emeraldinsight

Journal of Entrepreneurship in Emerging Economies

An inclusive approach to regulating the second economy: A tale of four Sub-Saharan African economies

Donath Olomi, Goodluck Charles, Norma Juma,

## Article information:

To cite this document:
Donath Olomi, Goodluck Charles, Norma Juma, (2018) "An inclusive approach to regulating the second economy: A tale of four Sub-Saharan African economies", Journal of Entrepreneurship in Emerging Economies, https://doi.org/10.1108/JEEE-08-2017-0056
Permanent link to this document:
https://doi.org/10.1108/JEEE-08-2017-0056

Downloaded on: 16 October 2018, At: 23:57 (PT)
References: this document contains references to 60 other documents.
To copy this document: permissions@emeraldinsight.com
Access to this document was granted through an Emerald subscription provided by
Token:Eprints:TGCST7SPFYKG7MIBMD2X:

## For Authors

If you would like to write for this, or any other Emerald publication, then please use our Emerald for Authors service information about how to choose which publication to write for and submission guidelines are available for all. Please visit www.emeraldinsight.com/authors for more information.

## About Emerald www.emeraldinsight.com

Emerald is a global publisher linking research and practice to the benefit of society. The company manages a portfolio of more than 290 journals and over 2,350 books and book series volumes, as well as providing an extensive range of online products and additional customer resources and services.

Emerald is both COUNTER 4 and TRANSFER compliant. The organization is a partner of the Committee on Publication Ethics (COPE) and also works with Portico and the LOCKSS initiative for digital archive preservation.

*Related content and download information correct at time of download.

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

The current issue and full text archive of this journal is available on Emerald Insight at:
www.emeraldinsight.com/2053-4604.htm



# An inclusive approach to regulating the second economy

## A tale of four Sub-Saharan African economies

Donath Olomi
*Institute of Management and Entrepreneurship Development (IMED), Dar es Salaam, Tanzania*

Goodluck Charles
*Department of Marketing, Business School, University of Dar es Salaam, Dar es Salaam, Tanzania, and*

Norma Juma
*School of Business, Washburn University, Topeka, Kansas, USA*

Received 8 August 2017
Revised 31 December 2017
24 February 2018
Accepted 26 February 2018

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

## Abstract

**Purpose** – This study aims to examine the experiences and lessons from formalisation initiatives in four sub-Saharan African countries. Drawing upon the three main theories that explain the existence of business informality – the exclusion model, rational exit model and dual economy model – the study offers an alternative path to business formalisation.

**Design/methodology/approach** – The researchers adopted a descriptive-qualitative method, and through the triangulation of data, identified emerging themes and patterns.

**Findings** – The findings suggest that the informal sector has a small layer that responds to the simplification of regulations and a larger one that requires a different formalisation framework. This shift in paradigm, indirect or group formalisation, where business associations facilitate traceability (registration), self-regulation, access to resources and services for members was observed in all four of the economies studied: Kenya, Ghana, Rwanda and Tanzania.

**Research limitations/implications** – As with every qualitative study, subjectivity and interpretation inevitably affect the replicability and generalisability of the findings. However, the rich meanings emerging from the qualitative analysis of the text are critically insightful.

**Practical implications** – Developing countries should explore indirect formalisation. Provision of workspace and construction of business premises for informal operators should be given high priority. The model for building structures for micro enterprises should change in favour of ownership by the operators through their own associations or other private sector investors.

**Originality/value** – A pioneering study on cross-country analysis based on sub-Saharan African nations to unearth a new paradigm, a shift towards indirect or group formalisation.

**Keywords** Informal sector, Sub-Saharan Africa, Shadow economy, Business informality, Inclusive formalization, Indirect formalization

**Paper type** Research paper

The authors acknowledge the financial support of the Business Environment Strengthening Programme for Tanzania – Dialogue (BEST-Dialogue) and the Beatrice Research Grant, Washburn University. To the best of the authors' knowledge, none of the authors or the funding university/agency has any actual or potential conflict of interest with the subject matter of this manuscript.

Journal of Entrepreneurship in Emerging Economies
© Emerald Publishing Limited
2053-4604
DOI 10.1108/JEEE-08-2017-0056

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

## Introduction

Economic activities are considered informal because they operate outside the law and account for a significant part of income and employment in most developing countries. The informal sector enables people from all walks of life to obtain power and control over their own means of subsistence (Muller, 2005; Muller and Posel, 2004) and to flexibly explore their talents, skills and opportunities by starting the entrepreneurial journey at a very basic level. However, these activities are unrecorded, legally unrecognised and unprotected (Williams and Nadin, 2010). Most operators grapple with hostility, unpredictability and lack of property rights[1]. They face poor access to workspace and basic services and are characterised by low levels of productivity, incomes, growth and poor quality of jobs (La Porta and Shleifer, 2014; Kistruck *et al.*, 2015). Informal firms do not directly pay taxes and may present unfair competition to the formal ones (Abdallah, 2017; Farrell, 2004; Levy, 2008). Informality thwarts poverty reduction by trapping the poor in a vicious cycle of low awareness and capacity – lack of legal protection and access to basic services – and low productivity and income (Hudson *et al.*, 2012; Wangwe and Mmari, 2014).

Formalisation attempts have, however, had very limited success. Some scholars have questioned the argument that informality tends to decline proportionately with GDP growth or economic transformation, citing Indonesia and South Africa as examples. For instance, despite substantial growth and the transformation of Indonesia from an agrarian to an industrialised, medium income economy, over 90 per cent of its enterprises are informal (Rothenberg *et al.*, 2016), while South Africa's first-world economy co-exists with a large informal economy. In fact, it is estimated that 83 per cent of the micro, small and medium enterprises in South Africa are informal (Finscope, 2011).

The main approach used to realise formalisation is regulatory simplification. However, increasing research evidence shows that this approach works for only a small part of the informal economy (DCED, 2017; Olomi and Urassa, 2016). La Porta and Shleifer (2014, p. 110) found that while the avoidance of taxes and regulations is a significant reason for informality, lowering registration costs neither brings many informal firms into the formal sector nor unleashes economic growth. They also found that informal firms rarely transition to formal ones, lending support to the dual model of informality.

In a study of Latin American firms, La Porta and Shleifer (2008) found that, on average, 91 per cent of registered firms started out as registered. The dual model of informality posits that informal firms reside in an economic space of their own, disconnected from the formal space. According to La Porta and Shleifer (2014), the supply and demand factors keep informal and formal economies separate. As long as the vast majority of the population lives in poverty, there will be insufficient demand for quality products and services from the formal sector. The formal sector will remain small, catering to a minority of formal workers who can afford higher quality, more expensive goods, while the informal sector will provide low-quality products cheaply to the vast majority of the population who cannot afford the output of the formal sector. This raises the question as to what kind of models can address this challenge.

This study sought to explore and draw lessons from the approaches and modalities used to deal with informality. The main question was what can be learnt from international experience in managing and transforming the informal economy. The specific objectives were as follows:

- to critically examine the nature and causes of business informality;
- to examine the experience, challenges, success stories and lessons from initiatives to manage and transform informality; and
- to seek fresh insights and bring fresh ideas into the business formalisation debate.

The rest of this paper proceeds as follows. In the next sections, an in-depth literature review on the nature and causes of informality is presented. Next, using a qualitative case study approach, a comprehensive analysis is conducted to illustrate how the four economies examined in this study have attempted to address informality. Based on the qualitative case analysis, propositions that reflect the findings were formulated. Following the analysis, the paper discusses implications from what was learnt about the four economies in managing and transforming the informal economy. The paper then concludes by presenting the limitations of this study and suggesting future research directions.

## Theoretical foundation

### *Nature and causes of business informality*

The informal sector is characterised by ease of entry, reliance on indigenous resources, family ownership of enterprises, small scale of operations, labour-intensive technology, skills acquired outside the formal school system and unregulated and competitive markets (Hart, 1973; Rakowski, 1994; Sáinz, 1995). Commonly used criteria in identifying informal firms are legal personality, registration and licensing, type of workspace and employment arrangements (Maloney, 2004). A distinction is sometimes drawn between *de jure* (legal) formalisation and *de facto* (practice) formalisation (Nelson and De Bruijn, 2005). The informal economy is highly heterogeneous in terms of type of activity, scale of operation, quality of workspace, educational level of operators, motive, dynamism, degree of legal compliance, etc. (Utouh, 2012; La Porta and Shleifer, 2014).

