies and the informal sector entrepreneurs, resulting in the disruption of businesses. Between 1985 and 1990, a number of micro enterprises were closed down and others had to pay high tax on their turnover. The example of Togo shows that if government policies are not implemented properly, they can negatively affect the performance of the informal sector. This calls for better monitoring of policies and programmes being implemented in the context of structural adjustment programmes.

31. Findings from some of the recent studies, such as Cameroon, Ghana, Nigeria, Tanzania and Togo, on the impact of the legal and institutional environment and macro economic policies on the development of the micro enterprise sector show that the distortions created by protectionist policies of overvalued exchange rates, import licensing and quotas, etc. serve as disincentives to the growth and development of small scale and informal

enterprises.¹³ These policies provide monopolistic markets for the large scale enterprises, and thus creating barriers to entry by the small scale and micro enterprises. All these and many other biases in public policy and institutions tend to perpetuate low productivity and income; and the marginalization of a large section of the population who, by and large, depend for their livelihood on informal sector activities.

32. The lack of or weak linkages between informal sector activities and other sectors of the economy tend to constrain the potentials for growth of the former. While some backward production linkages in the form of raw materials, equipment, tools, etc. exist, forward linkages in the form of utilizing informal sector products as inputs into the formal sector are few and far between. For example, some 70 per cent of informal enterprises in some African countries had no forward linkages with the formal sector.¹⁴ In addition to weak production linkages, technological linkages, considered to be important for raising the quality of processes and products of the informal sector, are also limited or non-existent.

33. Similarly, credit or financial linkages in the form of investment and development finance from the formal sector into the informal sector are also weak. It should be emphasised that it is the large scale industries which generally enjoy credit facilities at favourable terms, while the majority of micro entrepreneurs have to rely for business funds on own savings, profits and on loans from friends and family and informal financial sources. High interest rates charged on loans from money lenders make the borrowing expensive and thus discourage either the establishment or expansion of small businesses. This can negatively affect the level of production and productivity, turnover and profits, and thus retard the growth of informal sector enterprises. Such a state of affairs has negative impact on the prospects for employment generation and expansion in the informal sector.

Impact of Regulations and Constraints

34. The restrictive regulations and structural and institutional constraints have negative impact upon the dynamics of micro enterprise (informal sector) development in Africa. This can be assessed from three different, though complementary, aspects:

¹³ ILO/JASPA (1992) *The state and the informal sector in Tanzania*, op. cit.; ILO/JASPA (1993) *Development policies and institutional environment for employment promotion in the informal sector in Ghana*, op. cit.; ILO/JASPA (1993) *The state and the informal sector: The case of Lagos*. Addis Ababa.

¹⁴ ILO/JASPA (1985) *Informal Sector in Africa*, op.cit.

- (i) impact upon productivity, growth and employment creation;
- (ii) relative impact upon costs and productivity and growth of small and medium scale firms in the formal sector; and
- (iii) impact upon the potential for the "graduation" process in small and medium-scale enterprises.

35. Given the substantial role of women in the micro enterprise sector in Africa, analysis of restrictive clauses and other constraints upon informal sector operators must consider the differential impact on male and female-operated enterprises. The different aspects are important not only in terms of their direct effects but also of indirect effects in the relationship between the dynamics of micro enterprise development and output growth and employment creation. The latter can be achieved through productivity improvements in micro enterprises which remain small. In terms of numbers, micro enterprises are important because of their large numbers. However, greater benefits may be achievable in the long run through graduating them into small and medium scale enterprises. The "graduation" process would culminate into shifts from low to high productive technologies and patterns of enterprise organization. In this process, substantial gains could be realized in labour productivity. This could not only directly expand employment but also create the multiplier effects resulting in output growth and additional employment generation in other activities and sectors through building and strengthening inter-industry and inter-sectoral linkages.

36. In a related aspect, the potential role of infrastructure and support services is also important in the graduation process. For example, inefficiencies due to technical, managerial and skill deficiencies and also restrictive regulations can inhibit graduation into more productive activities. Therefore, the focus on providing support service systems, markets and research and development is significant in the promotion and development of micro enterprises in African economies.

37. The impact of restrictive regulations and the lack of adequate support systems and services may be considered and assessed from the following three aspects:

- a. they can reduce productivity and employment of micro enterprises, thereby keeping them not only small but their average life expectancy can also fall;
- b. they can inhibit successful "graduation" of micro enterprises by increasing the cost thresholds and/or increasing the perceived

risks of the transition to small and medium-scale enterprises relative to the returns; and

- c. they can reduce productivity and efficiency in key infrastructure and support system markets (through negating the aspects of economies of scale), which in turn could hinder the successful graduation of micro enterprises.

38. In short, the restrictive business regulations and macro economic constraints, among others, negatively impact the level of productivity of the informal sector. This in turn affects the level of output of the enterprise and incomes of the entrepreneurs. While both the number of informal sector enterprises and employment have increased in Africa over the years, growth in the labour force has been accompanied by declining productivity and increased under-employment in the sector. For example in Togo, employment in the informal sector increased by 7 per cent per annum between 1984 and 1990, while labour productivity declined by an average of 3 per cent per annum.¹⁵ Put another way, the value added per worker in 1990 represented only 85% of that in 1984.

39. The low productivity of the informal sector may be explained by the interaction and working of socio-economic, institutional, regulatory and macro economic factors. The general macro economic environment (as discussed earlier in this study) is not favourable to the development of the informal sector. As part of the private sector, informal sector entrepreneurs respond to the overall economic, regulatory and legal environment for business. Therefore, if such environment is unconducive for business, it will negatively impact the growth and development of enterprises, including those in the informal sector. If these signals are distorted or discriminatory against the operations of the informal sector, they would have an adverse impact on the sector's ability to generate and increase employment, output and income.

40. The discussion above supports the conclusion that the growth and development of the informal sector is inhibited by a number of internal and external constraints faced by the sector. These constraints and public policy biases have negative impact on the productivity of the sector, resulting in low incomes, perpetuation of poverty and the marginalization of the large segment of the work force and their dependents. The lack of or weak inter-sectoral linkages further marginalize the operations and the very existence of the informal sector. Therefore, the challenge ahead is how to increase the

¹⁵ ILO/JASPA (1993) African Employment Report 1992. Addis Ababa, p. 78.

productivity of the sector and its linkages with other sectors of the economy so as to enable it to realize its potentials for employment generation and promotion, increase the income level of those working in the sector and help in the "graduation" process. This calls for putting in place an enabling policy environment and assistance programmes for the development of the informal sector.

III. SUPPORTIVE POLICY MEASURES FOR EMPLOYMENT PROMOTION IN THE INFORMAL SECTOR

41. The role of the informal sector as a labour sponge has been recognized by African countries as the employment generation capacity of the formal public sector has been declining since the 1980s. Despite its role in employment and income generation, the informal sector in African countries continues to face a number of constraints which negatively affect its growth and development, productivity and the turnover and hence its potentials for employment generation and promotion. These constraints were discussed in the preceding section. In summary, some of these constraints are internal and hence difficult to remove. However, most of them are external, e.g. macro economic factors, legal and institutional regulations, and these can be corrected through the provision of appropriate policies and an enabling environment.

42. This section attempts to discuss the various policy measures that would need to be put in place for the promotion of employment in the informal sector. In this regard, it should be noted that the informal sector is not homogeneous and that its nature and characteristics are diverse and so are the personal resources of the operators in the sector. Thus, the problems and needs of the individual operators and the informal businesses would be different. Accordingly, different promotional measures will be needed in the light of the nature and scale of informal businesses and the personal resources that the individual operators bring to the sector, e.g. capital, skills, experience, social networks, market information, etc. Since women and the youth predominate in informal sector activities and they are the vulnerable groups of the population, special measures will need to be put in place for promoting their activities in the sector. This section begins by reviewing some of the recent policy measures implemented by African countries for the promotion of private sector development and which may have direct or indirect impact on the development of the informal sector.

