

# WEST AFRICAN FUTURES

SETTLEMENT, MARKET AND FOOD SECURITY



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## INFORMAL ECONOMY AND FOOD SECURITY

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Many West African households derive their income from what is called the “informal sector” or “informal economy”, and much of the food they consume is supplied by informal networks, which are not covered or incompletely covered by official statistics and conventional national accounting systems (note 5). Urban food insecurity, which has given rise to “food riots” in recent years, mainly affects vulnerable people employed in the informal economy. It would be misleading to address food security without taking into account a large part of the economy that provides jobs, incomes and essential services for the urban population and for the non-agricultural population in rural areas. Despite its important role, however, the informal economy is still poorly defined, poorly measured and consequently poorly taken into account in food security policies. This note takes stock of the size and importance of this economy and the way it operates.

*Paper published by  
the Sahel and West Africa Club Secretariat (SWAC/OECD)*

*The opinions and interpretations expressed in this paper  
do not necessarily reflect the views of the OECD or  
the SWAC Secretariat.*

# 1 HARD TO DEFINE, HARD TO MEASURE

The term “informal” was first used in 1972 to refer to any urban economic activity taking place outside the legal and regulatory framework governing employment. The expansion of the informal sector in recent decades has prompted the International Labour Organisation (ILO) and the Economic and Statistical Observatory for Sub-Saharan Africa (AFRISTAT) to attempt a precise definition for the purpose of incorporating as much informal activity as possible in national accounting systems (Box 1).

A recent document by the United Nations Economic Commission for Africa confirms the need for a uniform definition of the informal economy before undertaking any regional analysis: “International or temporal comparisons for a given country to reflect the contribution of the informal sector [or informal economy] to the economy (in terms of added value, income distribution, employment creation) would not be possible without a consensus on the definition of the informal sector or informal employment and without an adequate methodology recognised by all countries.”<sup>1</sup>

The ILO recommends identifying informal production units (IPUs) and the jobs they provide by mixed surveys, using household surveys to identify all economic units that meet the definition of an IPU followed by surveys of those units using an enterprise questionnaire. This type of survey includes activities that conventional “enterprise surveys” fail to identify. Over the past twenty years efforts have been made to establish a uniform methodology. For West Africa, this has been done by the PARSTAT programme (Regional Statistical Support Programme) for multilateral monitoring of the UEMOA countries, launched in 2001-2002 and

## Box 1

### ILO DEFINITION OF THE INFORMAL ECONOMY (1993)

**In conceptual terms**, the informal economy is defined as “consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes for the persons concerned. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production, and on a small scale. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.”

**For statistical purposes**, the informal economy is defined as “a group of informal production units (IPUs) which, according to the (...) System of National Accounts (SNA), form part of the household sector as (...) unincorporated enterprises» producing at least in part for the market.

These enterprises are “units (...) which are not constituted as separate legal entities independent of the households or household members that own them, and for which no complete sets of accounts are available which would permit a clear distinction of the production activities of the enterprises from the other activities of their owners and the identification of any flows of income and capital between the enterprises and the owners.”

The informal economy so defined, irrespective of place of work, amount of capital, duration of activity and its operation as principal or secondary activity, comprises two categories of IPUs: (a) own-account workers, who may or may not employ unpaid family members or employees hired on a casual basis, and (b) enterprises employing one or more employees on a continuous basis, up to a limit recently set by the Delhi Group of the United Nations Statistics Division at five, with either the enterprise or its employees being unregistered.

Source: 15<sup>th</sup> International Conference of Labour Statisticians (Geneva, January 1993), Resolutions adopted, Official Bulletin, (ILO, Geneva), Vol. LXXVI, series A, No. 3, pp. 184-195.

based on “1-2-3 surveys”.<sup>2</sup> This is the only project to have covered cities in several countries using the same definitions and a methodology similar to that recommended by the ILO. It covered the capital cities of seven countries (Cotonou, Ouagadougou, Abidjan, Bamako, Niamey, Dakar and Lomé). Some countries including Benin and Mali have taken the initiative of repeating the survey to update their data.

<sup>2</sup> The 1-2-3 surveys are conducted in three stages: Stage 1 consists of sampling and identifying households to be surveyed. The analysis focuses on employment and socio-economic and demographic characteristics. Stage 2 consists of surveys of the informal production units identified in Stage 1, and Stage 3 analyses household expenditure. This makes it possible to include the characteristics of the production units in an analysis of the determinants of income from work.

