

Chapter 1

Formalizing the Informal Sector: The Missing Link of African Entrepreneurship

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ABSTRACT

The role of entrepreneurship in Africa's future economic growth and social development opportunities for youth, women, and others, including indigenous people, is increasingly being recognized. Expanding informalities in the African entrepreneurial environment has attracted the attention of scholars and development economists who are calling for the formalization of the informal sector in Africa to promote economic growth. Researchers point to distortion and weaknesses in the legal and institutional frameworks as reasons why Africa's entrepreneurship business environment, which is considered "informal," is failing to meet the continent's economic and social needs. This chapter draws attention to the existing gaps and contends that informal entrepreneurship in Africa cannot be harnessed and harmonized without a deeper understanding of the continent's past and cultural diversity that predates the post-colonial era, and why a policy approach of "normalization" rather than "formalization" is appropriate for the African entrepreneurial landscape.

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INTRODUCTION

Despite being viewed as a “parasite - unfair competition to formal businesses” (Amin & Okou, 2020); a “survival strategy for low-skill individuals” (Ulyssea, 2020); a “social safety net for the poor”, a “trampoline to formality” (World Bank, 2011); a “necessity-driven endeavour for the marginalized populations” (Ulyssea, 2020; Zylfijaj et al., 2020); and a “transitional economic stabilizer” (Cassim, 2015), the informal entrepreneurial sector remains persistence, resilience, prosperous as it continues to expand and grow within the African entrepreneurial landscape. According to the International Labour Organization (ILO) (2018), African entrepreneurship landscape (particularly the informal economy) is rich and multi-faceted, with potentials that can be harnessed for Africa’s future economic growth and social development opportunities for the youth, women and others, including indigenous people.

Globally, over two billion people above the age of 15 make out their living through the informal sector (International Labour Organization, 2018). This means that more than 60% of the world’s labor force is employed informally, and 90% of these firms are small and medium enterprises (Chen & Carré, 2020). African continent houses so many informal firms that 8 out of 10 persons work informally (International Labour Organization, 2018), and the size of the informal sector economy has been increasing in the last decade (Ishengoma, 2018). In many African countries, it is much larger than the formal sector and includes economic activities, jobs, and workers that are not regulated or legally protected by the government. It has a variety of dimensions, including legal market values (whether the company is registered or not), fiscal (whether the company pays taxes and keeps detailed accounts), and labour (whether the company offers contracts and benefits to workers). The informal sector generally includes all economic activities that contribute to gross domestic product (GDP) but are not officially reported (Fourie, 2018; Webb et al., 2020). Their daily activities involve (1) product and marketing strategies (e.g., what goods and services to produce and sell, how and where to sell them); (2) efforts to cut costs for efficiency; and (3) efforts to access finance (African Development Bank Group, 2021).

According to the International Monetary Fund, informal employment and the sector contribute as much as 60 percent of GDP to countries like Nigeria, Tanzania, and the Benin Republic, and as little as 20 percent of GDP to South Africa, Lesotho, and Namibia. (IMF, 2017). Although the dynamics of informal economy are considered complex and difficult to measure, their economic benefits and importance to the entrepreneurial and social development of Africans cannot be overemphasized. Scholars attribute the proliferation of the informal sector in many African countries to distortions and weaknesses in the legal and institutional frameworks within its economic landscape (sociocultural, socio-political, and socio-economic factors)

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