There are three main theories explaining the existence of business informality: the exclusion model, rational exit model and dual economy model. According to the *exclusion model*, businesses are rendered informal by legal requirements that are too complex, costly and/or culturally alien. While most regulations were implanted from Western developed economies, developing countries have many small/micro enterprises that cannot meet the cost of compliance (De Soto, 2000), as well as high degrees of informalisation of political and economic markets whereby people make deals based on informal reciprocal relationships, rather than formal procedures (Ninsin, 1991; Hyden, 2004; Anuwa-Amarh, 2015). The disconnect between indigenous (the majority of informal businesses) and modern institutions leads to a lack of legitimacy (and thus enforcement) of the former (Hyden, 2004; Haili, 2014).

It is also argued that corporate and political interests may deliberately seek to sustain exclusion of a large part of the economy from the formal mechanisms for two reasons. First, the informal sector functions as a cost-reducing mechanism for formal capitalist enterprises, which enables them to increase competitiveness through dependence on cheap, non-compliant suppliers and distributors (Castells and Portes, 1989). Secondly, for politicians, the informal sector may function as a vote bank. Because informal operators do not live by the law, some politicians take advantage of this vulnerability to trade protection for votes (Sarkar, 2006; Shami and Majid, 2014; Chatterjee, 2004). Thus, according to the *exclusion model*, these punitive, cumbersome and culturally insensitive formalisation models exclude, or hold back, a magnitude of entrepreneurs (De Soto, 1989, 2000). These entrepreneurs are unable to access formal financial resources, such as government grants and bank loans, and lack the legal standing to secure government contracts and enter the formal market. Proponents of the *exclusion model* argue that formalisation can be greatly enhanced if these cumbersome government regulations and other institutional barriers are removed or reduced.

Conversely, in a series of recent studies using World Bank Enterprise Survey (WBES) data, Williams *et al.* have questioned the widespread assumption that firms starting as

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

unregistered in the informal economy tend to experience poor performance compared to those that are registered in the formal economy at their inception. They found that formal enterprises that started as unregistered and stayed so for a longer period have significantly higher subsequent annual sales and productivity growth rates compared to those that were registered at inception (Williams and Kedir, 2017a, 2017b; Williams and Kedir, 2016; Williams *et al.*, 2017). Williams *et al.* argued that in weak institutional environments, such as those highly prevalent in developing countries, the advantages of registering at inception are offset by the gains of deferring business registration and the low risks of detection and penalisation. They called for a paradigm shift towards policies that are more positive and aim at improving the benefits gained from business registration and eradicating or minimalising the systemic formal institutional deficiencies that discourage entrepreneurs from registering their ventures from the start. Abdallah (2017) makes similar arguments to Williams *et al.*, he found that in Tanzania, the firms in the informal sector registered higher growth rates than their counterparts.

According to the *rational exit theory*, a segment of business operators consciously decides to be informal to avoid compliance costs associated with rules, regulations and taxes, as well as the convenience and flexibility offered by operating informally (Nelson and De Bruijn, 2005; Maloney, 2004; Chen, 2012; Rothenberg *et al.*, 2016). SMEs will evade formalisation when the costs of formality are greater than its benefits (Levy, 2008; Maloney, 2004). Rothenberg *et al.* argued that entrepreneurs make the formality decision like any other investment decision, carefully considering the expected return on the investment. Some of the commonly listed benefits that accrue to formalised firms that may elude informal firms are government contracts, access to training and development programs, financial inclusion, ready access to government grants, bank loans, legal standing-avoiding harassment from corrupt officials, etc. These benefits are pitched against the cost of formalisation, such as the cost of registration and, the cost of compliance with various regulations, taxations, etc. Thus, according to proponents of the *rational exit model*, formalisation can be achieved by increasing the benefits while reducing the cost of formality. Moreover, all and any existing benefits of formalisation must be made salient while enforcing registration requirements (Rothenberg *et al.*, 2016).

The *dual economy model* casts the informal sector as a unique segment of the economy, characterised by low levels of skills, poor technology, low productivity and low incomes and, therefore, the inability to comply with the standards of the "modern" economy (La Porta and Shleifer, 2008). Poor and low-skilled people view the informal sector as the only option for securing their livelihoods (Lewis, 1954; Chowdhurry, 2007). Contrary to the other two theories, the *dual economy model* holds that structural reforms, such as reduction in registration costs and the simplification of the legal requirements, are unlikely to enhance the formalisation of the informal sector. The informal sector is viewed as meeting a need that the formal sector cannot provide given its cost structure. Thus, the two sectors are fundamentally different (La Porta and Shleifer, 2014) and as long as there is a strong demand for the informal sector's products, its presence will persist.

Initial views of the *dual economy* assumed that it was a temporary phenomenon that would disappear as the modern sectors expanded (Lewis, 1954). According to this school of thought, formalisation can be enhanced through economic development, which would increase the earning potential of those at the bottom of the economic pyramid and, in turn, would increase the demand for formal sector products while decreasing demand for the informal sector's products (Rothenberg *et al.*, 2016). However, it is now becoming clear that most informal operators are trapped in a vicious cycle by their low resource endowments

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

and legal and economic structures that are increasingly excluding them. Several countries have already acknowledged the existence of a "second economy" that requires a special policy and regulatory framework (Olomi and Urassa, 2016).

## Methodology

### *Research approach*

The study adopted a descriptive-qualitative method (Lambert and Lambert, 2012) through document review, in-depth interviews, focus group discussions and stakeholder validation meetings that were mainly based on the explorative research design. Through the triangulation of data, comparisons and critical reflection, the researchers identified emerging themes and patterns. Following Carneiro *et al.* (2016), the researchers used different data collection strategies and different data sources for content validity purposes. The study started without any preconceived ideas or framework, allowing important findings to shape the paper.

In previous research, the case study method was used to provide theoretical and practical insights (Arenas, Sanchez and Murphy, 2013). In this exploratory research, the goal was to critically examine the nature and causes of business informality, as well as the initiatives that have facilitated or hindered the transformation of business informality. Given the paucity of research in this specific area and, more precisely, in Africa, the case method is appropriate as it facilitates the exploration and analyses of this complex social phenomenon (Eisenhardt, 1989; Yin, 2003). The cases presented here were selected on the basis of theoretical sampling, as they were considered appropriate for providing new insights into the nature and causes of business informality in Sub-Saharan Africa, given the region's recent regulatory reforms and attempts at formalisation (Eisenhardt, 1989; Stake, 1995). Each country included in the sample met the following criteria:

- located in sub-Saharan Africa;
- undertook regulatory reforms and/or made documented attempts at formalisation of firms in the informal sector during the past five years; and
- in each country the study was conducted in the capital city and major cities, where entrepreneurial activities tend to be most intense and where the key government offices are located.

As with every qualitative study, the subjectivity and interpretation inevitably affect the replicability and generalisability of the findings. However, arguably, the rich meanings emerging from the qualitative analysis of the text are critically insightful (Krippendorff, 1980). Krippendorff opined that in qualitative studies, it is not so much about how objectively a study is executed, but rather how compellingly it is presented that makes a piece of research valuable to the scientific community.

There are two main approaches to gathering and analysing case study data. First, there is the nested approach which examines multiple sources within a single organisation (country) (Yin, 2009) and then there is the cross-case analysis approach, which may involve four to ten case studies of different organisations (countries) (Eisenhardt, 1989). In this study, both approaches are adopted. The nested approach is used to analyse interviews scripts gathered within each country, and the cross-country analysis is used to analyse the commonalities among the countries.

*Data collection.* In the nested approach (Yin, 2009), the interview participants included the local governments, the central government ministries and agencies relevant to

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

formalisation issues, and the informal sector operators and their associations (A sample of interview protocol [semi-structured questions]):

(1) Questions to the micro and small enterprises authority.
- How are micro enterprises regulated in your country?
- Briefly outline for us your country's history of micro enterprises policies and regulations?
- Is online registration and licensing practiced in your country? If yes, did your country change laws and regulations to make it possible?
- How long does it take to register micro enterprises in your country? Does this vary by region, e.g. rural areas vs urban regions?
- How much does it cost to register micro enterprises? In your opinion, is that affordable to micro enterprises?
- What services does the government provide for micro enterprises? Are these services provided to registered micro enterprises or all micro enterprises?
- What incentives programs has the government implemented to encourage micro enterprises to register? Does the government measure the impact of these programs?

(2) Questions to street traders and food vendors.
- Is your business registered or licenced? If yes, by who?
- If licensed or registered, how much do you pay for your registration/licence? Is that affordable to you?
- If not licensed or registered, does that affect your ability to access vital services such as loans or training from the public or/and private sector?
- Are you a member of an association/ a cooperative? If yes, what are the benefits of being a member?
- Have you ever received any assistance from the government?
- What are some of the greatest challenges in your line of business?

(3) Questions to associations/cooperatives.
- What is the aim of your organization and who are your members?
- What benefits do your members get from your organization?
- Is your organization recognized by the government? If yes, what assistance have you received from your government?

