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THE URBAN INFORMAL SECTOR AS NEW ENGINE FOR DEVELOPMENT: THEORETICAL DEVELOPMENTS SINCE 1972

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The process of change of the concept of the informal sector is described as a process of differentiation based on increasing empirical evidence. The problem of its definition is shown to be the result of an extremely diverse reality due to very different macroeconomic environments and other local factors. Various relevant concepts developed in the discussion about the informal sector are confronted with results of empirical investigation. The promotion of the informal sector proves to be more dependent on the enabling environment than on specifically targeted support institutions. The informal sector is the most important part of the private sector and its growth depends on the overall conditions for private sector growth.

KEY WORDS: Informal sector, flexible specialisation, development assistance, development theory.

DER STÄDTISCHE INFORMELLE SEKTOR ALS NEUE ENTWICKLUNGSMASCHINE: THEORETISCHE ENTWICKLUNGEN SEIT 1972

Veränderungen des Begriffs des informellen Sektors werden als Folge eines Prozesses der Ausdifferenzierung beschrieben, der auf Akkumulation empirischer Evidenz beruht. Das Problem seiner Abgrenzung erweist sich als Ergebnis außerordentlich unterschiedlicher Situationen in der Folge sehr verschiedener makroökonomischer Umwelten und anderer lokaler Faktoren. In der Diskussion entwickelte wichtige Begriffe werden mit den Ergebnissen empirischer Forschung konfrontiert. Die Förderung des informellen Sektors erweist sich als mehr abhängig von einer begünstigenden Umgebung als von Institutionen, die zu seiner besonderen Unterstützung gegründet werden. Der informelle Sektor ist der wichtigste Teil des privaten Sektors. Sein Wachstum hängt von den allgemeinen Wachstumsbedingungen für Privatwirtschaft ab.

STICHWÖRTER: Informeller Sektor, flexible Spezialisierung, Entwicklungshilfe, Entwicklungstheorie.

1. INTRODUCTION

Since the International Labour Organisation¹ introduced the term informal sector in 1972 a large number of studies have been carried out and efforts have been made to formulate theories about the urban informal sector. Three periods will be distinguished in this paper, with respect to theorising about the urban informal sector, corresponding roughly with the seventies (1972–80), the eighties and the

nineties. Each time major research themes and theoretical insights in these periods will be described and some typical publications will be mentioned². The three periods distinguished will be illustrated by summarising my own research on one of the themes of that period.

The table below summarises the major themes in the three periods, alternative terms which were used to describe the phenomenon "informal economic activities" in that period and the typical policies advocated at that time to develop the sector. Policies are taken up again at the end of the paper, since a lot of the research on the informal sector had a policy-oriented perspective. We will also draw some conclusions about the problem of theorising about the informal sector and suggest a few themes for future research on this topic. Theories concerning the urban informal sector usually focus on the characteristics of this sector, the question why it is a separate sector in the economy and what are the functions of this sector. A number of theories have been developed also to explain the dynamics of the informal sector, its development over time, or the factors that determine growth and stagnation of informal sector enterprises.

The informal sector contributes roughly a quarter of these countries' Gross Domestic Product (GDP), which makes it second only to agriculture. It employs about three quarter of the non-agricultural labour force, the problem being that many people are active in the informal sector besides their agricultural activities. About 15 percent of the non-agricultural employment is in the government sector and about ten percent in the modern sector, on the basis of labour force surveys and data on formal sector employment. Given most people can not afford open unemployment, about three quarter of the urban labour force would work in the urban informal sector.

Major themes, alternative terms and policies by period

<i>Seventies</i>	<i>Eighties</i>	<i>Nineties</i>
Definition	Subsector studies	Dynamics
Dualism	Specific themes:	Flexible specialisation
Employment	— credit, training	— innovation
Potential	— technology	— clusters
Linkages	— women entrepreneurs	— networks
Constraints	Structural adjustment	— interfirm relations
<i>Alternatives</i>		
Informal income opportunities ³	Informality ⁴	Industrial districts ⁵
Self-employed ⁶	Micro-enterprises ⁷	New competition ⁸
Petite production marchande ⁹	Formalisation and informalisation ¹⁰	Private sector development ¹¹
<i>Policies</i>		
Government should help to develop credit, training, etc.	Adjustment policies Legalise sector Liberalisation	Private sector development Branch organ. Use existing institutions

2. THE FIRST PERIOD: 1972–1980

Hart¹² introduced the term 'informal income opportunities', which was picked up by the ILO employment mission to Kenya, changing it to informal sector and stressing the importance of this sector for employment creation¹³. The definition of the informal sector given by the ILO stresses a series of characteristics¹⁴. The report adds that "informal sector activities are largely ignored, rarely supported, often regulated, and sometimes actively discouraged by the Government". The theory behind the ILO report was that the poor in Third World cities are not unemployed but their work in the informal sector is not very productive. Productivity needs to be increased in such a way that more employment and a higher income would result.

A lot of the literature in this first period focused on definitional problems and many authors introduced their own terminology: organised versus unorganised sector¹⁵, upper versus lower circuit¹⁶ or the informal and the modern informal sector¹⁷. Looking back, what really seems to matter are criteria used to make the distinction between the two sectors and the reason to distinguish these two sectors. Then the question comes up whether the (often implicit) theory on which the distinction is based has been tested. The terms mentioned have gradually disappeared, while the informal-formal distinction is still used very often¹⁸. Definitions are in terms of size (less than a certain number of jobs or a certain investment), its location (in slum areas), or the lack of a legal status.

