

The Role of Meso-level Institutions on Informal Enterprises In Sub-Saharan Africa

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How do you get resources in the shadow?

The majority of enterprises we are familiar with operates in the light. They present a formal legal status, pay taxes and provide social insurances for their employees. This means that they can access loans from the banks, join development programs, and benefit from wide national and international networks.

Thanks to these resources, it is easy for such enterprises to grow and succeed. But how does it work in low-income countries in Sub-Saharan Africa? There, the majority of enterprises is in the shadow of government authorities. They do not have a legal status, do not pay taxes and do not provide social insurances for their employees. The entrepreneurs usually do not have a bank account, can not join any development programs, and have no access to national and international networks. Is it possible to exploit entrepreneurial opportunities efficiently in such circumstances?

In our research, we focus on informal enterprises operating in rural Mali, Sub-Saharan Africa. The region is extremely poor and subjected to high rate of terrorist attacks. The communities in this setting are like isolated islands in the ocean. They are usually 300-400 km away from the main urban areas, which equals to a day trip with local transportation facilities. The enterprises have no contacts with the outside. They are not aware of the national law, but follow their own codes of conducts and behavioural practices.

We visited six rural communities during March and October 2019. Before talking to the entrepreneurs, we needed to gain trust from the old community chiefs. They were the ones deciding if foreigners could approach the locals. Once received their permission, everyone in the village became supportive and we could start our data collection.

We talked to 29 informal entrepreneurs and observed them during their daily operations. We conducted 78 interviews in total with restaurant owners, small food retailers, metalworkers, farmers, hairdressers, and tailors. We did not speak the local language, so the support from local translators was essential in this phase.

Analysing the empirical data, we discovered that informal entrepreneurs in

resource-constrained environments are resourceful, ingenious and cohesive. They have no access to formal credit schemes, or any kind of support from the government, but if they are in need, they always find at least one person in their community ready to say “count on me!”.

The so-called “tontine” system is an example of solidarity practice and resourceful behaviour: informal entrepreneurs form self-help groups for collecting and redistributing money among themselves. Each month a group leader selects randomly the lucky entrepreneur, who will receive the money gathered from all group members. The loan will allow the purchase of machineries, or the construction of a new settlement.

Another example relates to local practices adopted by informal entrepreneurs to get human and social resources. A friendly carpenter explained us that he had never provided written contracts to his trainees. This was because he, like most people in the community, was unaware of the applicable legislation in terms of employment. Instead, the usual procedure is to talk to the families of the trainees and negotiate fair compensation in addition to the professional training provided. These verbal contracts do not take into account issues such as social security, insurance coverage or labor rights. However, they are a valuable opportunity for young people to get a professional training. The elders in the community value these practices as extremely important. This is the reason why they appointed the carpenter as "leader of the youth".

These examples show that it is possible to follow alternative pathways for getting resources when you operate in the shadow, under constrained conditions. Rural entrepreneurs in Mali are not aware about national regulations and can not benefit from formal schemes and programs. However, they can rely on solidarity practices, traditional systems and local rules. Contrary to expectations, they are able to mobilize substantial resources easily thanks to their intricate networks of relationships and cohesiveness in the community.

We generally think that informal entrepreneurs have a lot to learn from formal entrepreneurs. However, our study shows that formal entrepreneurs operating in the light may also learn a lot from the practices taking place in the shadow. Adopting solidarity practices and cohesiveness, they may get more from the people around them and use their communities as ingenious source of resourcefulness.

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