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**Working Paper**

## Non-formal institutions, informal economies, and the politics of inclusion

WIDER Discussion Paper, No. 2001/108

**Provided in Cooperation with:**

United Nations University (UNU), World Institute for Development Economics Research (WIDER)

*Suggested Citation:* Tripp, Aili Mari (2001) : Non-formal institutions, informal economies, and the politics of inclusion, WIDER Discussion Paper, No. 2001/108, ISBN 9291900397, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

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**WIDER**

World Institute for Development Economics Research

Discussion Paper No. 2001/108

## **Non-formal Institutions, Informal Economies, and the Politics of Inclusion**

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October 2001

### **Abstract**

Africa's formal economies responded poorly to economic reform measures in the 1980s and 1990s while informal markets and institutions responded dynamically and proved to be more resilient. Using comparative analysis of African informal economies, this study explains why this was the case. It outlines the economic rationales that drive these informal economies to show how their logic often derives from social considerations that may be at odds with the goals of profit maximization. It then maps out some of the institutional terrain within which the informal sector operates. The study also analyzes the extent to which government policies in Africa have facilitated and constrained the informal sector; it describes continuing impediments to the growth of local and informal markets; and explores incentives that would enhance informal institutions.

Keywords: informal economy, non-formal institutions, structural adjustment, economic policy

JEL classification: O17, O55, P46, Z13, P11, G2

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This study has been prepared within the UNU/WIDER project on Institutional Capabilities, Reform Ownership and Development in SSA, which is directed by Steve Kayizzi-Mugerwa. UNU/WIDER gratefully acknowledges the financial contribution to the project by the Government of Italy (Directorate General for Development Co-operation).

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Camera-ready typescript prepared by Lorraine Telfer-Taivainen at UNU/WIDER  
Printed at UNU/WIDER, Helsinki

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute or the United Nations University, nor by the programme/project sponsors, of any of the views expressed.

ISSN 1609-5774  
ISBN 92-9190-038-9 (printed publication)  
ISBN 92-9190-039-7 (internet publication)

## 1. Introduction

African governments and donors have gradually come to accept informal economic institutions as a source of survival for large sections of the population who cannot rely on the formal economy for employment or adequate incomes. Rather than simply seeing the informal sector as a manifestation of casualization to be eliminated as the formal sector strengthens, today donors and governments alike are looking for ways to provide microfinance and other supports to this sector. There is growing recognition that the vitality of this sector can be attributed to the fact that it is owned and controlled by operators to a greater extent than many other sectors of the economy. Nevertheless, government policy has a long way to go in addressing the needs of this sector.

This chapter draws on the theoretical and empirical findings of the growing literature on informal economic institutions especially as they relate to Africa to explore economic responses to the failures of state economic policy, poor infrastructure, incomplete information, insecurity, and problems of risk. It explores some of the particular characteristics of non-formal market institutions within which the informal economy operates by examining both the underlying norms, economic rationales and motivations of small scale entrepreneurs as well as the associations within which their economic activity is embedded. I refer to these institutions as ‘non-formal’, but even this term does not fully capture the complexity of African markets. Thus, the study is an attempt to respond by looking at the informal economy to the observations made by Marcel Fafchamps (1997: 733) about African markets more generally.

We know little about how markets operate in practice. Perhaps the best measure of this lack of knowledge is our propensity to call ‘informal’ everything that is not of Western inspiration. The truth is that market activity in Africa is not without form; it is only without economic formalization. It may escape our present understanding, it does not defy explanation . . . African market realities are much richer than often recognized . . . The problems that indigenous institutions attempt to solve are the usual ones—commitment failure, asymmetric information, and transactions costs—but the solutions often are original. African market realities are nothing but a transformed image of those in advanced countries. Studying markets in Africa forces us to rethink the very nature of markets themselves.

The poor understanding of African markets was especially evident with the widespread failure of structural adjustment programs throughout much of Africa. Economic reforms were intended to eliminate irrationalities in economic policy and practice. While their aim was to strengthen the formal sector and eliminate the need for informal markets, in reality the reforms often strengthened the informal sector and its efficiency. In particular, the informal sector expanded employment opportunities and the growth of new firms in response to structural adjustment in Africa (Parker, Riopelle and Steel 1995: 3).