**Recent Developments in Policy and Institutional Environment:
Their Impact on the Informal Sector**

Since the implementation of structural adjustment programmes by many African countries in the 1980s, various institutional and policy reforms have been introduced for private sector development. Although the policy reforms were not directly aimed at the informal sector, they did take into account the important role of the sector in providing employment to the growing urban labour force and to some extent the rural labour force as well. The economic recovery programme involves, among others:

- shifting relative prices in favour of production and exports, mainly in the agricultural sector;
- the restoration of monetary and fiscal discipline through removal or reduction of subsidies, reduction in public expenditure; and increasing public revenue through increased taxation and improved collection methods;
- the rehabilitation of economic and social infrastructure through improved public services;
- encouragement of private investment through the provision of incentives, such as tax holidays, foreign exchange retention, creating an appropriate domestic banking environment, attractive interest rates.

43. As part of the economic recovery programme, a number of African countries have attempted to provide a suitable business environment and incentives for private sector development. These attempts have involved changes in macro economic environment, revision in investment incentive code, the provision of transparent legal and regulatory framework, strengthening of the financial system, provision of infrastructural facilities and promotional services. The new policies are aimed to influence production and encourage domestic as well as foreign investment and create conditions for business confidence. These new incentives relate to trade policies and liberalization through the abolition of import controls and price controls. Attempts have also been made to strengthen the financial system and provide funds for private sector development through reduced government demands on the banking system for loans.

44. In Ghana, as part of the general macro economic incentive, the economic recovery programme has attempted to: (a) remove distortions through the liberalization of the economy, a movement towards realistic exchange rate system; abolition of quantitative controls or bans on imports,

moderate tariff rates; and (b) improvement in public resource management through reduced public expenditure and improved resource mobilization.¹⁶

45. Similar economic recovery programmes have also been followed by other African countries which have implemented structural adjustment programmes.¹⁷ The economic policy reforms undertaken by governments were aimed to remove some of the prevailing distortions in the macro economic framework. The devaluation of domestic currencies associated with the lower protection for the local manufacturers producing for the domestic market and the import liberalization did create competition for the informal producers. Since most activities in the informal sector are import-dependent (as they deal with imported final products) than the formal sector, liberalization tends to indirectly improve the market share in informal manufacturing and service activities. For example, car repair services sub-sector in the informal sector benefitted from increased prices of spare parts as a result of devaluation and removal of import controls and price regulations. In this way, informal sector services became competitive.

46. However, the trade activities in the informal sector with imported goods are the losers. This is so because with the liberalization, most goods are easily available in the usual retail shops, with reasonable mark-ups. With the easily available foreign exchange and without the premium available on parallel and black market for foreign exchange, the incentive to deal with imported goods in short supply has declined. This has obviously negatively affected the trading sub-sector activities in the informal sector.

47. As regards the credit lines for informal sector operators, the improved and strengthened banking and financial system has not considerably benefited the informal sector. While the credit lines for the informal sector by commercial banks have increased since the late 1980s, these have dealt with subsidised credit from donor agencies. The outreach of such credit lines is limited and subject to the availability of donor funds.¹⁸ Consequently, informal sector entrepreneurs continue to pay exorbitant interest rates to money lenders to

¹⁶ ILO/JASPA (1993) Development Policies and Institutional environment for employment promotion on the informal sector in Ghana, op. cit.

¹⁷ Pedro Assuncao (1993) Government policies and the urban informal sector in sub-Saharan Africa: A comparative study of Kenya, Tanzania, Mozambique and Angola, op. cit.; ILO/JASPA (1993) The state and the informal sector in Tanzania, op.cit.; and ILO/JASPA (1993) Development policies and institutional environment for employment promotion in the informal sector in Nigeria : The case of Kano, op. cit.

¹⁸ Aleke-Dondo, C. (1991) Survey and analysis of credit programmes for small and micro enterprises in Kenya, Nairobi: WEREP.

meet their financing needs. Thus, the liberalization of the interest rates has not benefitted the informal sector in the short run, though in the longer run it will probably lower lending rates in the informal financial market. This will be possible only if the informal entrepreneurs are able to borrow money from the formal financial sector without the collateral.

48. The decontrol of prices of products like building materials has led to easier access to such materials. The construction sub-sector in the informal sector has gained from this pricing policy. In the case of Kenya, Parker and Aleke-Dondo estimated yearly growth rate in employment of over 150 per cent in a squatter settlement in Nairobi.¹⁹

49. The macro economic reforms like exchange rate, interest rate policy and the incentives package are of general nature and not specifically devised for the informal sector. The regulatory arrangements have not been improved. These, to a large extent, hindered the transmission of incentives from the macro to the micro level. Allied to this, the translation of macro policies into concrete activities and programmes is not being realized due to the lack of resources and infrastructure, weak capacity of existing implementation institutions, low professionalism and lack of motivation are some of the factors which undermine the actual goals of the policy reforms and thus slow down or hamper the process of structural change in the economy.

50. In addition to macro policy reforms, some African countries have also put in place specific measures and programmes for the development of the micro enterprise and informal sector. For example in Ghana, small-scale industries which in theory should include informal sector activities come under the jurisdiction of the National Board for Small-scale Industries (NBSSI). The Board is expected to provide assistance to small-scale enterprises relating to credit intermediation, providing credit or indirectly finding sources of credit. It also provides training to small-scale industries in the areas of management and entrepreneurship development. These programmes are aimed to improve business management techniques of small-scale entrepreneurs.

51. A number of credit schemes have also been established to assist micro enterprises for example in Ghana, the Women World Banking and the National Council on Women and Development have been established to provide or facilitate credit to micro entrepreneurs. Similarly, various credit schemes have been established in Tanzania and these are aimed at providing credit to informal sector entrepreneurs. The National Bank of Commerce in Tanzania provides credit to women without stringent conditions. NGOs are also involved

¹⁹ Parker, Joan; Aleke-Dondo, C(1991). Kebera's small enterprise sector: Baseline survey report Nairobi: WEREP.

in providing credit. For example, the recently (1990) established "Entrepreneurial Development Fund" by the Industrial Projects Promotion in Tanzania is aimed to assist micro enterprises gain access to business capital.

52. The People's Bank in Nigeria, established in 1990, has the objective of : extending banking facilities to the poor people who do not have access to credit facilities through the formal financial system. It also facilitates opportunities for self-employment for the un- and under-employed; and compliment the government's efforts in improving the productive base of the economy by providing access to credit. One of the important features of the Bank is that it provides credit to informal entrepreneurs without the requirement of collateral security attached. The interest is nominal and repayment of loan is spread over a one year period.

53. An assessment of new institutions, policies and programmes put in place for the development of small scale/micro enterprises in African countries reveals that government attitudes towards the micro enterprise/informal sector is changing, though very slowly. However, the policies and programmes are not specially specifically towards the needs and problems of the informal sector. Secondly, while some credit schemes have been established, the lending criteria or conditions are generally similar to these used by the conventional/traditional commercial banks. It is only the well-off informal sector operators who tend to benefit from such schemes. Furthermore, these programmes are usually based on "external" sources of funds and thus lack continuity or sustainability once the donor agencies discontinue the funding. For such programmes to succeed, they should at least be partially funded through local organizations, member's savings and other sources of sustainable funds.

54. Similarly, the training programmes are generally biased towards the upper end of small-scale enterprises. In terms of incentives, not much has been done for the informal sector. Some of the incentives provided are of disguised nature. For example in Ghana, the Internal Revenue Service has revised its method of tax collection from the informal sector enterprises from an annual basis to a daily, weekly or monthly basis. Some efforts are also being made by local authorities or municipalities to relocate artisans in industrial estates. However, such premises are generally not equipped with water, electricity, refuse disposal services, which are essential for business. In some cases, the rental on such premises is exorbitant. Therefore, while the provision of business premises by municipalities is a welcome initiative, they should be affordable and equipped with the basic utilities.