Appendix 1 reflects interview and participant observation data, while Appendix 2 depicts validation events. The narratives tell the story of the experiences, challenges, success stories and lessons from multiple stakeholders, as well as the initiatives that have enabled or prohibited the transformation of business informality. Cross-country analysis was done among four countries, namely, Tanzania, Ghana, Kenya and Rwanda. The geographical coverage included Dar es Salaam, Mwanza and Moshi in Tanzania, Kigali (Rwanda), Nairobi (Kenya) and Accra (Ghana). Secondary data were gathered from the *World Bank Doing Business* database and *World Bank Doing Business* reports from 2015-2017[2].

*Analysis*

A systematic approach advocating for grounded methods research was adopted (Auerbach and Silverstein, 2003; Corbin and Strauss, 2014). First, the driving research questions were

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

identified, as earlier stated, to guide the data collection and analysis. The target populations and the specific classes of participants within these populations were then selected. Theoretical sampling, where participants were chosen for theoretical, not statistical, reasons was deployed (Eisenhardt, 1989; Stake, 1995). Each country was selected based on its record in managing informality and documented attempts at formalisation. Consequently, in each country, the capital city and any major cities were selected given the intensity of the entrepreneurial activities and the location of key government offices in these cities.

Secondly, an interview protocol was generated. The protocol was structured to explore the dimensions involved in transitioning informal enterprises, particularly among those in less industrialised nations (see the sample of interview protocol [semi-structured questions]). The interview protocol called for developing an instrument that would assist us in conducting an in-depth investigation of the process and nature of the factors that have eased or deterred the transformation of business informality.

Thirdly, semi-structured, face-to-face, in-depth interviews were conducted with local governments, central government ministries and agencies relevant to formalisation issues, informal sector operators and their associations. Structured questions were used on all interviewees, and each person was asked the same questions. However, whenever a respondent's point was not clear or when a respondent shared a fascinating point, unstructured questions were used to seek clarification or deeper insights. The validation events (Appendix 2) were used throughout the iterative data collection as advocated for in grounded theory (Glaser and Strauss, 1967; Charmaz, 2006). Grounded theory requires constant comparison between data collection, data coding and theory development until enough information to fully develop (or saturate) the model is generated.

Fourthly, data from each country were coded using the nested approach (multiple interviews from multiple stakeholders within each country). Archival data were also used to triangulate the data. In the event of any inconsistencies, clarification was sought from the concerned stakeholder. The data from *World Bank Doing Business* were used to generate cross-country comparative charts and tables, while an in-depth content analysis was conducted on the *World Bank Doing Business* reports from 2015-2017 using NVivo 11.0. Two authors independently coded the data, and discrepancies were resolved through discussion and the re-examination of the data. After using the nested approach, cross-country analysis was used to identify the commonalities among the four countries.

Lastly, feedback from experts in the field was sought. Initially, colleagues were consulted and later, an early draft of the article was presented at a formalisation Stakeholder Validation Meeting in Dar es Salaam, a national conference of local authorities in Tanzania and also at an international conference (Appendix 2). The analyses were further refined based on feedback (Bruton, Khavul and Chavez, 2011).

## Findings

### *Direct vs indirect formalisation*

The study has identified two major approaches in realising the objectives of formalisation. The conventional approach to formalisation has been *a direct one*, whereby the government, its agency or a local government deals directly with the businesses to provide formalisation related interventions, such as registration, licensing, training, information, allocating, constructing and managing workspace. The research team observed an emerging, *indirect approach to formalisation*, whereby the state, its agency or the local government empowers and partners with business associations to improve traceability, control and access to capacity building, access to premises and markets, voice, etc. In indirect formalisation, control over the informal business activities is partly through self-regulation mechanisms

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

within the associations or cooperatives. Below, the study examines and compares the experiences and lessons from these two approaches.

*Direct formalisation approaches and initiatives*

In this section, the paper will discuss findings from the various direct measures that the four countries have used to encourage formalisation. The findings were first derived from the field study and then validated through content analysis of the World Bank reports and analysis of World Bank data.

*Simplification of regulations.* The field study indicated that all the countries included in this study have implemented several programs intended to simplify business regulations. The reforms have included automation of name search and online registration (Kenya, Tanzania and Rwanda), mobile phone registration (Kenya) and online and single payment of registration fees (Kenya, Tanzania and Rwanda). In 2005, Ghana introduced a reform program, which was primarily aimed at reducing the time and cost of registering businesses as well as decentralising registration to make it more accessible. In 2009, Ghana engaged in yet another regulatory reform by integrating the various tax agencies (Customs, Internal Revenue and value added tax – VAT) to enhance information flow and reduce compliance costs in hopes of promoting voluntary compliance (Table I).

A cross-country analysis of the *World Bank Doing Business* data ranks Rwanda first among this group of countries in terms of ease of doing business indicators, followed by Kenya and Ghana. Tanzania is ranked just above the regional average (Table II). Rwanda was ranked number two in sub-Saharan Africa in 2014, 2016 and 2017 and third in 2015. At the global level, it was ranked 62 and 56 in 2016 and 2017, respectively (World Bank, 2017). In terms of ease of doing business, Rwanda takes the lead on all but two featured categories. Rwanda leads in access to credit, property registration, ease of tax payment and ease of starting a business, while Tanzania takes the lead in readiness in attaining electricity and Ghana leads in construction permits (Figure 1). A similar trend is observed in 2016-2017 World Bank data (Table II).

However, it is also important to note that Rwanda has the lowest gross national income (GNI) per capita, and the lowest national population. Therefore, Rwanda is growing from a smaller base. Nevertheless, Rwanda has made remarkable growth in the aforementioned categories. For instance, Rwanda is ranked second in the world in terms of ease of accessing credit, while the region's average rank is 116.98 out of 190. Tanzania made the most remarkable improvement from being ranked 152 out of 190 (Distance to Frontier [DTF][3] of 25 out of 100) in 2016 to a rank of 44 (DTF score of 65) in 2017 in the ease of accessing of electricity category. Kenya was among the ten economies recognised for making the biggest improvements in business regulations in the last two consecutive years (World Bank, 2017). Table III summarises the most salient regulatory reforms accomplished by the four countries that are pertinent to this study. According to *Doing Business 2005 to 2017* World Bank data, Rwanda implemented a total of 47 reforms across all indicators. However, in this study, the content analysis table has highlighted only three reforms that are most relevant.

The cross-country analysis as depicted in Figure 1 demonstrates that all four countries have made attempts to simplify regulations and improve the ease of doing business. This is evident by the fact that they all rank above the region's average, except for Tanzania, in the ease of tax payment category and the ease of obtaining construction permits in Kenya and Rwanda. It is also imperative to note that the decline in some indicators was necessitated by the demand for higher standards or more stringent quality controls. For instance, Rwanda reinforced quality control by establishing required qualifications for architects and engineers. This reform increased both cost and time requirements and thus decreased access. However, this reform increased the overall integrity of the sector. In general, all four

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

| | Tanzania | Rwanda | Kenya | Ghana |
|---|---|---|---|---|
| *Direct formalisation approaches* | | | | |
| Simplification of business regulations | √ | √ | √ | √ |
| Voluntary pension schemes for individuals | √ | | | √ |
| Training on technical or business skills | √ | √ | √ | √ |
| Construction and management of markets and business complexes | √ | √ | √ | √ |
| Capacity building including provision of credit | √ | √ | √ | √ |
| Enforcement of regulations | √ | √ | √ | √ |
| Introduction of pension schemes for micro enterprise operators | √ | | | |
| Introduction of health insurance schemes for micro enterprise operators | √ | | | |
| *Indirect formalisation approaches* | | | | |
| Working with associations to support self-regulation | | √ | √ | √ |
| Group registration/registration certificate by LGA | √ | | | √ |
| LGA performance contracts with associations | | √ | | |
| Health insurance schemes through associations/registered groups | √ | | | |
| Subsidies for construction of offices | | √ | | |
| Free office space for associations | | | | √ |
| Issue of credit to association for on-lending to members | | | | √ |
| Government guarantee of association loans | | √ | | |
| Training on technical or business skills through associations | √ | | | √ |
| *Services offered by associations of informal workers to members (local authority/functions)* | | | | |
| Advocating for enabling environment | √ | √ | √ | √ |
| Capacity building (training) of members | √ | √ | √ | √ |
| Market information | √ | √ | √ | √ |
| Negotiating for bulk purchase of inputs | | √ | | √ |
| Negotiating for input prices/output prices and access to markets | √ | √ | | √ |
| Jointly building premises with LGA | √ | | | |
| Security | | | | √ |
| Self-regulation (self-policing on order and compliance to by-laws, LGA and national laws) | | √ | | √ |
| Access to pension schemes (registration of members) | | | | √ |
| Access to medical insurance schemes | √ | | | |
| Credit to members | √ | √ | | √ |
| Traceability (identity cards, databases) | √ | √ | | √ |
| Representation in employment issues | | | | √ |

**Table I.** Cross-country analysis based on field data

countries made progress in several dimensions, as evident from both the field study and the World Bank data.