While formal financial institutions responded poorly to economic reform measures in countries like Malawi, Nigeria, Tanzania and Ghana, informal financial agents responded dynamically and proved to be more efficient. Default rates for small scale creditors in Tanzania, for example, were 0.1 percent and 2.5 percent for ROSCAs, while for commercial banks they were 80 percent (Aryeetey et al. 1997: 198, 205). Moreover, unlike

formal lending institutions that concentrated only on large manufacturing companies, informal institutions expanded their clientele significantly. Poor integration between the formal and informal financial sectors, however, did not permit a spillover effect from informal institutions to formal ones.

In many ways, these outcomes challenged expectations. Excessive government control of financial systems had been seen as encouraging fragmented financial markets, resulting in a market that favored certain borrowers while forcing the majority to seek credit in inefficient, expensive informal markets. According to this view, the elimination of restrictive financial policies should have allowed for the expansion of the formal sector, improved access to formal financial institutions, and reduced the need for informal lending, improved efficiency, and lowered the differential between borrowing and lending rates (Steel et al. 1999). Instead, the lifting of controls led to an expansion of the informal financial institutions.

In case study after case study, the evidence overwhelmingly points to tremendous vitality in the informal sector in response to economic reform when contrasted with the formal sector. Kenneth King's latest study of the jua kali informal sector in Kenya showed how informal sector operators, both rural and urban, large and small scale, had experienced differentiation and greater dynamism, more diversity and sophistication in technologies, when he contrasted his earlier 1970s study with what he found in the 1990s. Because of the potential of the informal sector in contrast to the low wages and insecurity of the formal sector, there has been significant migration from the formal to the informal sector in Kenya (King 1996: 519). My findings in Tanzania are virtually identical (Tripp 1997).

The study uses comparative analysis of African informal economies to examine key distinguishing characteristics of the informal sector in Africa. The paper outlines the economic rationales that drive these informal economies to show how their logic derives from social and human considerations that are often at odds with the goals of business expansion. It then maps out some of the institutional terrain within which the informal sector operates that derives from these rationales. Finally, the paper analyzes the extent to which government policies in Africa have facilitated and constrained the informal sector; what are continuing impediments to the growth of local and informal markets; and what incentives would enhance informal institutions.

## **2. Dimensions of the informal economy**

Informal economic activities are untaxed, unlicensed and unregulated economic activities. Sometimes, though not always, they are characterized by their small-scale of operation. However, the lines between informal and formal activities are often blurred. Overlaps between the two sectors are many, and so to a large extent we may be also talking about local markets and local economies and especially small scale production, microfinance and small scale trading, commerce, and service businesses.

One further distinction is necessary. The informal economy can be divided into at least two types of activity: licit and illicit activities. Illicit activities have no legal counterpart in the society in question. Depending on the social and political context, illicit activities might include embezzlement, drug dealing, bribery, extraction of rents, kickbacks, and other forms of criminal activity. The informal economy also includes licit or legitimate activities,

which do have a legal counterpart in the society in question (Tripp 1997). For example, making oil lamps without a license is a licit informal activity because one could potentially obtain a license for the same activity. There is naturally a fine line between licit and illicit forms of informal economic activity and many gray areas in between. Most importantly from an empirical standpoint, there are many connections between various kinds of licit and illicit activities. In this paper I am referring primarily to licit informal activities.

As much as the informal economy blends into the formal economy, it also differs from the formal economy in particular ways in Africa. For example, in most African countries, the informal sector contributes more to the GDP than the formal manufacturing sector. It accounts for the majority of the urban labor force and a growing portion of the rural population. Moreover, informal entrepreneurs primarily serve local markets. Small-scale entrepreneurs provide local consumers with affordable products, often tailored to meet the specifications of the individual. Informal international trade is as big or bigger than that of the formal sector. It is facilitated by foreign exchange and commodity shortages, price differentials, and foreign exchange differentials across the borders. The fact that similar ethnic groups and peoples cut across national borders also makes such trade easier (DPCSD 1996: 14). A large proportion of total urban incomes are found in the informal sector. I found in Tanzania that nine tenths of the urban household income was obtained from informal income-generating projects, while the other tenth came from formal wages. Thus, the informal economy provides incomes to people that come much closer to meeting their needs than formal wages. The fastest growth wages are in the informal economy (Tripp 1997).