Proposed Policy Measures

(1) General recommendations

55. The recent government initiatives for the development of the informal sector while laudable, their impact is rather limited. The guiding principle to such policy reform should emphasize the need to restructure and redesign policies in conformity with the peculiar characteristics of the informal sector. The starting point then should be to formulate an explicit official policy for the promotion of the informal sector. This will serve the following important purposes:

- (i) it will help to counter or negate any misconceptions about and negative attitudes towards the informal sector within and outside government circles;
- (ii) it will help to create a more secure investment climate and business confidence; and
- (iii) it will provide a basis for reviewing, rationalizing and designing a legal framework conducive to informal sector development.

56. The next stage will be to incorporate such policy statement into a medium-term development plan. Accordingly, an institutional framework will need to be elaborated which will help to promote and coordinate all informal sector support programmes. In this regard, various ministries such as Labour, Youth, Finance/Economic planning, Industry, etc. should be actively involved in designing an appropriate policy and devising the required institutional framework. A focal point should be established for coordinating the activities of the informal sector.

57. Thus the first precondition to informal sector development is the official recognition of the sector and accordingly a supportive policy environment should be provided for its effective operations. This would assist and facilitate the sector's access to various factors of production such as capital, credit, suitable premises, technology, skills, markets and marketing information, etc. Other broad actions required to create an enabling environment including the provision of appropriate macro-economic (fiscal, monetary) trade, human resources development, technology, infrastructural and regulatory policies. These are discussed below.

58. The private sector development in a country is influenced, to a large extent, by the nature of macro economic policies as they affect micro and small enterprises. Part of the macro economic policy environment relate fiscal and

monetary policies and the management of a stable exchange rate so as to create the business confidence. This is particularly important for the development of micro and small-scale enterprises. The broad actions that must be taken by government to create the business confidence include: holding inflation down; stimulating aggregate savings, investment and consumption; effective management of public revenue; maintaining a reasonable balance of payments; and broadening the tax base. Thus, the basic requirements for creating an enabling environment for private sector development, including the informal sector, is to formulate and implement macro economic policies that are likely to create and nurture the business confidence and contribute to sustainable growth in the economy. In this regard, the following macro economic policy measures are recommended for creating an enabling environment for the promotion of the informal sector:

- adoption of those macro economic policies that would result in the effective management of public revenue, stimulate aggregate savings, investment and consumption, maintain low inflation rate and a reasonable balance of payments with the rest of the world;
- the review and rationalisation of existing fiscal policies and practices with a view to making them amenable to the development and promotion of the informal sector. In this regard, government should declare their recognition of the importance of the informal sector and issue separate tax incentives for the different categories, and levels of informal sector entrepreneurs;
- tax authorities at the decentralized government structure should increase the exemption limits for tax on income from the informal sector to cover a wide range of entrepreneurs in the sector;
- tax authorities should be sensitized about the implementation of tax incentives to the various categories of the informal sector with a view to making the operators in the sector tax friendly;
- improvement in government budgetary expenditures on social services such as primary health care, vocational education and training, basic infrastructure aimed at enhancing human and social conditions, increasing productivity and the earnings potentials of different categories of informal sector operators. This could be done through redirecting part of public expenditure from reduction in state involvement in the economy and in military expenditure;

- trade and pricing policies must not marginalize the interests of the micro enterprise sector. Such policies should not favour large enterprises at the expense of micro-and small-enterprises;
- financial and monetary policies should be such as to stimulate the development of the informal sector;
- the observance of the labour code requirements such as the minimum wage and social security payments is costly for the informal sector. These need to be reviewed so as to encourage the micro entrepreneur graduate to higher scale of production; and
- human resources development policies should focus on the provision of technical and vocational skills and entrepreneurship development training.

(2) Specific recommendations

59. In addition to the general recommendations, the following specific recommendations are made for the development and promotion of the informal sector and enhancing its role and potentials in the generation and promotion of productive employment: However, the following preconditions to proposing specific recommendations should be met:

- As a starting point, detailed surveys of the informal sector in African countries should be attempted (where these have not been done recently). This is with a view to assessing the sector's contribution to the economy, and in particular its role and potentials in employment generation; and
- In view of its important role in African economies, governments should assign explicit recognition to the sector and integrate it with the other sectors of their economies. In this regard, a policy for informal sector development should be formulated and disseminated. An enabling environment for the promotion of the informal sector must be created to remove the constraints affecting its development.

60. The following specific recommendations are made:

(a) Improved access to credit and financial resources

61. This could be provided by exploring alternative sources of credit systems as well as establishing formal financial institutions designed to serve the informal sector as a target group. The following could be considered:

- establishment of formal and quasi-formal financial institutions designed to serve the needs of the micro enterprise sector, e.g. through the People's Banks, development banks, etc.;
- using the conventional formal banking systems to serve the needs of the formal sector by establishing favourable credit lines for the sector, lengthening the period of loan repayment, waving collateral conditions;
- developing innovative lending schemes, such as credit for the rental of business tools, implements and equipment, etc.;
- strengthening the informal financial institutions such as the rotating savings and credit associations, revolving funds, Ikubs and Idirs (Ethiopia), susus (West Africa), and other self-help arrangements;
- encouraging and strengthening inter-linkages between the formal and informal financial systems through the possibility of investment by the former into informal financial systems, by reviewing and re-examining the lending criteria for the informal sector;
- managing donor funds effectively for the needs of the informal sector.

Box 1
Special Credit Schemes for Informal Sector
Development: Examples from Some African Countries

Ghana

A number of government and non-governmental agencies have been created to fund small scale and micro enterprises, including the informal sector in Ghana. These are, among others:

- **PAMSCAD**: Credit line for small scale enterprises. The objective of the funding is to facilitate self-employment generation activities, and provide special support programmes for vulnerable groups such as woman, retrenched workers, rural and urban poor.
- **Ghana Credit Union Association (CUA)**: This scheme directly benefits its members, who include informal sector operators. CUA coordinates the activities of various credit societies and voluntary associations into cooperative credit societies. The purpose being to mobilize resources from members of the community and loan them to micro entrepreneurs.
- **Credit Intermediation Institutions**: These may be grouped as:
 - **Governmental support** institutions and projects such as the National Board for Small Scale Industries. This is aimed to provide institutional support for access to credit for artisans.
 - **Others** such as the Woman World Banking (Ghana). The objective is to redirect financial resources to entrepreneurial women who lack access to organized credit by providing guarantees to the established financial institutions. The financial intermediation role of the Women World Banking (WWB) is performed through:
 - the loan guarantee scheme,
 - WWB (Ghana) Development Fund, and
 - Susu Groups

Tanzania

A number of credit schemes have been introduced by the financial institutions and NGOs to provide credit facilities to micro entrepreneurs. These include, among others:

- **National Bank of Commerce (NBC)**
Women Programme: This is aimed at providing credit facilities to women without rigid conditions, such as collateral requirements.
- **CRDB Women Programme**: This is a special scheme introduced by commercial banks to assist women entrepreneurs. Loan is to be paid back over a three year period.
- **The Presidential Trust Fund**: The fund, established in 1983, is aimed to provide credit for self-employment. This is especially targeted at the youth and the unemployed.

Box 2
People's Bank of Nigeria

The People's Bank of Nigeria was established in 1990 with a view to providing credit to micro entrepreneurs. The branches of the Bank are established in eight states of the Federation. A total of 131 satellite centres are servicing these branches. The People's Bank of Nigeria was established with the following objectives:

- extend banking facilities to the poor who are unable to get credit from conventional banks;
- create opportunities for self-employment;
- compliment government's efforts in improving the productive base of the economy;
- encourage savings among the people;
- recover loans in good time to benefit more borrowers

One of the highlights of the Bank is that its lending conditions are tailored to meet the needs of small-scale and informal entrepreneurs. the beneficiaries of credit include farmers, fishermen, traders, cottage industrialists and artisans.

Such initiatives should be replicated and encouraged in other African countries.