Bienefeld¹⁹ used the term self-employed, which can still be found in many statistical publications, particularly in former British colonies. The problem with this term is that many self-employed are using family labour or apprentices as workers, which really makes them small (usually informal) enterprises. That term was also used for what others called informal sector enterprises. Its advantage is that it refers to something everybody knows about, and uses (simple) size criteria (number of employees, turnover or investments) as defining characteristics²⁰. The disadvantage of this approach is that one does not have an eye any more for the peculiarities of informal sector enterprises in developing countries²¹.

The term informal sector pointed to the duality of the economy and researchers tried to explain the characteristics of the formal and the informal sector. Boeke²² had used the term dualism to describe the non-capitalist mode of production functioning besides the capitalist colonial economy in the former Dutch Indies. This terminology (capitalist versus non- or pre-capitalist) came back by Hugon et al.²³ A number of researchers used translations of "la petite production marchande", such as "petty capitalist" or "petty producers", suggesting that these activities were functioning outside the capitalist economy. Some researchers stressed the subordination of the informal sector and its exploitation by the formal sector in certain cases. Van Dijk²⁴ argues that the informal sector is very much integrated in the capitalist system through different inputs which need to be bought and through output which is sold.

An operational definition of an informal sector enterprise used in the seventies was "a unit without a legal status such as the 'société anonyme' or 'société à responsabilité limitée'"²⁵. The lack of such a status usually implies that the

employees do not receive the legal minimum wage and do not benefit from the social security system. The latter characteristic can also be taken as a criterion, because it is easier to check whether some or all of the employees are registered.

Even with this criterion the demarcation between formal and informal is not always clear. In a recent informal sector survey in Ouagadougou²⁶ we found that a small number of entrepreneurs had started to register some of their personnel with the social security organisation²⁷. They consider registration at the Caisse as a first step in a formalisation process. They usually start with registering two or three employees, knowing that this entitles them to government orders ranging from 20 to 30 million F CFA. It was also found that at least three of the 50 modern industrial sector enterprises interviewed in 1991 had not registered all their personnel at the Caisse de Sécurité Sociale, indicating that the formal/informal distinction is not always easy to make on the basis of these legal characteristics.

The interest for the informal sector had started because there was a need for employment creation in Third World cities. According to one theory the urban informal sector could function as a sponge, absorbing more people in difficult times, but with lower productivity and hence income²⁸. Development of the sector would require the introduction of labour-intensive technologies, avoiding that an increase in productivity would lead to an outflow of people.

Promoting linkages between sectors (including the informal) is often considered as the way to develop the economy of developing countries. In fact backward and forward linkages are quite limited in the urban informal sector, as well between formal sector enterprises in many developing countries. They may exist for agro-based and agro-related activities, but many other activities require imported raw materials, tools, equipment and spare parts. The fact that small entrepreneurs buy at the average more raw material in the formal than in the informal sector is an indication of the relations with the formal sector. The point still holds that governments should try to develop these linkages. The idea comes back later when we discuss the flexible specialisation concept.

The theoretical model behind most of the informal sector surveys carried out in this first period was that informal sector entrepreneurs would face all kinds of constraints. The research would identify these constraints and argue that if they would be removed the sector would develop. An important role was reserved for the government to take away these constraints and to supply services needed, such as credit, training and marketing opportunities.

3. THE SECOND PERIOD: THE EIGHTIES

At the end of the seventies, it was pointed out that informal sector studies could gain in depth when they would concentrate on one subsector or activity²⁹. A number of researchers subsequently focused on a limited number of activities, or only one sub-sector, instead of trying to study all informal sector activities. These subsector studies were published in due course³⁰. The common element for these activities was usually the hostile environment for this activity, government policies being geared towards serving the modern industrial sector only. Many studies concerned the

textile related activities or the construction sector. The underlying theory was that a number of special factors determined the development potential of each of these subsectors. The historical development of the activity, the technology used and the existing competition for that particular activity received much attention.

In this period informal sector research also tended to be focused more on specific themes, such as the importance of credit, of training, of technology and of innovation diffusion. Also the issue what municipal authorities could do for informal sector activities received attention. Finally a lot of attention was given to the specific problems of female entrepreneurs in the informal sector³¹.

The new dimension of spatial elements which were included can be shown in the research I conducted myself. A complete census of all economic activities was carried out in three neighbourhoods of Ouagadougou, which allowed a comparison with a similar census in a central and a peripheral neighbourhood in 1981³². The census helped to determine the migration patterns of informal sector enterprises within a rapidly growing city³³. A census of modern industries was carried out, which allowed to determine their location and to establish whether relations between these industries were developing over time. It was verified whether something like an industrial district³⁴ could be found in Burkina Faso. This turned out not to be the case³⁵. It was tested whether informal sector enterprises which are located in clusters are doing better than those dispersed over the city. In fact they are doing better, but this is not so much the result of flexible specialisation (which happens in clusters because of the frequent interactions, subcontracting relations, innovation diffusion and the use of multipurpose equipment and skilled labour), as well as the result of the good location of these enterprises along the major axes of the city and around the markets³⁶. Finally we asked the entrepreneurs in the informal sector about spatial problems. How much space do they need, where would they like to be located and have they moved their business in the past?³⁷

Another subject that came up in the second half of the eighties concerned the effects of structural adjustment on the informal sector and small enterprises³⁸. It was argued, for example, that policy discussions in the framework of the structural adjustment programs about deregulation should also concern administrative measures affecting the informal sector. It would also be necessary to harmonise macro-economic, fiscal, financial and other policies for the modern industrial sector with incentives for the urban informal sector. It was found that in many cities small entrepreneurs have reacted positively to the new opportunities which arose after structural adjustment³⁹.