The overwhelming majority of new job creation is in the informal sector. The informal sector has resulted in the expansion of small enterprises in the past decade (DPCSD 1996: 10-18). In Uganda, for example, there are 800,000 microenterprises employing roughly 1.5 million people, mostly women, 80 percent of whom are based in the rural areas. They have an annual labor force growth rate of about 20 percent (Republic of Uganda 1999). Indeed this is the fastest growing job growth sector in Africa, accounting for as much as 40 percent of the GDP and providing at least 70 percent of all new employment (Charmes 1997). The informal economy has often provided opportunities for sectors of society, like urban women, youth and the elderly, who have limited opportunities for formal employment.

Much of the expansion is due to the growth in the numbers of new enterprises rather than as a result of an increase in vertical growth. In fact, Africa has some of the highest proportions of people who are entrepreneurs and the numbers of people who are self-employed, heading their own firms is much higher than what one would find in Western economies. Moreover, African households frequently combine farming with crafts, trade, services or production (Fafchamps 1997: 734).

The informal economy has absorbed a large percentage of the population that otherwise might be considered unemployed. One way in which the informal sector is able to accommodate these income and employment demands is through the creation of similar new enterprises rather than through internal expansion or hiring. Once apprentices or family members who have been working for an enterprise gain enough capital, they break off and form their own business, perhaps hiring (often a distant relative) or in partnership with another individual. This effectively and intentionally keeps many of enterprises small in size. Tinker (1987) has referred to this splitting off to form a new enterprise as an

'amoeba' -like activity in contrast with the alternative expansion route of forming a larger hierarchical enterprise. It is interesting to note that in Tanzania even firms with greater capital tend to keep employees at a minimum, while permitting this amoeba-like expansion to occur (Bagachwa and Ndulu 1996). Thus, capital and resources do not remain in the hands of a few, but are more widely distributed among a larger segment of the population, whereas large-scale enterprises tend to concentrate capital in the hands of the state or a few capitalists. Because informal activities usually are labor intensive, employment takes place at relatively low capital cost. Small scale and micro entrepreneurs rely primarily on local inputs unlike formal industry, which is heavily dependent on foreign exchange and the importation of inputs.

Small enterprises tend to be more efficient in the resources they use and as such are critical to African potential in employment and productivity (Young 1994: 1). Small-scale producers in Tanzania, to take one country, have proven to be at least five times more productive than their large-scale counterparts in terms of output measured per unit investment (Kim 1988: 96). Although individual accounts may be small in scale, when the many accounts are aggregated they represent substantial amounts of internal investment and saving.

In most African countries, informal savings and financial activities predominate with limited linkages to formal lending institutions (Adams and Fitchett 1992; Bouman 1995a, b). Most funding to start enterprises is self-generated but also with high rates of loans coming from family and friends (Buckley 1997: 1082). The majority of informal sector activities are trade related rather than in the manufacturing and service sectors. The average size of commercial enterprises is about one quarter or one fifth of service businesses or production activities (DPCSD 1996: 10).

Women constitute the major labor force within the informal sector in most parts of Africa. Although estimates of informal sector participation tend not to be very reliable, the general pattern of female involvement is clear. For example, Congo has 94 percent female involvement in the retail trade sector, Gambia 89 percent, and Zambia 91 percent (Grey-Johnson 1992: 74-75, DPCSD 1996: 11). Although there is considerable regional differentiation in the extent to which women participate in the informal economy, where they are most active, women tend to be primarily responsible for meeting household needs, including food, clothing, health care, and education-related expenses, while men are more likely to choose to spend their income on themselves. Patterns throughout Africa show that women's surplus income goes first to the care of children, secondarily to the household, and lastly to the expansion of their businesses. This makes women entrepreneurs in particular, a key leverage point in influencing the welfare of the household overall. Yet they frequently have the hardest time accessing capital to invest in their enterprises that sustain their households (see also Tripp 2000).