(b) Training and Skills improvements

62. The lack of or limited access of informal sector entrepreneurs to appropriate training and skills is frequently cited as another major constraint for the development of the informal sector. In this regard, efforts should be directed at:

- expanding access of informal sector operators, particularly women, to gain access to functional literacy, adult education and skills development programmes;
- a training needs assessment study of the informal sector should be done to ascertain the type of training programmes needed and the number of trainees to be trained;

- ad hoc, short-term, refresher courses and tailor-made training should be provided in enterprise development, including that in book keeping, business management, costing and pricing, and marketing;
- providing and improving access of informal sector entrepreneurs to industrial extension service through developing schemes along the Kenyan Rural Industrial Development model, which could be emulated by other African countries;
- reorientation of education and training to technical and vocational skills development, while de-emphasising the general and theoretical education orientation. In this regard, a national vocational training policy should be formulated;
- increasing the outreach of the population to training for self-employment;
- need to review and rationalize the educational curricula in conformity with national development objectives. In this regard, appropriate support in terms of qualified teachers and financial resources would need to be provided by government;
- integrate technical and business/entrepreneurial development training programmes into the general educational curricula for the development of entrepreneurial skills and culture;
- special training programmes should be developed for the vulnerable groups of the population, such as women and the youth; and
- the education system should produce "job creators" rather than "job seekers" by creating among the students the positive attributes of entrepreneurship development and related skills.

(c) Improved access to tools, equipment and technology

63. The lack of adequate tools and production technology tends to depress productivity of the informal sector. The limited capacity (in terms of education, training and experience) of informal sector entrepreneurs in applying and assimilating production technology is also a constraint to entrepreneurial and enterprise development in most African countries. In this regard, the following are recommended:

- tools, implements and equipment should be provided or facilitated on a lease or hire purchase basis for those who can not afford to purchase or own them. In this regard, formal financial institutions could assist in providing credit for the hiring or purchase of the required production tools;
- an explicit national science and technology policy, including the informal sector, should be formulated;
- technology needs assessment study for the informal sector should be done to ascertain the type and level of technology required for the effective operations of the informal sector;
- development of appropriate technology in line with the development objectives of African countries;
- umbrella organizations or associations should be set up to improve access of the informal sector to technology including:
 - sourcing of technology,
 - technology choice,
 - acquisition of technology, and
 - dissemination and innovation of technology;
- promotion of intermediate or appropriate technology through effective R and D programmes. In this regard, national expertise and institutions should be utilized;
- dissemination of appropriate technology to informal sector entrepreneurs through establishing technology demonstration centres and workshops;
- establishing common facilities workshops for use by informal sector operators. In this regard, NGOs have an important role to play. For example in Namibia, some NGOs provide workshop facilities to informal sector operators at a nominal charge. Such initiatives should be encouraged;
- linkages between the formal and informal sectors should be strengthened through training programmes, industrial attachments, refresher courses, adaptation of technology and acquisition of technology;
- promoting and enhancing the entrepreneurial capacity of young men and women through establishing science and technology

clubs in schools, exhibitions, displays of appropriate technology. In this regard, exchange programmes within and among African countries should be encouraged to share business related experiences;

- strengthening national science and technology capacity by establishing and adequately funding research institutions and the training of scientists and engineers; and
- encouraging sub-contracting activities between micro/small scale enterprises and medium scale industries and facilitate the transfer of technology and technological development.

(d) Improved basic infrastructural facilities

64. The provision of basic infrastructural facilities can benefit micro and small enterprises through increasing the demand for their products. The basic infrastructural facilities should include:

- the provision of feeder roads, water, refuse collection, sanitation and transportation services to both rural and urban informal sector operators;
- the provision of business premises at affordable rates, equipped with basic utilities;
- encourage the ownership of business premises by providing access to land; and credit for developing land.

(e) Enabling environment for the development of the rural sector

65. Since the agricultural sector is the major source of informal (farm) activities, special measures need to be put in place to stimulate its labour absorption capacity. In addition to the provision of basic infrastructural facilities, an enabling environment for the development of the rural sector should include:

- improved access to arable land, especially of women;
- increased access to agricultural inputs, including improved seeds, fertilizer, pesticides, etc.;
- improved access to credit and extension in services;
- building and strengthening linkages between the agriculture sector and micro enterprises through using the outputs of each other;

- improved infrastructure, such as feeder roads, transportation, irrigation facilities;
- improved producer prices; and
- encourage the dissemination and use of research findings to farmers and informal sector operators.

(f) Marketing and Market Information

66. The lack of marketing skills of informal sector operators together with poor information on marketing outlets, constrain in no small way, the level of production and turnover of the informal sector. In this regard, the following are recommended:

- creating markets for informal sector goods and services through providing promotional services. The Chambers of Commerce should be encouraged to play a greater role in promoting the products of the informal sector through trade fairs, displays, exhibitions, the media, etc;
- government departments should purchase the products of the informal sector. In this regard, current tendering procedures and regulations need to be revisited and a certain percentage of government purchases should be made from the informal sector;
- in order for the informal sector products to be competitive with those in the formal sector, the quality and pricing aspects are important. In this regard, bureaux of standards should be established (where they do not already exist) for the purpose of standardising the quality of goods and services produced in the country;
- the Chambers of Commerce could facilitate the provision of quality control services to informal sector operators at a nominal charge; and
- certain goods produced in the informal sector should be protected against competition from imports and the established formal sector enterprises.

(g) Strengthening inter-sectoral linkages

67. The low productivity of the informal sector in African countries may be attributed to, among others, the weak linkages between the formal and the

informal sectors. For the purpose of promoting entrepreneurship development, inter-sectoral linkages should be strengthened through:

- sub-contracting arrangements,
- utilizing informal sector outputs as inputs in the formal sector,
- industrial attachments and training programmes,
- reviewing and rationalizing existing procedures for government tendering with a view to accommodating the interests of the informal sector, and
- reserving a certain proportion of government purchases from the informal sector, particularly those products which meet quality standards.

(h) Enabling institutional, regulatory and legal environment

68. Government reforms in this area are of particular relevance to micro enterprises. Because of their limited managerial capacity as well as low level of education and awareness of administrative procedures and regulations, micro entrepreneurs would greatly benefit from a streamlining of procedures and regulations, and from the setting of clear eligibility criteria. For example, eligibility criteria for licensing, credit and assistance are not currently clear and are discretionary on a case-by-case procedure. The latter tends to delay decisions and may contribute to petty corruption. The following are recommended:

- the existing institutional and legal regulations should be examined, reviewed and rationalized to support informal sector development. However, such re-examination of the regulatory framework should not compromise the quality, standards and in particular public health and safety standards, for informal sector goods and services;
- administrative procedures for establishing businesses should be reviewed and unnecessary procedures should be relaxed and simplified by cutting down the red tape;
- informal sector operators should be sensitized about the procedures for establishing businesses. This could be done as part of their training programme;
- the responsibilities for registration and licensing procedures for businesses should be transferred from government agencies to the concerned professional associations and local authorities;

- the legal and fiscal environment for the informal sector is highly discriminatory. Therefore, such unequal and discretionary enforcement of the regulations for the informal sector should be removed;
- specific measures should be evolved within the current legal and institutional framework to further cut down the institutional costs for informal sector businesses. In this regard, three different types of measures should be considered:
 - measures aimed at reducing delays in identifying appropriate government institutions dealing with the legal requirements for setting up businesses;
 - measures aimed at reducing the delays in the processing of legal requirements; and
 - measures to streamline methods and practices for assessing financial implications of setting up businesses.

69. To reduce the delays in identifying appropriate government institutions would require the provision of information by governments on the registration and licensing procedures, legislation and fiscal obligations. This can be done through the distribution of brochures to the various professional associations in the informal sector. Regarding minimizing the delays in processing the legal requirements, specific measures will include strengthening the institutional capacity, rationalization of the licensing, registration and the tax structure; and more importantly establishing a single office to deal with all legal requirements. In addition, the tax structure should be simplified through a reduction in the number of fiscal obligations of establishing a business.