Nevertheless, it is imperative to note that even though Rwanda has been so successful in reforming its business regulations, over 90 per cent of its enterprises are informal (Sparks and Barnett, 2010). Additionally, none of the other three countries have reduced informality. Studies in Asia and South America consistently show that regulatory simplification has very limited effect on formalisation (DCED, 2017; Rothenberg *et al.*, 2016; Olomi and Urassa, 2016). Adams, de Silva and Razmara (2013) found that in sub-Saharan Africa, nearly 70 per cent of employment outside farming is in the informal sector. They further assert that this phenomenon seems to be a significant and durable feature of Africa's economic landscape. Other studies have placed employment in the non-farming informal sector of Kenya as high as 77 per cent (Foeken and Owuor, 2008; Institute of Economic Affairs, 2012; International Labour Organisation, 2013). Thus, this study proposes that:

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

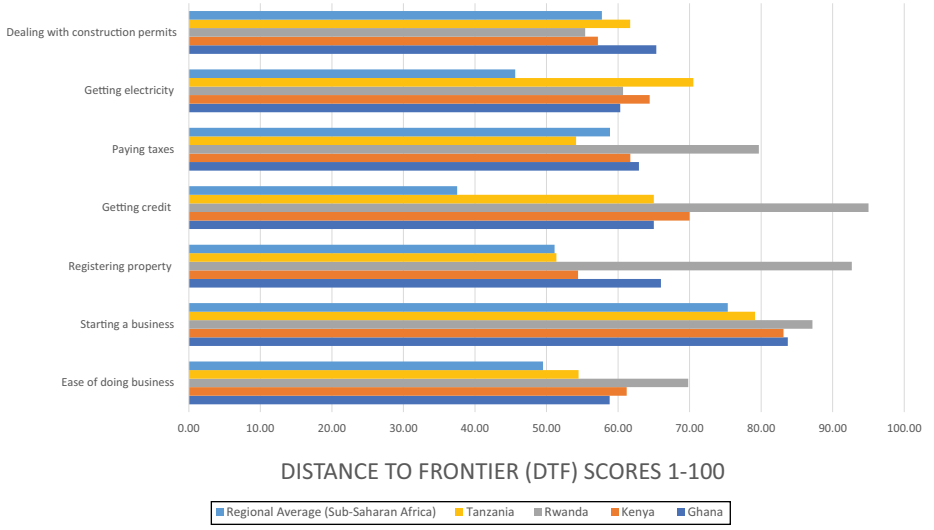
Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)



**Table II.**
Cross-country comparisons of countries' ranks and scores based on the World Bank's ease of doing business

| Characteristics | Ghana | | Kenya | | Rwanda | | Tanzania | | Regional average (sub-Saharan Africa) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Ease of doing business (Rank 1-190) | 108.00 | 114.00 | 92.00 | 108.00 | 56.00 | 62.00 | 132.00 | 139.00 | 143.00 | 143.00 |
| Overall distance to frontier (DTF) score (0-100) | 58.82 | 57.69 | 61.21 | 58.24 | 69.81 | 68.12 | 54.48 | 51.62 | 49.51 | 49.66 |
| Starting a business (Rank 1-190) | 110.00 | 102.00 | 116.00 | 151.00 | 76.00 | 111.00 | 135.00 | 129.00 | 126.71 | 128.00 |
| DTF score for starting a business (0-100) | 83.73 | 83.73 | 83.13 | 74.47 | 87.17 | 83.05 | 79.14 | 79.58 | 75.33 | 74.42 |
| Registering property (Rank 1-190) | 77.00 | 77.00 | 121.00 | 115.00 | 4.00 | 12.00 | 132.00 | 133.00 | 131.90 | 132.00 |
| DTF score for registering property (0-100) | 65.99 | 66.12 | 54.40 | 56.63 | 92.67 | 87.75 | 51.37 | 51.37 | 51.12 | 50.89 |
| Getting credit (Rank 1-190) | 44.00 | 42.00 | 32.00 | 28.00 | 2.00 | 2.00 | 44.00 | 152.00 | 116.98 | 118.00 |
| DTF score for getting credit (0-100) | 65.00 | 65.00 | 70.00 | 70.00 | 95.00 | 95.00 | 65.00 | 25.00 | 37.50 | 35.85 |
| Paying taxes (Rank 1-190) | 122.00 | 106.00 | 125.00 | 101.00 | 59.00 | 48.00 | 154.00 | 150.00 | 130.17 | 131.00 |
| DTF score for paying taxes (0-100) | 62.91 | 71.24 | 61.72 | 71.96 | 79.69 | 81.48 | 54.13 | 59.25 | 58.88 | 58.01 |
| Getting electricity (Rank 1-190) | 120.00 | 121.00 | 106.00 | 127.00 | 117.00 | 118.00 | 87.00 | 83.00 | 151.04 | 149.00 |
| DTF score for getting electricity (0-100) | 60.30 | 59.48 | 64.43 | 58.57 | 60.69 | 60.04 | 70.52 | 70.29 | 45.62 | 46.97 |
| Dealing with construction permits rank (1-190) | 117.00 | 132.00 | 152.00 | 149.00 | 158.00 | 37.00 | 136.00 | 126.00 | 132.77 | 130.00 |
| DTF score for dealing with construction permits (0-100) | 65.34 | 62.32 | 57.18 | 59.37 | 55.40 | 76.34 | 61.69 | 62.85 | 57.75 | 58.70 |
| GNI per capita (US$) | $1,480.00 | 1,620.00 | 1,340.00 | 1,280.00 | 700.00 | 650.00 | 910.00 | 930.00 | * | * |
| Population | 27,409,893 | 26,400,000 | 46,050,302 | 45,500,000 | 12,988,423 | 2,100,000 | 53,470,420 | 50,800,000 | * | * |

**Notes:** Distance to frontier (DTF) scores; *No data available for 2016-2017. The latest data available are from 2015. Population of 1.001 billion and GNI per capita of US$1,637.30. **Source:** The World Bank Database (www.doingbusiness.org/data); http://data.worldbank.org/region/sub-saharan-africa




**Source:** The World Bank Database (www.doingbusiness.org/data) 2017 data set

**Figure 1.**
2017 Countries' scores based on the World Bank's ease of doing business

| | |
|---|---|
| Ghana | *Access to credit*: Collateral registry reform project from 2008 to 2014 enabled the design and implementation of the first modern collateral registry in Africa, opening the market for secured transactions and collateral registry reforms in the region. Between its establishment in 2010 and the end of 2015, the registry facilitated$1.3bn in financing for small-scale businesses and $12bn in total financing for the business sector overall using only movable assets as collateral for loans |
| Kenya | *Ease of starting a business*: Removed the stamp duty fees required for the nominal capital, memorandum and articles of association<br>*Property registration*: Increased the transparency at its land registry and cadastre<br>*Access to electricity*: Introduced the use of a geographic information system which eliminated the need to conduct a site visit |
| Rwanda | *Ease of starting a business*: Improved the online registration making it a one-stop shop and streamlining post-registration procedures<br>*Construction permits*: Strengthened quality control by establishing required qualifications for architects and engineers<br>*Property registration*: Introduced effective time limits and increased the transparency of the land administration system |
| Tanzania | *Access to credit*: Expanded credit bureau borrower coverage and began to distribute credit data from retailers and utility companies. Enacted reforms guaranteeing borrowers' rights to access and inspect their data |

**Note:** Content analysis of World Bank (2017)

**Table III.**
Simplification of regulations: cross-country analysis based on 2017 World Bank report

*P1.* A majority of informal businesses are unlikely to transition to the formal sector even when regulations are simplified.

*Provision of workspace.* Except for Kigali (Rwanda), none of the cities visited have found a workable solution for providing workspace for informal operators. In Dar es Salaam (Tanzania), the Ilala Municipal Council borrowed funds from a pension fund to build a six-

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

storey complex for machingas (street traders). However, the building remains largely unoccupied due to its unattractive location, the trading space being enclosed and too big and expensive for the street traders who need (and can afford) much less space and whose business models rely on open (unenclosed) spaces and street traders resisting the rental fee set by the municipal council.

In Kenya, Nairobi County completed the Muthurwa market, which was designed to accommodate 8,000 street traders in 2008. Street traders resisted the rental fees initially set and moved in only after the fees were halved. The market now accommodates 16,000 traders, twice the intended number, and is already being wrecked by overcrowding and inadequate maintenance.