The theory behind this theme is that the positive macroeconomic context may be more important for informal sector development than specific policy instruments, like providing credit or training. This approach also reflected the declining confidence in the role of the state to steer the development process.

4. MICROENTERPRISES, INFORMALISATION AND INFORMALITY

Research financed by USAID has usually used terms like informality and microenterprises. The term microenterprises refers to "very small, informally organized,

nonagricultural businesses that often employ a third or more of the labour force in developing countries"⁴⁰. Informality refers to a term popularised by De Soto⁴¹. According to him "informal activities burgeon when the legal system imposes rules which exceed the socially accepted legal framework—does not honour the expectations, choices, and preferences of those whom it does not admit within its framework — and when the state does not have sufficient coercive authority". Informality refers to the actions and activities of individuals and may concern housing, trade and transport, the three main empirical chapters of his book. Other have used the term in the medical sector, for manufacturing and water supply. De Soto thinks very much in legal or institutional terms, which may be relevant in certain Latin American or Eastern European countries, but not in Africa and most Asian countries. Just legalising the informal sector in these countries would for example not help this sector very much.

USAID and in particular the GEMINI programme started to use the word microenterprises, which just like the term "small enterprises" avoids a lot of confusion. One just needs to agree to put the bench mark for a microenterprise at five or at ten employees and the concept can be used. The problem is of course that in most countries the distinction between an enterprise with five or one with six employees is very arbitrary. The suggestion is that these microenterprises only differ from small enterprises in the United States by their scale. We refer to their very small size by using the term micro.

The theoretical framework behind the use of the term microenterprise is very much regular business economics. Microenterprises are a seedbed for entrepreneurship development and policies and projects should give them the possibility to develop. The enterprises are not so different that we need a different term.

The term informalisation refers to the process of going in and out of the informal sector, depending on new regulation (that may push a firm out), or further liberalisation (which can make an enterprise legally acceptable). I argued that instead of making a static distinction between formal and informal it makes more sense to study the formalisation and informalisation processes, which may take place simultaneously⁴². The theory behind this concept is that governments are often not aware that their policies have these effects and that these effects should be taken into account when introducing such policies.

Also in this period researchers were interested in policies to develop the informal sector. However, the dominant event was structural adjustment, which meant liberalisation and private sector development. Originally structural adjustment policies focused at the macro level. Only gradually sectoral adjustment studies were carried out and some of the resulting industrial adjustment or private sector development projects also paid attention to the development of the informal sector. The theory behind this sectoral concern was that adjustment should have an impact at the meso (sectoral) and micro (enterprise) level as well. This required special policies and programs. The introduction of building funds in a number of African countries (financing small-scale construction and maintenance) dates from this period and is one way to involve informal sector building enterprises in the economic development process.

5. THE NINETIES: DYNAMICS AND FLEXIBLE SPECIALISATION

In the nineties, the third period distinguished, we see a number of new developments in the theoretical field. In this period, more researchers became interested in the dynamics of the urban informal sector⁴³. In the eighties the first informal sector tracer studies started to appear, allowing statements about the dynamics of small enterprises over time. This new direction was very much influenced by the success of East Asia, where small enterprises did make an important contribution⁴⁴ and the fact that many researchers got an opportunity to go back to the place where they collected data a number of years ago, allowing them to make some generalisations over time⁴⁵.

So, another informal sector survey and a second industrial sector survey were carried out in Ouagadougou after 15 years to determine the development of these sectors⁴⁶. The comparison of two informal sector surveys in the capital Ouagadougou (carried out in 1976 and in 1991) and two country-wide modern industrial sector surveys (carried out in 1980 and 1992) shows major changes in the importance and composition of the informal and formal sectors during the last 10 years.

The dynamics, feminisation (an increasing number of women make a living in this sector) and tertialisation (service activities have become more important) of the informal sector should be mentioned. The urban informal sector turned out to be still the most important sector for urban employment creation in Burkina Faso. The modern industrial sector is hampered by its lack of competitiveness, due to high production costs and stifling regulations. The informal sector does not suffer so much from these constraints and plays an important role in creating employment in the urban areas and in the development of an entrepreneurial class. Its innovative capacity is an additional argument to develop the artisanal part of the sector in a specific way.

In 1991 we found a number of dynamic developments in the informal sector, but also a process of differentiation, which had led to a few successful enterprises and a large number of marginal mobile artisans and traders with very little prospects. Examples of the latter are the tailors from Ghana with their machines on their head, the mobile Nigerian barbers and the Hausa going from door to door to repair metal buckets, the mobile radio repairmen and the mobile "coupeurs d'ongles". The typical entrepreneur in 1991 is not any more the head of a large family. One third of the interviewed entrepreneurs are single men or divorced women. This is possibly the effect of rapid urban growth. Single men and women are in a better position to accumulate savings which are necessary to finance investments.