70. In conclusion, the main components of policy change for improving the business environment (private sector development, including micro enterprise development) are summed up in Table 2 below:

Table 2
Main Components of Policy Change for Micro enterprise Development ²⁰

Objective	Measures
1. Promote private investments	<ul style="list-style-type: none"> • provide export and tax incentives • create the business confidence • assist and facilitate private firms in obtaining credit • create sound macro economic environment • foster export and investment promotional agencies • improve access to foreign exchange • remove excessive import controls
2. Develop domestic financial markets	<ul style="list-style-type: none"> • encourage the establishment of new banks • mobilize new sources of savings by facilitating access to banking services, including mobile banks particularly in rural and remote areas • foster the development of the capital market through tax and other incentives, including by revising legislation • reform regulations for agricultural and informal sector credit to improve its efficiency
3. Restructure the public sector to promote the private sector, including the informal sector	<ul style="list-style-type: none"> • privatisation • sub-contracting aimed at increasing the participation of private firms • reduce public sector monopolies, particularly in industrial/production related activities, in favour of private firms, including the micro enterprise sector
4. Strengthen public institutions concerned with private sector development	<ul style="list-style-type: none"> • promote specialized agencies, such as the Ministry of Industry and Commerce • establish focal points for coordinating activities of various agencies interacting with the private sector • foster private sector promotional agencies such as the Chambers of Commerce, informal sector umbrella organizations/associations • provide technical assistance to private institutions which liaise with public agencies • encourage and foster the establishment of fora such as workshops, conferences etc. to promote the dialogue between the public institutions and private firms
5. Improve the legal and regulatory environment for the private sector	<ul style="list-style-type: none"> • reform labour codes including removing excessive costs of job creation • reform land ownership laws to facilitate land deeds • streamline licensing procedures • reduce bureaucratic procedures/ red tape for business licensing • simplify business registration procedures, particularly for the informal sector • centralize business approval procedures • streamline tax codes and make them more transparent and avoid discretionary measures • streamline procedures for investment and import-export
6. Increase the contribution of small and micro enterprises	<ul style="list-style-type: none"> • improve and broaden access to credit, markets, information, technology, skills training and technical assistance • reform regulations which discriminate against the operations of micro enterprises • recognize the status of the micro enterprise sector as an important economic sector • promote non-farm activities in the rural sector • establish focal points and specialized agencies for the promotion of the micro enterprise sector • assist institutions and government agencies which interact with small enterprises • promote the dialogue between the public sector institutions and micro enterprises • strengthen linkages -production, technological, marketing, etc.- between the formal and informal sectors • assist micro enterprises in the "graduation" process to small and medium scale enterprises.

IV. OPERATIONAL MODALITIES

71. The policy measures and recommendations for the promotion of the micro enterprise sector can be effectively implemented only when African governments and their social partners recognize the important contribution the sector is making to productive employment and income generation, skill formation, the countries' GNP, and towards poverty alleviation. However, such recognition must be translated in to concrete actions by providing the required human and financial resources, basic infrastructure, facilities, services and enabling institutional arrangements and capacities for the promotion of the informal sector. In this regard, governments, NGOs and community organizations as well as the international community have an important role to play in the implementation of some of the proposed policies and measures for the development of the informal sector. An attempt is made to discuss the role of governments, NGOs, the private sector and the international community in the implementation of some of the recommendations for the development of the micro enterprise sector.

72. The proposed recommendations for the promotion of the informal sector (discussed in section III of this report) may be grouped under the following broad-based areas. This is to assist in working out the modalities for the implementation of the policy measures and proposals:

1. Business environment and regulation policies
2. Financial support systems
3. Technical support service systems.

1. Business environment and regulatory policies

73. This includes a wide range of government regulations, controls and interventions which negatively impact the business environment in the private sector in general (including the informal sector) as well as enterprise investment and operating decisions. While the restrictive regulations cover many areas of government intervention, the main ones relate to registration and licensing of businesses, labour market regulations, fiscal regulations, land ownership and land tenure, legal and commercial codes and cumbersome and inconsistent administrative procedures, including official harassment of micro entrepreneurs for non-compliance of certain regulations.

74. The two basic policy recommendations that African governments must implement before initiating any policy changes for the promotion of the informal sector include as follows:

- In view of its important role in national economies, African governments should give explicit recognition to informal sector and integrate it in national development plans; and
- Base line studies of the informal sector should be carried out as soon as possible to determine the importance, particularly the employment generation and promotion potentials, of the informal sector in the national economy.

75. African governments should undertake a series of business regulatory environment reviews. This is with a view to determining the nature of the impact of business/regulatory constraints upon the dynamics of micro enterprise growth and "graduation" and identifying priorities for regulatory reform and institutional development. The review should be multi-sectoral in focus, rather than concentrate on the manufacturing sector only.

76. In order to effectively assess the impact of regulatory constraints upon micro enterprise development, the country reviews should be based on a stratified sample survey of enterprises and a sample survey of providers of support services for the micro enterprise sector. The enterprise survey could include a sample of major micro enterprises, including a representative sub-sample of enterprises owned and managed by women to understand the differential impact of certain regulatory constraints on male and female micro entrepreneurs. The survey should cover micro enterprise activities in urban and rural localities.

77. The support service provider survey should include a sample of providers servicing the same micro activities chosen for the enterprise survey. Data on this area is little known and therefore a systematic and consistent data base would need to be established for the analysis.

78. While the onus for the implementation of the policies for the promotion of the informal sector lies squarely with African governments through policy reform, preparatory and groundwork to facilitate such reforms could be assisted by bilateral and multilateral agencies. In other words African governments may require technical and financial assistance to undertake the enterprise surveys as well as the support service provider surveys at the country level. In addition, assistance may be needed for data analysis and subsequently for the implementation of programmes for the development of the micro enterprise sector.

2. Financial support systems

79. Among others, financing is indeed critical to enterprise development. Small-scale and micro enterprises lack fixed and working capital which constrains not only the growth but also efficiency in production and adoption of productive and efficient technologies. Given the important role of finance, government and donor agencies have financed diverse credit programmes to assist micro entrepreneurs in African countries. The results of such interventions have been mixed, the number of entrepreneurs assisted has been low, administrative costs high and sustainability unachieved.

80. Broad-based catalytic impacts from credit through initiatives along the lines of the Grameen Bank and similar programmes have yet to be experienced in African countries. It is argued that for credit programmes for micro entrepreneurs to succeed in African countries, it will be necessary to improve the design, methodology and delivery systems. This calls for understanding the existing financial support systems --formal and informal-- as a starting point for the reformulation of credit strategies. It is a fact that the vast majority of operators in the informal sector generate capital for start-up and expansion of business outside the formal financial system and support systems, including directed credit programmes, underscores the importance of understanding the existing financial systems.

Box 3

Need to Focus on Research on Financial and Credit Systems

A thorough knowledge of the operations and effectiveness of existing financial and credit systems is critical to the reformation of credit strategies. As a starting point, the following should be included:

- (i) an assessment of existing financial support systems and sub-systems for micro enterprise development. This is with a view to determining the efficacy of formal and informal financial systems in meeting the credit demands of the informal sector; and weaknesses or gaps in providing financial support;
- (ii) an assessment of directed credit programme interventions for determining how well they work in assisting micro enterprises and whether they compliment or distort existing systems; and
- (iii) review of policy and regulatory constraints pertaining to credit, and in particular how they affect women entrepreneurs.

81. The study could be initiated by Small and Micro Enterprise Development Agency (SMEDA) or its equivalent. Local research institutions/scholars could be contracted by government for the conduct of the study. Funding for the study could be solicited from donor agencies.