### **3. Organizing principles of the informal economy**

A variety of rationales drive these informal institutions, especially small-scale microenterprises. It is difficult to generalize because much depends on the broader cultural and economic context and the size of the enterprise. Also people vary strategies and are not necessarily consistent. But it is common to find that many of poorest microbusiness operators, especially women, adopt operating principles that defy conventional neo-

classical assumptions that business people simply are self-seeking individualists single-mindedly bent on maximizing their profits. Many will seek to lessen market competition by sharing product and marketing ideas with others; by making profit a secondary consideration when it comes to family crises; by lowering prices for poorer customers; by assisting other business people who sell similar products in the same location; and by combining collective income generating strategies with individual ones.

It is necessary to understand such rationales and values in order to comprehend, for example, why vertical integration is not always a preferred strategy or why profitability and expansion is sometimes limited. Such value preferences help explain why people might not always respond to policy incentives in expected ways. Moreover, these alternate logics of operation mitigate against the expansion of linkages between the formal and informal economies.

To comprehend the vitality of the informal economy is to comprehend the norms of reciprocity, mutuality, and fairness that drive it. Although it is linked and overlaps with the formal economy, there are rationales that drive this more localized, smaller scale, informal economic activity that are not as evident in highly developed market economies, where economic activity is more disembodied from social life, individuals are more atomized, and markets are the driving force in society (Booth 1994: 657-60). Participants in a given community share a common plight in which survival is the driving force. Moreover, they share a common perception that their survival is contingent on that of others in their community. Community, family, or kin interests rather than the market define values governing economic activity in what could be considered a 'moral economy'.

Many of the operating principles of the informal economy are at cross purposes with the expansion of businesses, competitiveness, and even efficiency. But they are important to consider because they explain in part the high levels of feelings of ownership participants have of their economic activities. They also reflect considerations that have to do with the strengthening of community, trust, social capital and quality of life.

### **3.1 Accumulating social capital**

In a study I conducted of small businesswomen in Uganda in the early 1990s, I found, for example, that they were as likely to cooperate as to compete. Underlying these strategies was the strong conviction that women's individual and household survival is tied to that of their community and to that of others. They believed that by seeking cooperative strategies, they could enhance their own well-being and that of their household. This idea is summed up in the acronym for one savings club, West Road Women's Association (WERWA), which translates into English from Luganda 'give of yourself'. As a member of this organization explained: 'It is important that you first give of yourself and think of others and only then you can think of yourself'. When I asked why under such harsh economic conditions, women do not think first about their self-interest, she answered: 'Because you cannot survive if you only rely on yourself, we all need one another'.

You help others because you might be the one in need the next time around. You forgive someone who on a rare occasion defaults on their payment in a rotating savings club because next time it you might be the one who needs forgiveness. It is by no means limited to business strategies, but it is a way of life for the urban and rural poor alike. Valdo Pons describes a Kampala neighborhood as a 'moral community' in which empathy,



neighborliness and respectability, is highly valued, especially by women, who are integral to the cohesion of the community. Women are obligated to look out for the well-being of neighbors and care for them when they are ill (Wallman et al. 1996: 88-9). Favors of this kind are ways to build social wealth (Vélez-Ibañez 1983) or social capital, to borrow a term popularized by Robert Putnam (1993: 163-85). In other words these Ugandan women are building up networks made up of family, friends, acquaintances, business associates that are based on trust and reciprocity as a way of banking on assistance in the future. The larger the network, the greater the accumulation of social capital that can be drawn on in a future time of need.

### **3.2 Mutual assistance**

Cooperative strategies take many different forms. Enid Rwakatunga was a Kabale woman who ran a secretarial service firm and had started a mushroom growing business. She had begun encouraging and training rural women's groups to get into the mushroom business so that she could provide them with spawn and they would grow the mushrooms. When I asked her why she was doing this, she first talked about how she had grown up in a polygamous rural family and was still haunted by how much her mother and sisters were suffering. She felt it was her duty to educate rural women with what she knew about how to grow mushrooms and other income-generating activities to help them improve monetarily. She said she was also keen to educate them about nutrition because of the low levels of awareness she felt rural women in her area had about how to feed their children properly.

I then began to probe to see how important these concerns were to her relative to the profitability of her own business, since these women would be selling her their mushrooms, which she would then market. She admitted that she would give her own business priority, but this was because she would not be in a position to help them if she could not get her own seed supplying business off the ground. But she insisted that they would benefit because in Kabale the mushroom business is much more lucrative than selling handicrafts, which is a common income-generating project for women, but sales are tough because the market is flooded.