Terms to describe the changes for the informal sector due to an increasing integration of developing countries in the world economy are globalisation⁴⁷, the resulting increased competition⁴⁸ and the rise of lean production⁴⁹. Also the term flexible specialisation was used to analyse the changes taking place in the informal sector in developing economies⁵⁰. Flexible specialisation stresses the importance of factors like interfirm relations, innovative capacity, the importance of clusters and networks. Interlinkages between firms create a combination of specialty, creativity, flexibility and strength, which increases efficiency and effectiveness. These relations

allow informal sector entrepreneurs to produce in series, to improve their technology and skills and to develop new products.

In the nineties a number of informal sector researchers started to use this different theoretical framework (the flexible specialisation paradigm). The key question was which factors explain the dynamics of the informal sector over time. The flexible specialisation paradigm focuses attention on variables like networks, clusters, technology used, the importance of skilled labour, of innovations and of subcontracting relations. It was found that the phenomenon is not just restricted to East Asia but can also be found in some African and Latin American countries⁵¹.

An individual entrepreneur following the flexible specialisation approach would try to survive in a dynamic market by a strategy of continuous innovation, responding quickly to market requirements. The key terms are multi-purpose technology, innovations with skilled manpower, clusters of enterprises and networks of entrepreneurs, leading to collective efficiency. Multi-purpose equipment allows skilled labour, with an innovative mentality to use such equipment to produce whatever is in demand. They are capable to innovate given their skills, innovative mentality and equipment.

Clusters of enterprises or small firm communities are very appropriate for an exchange of ideas. Besides that, physical nearness also makes the development of institutions and their interventions more easy and effective. Sandee⁵² stresses the importance of different roles of clusters, depending on their technological development, the person or organisation that has taken the initiative and the customers. To assess the innovative capacity of small entrepreneurs and their personnel turns to be difficult for every discipline, including economics.

The definition of the term network in regular economics is a set of interorganisational relationships between autonomous companies on a temporary and partial asset basis⁵³. The concept of networks can be considered a category between markets and hierarchies⁵⁴. Networks are a complex array of relationships between firms. The network manager is bent on obtaining the most efficient organisational arrangement to position a firm in a competitive market. In the informal sector it would mean the whole set of subcontracting and collaboration efforts between small enterprises and between smaller and larger ones, the interfirm relations and networks of small entrepreneurs. The result is often called collective efficiency, the result of the physical presence, social networks and relations with other innovative producers.

The networks of micro and small enterprises concern the sum of their external relations. Studying the network means finding out: where do they buy raw materials, tools and spare parts? What are their sources of credit and new ideas concerning the organisation of the production, the technology used and how do they find out what is necessary to improve the quality of the products? Are there subcontracting relations and which marketing channels have been developed?

Using the trust concepts is necessary to understand the economic basis for the relationships in a network and what the conditions are for stability in the relationship⁵⁵. The transaction costs theory provides such a framework. The evidence can be provided by trying to determine transaction cost at the enterprise level and showing that integration or disintegration (stimulating the creation of small,

partially informal sector enterprises) is the cheapest solution⁵⁶. Disintegration seems to be the trend at present⁵⁷.

The transaction cost theory explains best what happens when disintegration is the trend. According to Jarillo⁵⁸: "the hub firm in the network can enjoy lower costs because it captures economies of scale (or whatever source of efficiency) from its associated firms, that other competitors can not obtain". The explanation lies in the dynamic character of the relations between the hub firm and its suppliers. It is a relation which fosters an innovative mentality, while providing sufficient continuity to be attractive for the supplying firms.

To understand the flexible specialisation process, interdisciplinary research is very important. Geographers tend to know more about clustering, the sociologists and anthropologists about networks and the economists about the benefits of interfirm relations. Flexible specialisation implies that the optimal scale of production becomes smaller. Japanese automobile producers have lowered for example the minimum efficient scale of production. Core manufacturers realised that independent component manufacturers are better equipped to manage the processing skills and machinery than large vertically integrated firms. The component manufacturers are probably more innovative and entrepreneurial. The problem of getting too many suppliers has been solved by buying complete components, resulting in a two tier suppliers system. Interesting enough the argument for small enterprises in this case is not that they are more efficient because of the cheap labour and low overhead costs, but that they are more efficient because of the way they organise their production.

What is the relevance of flexible specialisation for developing countries? Which combination of economic, social and institutional arrangements can provide the conditions enabling small (the majority in most developing countries, also being informal in most of the cases) and medium size enterprises to compete successfully on national and international markets? Does flexible specialisation exist for example in Burkina Faso? Can flexible specialisation become an industrialisation strategy to recommend to such a country? Researchers did find that informal enterprises working in clusters and entrepreneurs with networks are generally doing better than those operating individually. The explanation given is that they gain information through their network about new technologies, new markets, opportunities for subcontracting and so on. Physical clustering makes networking only easier.