82. However, pending the results/findings of the proposed study, interim measures to enhance and broaden access of micro entrepreneurs to credit need to be considered. In this regard:

- governments should encourage banks and development agencies to assist micro enterprises in providing credit. In this connection, governments should establish schemes such as guarantee funds and programmes to serve as collateral for borrowers;
- commercial banks should start considering small enterprises as viable. They should set up soft windows for informal sector entrepreneurs to facilitate their access to easy credit;
- governments should assist in strengthening non-formal credit institutions, e.g. rotating savings and credit associations, tontine, susus groups, etc.;
- procedures for granting loans should be simplified to expedite the granting of loans to micro enterprises. The training of bank personnel in appraising and supervising small loans should be intensified;
- governments should explore the possibility of establishing alternative credit systems, for example the Grameen banks, People's Banks, etc.; and
- NGOs and donor agencies should be encouraged to finance, on a sustainable basis, viable informal sector activities.

83. To operationalize some of the recommendations concerning financial support systems, there is need to create fairly large-scale cost-effective credit systems or projects oriented towards the most disadvantaged and poor operators in the informal sector. The procedure for setting up effective credit projects or schemes would involve, first of all, the selection of the geographic area, followed by a feasibility study. The next step would be undertaking a needs assessment study to determine the demand for credit and the role of potential borrowers in administering and sustaining credit funds. Following this, there should be a study of the existing financial sub-systems -- formal, semi-formal such as credit cooperatives, rotating credit and savings associations

grassroots organizations, People's Banks; and informal financial sub-systems, such as the extended family, money lenders, savings groups, e.g. the susus, tontines, Ikubs, Iders, etc.

84. Additionally, credit assistance programmes should be also assessed in line with the performance of existing support systems and the needs of enterprises at the lower end of the operations. The assessment of the overall financial systems can prove critical in the formulation of both credit strategies and specific interventions in the future.

Box 4

Credit Projects for the Promotion of self-employment

It should be emphasized that credit projects are well suited for the promotion of self-employment in the micro enterprise sector. For example, labour intensive small businesses and micro enterprises can grow easily through the provision of even small amounts of credit. In this way, many loans of small amounts can be made, which in turn can create a number of jobs from a given loan fund. Successful examples of such credit projects include the Rural Banks of Ghana, the Grameen Bank of Bangladesh and the People's Bank of Nigeria. Similar innovative mechanisms of group based lending should be developed in African countries. An integrated credit strategy linking formal and informal financial systems should be developed to improve the flow from formal to informal financial systems. An action programme should be initiated by government (with the active collaboration of and assistance from NGOs, community organizations and external social partners) to implement financial support policies that will:

- broaden access to credit;
- encourage the creation of new banks;
- promote multipurpose banking to tap new sources of savings by encouraging retail banking;
- foster linkages between formal and informal financial systems;
- effectively manage donor funds for small enterprise development; and
- reform regulations for agricultural credit to broaden access to credit and capital.

3. Technical support services

85. The main types of technical services required by micro entrepreneurs in African countries may be broadly categorized as follows: (a) general business skills (managerial and technical levels) and advisory services; (b) assistance to production; and (c) marketing and distribution assistance. The principal providers of such services include private sector for profit firms; public sector promotion agencies; and private sector for non-profit organizations, such as domestic and international voluntary organizations (NGOs and PVOs) and local and international business and trade associations. An attempt is made below to discuss how the existing delivery systems of such technical services to micro enterprises could be improved to make them more effective. At the same time, how in all of the above areas specific needs and problems of woman entrepreneurs could be addressed.

(a) General business skills and advisory services

86. Human resources development through training in business skills at the managerial and technical levels is critical to growth of the informal sector. It should be emphasized that it is through training and improvement of managerial skills and production techniques that the small and micro enterprise sector can be integrated with more advanced sectors of the economy. Many African countries provide skills training through public and private sector institutions and NGOs. Generally, the outreach of such services is limited and is not specifically targeted at those who already operate micro enterprises. The education and training policy for small and micro enterprise development (or entrepreneurship development programmes -- EDPs) is currently lacking. Also lacking is the identification of an appropriate educational level at which entrepreneurship training should be introduced. The funding and the criteria for evaluating the EDP are also important issues which should be addressed.

87. As a first step to EDPs, the objectives should be clarified and articulated to target interventions accordingly. For example, EDPs can have three types of objectives:

1. assist job seekers to become self-employed;
2. assist existing entrepreneurs to graduate by transforming their current business; and
3. help set-up new "modern" enterprises.

88. The first objective can be met through establishing community projects. Primary emphasis should be put on skills acquisition, which may be provided on the job, through an apprenticeship arrangement. This form of skill acquisition is common in the informal sector in African countries. Technical

training for business creation involves the direct relationship of market demands for a product with the technical skills required by the entrepreneur. This is in contrast to technical training for employment, which is not driven or directed by demand for goods and services.

89. In view of the shrinking employment market for their graduates, training institutions in African countries are increasingly introducing management and entrepreneurship training into their curriculum. In this kind of arrangement, EDPs can concentrate on guiding the trainees through the various stages of business creation and survival. In this regard, training courses must be constantly revised in relation to business opportunities.

90. Equally important are the selection and development of the right instruction materials as well as trainers for EDPs. It is, therefore, important to include right materials, instructional methods as well as a "trainer development programme" in an overall policy for the education and training of small and micro entrepreneurs. EDP target groups also need to be identified. Separate programmes for the first and second generation entrepreneurs may need to be developed. The first generation entrepreneurs would include:

- school leaders,
- rural youth seeking employment in urban areas,
- technocrats,
- women,
- retired/retrrenched public servants,
- refugees and migrants, and
- technical graduates.

91. Business advisory services are generally provided to micro entrepreneurs through NGOs and trade associations. Again, the delivery and coverage are limited. The Small Industry Development Organizations (SIDOs) set up in many African countries are expected to provide business advisory services to small and micro enterprises. However, in practice the latter rarely benefit from such institutions.

92. In the case of micro entrepreneurs already operating businesses, their skills can be improved and upgraded through industrial extension programmes. For example in Kenya, industrial extension services to small enterprises are provided for improving businesses. In Kenya, high school graduates with limited training in business practices are used for providing extension services to small entrepreneurs. Extension schemes linked to industrial estates, such as the Kenya Rural Industrial Development Centres have had some success, but their scope is limited to the tenants of the estates.

93. Given the importance of functional literacy to entrepreneurial efficiency, national educational policies may have long term impact on entrepreneurial development. Educational strategies which focus on providing universal basic education and numeracy skills should raise the technical efficiency of small enterprises.

94. In order to operationalize human resources development and training policies and programmes for the informal sector, a study dealing with skills needs of entrepreneurs as perceived by themselves as well as guided by the market demand for their goods and services should be carried out. Such a study would use the target group approach (e.g. youth, school leavers, entrepreneurs, women entrepreneurs, technical school graduates, etc.) regarding training, entrepreneurship development and enterprise creation. The completion of the study would provide information on the problems of the first generation of entrepreneurs as well as those operating micro businesses. Using the target group approach, appropriate interventions can be identified by various actors, such as government, NGOs, PVOs and international agencies for an implementation programme.

Box 5
Human Resources Development and Training
for the Informal Sector

Governments are urged to consider the development of education and training as a matter of priority and pay special attention to the needs of the informal sector. In this regard, the following are important:

- review and restructure the national educational system, with particular attention on providing quality basic education, especially to girls;
- need to broaden the educational base by integrating technical and vocational training into the school curricula at the primary and secondary levels of education;
- provide skills training to enable the products of the education system to create employment for themselves;
- assist technical/vocational institutions by providing seed money to enable them to provide business training and services to small enterprises;
- encourage the private sector and NGOs to increase their role and contribution in providing technical and business management training to informal sector entrepreneurs;
- develop non-formal technical programmes to retrain graduates, school drop-outs, retired/retrenched civil servants to upgrade their skills in business management;
- formulate and develop non-formal technical education programmes for women entrepreneurs, particularly in the business areas in which women predominate (e.g. food processing, serving, textiles, pottery, etc.)