I pushed Rwakatunga even further and asked what would she do if a wealthy businessman came to town who had the means to grow large quantities of mushrooms. He was willing to buy her seeds at considerably higher rates than what she was asking from the rural women. Would she sell to him? I asked. She responded: 'I would not buy from him even if we were to get better price. Only one person would be benefiting. But by supplying rural women, several homes would be developed'. This was no hypothetical question for her. She had given it considerable thought since her husband, as manager of an American-owned pyrethrum business based in Kabale, had already been forced to choose between working with large numbers of rural poor women or with a few men who had large farms and could supply large quantities of pyrethrum. 'Let me tell you how he struggled to get women in rural areas'. To supply individuals with big farms 'would have only benefited one person. He would not go in for that'. From his example she drew the lesson that to supply one wealthy individual 'I would only be thinking of my own factory, I would not be thinking of rural women. Don't you see?' By now she was imploring me to understand, until I finally relented and admitted that I 'got it'.

Entrepreneurs formed business associations explicitly to share ideas for products and markets, teach each other how to improve their book-keeping and accounting, how to manage their businesses and to encourage them to save. Others established groups to encourage other women to get into business or to save money.

### **3.3 Avoiding competition**

Entrepreneurs would often go to great lengths to minimize competition, sometimes writing provisions into their trade association or cooperative constitution or into market rules to ensure that a collaborative non-competitive ethos prevailed. So that in the context of a market, the rules would stipulate that one seller would not try to divert customers who were engaged in a purchase with another vendor. Market vendors selling the same product side by side would not encroach on each other's regular customers and would even go to great lengths to help each other out in making sales and covering for one another if one had to leave ones stall temporarily.

### **3.4 Profit and economic efficiency as secondary considerations**

Some norms suggest that the profit motive is tempered by other considerations. A trader might dip into her business savings to pay for the medical treatment of a child. In Kumasi market in Ghana, most women traders kept their working capital separate from disposable income but would use it willingly to meet a family emergency, including medical, funeral or schooling expenses. They were, nevertheless, careful not to overextend themselves in this way (Clark 1994: 146). In urban Tanzania (Tripp 1997) I found extended family members being hired to help an entrepreneur with her business, allowing the relative a source of livelihood, but not always out of considerations of business economic efficiency.

The profit motive was minimized in other ways among Ugandan small-scale businesswomen I interviewed. Rules could be bent and prices were negotiable. Often prices on goods and services were not fixed or even marked. Tailors, market sellers, and medicine men/women, for example, all included these considerations in their economic decisions. The means of the customer was often factored into price determinations. Those who appeared to have greater means might have to pay more, while those who had less might not be charged as much or in some cases not at all. Also the customer's relationship with the person selling a service or good might be taken into consideration, not to mention their bargaining ability and style. Valdo Pons found that at times moral considerations prevented Kampala herbalists and diviners from asking for payment where the patient lacked resources. I found similar patterns among local healers in Tanzania in my study of the informal economy in Dar es Salaam (Tripp 1997). Healing was their destiny and because their ability to heal was a gift from God, *upaji*, a patient should not be charged if he/she did not have the means. The purpose was to heal, not to make money. Many healers were suspicious of other healers who use their occupation solely as a means of making money.

### **3.5 Building trust**

The economic activities of the poor often revolve around activities predicated on high degrees of trust. The importance of trust is abundantly evident in the running of rotating savings and credit organizations (ROSCAs). In Dar es Salaam, one woman talked about how when she first joined a savings club (*upato*) of close friends in 1972, the purpose of

the club was as she put it in Swahili '*kutunzana*', which is an endearing way of saying 'in order to care for or to look out for one another'.<sup>1</sup> The one characteristic of these savings societies that women stressed time and again was the fact that they necessitated trust in order to function. As one woman said: 'Because we trust ourselves we can save on our own'.<sup>2</sup> She was a seamstress who also made and sold fried *maandazi* buns. Another woman, who along with 18 other women put one hundred shillings in a kitty every three days, said much the same thing: '*Upato* is like putting money in the bank, but you need trust'.<sup>3</sup>

Trust manifests itself in a variety of ways in business practices. In Kumasi Market in Ghana, women traders sought to establish long term relationships with buyers, suppliers and relatives. These were relationships they could tap into if they found themselves in need of loans. Strictly commercial loans were made in secret and were regarded as shameful because they suggested a lack of well-established relations with others and were associated with insolvency and unreliability because they were not based on trust (Clark 1987: 16).