In the nineties researchers tend to go back to their basic disciplines, such as industrial economics⁵⁹, anthropology⁶⁰ or business economics⁶¹ to understand the dynamics of the informal sector. The insight gained is that the informal sector needs to be understood in its own right. Different disciplines can make a contribution to obtaining the total picture.

The alternatives that came up in this period for the informal sector terminology were stressing the new competition⁶² and industrial districts⁶³ as conglomerates of larger and smaller firms, where the latter play an important role. Finally Farbman et al.⁶⁴ rightly stress the importance of differentiation between different type of enterprises for policy purposes.

In general more attention was given in this period to private sector development and the role that organisations of small entrepreneurs (branch specific organisations)

could play in that process. It was stressed that instead of creating special facilities for the informal sector, it is better to try to give the informal sector enterprises access to existing facilities, existing credit, training and technology institutions.

Through the preoccupation with the dynamics of the sector and how to develop it, researchers tended to forget that there are also very small and marginal economic activities, which are not part of the dynamic development process. Special activities may be needed for these activities, such as the special construction funds mentioned or the socio-economic development funds, which were set up in certain countries to mitigate the negative consequences of structural adjustment for the poor.

6. POLICIES WITH RESPECT TO THE INFORMAL SECTOR

In the early seventies the idea was that the functioning of the informal sector is unknown, but that the sector is often an important source of income for poor people. The first reports with a policy-oriented approach came out in the seventies and generally addressed governments, stressing that donor government should play a very important role in the development of the urban informal sector. The government should:

- provide credit to informal sector entrepreneurs
- organise training courses for master artisans and their apprentices
- take the existence of this sector into account when it promoted the modern industrial sector
- provide government orders to the informal sector
- reserve space for small enterprises
- give technical assistance to and help to make available appropriate technologies for informal sector entrepreneurs.

Some of these ideas were picked up in the framework of ILO employment projects in the seventies and some by a World Bank Artisan and small enterprise credit project. Political leaders have often stressed the importance of the informal sector, for example president Sankara in Burkina Faso or President Moi in Kenya. In fact they often provide mainly verbal support or try to improve tax collection in the informal sector. In Ouagadougou in 1991 some informal sector entrepreneurs were paying about five different taxes and many had given up their workshop altogether, because they felt they were too visible for the authorities and the fixed charges were too high.

In the eighties we learned that most African governments are not capable of doing all the things recommended in 1976. In the eighties the World Bank cancelled the Artisan and small enterprise loan in Burkina Faso, mainly because the selected intermediary institutions were unable to deliver the goods. Our ideas about how the informal sector should be developed have also changed over time. Instead of focusing on what the government should do, the focus is now much more on the development of the private sector, stressing that the informal sector is part of that sector,

and in many countries the largest part. The innovative capacity and links with the formal industrial sector are arguments in favour of developing in particular the artisanal part of the sector in the framework of urban development policies or an industrial district approach. It was recently recommended to develop "flexible competitive districts" where informal sector enterprises would also find a place⁶⁵. These districts assume a certain infrastructure, an active role for the government as far as the creation of an enabling environment is concerned and a definition of the role of micro, small and medium enterprises in the development process. The industrial district concept attaches a lot of importance to the location (near each other) and frequent interactions between enterprises of different size (through networks and subcontracting relations, facilitated by being at the same location).

The informal sector developed in Burkina Faso, despite negative policies and despite the fact that a number of relevant institutions have disappeared. The problems of small entrepreneurs have not changed so much over time, but the recommendations formulated in the nineties are quite different from what we suggested in the eighties.

A financing institution like the World Bank has a limited role to play as far as the informal sector is concerned. The World Bank can only push the government to create an enabling environment for small enterprise development. It means that small entrepreneurs would not be bothered as much and that more clarity would be created what the rights and obligations of small entrepreneurs are. The World Bank cannot go into informal sector credit projects without using local institutions, which are usually not interested in small scale loans. Hence the World Bank is not the most appropriate institution to channel credit to the informal sector, or to organise technical assistance.

The approach advocated in the nineties is to use as much as possible the existing institutions to develop the informal sector. Help the entrepreneurs to gain access to local banks and training institutes and try to get local institutions involved in developing appropriate technologies and providing technical assistance. Get them interested in female entrepreneurs as well by pointing out that women have a reputation world wide of being better in saving and repaying and have a large number of opportunities in the informal sector. They skilfully use their networks and benefit from clusters and mutual cooperation.

In the nineties it became clear that the role of the government should be limited to creating the enabling environment for informal sector development. The private sector should take more initiatives itself, or receive support from non-governmental organisations. The dilemma for many donor countries and organisations is how the private sector can be pushed to play that role in the framework of their support to the government. This leads to the question of selecting the proper institutions for a private sector development project and how to get them interested in informal sector development. USAID has experimented in several countries with (partially) guaranteed credit lines for small enterprises. Similarly the World Bank is supporting the Chambers of Commerce to become fully independent of the Government.

7. THE FUTURE

What are the themes for future research about the urban informal sector. Geographically the interest for an informal sector in Eastern and recently also in Western Europe has increased. Other trends are the rise of mono-disciplinary research and in particular the contribution of business economics which shows the potential of this sector.

If the flexible specialisation paradigm may not convince everybody as a useful way to understand the dynamics of the informal sector, some of its elements may still play a role in future research. It is almost sure that researchers will have to spend time on determining the importance of clusters and networks, of multi-functional equipment and skilled and innovative labour.