(b) Assistance to production

95. This includes assistance in equipment selection, process technology, technology transfer (i.e. product design, technical support), and procurement of inputs and equipment and production tools. Such services to micro-enterprises are generally provided by NGOs, cooperatives, trade associations and government agencies. Micro enterprises use technologies that are generally traditional and less "modern" than those used in larger enterprises. However, strategies that combine emerging technologies with existing ones would contribute to greater technical efficiency in micro enterprises. Therefore, greater support for blending technologies should be provided. This could be done through R & D activities in the established research institutions. This would require building and strengthening linkages between formal sector training and research institutions and those in the informal sector. In this regard, the following are important:

- a conducive science and technology policy for micro and small enterprise development within the framework of a national science and technology policy;
- a technological needs assessment study to assess the perceptions of informal sector operators;
- promote intermediate technology through effective R and D activities. In this regard, a certain percentage of public expenditure should be allocated to research institutions. The private sector could also be encouraged, through the incentive system, to develop intermediate technology for micro enterprises;
- need to develop a data base on the sources of appropriate technology. This could be set up in the department of small enterprises in the Ministry of Trade and Industry;
- trade and business associations, such as informal sector umbrella organizations and the Chambers of Commerce could assist the informal sector in:
 - sourcing of appropriate technology,
 - selection of appropriate technology,
 - acquisition, adaption and application of technology,
 - assimilation and dissemination of technology, including the sharing of successful technology related experiences and best practices;

- use of local expertise and technology to strengthen the development of a national technological and innovative capacity;
- unleashing the talent of young men and women through organizing science and technology fairs, exhibitions, exchange of visits to countries in and outside the African region;
- improved access to production tools and implements through developing innovative schemes such as hiring or leasing. The informal sector associations, NGOs and cooperatives can assist in sourcing, hiring and acquisition of such production implements;
- develop and strengthen linkages between local suppliers of business inputs including tools and equipment and informal sector entrepreneurs through intermediaries such as trade associations, NGOs, PVOs, etc;
- encourage the transfer of technology by initiating and developing sub-contractual arrangements between the small and informal sectors, between the medium and micro enterprises to encourage technological development. This could be facilitated by establishing simple sub-contracting procedures;
- provide quality control testing and product standardisation facilities for informal sector products and services to make them competitive and facilitate a wider market; and
- in the development and application of technology, efforts should be directed towards those areas and sub-sectors of the informal sector which are relatively disadvantaged in terms of their access to improved and efficient technology.

(c) *Marketing and distribution assistance*

96. The lack of or limited markets acts as a barrier to informal sector growth as well as its transformation from the micro enterprise level to small and medium-sized enterprises. The provision of marketing services, including those relating to packaging, is important in the promotion of micro and small enterprises. It is important to facilitate and guarantee an outlet for informal sector goods and services. In this way, national governments could not only save resources by producing locally but they could also at the same time stimulate the demand for informal sector goods in the domestic economy. To promote informal sector products, the following may be considered:

- government set-asides, sub-contracts and reserved lines are effective marketing approaches to expand the output of the micro enterprise sector;
- reviewing and rationalizing the existing procedures for government tendering to accommodate the interests of informal sector producers;
- encourage the participation of micro enterprises in export markets through trade fairs, special government assistance and marketing programs, sensitization of informal sector operators to sub-regional free trade zones;
- providing marketing information for informal sector products through the local and national media, promotion and distribution agencies, etc.;
- protection of certain products and services of the informal sector against competition from imported goods and those from the formal sector; and
- provide marketing and distribution advisory services to informal entrepreneurs. These could be provided by NGOs and government agencies.

97. To operationalize the recommendations concerning the marketing of informal sector products, it would be necessary for government to identify products and services to be purchased from the informal sector; the impact -- positive and negative effects-- of such programmes on the business sector as a whole and the micro enterprise sector in particular; and finally how the medium and large-scale enterprises could be encouraged to sub-contract government contracts to the micro enterprise sector. In other words, what type of incentive package would need to be offered to the large-scale sector to foster sub-contracting arrangements with the micro enterprise sector.

Institutional Framework

98. Presently, there are no separate government institutions in African countries which are directly responsible for the development of the micro enterprise sector. There are, however, a large number of government agencies established for the promotion of small enterprises, which indirectly also benefit the micro enterprise sector. The overall institutional framework leads to duplication of effort, lack of clear accountability for performance and ineffective support for the small enterprise sector. Generally, institutions have limited resources and their outreach is rather small. Consequently, the impact of such

interventions is extremely limited. In addition, there is generally a lack of coordination among the various government agencies, directly concerned with the development of the small enterprise sector. As a result, there is duplication of effort, piecemeal use of resources, lack of clear cut strategy and ineffectiveness in taking appropriate policy actions.

99. A number of national and international NGOs are also involved in the development of the small and micro enterprise sector. Their main role is in providing training and entrepreneur support, including providing financial assistance. Although the NGOs are generally highly motivated and committed, their own technical capacity in terms of providing training and entrepreneur support is weak. Allied to this, there is no coordination of effort and hence considerable overlap of activity, resulting in poor and ineffective use of resources.

100. In order to help implement some of the proposed policies discussed above and to ensure that effective on-the-ground entrepreneur support is provided, it is important that a clear and specialized institutional framework is developed for promoting the micro enterprise sector. Allied to this, the activities of various structures providing assistance and support to the micro enterprises would need to be coordinated. The capability of the institutions and agencies concerned with the implementation of relevant policies and programmes for the promotion of micro enterprises must be strengthened substantially.

101. It is beyond the scope of this study to prescribe an institutional framework which should be followed by African countries in their effort to develop the micro enterprise sector. This will depend upon the specific circumstances and the type of structures already existing at national levels. However, an institutional framework for the micro enterprise sector should provide:

- effective coordination of activities to avoid duplication of effort;
- a framework which facilitates wider participation of the organizations involved in micro enterprise development;
- clear cut accountability for policies and programmes; and
- effective on-the-ground entrepreneur support.

102. The responsibility for developing an effective framework for the promotion and development of the informal sector lies with national governments. Within the framework should be built in appropriate mechanisms for the participation of non-government agencies, people's organizations and community organizations. Accordingly, coordinating mechanisms should also

be built within the framework to maximize the impact of entrepreneur support and avoid duplication of activities, and efforts and thus the waste of resources. The proposed institutional framework should include the following structures:

(i) Structures for technological planning and assistance: Appropriate structures should be developed for the formulation of policies and programmes for the promotion of the micro enterprise sector. This could be done through a programme of studies, surveys and censuses to determine the nature of and priorities within the sector. Such structures should also be strengthened through technical assistance services to small and micro enterprises aimed at making the latter more efficient by adapting the results of research and technological development to the economic and socio-cultural conditions of the users. Institutions which could improve information network and promote skills of entrepreneurs will be necessary for the success of new policies for the promotion and integration of the small and microenterprise sector.

(ii) Specific training and development structures: The inadequacy of the technical and management skills of the micro entrepreneur is a critical constraint to informal sector development in African countries. The prime objective for the promotion of the informal sector is, therefore, to enhance production capacities through a more effective use of productive resources, labour and capital. Regarding the first factor, the micro entrepreneur should be assisted in improving his/her skills and this can be done by obtaining the assistance of informal training structures to which the young school drop-outs, unschooled youths as well as the educated turn. It is necessary to undertake new experiments, seek new support and develop strategies for promoting the spread of new knowledge or know-how suited to the technological culture of each country. All actions pertaining to training should therefore be based on local skills and conditions and appropriate methods of transmission of such training and skills development. Such approach is likely to stimulate local craftsmen and artisans to participate in the exchange of experiences and information and thus mobilize and utilize local resources and capability. This approach has the added advantage of not only building and strengthening local capacity but also reducing dependence on external resources. The training given on part-time basis to entrepreneurs without cutting their time off from production and the clientele eliminates the problem of reintegration of entrepreneurs into the labour market at the end of the training programme.