The international seminar on the informal economy organised by AFRISTAT in Bamako in October 2008 proposed setting up a unit to co-ordinate methodological research and implement a pilot project in some African countries to test the viability of a system of national employment surveys and mixed surveys on the informal economy.<sup>3</sup>

These efforts to find a more accurate way of measuring the economy are essential. However, they still do not fully capture the informal sector since by definition it does not conform to national accounting criteria and therefore underestimate

<sup>3</sup> AFRISTAT (2009), *Actes du séminaire international sur le secteur informel en Afrique (SISA) : Instruments de mesure, analyses et intégration des politiques économiques et sociales*, Volumes 1 and 2, Bamako.

<sup>1</sup> UNECA (2007), *Study on the Measurement of the Informal Sector and Informal Employment in Africa*, Addis Ababa, page 7.

the real size of informal activities. The proposed economic and statistical definition also ignores the fact that the “informal sector is not a homogeneous grouping in which economic reasoning prevails over the obligations and other implications of social life.”<sup>4</sup>

In practice, even in recent studies such as UEMOA’s PARSTAT programme, the standard definition of the informal economy is: any economic activity that does not comply with the obligations to

register, keep accounts and pay taxes. Even if non-registration is used as a criteria for identifying and defining an informal enterprise, countries may change their legislation and forms of registration (and therefore of non-registration) over time; such changes disrupt measurements of the informal economy<sup>5</sup> and make it impossible to track trends.

4 Rogerson, C. M., (1996), Urban poverty and the informal economy in South Africa’s economic heartland, Environment and Urbanisation, Volume 8, No.1.

5 Roubaud, F. (2009), *La production statistique sur le secteur informel en Afrique : quels enseignements et quelles perspectives ?*, African Statistical Journal, Volume 9.

Therefore, one can not ignore indirect methods of measuring informal employment such as comparing

**Standard definition of the informal economy: any economic activity that does not comply with the obligations to register, keep accounts and pay taxes.**

economic activity as recorded in censuses and population surveys with employment as recorded in administrative listings and/or business surveys.

## 2 REVISION OF CONCEPTS IS ESSENTIAL

The difficulty of measuring the informal economy masks a conceptual difficulty. The informal economy is not an economic sector in the usual sense like the primary, secondary and tertiary sectors. Still less is it a branch of the economy; it concerns every branch including agriculture, finance, trade, transport and medicine. Because of this variety

**The informal economy must be seen as a whole, with its primary, secondary and tertiary sectors and its urban and rural components.**

of informal enterprises in all branches of the economy, it is sometimes termed “parallel economy”.<sup>6</sup>

Informal activities do not emerge for want of better options, as if the modern sector did not create enough jobs. They are an essential part and driver of the

6 It is not the same as the “illegal economy”, which comprises activities forbidden by law such as production of and trade in illegal drugs.

urbanisation process».<sup>7</sup> They produce and distribute goods and services for a population that cannot afford those that the modern economy produces and markets. This is achieved with a minimum of capital.

The informal economy has mainly developed in urban areas in response to the needs of urban life. In urban areas, informal employment accounts for nearly 50% of the total non-agricultural employment. However, it is restricted neither to urban areas nor to non-agricultural activities. Informal activities are also present in rural areas and its extent increases with the numerical threshold used to define a town. The seasonal nature of farm work encourages people to seek secondary employment and progress in agriculture also generates more service activities in rural areas. In Cameroon, the 2005 survey on employment and the informal sector

7 Lautier, B. (1994), *L’économie informelle dans le tiers-monde*, La Découverte, Paris.

(EESI) estimated the value added of the rural informal economy at 29% of the value added of the entire informal economy.<sup>8</sup>

National accounting does not regard traditional (or family) farming, accounting for most employment in the agricultural sector, as part of the informal economy, because it is clearly part of the primary sector. However, traditional subsistence farming is an integral part of the informal economy in terms of its objectives, how it operates and its role in social integration. It is the primary sector of the informal economy. The informal economy must be seen as a whole, with its primary, secondary and tertiary sectors and its urban and rural components. Viewed like this, the informal economy provides 85-90% of all employment in the region. It is the invisible part of the “iceberg” of the region’s economy, for everything concerning basic goods and services like food and housing.