Trust often needs to be earned. In Cameroon, for example, the ROSCAs (*njangi*) allow even the lowest income groups to gain access to credit without collateral, without paying interest or drawing up legal documents. However, one can only participate in a certain level of *njangi* based on an individual's creditworthiness and ability to repay. No one moves up to a higher division unless they have proven themselves at a lower division (Bouman and Hartevelde 1976). In Africa more generally, it is the ROSCA's simplicity of procedures, their flexibility, the smallness of the group, the speed with which loans can be negotiated, the use of collective shame to ensure repayment and their informality that makes them more appealing than formal financial institutions. People believe that they save more in these groups than if they were saving as individuals because of the discipline imposed by group pressure (Miracle, Miracle and Cohen 1980; Bouman 1983).

Some have found that fostering reciprocity and trust in the urban setting requires more clearly defined mechanisms to promote accountability because groups are not based on affective familial, clan, ethnic or other close ties as they might have been in the rural areas. The National Organization for Women's Associations of Uganda, for example, reported in the 1990s a significant rise in the number of businesswomen's groups seeking assistance from them in drafting constitutions.<sup>4</sup> Even the most informal savings clubs I found in Uganda drew up constitutions and adhered to strict procedures to strengthen mechanisms of accountability. This was the case regardless of how much the members emphasized the importance of 'trust' and irrespective of the size the club.

### **3.6 Flexibility**

There is a flexibility in this informal economy that is not evident in more formal economic institutions. When I asked one member of a Kampala savings club why her group was unregistered when they might be able to apply for credit if they registered, she replied:

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<sup>1</sup> Interview by author, 20 January 1988, Buguruni, Dar es Salaam.

<sup>2</sup> Interview by author, 7 November 1987, Manzese, Dar es Salaam.

<sup>3</sup> Interview by author, 11 November 1987, Manzese, Dar es Salaam.

<sup>4</sup> Interview, Florence Nekyon, 21 May 1993.

These organizations will collapse if they become formalized. We work so well informally. We have no office. Everything is nice and simple. The minute we become formal we will collapse. The minute we try to get credit, we will go to shambles. The group is based on trust, mutual confidence, flexibility. You do what you want, the organization is yours. What would we do if we registered? We would have to have a location, an office, and we can't afford that. We would have to get registered and do the proper paperwork. Who would have time to go around and do all that? We are all working women. Then they would want us to be a cooperative and we do not want that. They would want a fee and we can't afford that. We just want things nice and simple.<sup>5</sup>

These attitudes are replicated in diverse contexts throughout Africa. One 62 year old woman from Bassa, Cameroon made a similar comment about the ROSCA she belonged to:

If there's an emergency over the weekend, no bank will open to help you. Sometimes you just can't wait for your money. And, in the banks, well you sometimes can't even get your money out. With the *tontine* [ROSCA], you can get credit immediately, without paperwork or waiting. They are your sisters, and they understand when you need help (Brusky 1995).

### **3.7 Combining income-generation with service**

Another common feature of Ugandan businesswomen's organizations was their public spirited orientation. Some combined income-generating projects with caring for the disadvantaged like orphans, young girls who had been expelled from school for becoming pregnant, for the disabled, the old, and others. Another typical pattern involved urban groups that would reach out to rural women's groups because they believed they had something to offer them. Others involved educated women who worked with groups of uneducated women for the same reasons. And finally women came together to find ways to provide the whole community with a service like a health unit or day care center or to help find markets for goods produced in the community.

In Kampala, one business woman who had been involved in several savings clubs with friends and a *munno mukabi* (farming group) was able, through her savings and a small grant from a women's organization to start a 'Mother and Child Center' in Wabigalo, a low-income part of Kampala. It was a day care center for market women, but it was also a place where various groups of market women could meet to exchange ideas, discuss their trade, marital problems, and child raising issues. Other groups met to learn how to manage their accounts or how to read. The director also raised chickens and sold cheap eggs wholesale to the market women, who sold them in the market.