The informal sector has become part of the capitalist development process and gives a contribution to a self-sustained capitalist development process. More and more organisations are looking into the possibilities of exporting products from the informal sector, if only at a regional scale. Finally some are looking for joint ventures between informal sector firms in African countries and bigger firms in Europe, looking for cheap suppliers abroad.

8. CONCLUSIONS

The industrial sector is undergoing a process of restructuring. Over the last 50 years two opposing trends can be observed in industry; on the one hand, that of increasing firm size (the formation of conglomerates and large vertically integrated firms), and on the other hand, the specialised firms concentrating on core activities while contracting out value-adding activities which upstream or down-stream firms can produce more efficiently. The larger trend is one of competition at the world scale and rapid technological development, leading to lean and flexible production. The industrial sector becomes a very complex world network producing for segmented markets⁶⁶. "Across the industrialised world multinationals are dispersing their research, design, development and engineering activities from single or dual locations to multiple ones"⁶⁷. Dynamic efficiency considerations play a role and lead to a process of vertical disintegration in which new organisational forms are appearing and small (often informal) and medium enterprises get new opportunities. Due to the European economic integration, vertical disintegration is more profitable than a hierarchy of integrated firms. One may ask what this means for an informal sector entrepreneur in Africa. The fact that one third of all tailors has disappeared in Ouagadougou between 1976 and 1991 has everything to do with globalisation, leading to second hand cloths coming into the country, to dumping of textiles from Asia, smuggled into the country via Lomé or Abidjan and to building up an export industry in Burkina Faso, selling some of its products in Burkina Faso as well⁶⁸. There are more such examples and together they have led to a diminution of the role of informal sector manufacturing enterprises in many Third World countries.

The informal sector has shown great dynamics and a remarkable ability to adapt to different circumstances. It can contribute even more to production, employment,

income and even to tax revenues. This requires that the government creates an enabling environment for the development of the informal sector. Governments should explain to small entrepreneurs how much taxes they have to pay, for which purpose and how often.

Researchers have been seeking for the combination of economic, social, and institutional arrangements which provided the conditions for informal sector enterprises to compete on national and eventually international markets. This subject is even more important in Africa since private foreign capital has fled Africa in the 1980s and the informal sector seems the only dynamic sector on this continent.

New theories have been suggested to understand the role of the informal sector, small and medium enterprises in the economic success of South Asian economies. Flexible specialisation is used to refer to a special form of industrial organisation which offers clustered small enterprises special opportunities, while the industrial district concept extends the idea of the importance of a cluster to the impact of a larger area (the "district"). Flexible specialisation could take place within a city, while industrial districts usually concern an area in which a city functions as the natural centre⁶⁹.

The informal sector concept has focused attention of researchers on the income opportunities of the poor. Research has helped to gain insights in the functioning of the urban informal sector. These insights have a wider applicability and could perhaps also have been obtained without using the term but by talking about micro or small enterprises and then stressing the specific characteristics of these enterprises in a developing country context. However, the informal sector terminology may have facilitated the attention going to the sector. The point about the specific character of the informal sector is that this may gradually disappear when these enterprises are integrated more and more in the economy. The key seems to be that in different countries people each time manage to make a living out of small scale economic activities which need to be understood in their own right. The name informal sector has been suggested, but its own character, its small scale and its continuing transformation seem to be the key characteristics. Over time researchers have stressed the need to be more specific about the activity (or subsector) studied, about the subject to be studied and the light their respective academic discipline could shed on this subject. We may need an effort to bring all this evidence together.

It has been unique that informal sector research has been carried out in such a close relation with policy makers and in that respect it is probably one of the most applied parts of development research and a subject about which more theoretical developments can be expected.

ANMERKUNGEN

- 1 ILO: *Employment, Incomes and Equality in Kenya*. Geneva: ILO 1972.
- 2 Sometimes the publication carries a later date, but this is more a question of when the final version of a paper, or a PhD was published.
- 3 K. Hart: *Informal Income Opportunities and Urban Employment in Ghana*. In: R. Jolly et al. (eds.): *Third World Employment*. Harmondsworth: Penguin 1971, pp. 66-71.