8 Fouoking, J. (2009), *L’intégration de l’informel rural non agricole dans les comptes nationaux : l’expérience camerounaise*, African Statistical Journal, Volume 9.

It is indeed a “parallel economy”, functioning in interaction with the formal or modern economy. The interweaving of formal and informal activities is omnipresent in commercial activities and it is not uncommon to find large formal-

economy businesses using the informal economy in their marketing strategies. A survey conducted in Benin in 2008 reveals that “the modern private sector cannot exist without the informal sector which, for some modern businesses, is their best

customer”.<sup>9</sup>The food security of urban and rural populations alike largely depends on the complex dynamics of this interweaving between informal and modern activities.

9 Igue, J. (2008), *Le secteur informel au Bénin : Etat des lieux pour sa meilleure structuration*, Chamber of Commerce and Industry, Cotonou, Benin.

### 3 STRUCTURE AND IMPORTANCE OF THE INFORMAL ECONOMY

Some countries like Burkina Faso have attempted to take into account informal employment in all branches of the economy. Figure 1 details the breakdown of non-agricultural informal employment (and by deduction modern or formal employment) within the various branches of the country’s economy. It shows that in Burkina Faso in 1985, informal employment was not only present in almost all branches of the economy but also outweighed modern employment. It provided on average 70% of total non-agricultural employment and almost all

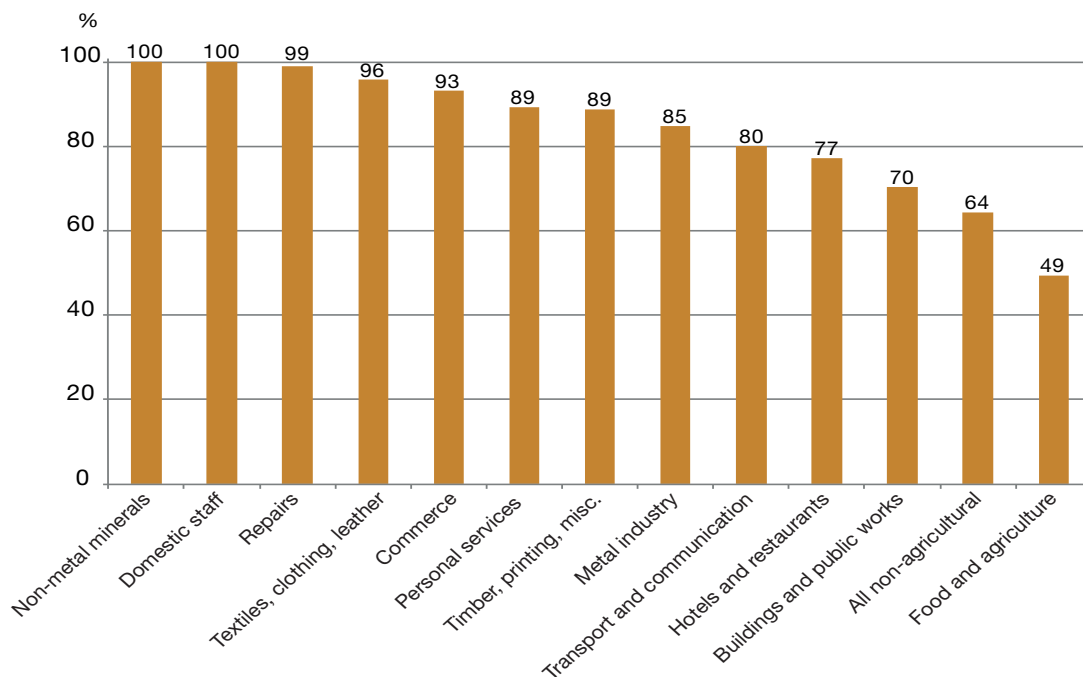
employment in some branches such as trade, repairs, textiles, clothing and leather.

This dual structure of employment is confirmed by the findings of the PARSTAT programme, which show that in 2002, in the seven capitals surveyed, informal employment accounted for between 73% and 81% of total non-agricultural employment. Commerce was the leading branch compared to craft industries and “services”: accounting for 40% to nearly 50% of all informal production units surveyed, depending on the

town (Figure 2). Informal commerce, requiring little training, is the gateway into the labour market. The size of informal retail trade also seems to confirm the importance of unrecorded informal trade as described in note 5 on regional trade and food security.