Mwanza (Tanzania) and Accra (Ghana) tried to woo private investors to set up similar complexes through public–private partnerships, but the investors turned down the offers after realising that they would not be able to charge economic rates due to the solidarity of street traders and the politicisation of the rentals. Government-owned premises in each of the countries examined tended to charge lower than market prices, leading to capture and rent seeking by public sector workers and initial occupiers. Thus, the study proposes that:

*P2a*. Informal businesses are unlikely to transition to the formal sector when an inapt workspace is provided.

*P2b*. The direct management of a workspace for informal operators by government or governmental agencies is likely to be ineffectual.

*Capacity building*. All local governments have some form of capacity-building activities (training, credit programs, support of the formation and strengthening of groups of informal operators, etc.) for micro enterprises. Interviews in all four countries revealed that capacity-building and credit programs designed for micro enterprises have been *ad hoc* and are not sustainable and have little visible impact.

In Ghana, capacity building is mainly provided by community development officers or field officers at both the assembly and sub-assembly levels. However, the training is rudimentary at best and the trainers ill-equipped. The training is focused mostly on very basic needs and targets the very poor. The training agenda seems not to be geared towards empowering informal sector operators to formalise and grow, but rather to eke out a living. Kenya has no specific government-sponsored capacity programs directed at informal traders and street vendors. In Tanzania, the community development department deals with the capacity building of women's economic groups, while the youth development department deals with youth groups. However, there is no coherent coordination or promotion of informal sector operators.

Thus, this paper proposes that:

*P3a*. Informal businesses are unlikely to transition to the formal sector when inapt capacity building is provided.

*P3b*. Direct capacity building of individual informal operators is likely to be ineffectual if it is not market-orientated and learner-focused.

*Enforcement of regulations*. Enforcement of regulations is implemented mainly by local governments, which maintain special security personnel for this purpose. However, given the large number of operators, local authorities also contract private firms to collect levies and fine operators who infringe the bylaws. In all cities except Kigali (Rwanda), this has led

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

to persistent clashes between law enforcement agents and operators. The enforcement agents are often accused of corruption, destruction and illegal confiscation of the operators' tools and products. This harassment is one of the biggest complaints of informal operators.

Analysis of the *World Bank Doing Business* data and content analysis of the *Doing Business 2017 Report* partially explain Rwanda's success in the enforcement of regulation. Rwanda's rank improved from 127 out of 190 in 2016 to 95 in 2017 (Table IV). In January 2016, the country introduced the Integrated Electronic Case Management System in Kigali city courts and all commercial courts (Table V). This reform resulted in a considerable reduction in cost and time and greatly enhanced transparency and the reliability of statistical data on court operations. This may encourage operators to pursue justice due to the affordability and reliability of the court system. Figure 2 places all four nations above the regions' average in the "enforcing contract" category. Kenya's DTF score in the "resolving insolvency" category improved by 12.75 per cent from 2016 to 2017. This improvement coincided with Kenya adopting a new Insolvency Act in 2016 (Table V). An overall examination of the enforcement of regulations using field study data and archival data demonstrates that these countries are still relatively weak in enforcement of regulations. Tanzania leads with a DTF score of 61.66 per cent, while the region as a whole averages at 47.73 per cent. Rwanda only scored a 56.76 per cent even after the reforms (Table IV).

Thus, the paper proposes that:

*P4a*. Informal businesses are unlikely to transition to the formal sector when inapt enforcement of regulations is imposed.

*P4b*. Direct enforcement of regulations pertaining to informal operators by the government is likely to be ineffectual when the regulations or the implementers are ill-equipped.

*Indirect business formalisation*

There seems to be a paradigm shift towards the indirect formalisation of informal businesses. Some of the indirect formalisation approaches in the four countries studied are shown in Table I.

Rwanda is consciously encouraging, and even forcing, every business operator who cannot get a conventional license to join a cooperative (at least ten people are needed to form a cooperative), with a database of members and a certain minimum level of self-regulation and services to members. Associations are encouraged to develop workspace for their members. The local governments engage closely with the cooperatives, supporting capacity building, access to finance, access to land and, in some cases, guaranteeing loans for the construction of workspace owned by the cooperative. The cooperatives organise training for members, whether the training is offered by government agencies, development partners or by the cooperative itself.

Though not as developed as in Rwanda, the other three countries studied have active associations that are working with the local and central governments, as well as development partners, to enhance organisation, traceability, capacity and access to important services to members. Table I summarises what is being done by at least some associations in each of the countries.

VIBINDO Society, the biggest association of micro enterprises and informal workers in Tanzania, provides ID cards, policy advocacy, medical insurance and credit to members. Market (including weekly markets – *magulio*) traders have basic forms of internal regulations (payment of fees, cleaning and code of conduct at the market) and which provide security in markets. Motor vehicle drivers have also agreed on a schedule of operations, fare, and a code of conduct, which are all strictly enforced.

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)



**Table IV.**
Cross-country comparisons of countries' ranks and scores based on the World Bank's data on enforcement of regulations

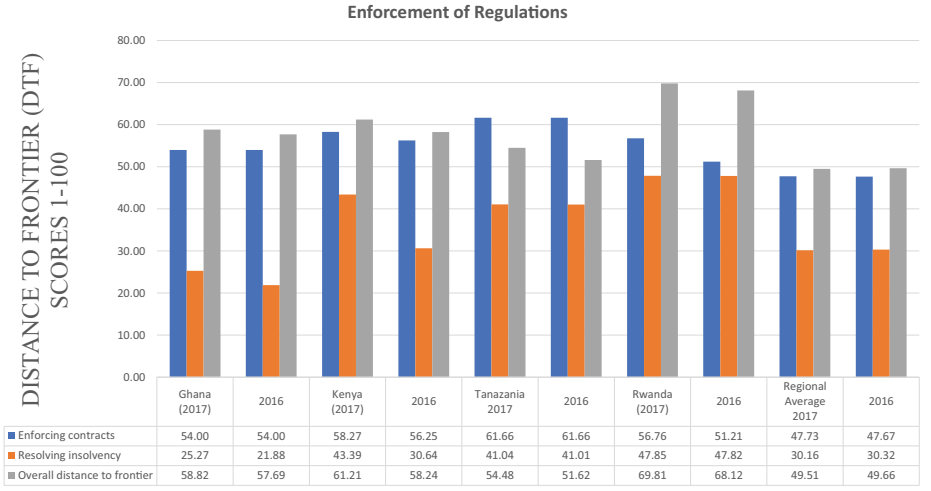
| Enforcement of Regulations | Ghana | | Kenya | | Tanzania | | Rwanda | | Regional average (sub-Saharan Africa) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Enforcing contracts (Rank 1-190) | 114.00 | 116.00 | 87.00 | 102.00 | 59.00 | 64.00 | 95.00 | 127.00 | 130.52 | 132.00 |
| DTF score for enforcing contracts (0-100) | 54.00 | 54.00 | 58.27 | 56.25 | 61.66 | 61.66 | 56.76 | 51.21 | 47.73 | 47.67 |
| Resolving insolvency (Rank 1-190) | 155.00 | 161.00 | 92.00 | 144.00 | 100.00 | 99.00 | 73.00 | 72.00 | 123.54 | 128.00 |
| DTF score for resolving insolvency (0-100) | 25.27 | 21.88 | 43.39 | 30.64 | 41.04 | 41.01 | 47.85 | 47.82 | 30.16 | 30.32 |
| Ease of doing business (Rank 1-190) | 108.00 | 114.00 | 92.00 | 108.00 | 132.00 | 139.00 | 56.00 | 62.00 | 143.00 | 143.00 |
| Overall distance to frontier (DTF) score (0-100) | 58.82 | 57.69 | 61.21 | 58.24 | 54.48 | 51.62 | 69.81 | 68.12 | 49.51 | 49.66 |
| GNI per capita (US$) | 1,480.00 | 1,620.00 | 1,340.00 | 1,280.00 | 910.00 | 930.00 | 700.00 | 650.00 | * | * |
| Population | 27,409,893 | 26,400,000 | 46,050,302 | 45,500,000 | 53,470,420 | 50,800,000 | 12,988,423 | 12,100,000 | * | * |

**Notes:** Distance to frontier (DTF) scores; *No data available for 2016-2017. The latest data available are from 2015. Population of 1.001 billion and GNI per capita of US$1,637.30. **Source:** The World Bank Database (www.doingbusiness.org/data); http://data.worldbank.org/region/sub-saharan-africa

| | |
|---|---|
| Ghana | *Enforcing contracts*: In January 2016 was introduced the Integrated Electronic Case Management System in Kigali city courts and all commercial courts<br>Electronic portal combines company registration, information on tax obligations and duties and value added tax registration – saving entrepreneurs an average of two days and eliminating two interactions with government officials<br>Implemented the Integrated Electronic Case Management System, a Web-based application that integrates five main institutions of the justice sector, throughout Kigali's courts. Among other features, the system allows for the automatic registration of lawsuits, electronic organization and scheduling of cases and automated claims processing. Rwandan authorities expect the system to result in considerable cost and time savings along with increased transparency and more reliable statistical data on court operations |
| Kenya | *Resolving insolvency*: Introduced a reorganization procedure, facilitating continuation of the debtor's business during insolvency<br>Kenya adopted a new Insolvency Act which closely follows the insolvency framework of the UK |