- 4 H. de Soto: *The Other Path, The Invisible Revolution in the Third World*. New York: Harper & Row 1989.
- 5 F. Pyke, W. Sengenberger: *Industrial Districts and Local Economic Regeneration*. Geneva: ILS 1992.
- 6 M. A. Bienefeld: *The Self-employed of Urban Tanzania*. (IDS Discussion paper 54). Brighton: University of Sussex 1974.
- 7 GEMINI: *Micro and Small-scale Enterprises in Zimbabwe: Results of a Country-wide Survey*. Bethesda: Development Alternatives 1991.
- 8 J. Best: *The New Competition, Institutions of Industrial Restructuring*. Cambridge: Harvard University Press 1990.
- 9 P. Hugon, Nhu Le Abadie, A. Morice: *La petite production marchande et l'emploi dans le secteur informel*. Paris: IEDES 1977.
- 10 M. P. van Dijk: *Formalization and Informalization Processes in a Small Town in Central Java*. In: P. Nas (ed.): *Indonesian Towns*. Dordrecht: Foris 1986.
- 11 M. Farbman, A. Lessik: *The Impact of Classification on Policy*. In: A. Gosses et al. (eds.): *Small Enterprises, New Approaches*. The Hague: Ministry Foreign Affairs 1989.
- 12 Hart 1971, art. cit., fn. 3
- 13 ILO 1972, op. cit., fn. 1.
- 14 Such as the informal sector is a sector where it is easy to start at one's own account, where little capital is required nor permits or formal education. The enterprise often belongs to the family, production is at a small scale and most of the raw materials can be obtained locally. Labour-intensive and appropriate technologies are used and the skills are not acquired at school. The entrepreneurs operate at irregular markets characterised by full competition.
- 15 D. Mazumdar: *The Urban Informal Sector*. Washington: World Bank 1975.
- 16 M. Santos: *L'espace partagé, les deux circuits de l'économie urbaine des pays sous-développés*. Paris: Génin 1978.
- 17 G. Nihan: *Le secteur informel moderne du Nouackchott*. Geneva: ILO 1978.
- 18 For example A. M. Trip: *Defending the Right to Subsist: The State Versus the Urban Informal Economy in Tanzania*. Helsinki: WIDER 1989.
- 19 Bienefeld 1974, op. cit., fn. 6.
- 20 The subtitle of my PhD about the informal sector of Ouagadougou and Dakar, defended in Dutch in 1980, was: "Development Possibilities of Small Enterprises in two West African Capitals". The French version did not carry this subtitle any more: M. P. van Dijk: *Burkina Faso, Le secteur informel de Ouagadougou*. Paris: Harmattan 1986.
- 21 We will not discuss here a series of researchers who used the term informal to separate the labour market (for example J. Breman: *A Dualistic Labour Market*. In: *Economic and Political Weekly*, 2, 48-50, 1976).
- 22 J. H. Boeke: *Dualistic Economies*. In: G. H. van der Kolff (ed.): *Indonesian Economics, the Concept of Dualism in Theory and Policy*. The Hague: Van Hoeve 1961, 1st ed. 1930.
- 23 Hugon et al. 1977, op. cit., fn. 9.
- 24 M. P. van Dijk: *Senegal, Le secteur informel de Dakar*. Paris: Harmattan 1986.
- 25 Van Dijk 1986, Burkina, op. cit., fn. 20. There exists also a status between the Société Anonyme or the Société à Responsabilité Limitée and that of the anonymous informal sector entrepreneur. 69.8 percent of the 855 enterprises counted in a census of commercial and industrial activities in Burkina Faso in 1988 held the status of "entreprise individuelle" or "établissement individuel". This category is particularly popular among traders. 80.8 percent of the 433 trading enterprises counted have it, while in services only 64.4 percent of the 222 counted enterprises and 52.0 percent of the 200 listed industrial enterprises prefer this status. ONPE: *Le secteur informel. Ouagadougou*: ONPE 1992.
- 26 M. P. van Dijk: *Lessons from Changes in the Informal Sector, the Case of Ouagadougou 1976-91*. In: E. W. Schamp (ed.): *African Small-scale Industries in Rural and Urban Environments, Challenges for Development*. Frankfurt: J. W. Goethe University 1993, pp. 133-160.
- 27 300 small entrepreneurs were interviewed in 1976 and 350 in 1991. Seven of the latter were later classified as belonging to the formal sector, because they had registered some of their personnel at the "Caisse de Sécurité Sociale".
- 28 Hart 1971, art. cit., fn. 3.
- 29 H. Schmitz: *Growth Constraints on Small-scale Manufacturing in Developing Countries, A Critical View*. In: *World Development*, 10, 6 (1992), pp. 429-450.
- 30 For example in the Netherlands the PhDs of H. van der Erve: *De kleinschalige bouwnijverheid in Semarang, Een studie naar bedrijvigheid en werkgelegenheid in de bouwsector*. Amsterdam: Free University Press 1993; P. Knorringa: *Economics of Collaboration in Producer-trader Relations*.