The PARSTAT programme also shows that the average enterprise size and the proportion of wage earners are similar in the cities surveyed. An average of 1.4 to 1.7 people work in these IPUs and of these, between 10% to 17% are wage labourers.

Figure 1 – Informel employment as percentage of total non-agricultural employment, by branch, Burkina Faso (1985)



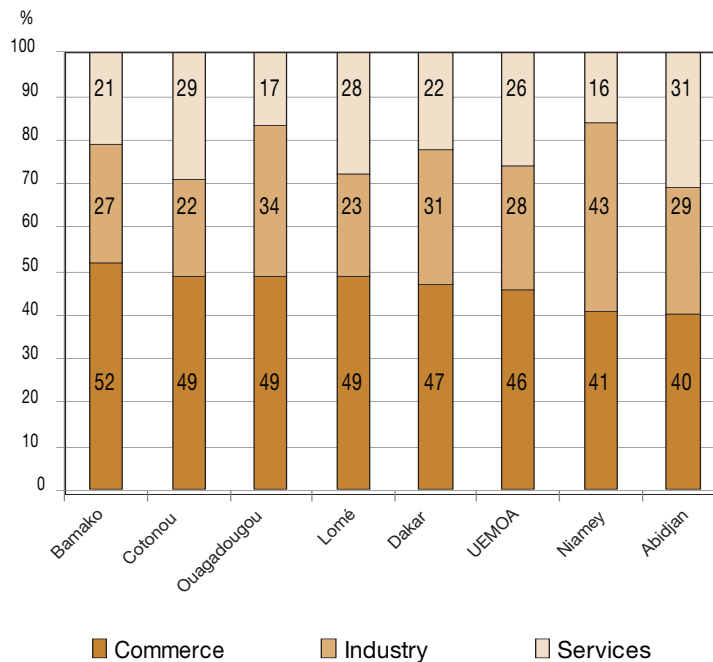
Source: Authors based on data from Charmes, J. (1989), *35 ans de comptabilité nationale du secteur informel au Burkina Faso (1954-1989) : leçons d’une expérience et perspectives d’amélioration*, UNDP/INSED, Ouagadougou.

An earlier survey conducted in 1982 in the six largest towns of Benin revealed another important feature of the informal economy's structure: the number of IPU per urban inhabitant varies little with town size. At that time, there was 1 IPU for every 5.5 inhabitants in Cotonou, 1 for every 6 in Porto Novo and on average 1 for every 5.7 in the other towns in the survey.

The importance of the informal economy is also reflected in its contribution to GDP (Figure 3). This figure shows that the informal economy, excluding agriculture, accounts for a third of GDP in Niger (37%), Benin (34%), Senegal (35%) and Togo (32%). If agriculture is included, its contribution exceeds 70% for all these countries except Senegal. Though the exact figures are debatable given the difficulty of estimating them, they do provide an order of magnitude.

In the 1990s, the Club du Sahel and the Partnership for Municipal Development (PDM) conducted a series of surveys in a number of mid-sized towns and their hinterlands (ECOLOC programme). According to these surveys, the informal economy