Content Analysis of World Bank (2017)

**Table V.**
Enforcement of regulations: cross-country analysis based on World Bank data




| | Ghana (2017) | 2016 | Kenya (2017) | 2016 | Tanazania 2017 | 2016 | Rwanda (2017) | 2016 | Regional Average 2017 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Enforcing contracts | 54.00 | 54.00 | 58.27 | 56.25 | 61.66 | 61.66 | 56.76 | 51.21 | 47.73 | 47.67 |
| Resolving insolvency | 25.27 | 21.88 | 43.39 | 30.64 | 41.04 | 41.01 | 47.85 | 47.82 | 30.16 | 30.32 |
| Overall distance to frontier | 58.82 | 57.69 | 61.21 | 58.24 | 54.48 | 51.62 | 69.81 | 68.12 | 49.51 | 49.66 |

**Source:** The World Bank Database (www.doingbusiness.org/data) 2017 data set

**Figure 2.**
2016-2017 economies' scores based on the World Bank data on enforcement of regulations

The key feature of the policy and regulatory framework for micro enterprise in Kenya is that operators register with associations rather than the government. The Micro and Small Enterprises Agency (MSEA) envisions improved formalisation, beginning with enterprises being traceable through an association (35 members are needed to register one), formally recognised premises and finally, the formal registration these businesses, with built-in incentives to move to the next level. A Registrar of Micro and Small Enterprises Associations was established under the auspice of the Micro and Small Enterprises Act. Thus, the study proposes that:

*P5.* Informal businesses are likely to realise the benefits of formalisation (traceability, access to information, training, workspace, finance, insurance, etc.) when encouraged or required to join self-regulated cooperatives or associations.

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

## Discussion

This paper explored the nature and causes of business informality, while seeking to gain fresh insights from the experiences, challenges, success stories and lessons learnt from initiatives implemented by four sub-Saharan African nations in the process of managing and transforming informality. Regulatory reforms and initiatives designed to promote business formation and, ultimately, formalisation were analysed. A set of propositions were formulated that may serve as a guide for future research. This study has identified and documented a potentially powerful, indirect formalisation approach, under which registered cooperatives or associations register, regulate and provide critical services to informal operators. In the same way that group lending made micro credit possible, indirect formalisation promises to make regulating and servicing micro enterprises viable. However, the approach seems to have received almost no academic interest. The implication of these findings is that, for research and policy on business formalisation to be effective, the field needs to more critically examine the nature of informality in specific contexts. Also, it is critical to partition the informal economy into specific segments that lend themselves better to theory development and policy-making.

Developing countries should explore indirect formalisation as a more practical and inclusive approach to legally recognising their micro enterprises. Provision of workspace and construction of business premises for food vendors, street traders and other informal operators should be given high priority in all urban areas. The model for building structures for micro enterprises should change in favour of ownership by the operators through their own associations or other private sector investors.

The findings of the study have shed some light on emerging potentials and models for business formalisation. However, there is a lot that needs to be better understood to design appropriate formalisation policy. Foremost is to learn more about the different segments of the informal economy and how they are likely to respond to different policy measures. Secondly, it is important to find out how the special policy and regulatory frameworks are faring in the countries where they have been tried. There are many reasons why they may not work well, including resistance by politicians and policymakers and the risk of trapping otherwise growing micro enterprises in the second economy. It is also likely that indirect formalisation will work better in certain sub-sectors than others. Asongu and Tchamyou (2016), based on a sample of 53 African countries, found that there may be unexpected signs when the government policy is not effective. Such laxity in the formulation or implementation of policies tends to undermine business prospects in a wide spectrum of fields. Thirdly, attention should be directed towards understanding how the structure of a sector and the economy affects economic marginalisation and dualism, with a focus on identifying policy options that can result in a healthy co-existence of the two economies and maximising the potential and propensity of the second economy actors to graduate to the first economy.

## Conclusion and future research direction

This study started with a broad agenda, allowing insights to shape its direction. Future research can have a closer focus on the emerging perspectives and specific sectors. The merits of indirect formalisation can be examined and the model enhanced through quantitative research.

Government attempts to directly build capacity by providing finance or workspace to regulate micro enterprises are apparently not effective. There is an apparent paradigm shift towards indirect formalisation, under which business associations or

cooperatives are empowered to take greater responsibility for registration, self-regulation, capacity building, finance and provision and management of premises. Robust associations can create mutually re-enforcing dynamics among the key pillars of business formalisation. Such robust associations can police members, influence policymakers, provide or influence availability of premises and markets and contribute to capacity building, which, in turn, attracts members and strengthens the associations (Figure 3). This argument is consistent with Jardon and Tañski's (2018) findings. Jardon and Tañski found that space and place constraints small business success in resource scarce environments and accelerate growth in supportive environment with ready access to resources, complementary skills and knowledge, reinforcing the idea of agglomeration.

Working through organisations owned by the informal operators may enhance the legitimacy of the regulatory mechanisms. This may be a way of countering the disconnection between transplanted institutions with local economic actors, and according legitimacy to the formal institutions.

The use of indirect formalisation through empowering associations and cooperatives to deliver these formalisation services to their members is apparently far more effective and efficient compared to the use of formal government institutions. The cost structure of government institutions, as well as their capacities, does not match the task of engaging with a large number of very small and unstable businesses. Melese (2018) opined that government support often breed overdependency among the micro enterprises. Melese further argued that it is imperative for private sector to get involved in the eco-system by facilitating services such as savings and credit, business development and skills training. Additionally, the use of associations resolves challenges related to under-pricing and rent-seeking in workspaces managed by the government. Direct formalisation will work for only a small part of the economy and leaves out the base of the pyramid. Indirect formalisation has greater potential of being inclusive and reaching the population at the base of the pyramid.




**Figure 3.**
Mutually re-enforcing formalisation pillars

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

## Notes

1. Measure first, then cut. (2004). *Economist*, *372* (8392), 71.
2. The *World Bank Doing Business* database provides impartial qualitative and quantitative measures of business regulations and their enforcement across 190 nations. Each nation is ranked on ten sets of indicators, which constitute an overall "ease of doing business" ranking. (www.doingbusiness.org/data) accessed on 26 July 2017.
3. The DTF helps assess the absolute level of regulatory performance over time, for each nation. The "frontier," which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005. www.doingbusiness.org/data/distance-to-frontier. Accessed on 26 July 2017.

## References

Abdallah, G.K. (2017), "Differences between firms from the formal sector and the informal sector in terms of growth: empirical evidence from Tanzania", *Journal of Entrepreneurship in Emerging Economies*, Vol. 9 No. 2, pp. 121-143.

Adams, A.V., de Silva, S.J. and Razmara, S. (2013), *Improving Skills Development in the Informal Sector: Strategies for Sub-Saharan Africa*, World Bank Publications, Washington, DC.

Anuwa-Amarh, E.T. (2015), *Understanding the Urban Informal Economy in Ghana: A Survey Report*, Fredrich Ebert Stiftung, Ghana Accra.

Arenas, D., Sanchez, P. and Murphy, M. (2013), "Different paths to collaboration between businesses and civil society and the role of third parties", *Journal of Business Ethics*, Vol. 115 No. 4, pp. 723-739.

Asongu, S.A. and Tchamyou, V.S. (2016), "The impact of entrepreneurship on knowledge economy in Africa", *Journal of Entrepreneurship in Emerging Economies*, Vol. 8 No. 1, pp. 101-131.

Auerbach, C.F. and Silverstein, L.B. (2003), *Qualitative Data: An Introduction to Coding and Analysis*, University Press, New York, NY.

Bruton, G.D., Khavul, S. and Chavez, H. (2011), "Microlending in emerging economies: building a new line of inquiry from the ground up", *Journal of International Business Studies*, Vol. 42 No. 5, pp. 718-739.

Carneiro, J., Farias, I., da Rocha, A. and Ferreira da Silva, J. (2016), "How to measure export performance? Scholars' vs. practitioners' answers", *Journal of Business Research*, Vol. 69 No. 2, pp. 410-417.

Castells, M. and Portes, A. (1989), "World underneath: the origins, dynamics and effects of the informal economy", in Portes, A., Castells, M. and Benton, L.A. (Eds), *The Informal Economy: Studies in Advanced and Less Developed Countries*, John Hopkins University Press, Baltimore, pp. 11-37.