- Amsterdam: Free University Press 1995; H. Sandee: Innovation in Tile Production. Amsterdam: Free University Press 1995.
- 31 For example Trip 1989, op. cit., fn. 18, and H. Dijkman, M. P. van Dijk: Constraints to Female Entrepreneurs in the Informal Sector of Ouagadougou. In: *Journal of Development Policy*, 11, 3 (1994), pp. 273–288.
- 32 P. Althuis, A. Laenen: The Informal Sector of Ouagadougou, Nijmegen: Geography Department 1981.
- 33 Van Dijk 1993, Lessons, op. cit., fn. 26.
- 34 Pyke et al. 1992, op. cit., fn. 5, discussed below.
- 35 M. P. van Dijk: Industrial Districts and Urban Economic Development. In: *Third World Planning Review*, 15, 2 (1993), pp. 175–187.
- 36 M. P. van Dijk: How Relevant is Flexible Specialisation in Burkina Faso's Informal Sector and the Formal Manufacturing Sector? In: *IDS Bulletin*, 23, 3 (1992), pp. 39–45.
- 37 M. P. van Dijk: Urban Employment Between 1976–92 in Ouagadougou. In: P. A. Erkelens, G. G. van der Meulen (eds.): *Urban Environment in Developing Countries*. Eindhoven: University of Technology 1994, pp. 289–300.
- 38 J. Dawson: Responses to Adjustment, the Marginalization of Small Enterprises in Nigeria. In: *Small Enterprise Development*, 5, 2 (1994), pp. 18–25; K. Wohlmuth: *Structural Adjustment in the World Economy and East-West-South Economic Cooperation*. Bremen: University Press 1989.
- 39 Trip 1989, op. cit., fn. 18.
- 40 GEMINI: Microenterprise Development Brief. No. 1 February. Washington: USAID 1995.
- 41 De Soto 1989, op. cit., fn. 4.
- 42 Van Dijk 1986, Formalization, art. cit., fn. 10.
- 43 For example C. Liedholm, D. Mead: *Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications*. East Lansing: Michigan State University 1987. Van Dijk (1986, Senegal, op. cit., fn. 24) defines a theory about the dynamics of the informal sector, based on a one time survey. The underlying theory is that the factors that explained the success of certain entrepreneurs should also be the factors on which government policies should be directed.
- 44 World Bank: *The East Asian Miracle*. New York: Oxford University Press 1993.
- 45 For example Sandee 1995, op. cit., fn. 30, and van Dijk 1993, Lessons, art. cit., fn. 26.
- 46 In december 1990 I carried out a complete census of all economic activities in two neighbourhoods of Ouagadougou, the same ones in which a count was organised in 1979. March 1991 another survey of informal sector enterprises was carried out. In total 350 entrepreneurs (fifty percent female entrepreneurs) were interviewed, compared with 300 in 1976. Finally, in October 1991 I interviewed 50 modern industrial sector entrepreneurs, comparable to the survey carried out in 1979 also for the World Bank as part of an industrial sector study in Burkina Faso.
- 47 M. P. van Dijk: Small Enterprise and Globalisation versus Regional Development. In: *Small Enterprise Development*, 4, 3 (1993), pp. 2–15.
- 48 Best 1990, art. cit., fn. 8.
- 49 J. P. Womak, D. T. Jones, D. Roos: *The Machine that Changed the World, The Story of Lean Production*. New York: Harper 1990, p. 13, define lean production as a combination of “the advantages of craft and mass production while avoiding the high cost of the former and the rigidity of the latter”. Teams of multiskilled workers are used at all levels of the organization, using highly flexible, increasingly automated machines to produce volumes of products in enormous variety. Production is lean because it uses less of everything compared with mass production.
- 50 M. J. Piore, C. F. Sabel: *The Second Industrial Divide*. New York: Basic Books 1984.
- 51 For example J. Rasmussen, H. Schmitz, M. P. van Dijk (eds.): *Flexible Specialisation. A New View on Small Industry?* In: *IDS Bulletin*, 23, 3 (1992), pp. 1–68; P. O. Pedersen, A. Sverrisson, M. P. van Dijk: *Flexible Specialisation, The Dynamics of Small-scale Industries in the South*. London: IT 1994.
- 52 Sandee 1995, op. cit., fn. 30.
- 53 J. C. Jarillo: On Strategic Networks. In: *Strategic Management Journal*, 9, (December 1988), pp. 111–119.
- 54 O. E. Williamson: *Markets and Hierarchies, Analysis and Antitrust Implications*. London: The Free Press 1975.
- 55 Knorringa 1995, op. cit., fn. 30.
- 56 J. Coase: The Nature of the Firm. In: *Economic Journal*, 47 (November 1937), pp. 713–719, explained integration: it “takes place because of transaction costs, when it is cheaper than buying the same product at the market place”. The costs of using the price system exceed the costs of internalising those transactions within the firm. Static versus dynamic efficiency considerations complicate the issue, however. From a static efficiency point of view it may be cheaper at a certain

moment to integrate an activity, while from the dynamic efficiency point of view disintegration may be better.

- 57 For research the question becomes: Why are some firms highly integrated, while others are specialised? Why is a certain branch characterised by a vertical integration process during a certain period and by disintegration in another?
- 58 Jarillo 1988, op. cit., fn. 53, p. 35.
- 59 Pyke et al. 1992, op. cit., fn. 5.
- 60 Van der Erve 1993, op. cit., fn. 30.
- 61 Knorringa 1995, op. cit., fn. 30.
- 62 Best 1992, op. cit., fn. 8.
- 63 Pyke et al. 1992, op. cit., fn. 5.
- 64 Farbman et al. 1989, op. cit., fn. 11.
- 65 Van Dijk 1993 Small, art. cit., fn. 47.
- 66 Other developments are increasing capital intensity of production, consumers demanding an increasing variety of products and increasing product substitution possibilities.
- 67 *Financial Times* 27-2-1991.
- 68 One can buy a new (dumped) shirt from Asia in Ouagadougou for about 1000 Frank CFA, which equals ten french francs. Cloth to be brought to a tailor will cost as much, but then the labour still needs to be paid.
- 69 For a comparison of flexible specialisation, industrial districts and the new competition, see M. P. van Dijk: Flexible Specialisation, the New Competition and Industrial Districts. In: *Small Business Economic*, 7 (1995), pp. 15-28. After paying attention to the major defining characteristics, these terms are operationalised to test their relevance using data concerning the modern industrial sector of Ouagadougou. The policy implications of working with these concepts are also explored.

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