(iii) More suitable financial assistance structures: For the more efficient use of capital, it is necessary to create improved technologies by intensifying intersectoral linkages. The assistance given to the informal sector in this regard should be geared first to improving the productivity of existing equipment and then towards facilitating the acquisition of appropriate technology suitable for the conditions and characteristics of the users. To this end, a more suitable financial assistance through new conditions for granting loans and for providing

services would create a climate of confidence between the lending institutions and the micro enterprises. These new mechanisms should aim at changing the current conservative attitude and practices of formal financial institutions by the implementation of development policy rather than a mere commercially-oriented credit policy.

(iv) *Umbrella organizations*: Contrary to the organized/formal sector pressure organizations which make their views known to government, microentrepreneurs generally do not have such representative organizations recognized by government. This constitutes their great weakness. The establishment of autonomous organizations (umbrella organizations) from within the informal sector is an important precondition for the development of the micro enterprise sector. Umbrella organizations at the level of major activities or trades could be established to represent the producers in different activities. Such Autonomous informal sector organizations should be able to represent the interests and needs of the sector's producers at local and national levels. In this way, economic planning and policy decisions at the macro level could harmonize the needs of the micro enterprise sector as perceived by micro entrepreneurs themselves.

103. A major challenge in providing support to micro enterprises is to reach them. It is, therefore, important to choose an intermediary and institutional arrangement with the objective of linking micro enterprises effectively to relevant institutions providing resources, technical assistance and services. Experience in Europe and other parts of the world shows that to provide effective support for entrepreneurship development there should be active partnership between government (regional and local) and the private sector. Such interaction can provide the private sector access to key decision makers and at the same time independently lobby on behalf of the local community, including the micro entrepreneurs.

104. In order to reach the micro entrepreneur for providing the needed support, the institutional framework should be decentralized. In this regard, it would be important to constitute Local Enterprise Development Agencies (LEDAs) which should be responsible for the provision of entrepreneur support and undertaking local government initiatives. The LDEAs would be non-profit organizations, with extensive representation at Board level from central, regional and local government levels; local commercial banks; chambers of commerce; informal sector associations; NGOs; prominent businessmen and community leaders; and the private sector. The LEDAs should be staffed by professionals specializing in small/micro business advisory services as well as competence in project evaluation and loan appraisals. LDEAs would have the authority of government, but the flexibility, lack of bureaucracy and autonomy of a private sector organization.

105. The Ministry of Trade and Industry (small and micro enterprise (SMEs) dept.) should ideally be the focal point for micro enterprise development in terms of coordinating the activities of various partners. It should be responsible for formulating policies and programmes for the SMEs within the framework of a national industrial development strategy. However, the implementation of such policies and programmes could be handled by LEDAs. The key characteristics of this institutional framework include:

- bottom-up communication of needs and lobbying for resources;
- local availability of entrepreneur support; and
- development of resources at the local level.

106. The role of LDEAs should be to provide business development support in general, which could cover a wide range of activities, such as:

- training,
- providing financial services,
- facilitating access to finance,
- providing entrepreneur support and advice,
- advising local authorities on the needs of SMEs,
- managing common facility centres,
- provide access to specialist advice on technology sourcing and acquisition, and
- provide marketing information and services.

107. The exact role and functions of each LDEAs would depend upon the local conditions. It should be noted that the success of these agencies depends on their flexibility and responsiveness to local conditions. In this regard, semi-autonomous structures such as LDEAs can not be a part of a bureaucratic government structure. The LDEAs do not need to have a large number of staff, but the staff should be appropriately qualified. The exchange of experience among LDEAs should be encouraged to benefit and learn from "best practices" in SME development.

V. SUMMARY AND CONCLUSIONS

108. The informal/ micro enterprise sector in African countries is increasingly assuming an important role African economies in terms of its contribution to employment and income generation, GNP, skills development and upgrading, rendering socially and economically valuable goods and services, especially to the poor and marginalized whose needs are generally not met by the formal sector. The study has shown that despite its importance, the sector is faced

with a number of internal and external constraints, such as the lack of credit/capital, business inputs, business premises, limited managerial, technical and organizational skills and capacities, inefficient production and marketing technologies and techniques, inadequate institutional and supportive policy environment, outmoded and unrealistic legal and regulatory framework and cumbersome administrative procedures.

109. The informal sector is likely to expand in the years to come, particularly its role and potentials in productive employment and income generation. This is partly as a result of the formal sector's inability to create enough jobs for the growing labour force and partly due to deregulation. Growth of this sector would ease, to a certain extent, the unemployment and poverty situation in African countries. Unless appropriate measures are taken and an enabling environment is put in place for the promotion of the micro enterprise sector, such growth would be accompanied by declining incomes and more underemployment. The experiences of most African countries suggest that an enabling environment for the development of the informal sector is yet to be created and provided.

110. This study has emphasised the need for African governments and other social partners to explicitly recognize the importance of the sector by putting in place a development policy and framework. This is an important precondition to creating and providing an enabling and supportive policy environment for the development of the informal sector. In this regard, the study proposed a number of measures that could constitute the enabling environment. These are, among others, as follows:

- formulating and implementing broad macro economic policies to encourage and sustain overall growth in African economies;
- adopting efficient fiscal and monetary policies that would stimulate the growth of micro enterprises;
- developing monetary and fiscal policies that would take into account the special needs and problems of informal sector operators and enterprises;
- adopting a legal and regulatory framework supportive of the development of the informal sector and that which would maximize and strengthen inter-linkages between the informal sector and the rest of the economy;
- providing and facilitating basic infrastructure and services to increase efficiency and productivity of micro enterprises and make them competitive vis-a-vis the formal sector;

- developing human resources through providing and facilitating the educational and training programmes geared to improve the productivity and efficiency of the informal sector; and
- evolving and designing a national science and technology policy to stimulate the development and competitiveness of informal sector enterprises.

111. The measures proposed above for the development of the informal sector must be a shared responsibility among governments, non-governmental organizations, the private sector, people's organizations, informal sector operators themselves and other social partners. It is difficult to develop and advocate a blueprint for allocating specific roles to the different social partners for the promotion and development of the informal sector. However, it is important that separate agency be set up to coordinate the activities of the various social partners. Informal sector umbrella organizations, representing different sub-sectorial activities, should be established. This could be an efficient and effective way of targeting informal businesses and operators.

112. The success in implementing some of the proposed policies and recommendations may be gauged from the rate at which opportunities would emerge for graduating micro enterprises into small- and medium-sized firms. In this context, the collaborative role of various social partners is critical to entrepreneurship and enterprise development; mobilizing resources -- financial, technical and others -- through self-help, external assistance, effective and rational use of current allocations; matching funds in order to support the development of the sector. Allied to these, promotional schemes such as cooperatives, grassroots opinion, networking and communication for the exchange of information and speedy problem-solving in business operations, technical and consultancy services, etc., are effective ways of creating and sustaining an enabling environment for the growth and development of the informal sector.

113. By virtue of their nature, micro enterprises are hard to reach by means of direct support programmes. One of the ways to ensure that support programmes and interventions reach them is through non-governmental and grassroots organizations. Unfortunately, such organizations themselves are poorly resourced and lack the capacity to implement supportive programmes for the informal sector. In this regard, some support programmes could be directed towards capacity building of such intermediaries and to upgrade them into effective support agencies. However, there should be a proper balance between decentralization and coordination to maximize the effects of interventions and support programmes of various development partners.

114. There are information gaps regarding the operations and in particular the employment creation potentials of the informal sector. Therefore, much remains to be learned in order to support micro enterprises effectively. Three types of inquiries seem to be important to target support programmes for the informal sector:

- (i) to collect more information by means of detailed surveys on the employment generation prospects of various informal sector activities;
- (ii) to keep rosters of non-governmental and grassroots organizations active in the promotion of the informal sector and document their experiences in this field; and
- (iii) there is need to collect information on specific local conditions prior to launching support programmes and projects.

People's and non-governmental organizations have an important role to play in implementing programmes and activities. This should be in partnership with governments, donors and other social partners to promote the sector and assist in sustaining an enabling environment for its growth in Africa.