Charmaz, K. (2006), *Constructing Grounded Theory: A Practical Guide through Qualitative Research*, Sage Publications, London.

Chatterjee, P. (2004), *The Politics of the Governed: reflections on Popular Politics in Most of the World*, Columbia University Press, New York, NY.

Chen, M.A. (2012), "The informal economy: definitions, theories and policies, women in informal economy globalizing and organizing", WIEGO Working Paper 1, Vol. 1 No. 26, pp. 90141-90144.

Chowdhurry, S. (2007), *Everyday Economic Practices: The Hidden Transcripts of Egyptian Voices*, Routledge, London.

Corbin, J. and Strauss, A. (2014), *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory*, Sage, Thousand Oaks, CA.

DCED (2017), "What do we know about the effectiveness of business registration support and reforms? Key studies referenced in the DCED evidence framework. Donor committee on

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

enterprise development", available at: www.enterprise-development.org/wp-content/uploads/Effectiveness_of_business_registration_support_and_reforms.pdf (accessed 15 July 2017).

De Soto, H. (1989), *The Other Path: The Invisible Revolution in the Third World*, Harper and Row, New York, NY.

De Soto, H. (2000), *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, Basic Books, New York, NY.

Eisenhardt, K.M. (1989), "Building theories from case study research", *Academy of Management Review*, Vol. 14 No. 4, pp. 532-550.

Farrell, D. (2004), "The hidden dangers of the informal economy", *McKinsey Quarterly*, Vol. 3, pp. 26-37.

Finscope (2011), "FinMark trust. Finscope South Africa Small Business Survey 2010", available at: www.btrust.org.za/downloads/0_nsbs_finscope_small_business_survey_final_report_march_2011.pdf (accessed 15 July 2017).

Foeken, D.W. and Owuor, S.O. (2008), "Farming as a livelihood source for the urban poor of Nakuru, Kenya", *Geoforum*, Vol. 39 No. 6, pp. 1978-1990.

Glaser, B. and Strauss, A. (1967), "Grounded theory: the discovery of grounded theory", *Sociology the Journal of the British Sociological Association*, Vol. 12, pp. 27-49.

Haili, H. (2014), "Inclusive growth and economic structural transformation in Tanzania: designing an industrial policy to overcome informality in political and economic markets", Paper presented to the REPOA 9th Annual Research Workshop, Dar es Salaam.

Hart, K. (1973), "Informal income opportunities and urban employment in Ghana", *The Journal of Modern African Studies*, Vol. 11 No. 1, pp. 61-89.

Hudson, J., Williams, C., Orviska, M. and Nadin, S. (2012), "Evaluating the impact of the informal economy on businesses in South East Europe: some lessons from the 2009 World Bank enterprise survey", *South East European Journal of Economics and Business*, Vol. 7 No. 1, pp. 99-110.

Hyden, G. (2004), "Informal institutions, economy of affection, and rural development in Africa", *Tanzanian Journal of Population Studies and Development*, Vol. 11 No. 2, pp. 1-20.

Institute of Economic Affairs (2012), *The Budget Focus*, A Publication of the IEA Budget Information Programme, Issue No. 29.

International Labour Organisation (2013), *Kenya: making quality employment the driver of development*, International Institute for Labour Studies (ILLS), Geneva 22, Switzerland, available at: http://digitalcommons.ilr.cornell.edu/intl/327 (accessed 22 July 2017).

Jardon, C.M. and Tañski, N.C. (2018), "Place-based competitiveness in subsistence small businesses", *Journal of Entrepreneurship in Emerging Economies*, Vol. 10 No. 1, pp. 23-41.

Kistruck, G.M., Webb, J.W., Sutter, C.J. and Bailey, A.V. (2015), "The double-edged sword of legitimacy in base-of-the-pyramid markets", *Journal of Business Venturing*, Vol. 30 No. 3, pp. 436-451.

Krippendorff, K. (1980), *Content Analysis: An Introduction to Its Methodology*, Sage Publications, Thousand Oaks, London.

La Porta, R. and Shleifer, A. (2008), "The unofficial economy and economic development", *Brookings Papers on Economic Activity*, Vol. 39 No. 2, pp. 275-363.

La Porta, R. and Shleifer, A. (2014), "Informality and development", *The Journal of Economic Perspectives*, Vol. 28 No. 3, pp. 109-126.

Lambert, V. and Lambert, C. (2012), "Qualitative descriptive research: an acceptable design", *Pacific Rim International Journal of Nursing Research*, Vol. 16 No. 4, pp. 255-256.

Levy, S. (2008), *Good Intentions, Bad Outcomes: Social Policy, Informality, and Economic Growth in Mexico*, Brookings Institution Press, Washington, DC.

Lewis, W.A. (1954), "Economic development with unlimited supplies of labour", *The Manchester School*, Vol. 22 No. 2, pp. 139-191.

Maloney, W.F. (2004), "Informality revisited", *World Development*, Vol. 32 No. 7, pp. 1159-1178.

Melese, B. (2018), "Small enterprise development as a strategy to promote entrepreneurship in Bahir Dar City, Ethiopia", *Journal of Entrepreneurship in Emerging Economies*, Vol. 10 No. 1, pp. 42-59.

Muller, C. and Posel, D. (2004), "Concerns with measuring informal sector employment: an analysis of national household surveys in South Africa, 1993-2001", *Studies in Economics and Econometrics*, Vol. 28 No. 1, pp. 1-19.

Muller, M. (2005), "The political dynamics of the informal sector in Tanzania", International Development, Roskilde.

Nelson, E.G. and De Bruijn, E.J. (2005), "The voluntary formalisation of enterprises in a developing economy—the case of Tanzania", *Journal of International Development*, Vol. 17 No. 4, pp. 575-593.

Ninsin, K.A. (1991), *The Informal Sector in Ghana's Political Economy*, Freedom Publications, Accra.

Olomi, D.R. and Urassa, G. (2016), "Towards inclusive formalisation of the informal economy", Paper presented at REPOA Annual Research Workshop, 7th April, 2016.

Rakowski, C.A. (1994), "Convergence and divergence in the informal sector debate: a focus on Latin America, 1984-92", *World Development*, Vol. 22 No. 4, pp. 501-516.

Rothenberg, A.D., Gaduh, A., Burger, N.E., Chazali, C., Tjandraningsih, I., Radikun, R., Sutera, C. and Weilant, S. (2016), "Rethinking Indonesia's informal sector", *World Development*, Vol. 80, pp. 96-113.

Sáinz, J.P. (1995), "Cathy A. Rakowski (ed.), Contrapunto: the informal sector debate in Latin America (New York: State university of New York press, Albany, 1994)", *Journal of Latin American Studies*, Vol. 27 No. 2, pp. 488-490.

Sarkar, A. (2006), "Political economy of West Bengal: a puzzle and a hypothesis", *Economics and Political Weekly*, Vol. 41 No. 4, pp. 341-348.

Shami, M. and Majid, H. (2014), "The political economy of public goods provision in slums", IGC Working paper July, 2014, The International Growth Centre, London School of Economics and Political Science,. London.

Sparks, D.L. and Barnett, S.T. (2010), "The informal sector in Sub-Saharan Africa: out of the shadows to foster sustainable employment and equity?", *International Business and Economics Research Journal (IBER)*, Vol. 9 No. 5, p. 1.

Stake, R.E. (1995), *The Art of Case Study Research*, Sage, Thousand Oaks, CA.

Utouh, J. (2012), "Understanding business formalisation with a gender perspective", PhD Thesis, University of Dar es Salaam, Tanzania.

Wangwe, S. and Mmari, D. (2014), "Promoting micro and small enterprises for inclusive development: managing the transition from informal to formal enterprises", Presented at 9th REPOA Annual Research Workshop, *Dar es Salaam*.

Williams, C.C. and Kedir, A.M. (2016), "Business registration and firm performance: some lessons from India", *Journal of Developmental Entrepreneurship*, Vol. 2 No. 3, pp. 1-19.

Williams, C.C. and Kedir, A.M. (2017a), "Starting-up unregistered and firm performance in Turkey", *International Entrepreneurship and Management Journal*, Vol. 13 No. 3, pp. 797-817.

Williams, C.C. and Kedir, A.M. (2017b), "Evaluating the impacts of starting up unregistered on firm performance in Africa", *Journal of Developmental Entrepreneurship*, Vol. 22 No. 3, p. 1.

Williams, C.C. and Nadin, S. (2010), "Entrepreneurship and the informal economy: an overview", *Journal of Developmental Entrepreneurship*, Vol. 15 No. 4, pp. 361-378.