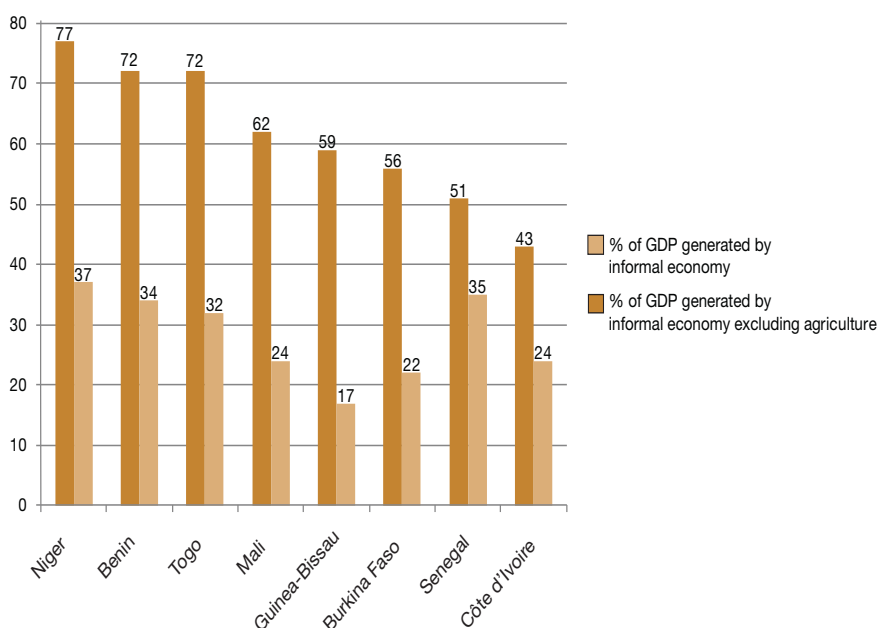
Figure 2 – Informal production units by sector (2003)



Source: Authors based on data from Leenhardt, B. (2005), *Le poids de l'informel en UEMOA, premières leçons en termes de comptabilité nationale des enquêtes 1-2-3 de 2001-2003* - DIAL AFD, Paris.

**In the UEMOA countries, informal employment accounted for between 73% and 81% of total non-agricultural employment in 2002.**

Figure 3 – Informal economy contribution to GDP (2000)



Source: Authors' calculation using data from Charne, J. (2000), *Measurement of the Contribution of the Informal Economy and Informal Employment to GDP in Developing Countries: Some Conceptual and Methodological Issues*.

10 Club du Sahel, PDM (1998), *L'économie locale de Sikasso et de sa zone d'influence*. OECD, Paris.



# 4 HETEROGENEITY, INEQUALITIES AND CONCENTRATION OF INFORMAL ACTIVITIES

There are wide income disparities within the informal economy. According to the PARSTAT programme, heads of IPU have average monthly incomes three times higher than independent workers and seven times higher than their employees.

The ECOLOC study of Bobo-Dioulasso analysed these inequalities in terms of economic concentration, particularly in trade. The concentration of informal trade in the hands of a small number of local operators is related to Bobo-Dioulasso's role in regional trade in farm produce.

Research by Kate Meagher<sup>11</sup> highlights the degree of concentration in "parallel trade". Meagher uses the term "parallel trade" to refer to the circulation of legal goods through illegal or unofficial circuits. She distinguishes this from the small-scale trade and production and service activities she calls "informal" and from criminal activities (trade in illegal goods). Large-scale parallel trade deals in both, local produce and imports from the rest of the world and is organised by a very limited number of operators. Parallel trade in West Africa today is mainly linked to differences in currency and tax systems between the former British and French colonies. The parallel market has turned currency differences into a source of profit. For example, the flour and rice trade in Benin, The Gambia, Guinea, Guinea-Bissau, Mali and Mauritania is controlled by just a few traders in each country. They smuggle out agricultural and other commodities (e.g. minerals) and also goods that are subsidised in their own countries, such as sugar, oil and agricultural inputs. "Convertible currencies so acquired are used to buy imported goods such as cigarettes, textiles, second-hand clothing and

<sup>11</sup> Meagher, K. (1996), *Le commerce parallèle en Afrique de l'Ouest. Intégration informelle ou subversion économique ?* in R. Lavergne, *Integration and regional co-operation in West Africa*, Paris, Karthala, pp. 197-222.

## Box 2

### INFORMAL ACTIVITIES IN BOBO-DIOULASSO AND REGIONAL POLARISATION

Bobo-Dioulasso, 310 000 inhabitants in 1996, is the second largest town in Burkina Faso. It was a hub for colonial trade in the Sahel and the terminus of the Abidjan-Niger railway until that was extended to Ouagadougou in 1950. Today Bobo-Dioulasso is a major assembly and warehousing centre for grain, most of which is then transported to Ouagadougou. It is also a major import and distribution centre for grain, especially rice, from neighbouring countries. These imports are distributed throughout the country and beyond, going as far as Nigeria. The town is also a hub for cattle exports from Burkina Faso and neighbouring countries to Côte d'Ivoire. In 1997, the town's gross local product (GLP) stood at FCFA 105 billion, or FCFA 400 000 per capita. Half generated by formal enterprises and the other half by the informal economy. The informal economy employed 84% of the town's economically active population and commerce accounted for 56% of the informal contribution to GLP (Club du Sahel, 2000).