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

Williams, C.C., Martinez-Perez, A. and Kedir, A.M. (2017), "Informal entrepreneurship in developing economies: the impacts of starting up unregistered on firm performance", *Entrepreneurship: Theory and Practice*, Vol. 41 No. 5, pp. 773-799.

World Bank (2017), *Doing Business 2017: Equal Opportunity for All*, World Bank, Washington, DC, doi: 10.1596/978-1-4648-0948-4, License: Creative Commons Attribution CC BY 3.0 IGO.

Yin, R. (2003), *Case Study Research: Design and Methods*, Sage, Thousand Oaks, CA.

Yin, R.K. (2009), "How to do better case studies", Bickman, L. and Rog, D.J. (Eds) *The SAGE Handbook of Applied Social Research Methods*, Vol. 2, Sage Publisher, Washington, DC, pp. 254-282.

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)





**Table AI.**
Interview and participant observation data

| Data source | Data format | Duration |
|---|---|---|
| Content Analysis of World Bank (2017). *Doing Business 2017: Equal Opportunity for All.* Washington, DC: World Bank | Secondary data: World Bank Report | 4 h 26 min |
| The World Bank Database www.doingbusiness.org/data | Secondary Data: Excel downloadable Data | 6 h |
| Informal entrepreneurs | *Nairobi, Kenya (interviews):*<br>Food vendors at Muthuruwa Market; 3 Food vendor Central Business District; Garment trader at Nairobi City Market; hawkers and street food vendors at New Ngara, Kiamaiko (Goats), Maasai, Sunken (High court), Yaya, City Stadium, Maziwa, Jericho, Kahawa, Mutindwa; Traders at self-constructed market at Kibera, Jericho, Kariobangi North, Kariobangi South; Wholesale traders at Wakulima Market; Hawkers Market at Muthuruwa hawkers market; Retail market vendors at Landhies Road, Shauri Moyo, Jogoo road, Umoja 1, Westlands, Westlands Curio, Quarry Road, Ngara, Karen, Githurai, New Pumwani, Dandora A–F, Kariokor, City Market; Traders at Kenyatta, Kayole, Kahawa West, Mathare North, Umoja 2(A and B). | 2 days |
| | *Kigali, Rwanda (interviews)*:<br>2 bicycle riders, 5 motorcycle riders, 5 market traders, 2 porters, 5 fruit vendors, leaders of Rwanda federation of motorcycle drivers | 2 days |
| | *Accra, Ghana (interviews):*<br>10 street traders (Ring Road, Castle Road, Samora Machel Road, Lila Limann Road); 2 market traders; 2 farmers | 2 days |
| | *Dar es Salaam, Mwanza & Moshi, Tanzania. Focus groups (interviews):*<br>15 food vendors in Dar es Salaam, 10 street traders in Mwenge and Ubungo Dar es Salaam, 5 motorcycle operators, 6 curio market traders, 12 itinerant traders of whom 4 are in Dar es Salaam. | 2 days |
| Informal operators based in different sub-sectors | *Dar es Salaam, Mwanza &Moshi, Tanzania (interviews):*<br>A survey covering 179 operators | 4 days |
| | *Nairobi, Kenya (interviews):* | 2 days |
| Representatives of cooperatives or associations | Kenya Alliance of Street Vendors and Informal Traders; Kenya Private Sector Alliance (KEPSA); Gichomba Market Group of Fish sellers; | |
| | *Kigali, Rwanda (interviews):*<br>UMWALIMU SACCOS, Vegetable and Fruit Vendors Cooperative, Rwanda Association of Furniture Makers (ADARWA), Rwanda Cooperative Agency, | 2 days |

(*continued*)

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)



**Table AI.**

| Data source | Data format | Duration |
|---|---|---|
| Government Officials, Policy makers and Influencers | Rwanda (Sytramorwa), a cooperative of motorcycle transporters, Motorcycle Riders(FERWACOTAMO), Private Sector Federation.<br>*Accra, Ghana (interviews):*<br>Ghana Association of Employers; Ghana Association of Traders Unions; Ghana Private Road Transport Association; Ghana Market Women Association; Ghana Union of Traders' Associations (GUTA); Peasant Farmers Association of Ghana (PFAG); Ghana Cocoa, Coffee and Sheanut Farmers Association; Ghana Employers' Association (GEA); Union of Informal Workers' Association (UNIWA); Ghana Private Road Transport Union (RPRTU); Trade Union Congress; Makola Women Traders Association<br>BUSAC Fund/COWI (A programme that provide grants to private sector organisations who advocate legal and regulatory reforms to local, regional and national authorities in Ghana)<br>*Dar es Salaam, Mwanza &Moshi, Tanzania (interviews):*<br>Chama cha Wafanyabiashara wa Mlango Mmoja, Chama cha Wafanyabiashara wa Mnadani, Market Traders Associations, Food Vendors' Association, Tanzania Chamber of Commerce, Industry and Agriculture – Kilimanjaro Region<br>VIBINDO Society, Chama cha Wafanyabiashara wa Mboga na Matunda – Mabibo<br>Maasai Market<br>*Nairobi, Kenya (interviews):*<br>Micro and Small Enterprise Authority; Nairobi County; Youth Development Fund; Microsave (Senior Manager - Micro, Small and Medium Enterprise Finance)<br>*Kigali, Rwanda (interviews):*<br>Rwanda Development Board, Ministry of Trade and Industry, Bank of Rwanda Development Bank, University of Rwanda Entrepreneurship Centre, Kigali City Council, Workforce Development Agency, Kenya Commercial Bank, Rwanda Cooperative Agency | 2 days<br>3 days<br>2 days<br>3 days |

(*continued*)

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)



**Table AI.**

| Data source | Data format | Duration |
|---|---|---|
| | *Accra, Ghana (interviews):*<br>Ghana Planning Commission; Ga East Municipal Assembly; Ga West Municipal Assembly; Accra Metropolitan Assembly | 1 Day |
| | *Dar es Salaam, Mwanza &Moshi, Tanzania (interviews):*<br>Ilala Municipal, Muhimbili University of Health and Allied Sciences (MUHAS), Moshi Municipal Council, Mwanza City Council, Property and Business Formalisation Program | 2 days |

## Appendix 2

| Forum | Participants | Period |
|---|---|---|
| Presentation and discussion at a validation event at BEST-Dialogue, Dar es Salaam | University of Dar es Salaam, Property and Business Formalisation Program, VIBINDO Society (apex of informal operators), Research on Poverty Alleviation (REPOA), Tanzania Revenue Authority (TRA) | November 2015 |
| REPOA Annual Research Workshop | Researchers, policymakers | May 2016 |
| International Academy of African Business and Development (IAABD) Annual Conference held in Arusha, Tanzania | Researchers, policymakers | June 2016 |
| Annual General Meeting of Association of Local Authorities in Tanzania (ALAT) | Mayors and executives of 130 local authorities | September 2016 |

**Table AII.**
Validation events

Downloaded by 155.12.57.58 At 23:57 16 October 2018 (PT)

## About the authors

Dr Donath R. Olomi is the Director of the Institute of Management and Entrepreneurship Development. He was a Senior Lecturer and Director of the University of Dar es Salaam Entrepreneurship Centre until 2009 when he co-founded IMED, a research, training and consulting organization. His main area of expertise is entrepreneurship and private sector development. He has extensive experience as an entrepreneur, researcher and consultant and has conducted research and published in entrepreneurial motivation, business growth, business formalization, private sector organization and advocacy, microfinance organizations and business development services.

Dr Charles Goodluck is a Senior Lecturer at University of Dar es Salaam. He holds PhD in Business Administration from University of Dar es Salaam. His current research interests include entrepreneurship, family business and microfinancing. His publications appear in *Journal of African Business*, *International Journal of Public Sector Management*, *Forum for Development Studies*, *Business Management Review*, among a host of others. He is a member of Editorial board of *Journal of Education and Training*, *Journal of Interest Groups* and *Family Business Review*. He is the Director of the Centre for Policy Research and Advocacy at University of Dar es Salaam.

Dr Norma Juma is a Professor at Washburn University. She is a holder of PhD (Strategic Management and Entrepreneurship) from the University of Texas at Arlington. Her current research interests include sustainability, female entrepreneurship and indigenous entrepreneurship. Her work appears in *Journal of Business Strategy*, *Journal of Small Business and Entrepreneurship*, *International Journal of Innovation and Technology Management*, *International Journal of Human Resource Management*, *International Journal of Innovation Management*, *Case Research Journal*, *Journal of Developmental Entrepreneurship* among others. She serves on the editorial board of *The Journal of African Business*. Norma Juma is the corresponding author and can be contacted at: norma.juma@washburn.edu

For instructions on how to order reprints of this article, please visit our website:
**www.emeraldgrouppublishing.com/licensing/reprints.htm**
Or contact us for further details: **permissions@emeraldinsight.com**