A small number of large wholesalers, often transporters, representing 5% of IPU, account for 50% of informal trade. While the smallest 20% of businesses account for 0.7% of total revenue by informal activities, the top 20% account for 75% (with average annual revenues of FCFA 13 million per business). In terms of value added, 20% of informal businesses generate 85% of all value added from informal activities. Among the 24 775 businesses identified, fewer than 5 000 account for the vast majority of informal economic activity. Most of these "large-scale informal operators" – who are not registered with the Chamber of Commerce, the Trade Registry or the national social security system – work in wholesale trade and transport, given that 56% of the informal sector's value added is generated by trade. The informal economy thus plays an important part in managing the urban economy, especially in the food and agriculture branch, and probably an even greater part than the figures for production and value added suggest.

<sup>1</sup> Club du Sahel and PDM (2000), *L'économie locale de Bobo-Dioulasso*. OECD, Paris.

electronics, as well as rice and wheat flour, which are then re-exported illegally back into the first country. (...) In West Africa, the coexistence in close vicinity of convertible and non-convertible currency zones has divided the region into three subsystems of parallel activity. These are centred around Nigeria, Ghana/Côte d'Ivoire, and Senegambia, and correspond fairly closely to (...) three 'sub-markets'" (Meagher, 1996).

These examples show that over time, a complex but coherent pyramid structure combining formal and informal networks has taken shape and grown with urbanisation. At its base are "informal" farmers who depend on collectors for selling their production and obtaining loans, and on rural markets for buying inputs

and consumer goods. Vibrant urban markets meet demand from mostly "informal" consumers. At the middle, well organised trading communities in the larger urban centres control specialised regional markets (cattle, tomatoes, onions, etc.) and manage the main food product industry (grain, root crops, meat, fruit and vegetables). They combine collection, transport and wholesale trade in food imports and exports. At the top, few major traders who often have links with government circles control a large-scale regional and continent-wide grain trade (mainly in wheat and rice).

# 5 INFORMAL ECONOMY AND FOOD SECURITY POLICIES

**B**ecause of a negative perception of informal activities, the idea that their growth encouraged rural-urban migration and the conviction that they would quickly die out as the economy developed, for many years African governments pursued restrictive or hostile policies towards informal activities. Urban growth was stigmatised on the grounds that there was not sufficient industrial development to provide jobs for new town-dwellers. The informal economy was seen as a harmful consequence of under-development, in the same way as the slum districts it was associated with. Some West African countries only began to take the informal economy into account in public policy in the

1990s. At that time priority was given to the craft-industry component of the informal economy, for which policy was fairly easy to define, rather than trade and services, although these were essential for the supply, storage and distribution of regionally-produced or imported food.

Faced with a phenomenon they cannot control, governments are caught in a dilemma (or contradiction) between an interventionist instinct to normalise the situation and formalise the informal, and the concern not to upset a fragile social and economic balance. Having for a long time ignored the informal economy, governments then tried to impose

their rules. But restrictive legislation may disrupt endogenous dynamics such as apprenticeship, innovation and creativity. According to Olivier Bain,<sup>12</sup> “The real problem is how to connect the two sectors [modern and informal]. The ideal would be for the two to co-exist peacefully. Economic development (...) will happen with this duality or not at all.” To establish and manage regional food security policy, an in-depth evaluation and an understanding of the role and functioning of the informal economy is essential.

<sup>12</sup> Bain O. (2001), *Afrique histoire, économie, politique 1998-2001*.

## GLOSSARY

### → **Illegal economy**

Production or service activities involving goods and services that are banned by law (e.g. drugs).

### → **Informal economy (or informal sector)**

Units engaged in the production of goods or services with the primary objective of generating jobs and incomes. It concerns all sectors of the economy (primary, secondary and tertiary). In practice, the informal economy is considered to include any economic activity that does not comply with the obligation to register, keep accounts and pay taxes.

### → **Large-scale parallel trade**

Trade in legal goods through illegal or unofficial channels. It is distinguished from small-scale “informal” trade and from criminal activities involving illegal goods.



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*Your comments are  
welcome!*

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