These patterns suggest just how much business enterprises, especially for women, are woven into the web of daily life and how they do not constitute a discrete activity apart from caring for children, for the old, the sick, and for those who are more disadvantaged. The demands of daily life impinge directly on the ability of businesses to expand, to enhance productivity, efficiency and ultimately profitability.

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<sup>5</sup> Interview with author, Kampala, 2 June 1992.

#### 4. Institutional terrain of the informal economy

The informal economy exists in the context of associational life that reveals some of the norms and organizing principles of this economy. They suggest ways in which social capital is formed to meet the needs of this economy in culturally relevant ways. They also show ways in which people have compensated for state failure by seeking alternate solutions to poor infrastructure, lack of relevant formal financial institutions, and problems of state related corruption. They serve also as responses to collective poverty, insecurity, difficulty of taking risks, and uncertainty of the overall economy.

Many informal market associations, credit associations, trade organizations, cooperatives, farming and marketing groups, ethnically based development associations, and other societies emerged in the 1980s and 1990s to assist the growing informal sector and give it a political voice, especially at the local level.

Rotating savings and credit associations (ROSCAs) are enormously popular throughout Africa as a source of savings and credit. Studies in Liberia, Côte d'Ivoire, Togo, Cameroon, and Nigeria found that participation in ROSCAs ranged from 50 to 95 percent (Bouman 1994). They go by the name *tontine* in much of Francophone Africa, *njangi* in Cameroon, *susu* in Ghana, *upato* in Tanzania, *chiperegani* in Malawi, *stockfolds* in South Africa, etc.<sup>6</sup> A study of microfinance in Kenya, Ghana, and Malawi found that ROSCAs are highly efficient. Group solidarity forms the basis for risk management. Defaulters are punished by not being paid in future rounds, but the use of social sanctions can be limited because participants understand each others life situations and realize that they may be in need of forgiveness at a later date. Money flows from one member of the group to the other in a way that savings match credits without any need for interest rates or collateral and where transaction costs are kept at a minimum (Buckley 1997: 1085). Some ROSCAs serve as a kind of Rotary Club, allowing business people to network, exchange relevant information and build goodwill (Haggblade 1978: 48). They are generally durable because they meet all the criteria of successful long-standing resource management organizations: they establish clear organizational rules, use graduated sanctions and establish low-cost mechanisms to resolve disputes.

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<sup>6</sup> They go by many names in different parts of Africa: They are known as: Benin: *Asusu, Yissirou, Ndjonu, Tontine*; Botswana: *Motshelo, beer parties*; Burkina Faso: *Tontine, Tibissiligbi, Pari, Song-taaba*; Burundi: *Upato* (in Kiswahili); Cameroon: *Jangi, Ujangi, Djana, Mandjon, Djapa, Tontine, Djanggi, Njanggi, Ngwa, Ntchwa*; Egypt: *Gameya, Jam'iyya*; Ethiopia: *Ekub, Ikub*; Gabon: *Bandoi*; The Gambia: *Osusu, susu, esusu, Compin*; Ghana: *Susu, Nanamei akpee, Onitsha, Nnoboaa*; Ivory Coast: *Tonton, Tontine, Moni, Diaou Moni, War Moni, Djigi Moni, Safina, Akpole wule, Susu, Aposumbo, Kukule, a tche le sezu, Komite, n'detie, m'bgli sika, Monu, mone*; Kenya: *Mabati, Nyakinyua, Itega, Mkutano ya wanawake, Mkutano ya wazee*; Liberia: *Esusu, susu, sau*; Madagascar: *Fokontany*; Mali: *Pari*; Mozambique: *Upato, Xitique*; Niger: *Adasse, Tomtine, Asusu*; Nigeria: *Esusu, Osusu, Enusu, Ajo* (Yoruba), *Cha, Utu Mitiri, Compiri, Club* (Ibo), *Oha, Oja, Adashi* (Hausa, Tiv), *Bam* (Tiv), *Isusu* (Ot), *Dashi* (Nupe), *Efe* (Ibibios), *Oku* (Kalabari Ijawas); Congo, PR: *Temo, Kitemo, Ikilemba, Kikedimba, Kikirimbahu, Likilimba, Efongo Eambongo, Otabaka, Ekori, Otabi*; Senegal: *Tontine, Nath*; Sierra Leone: *Asusu, Esusu*; Somalia: *Haghad, Shaloongo, Aiuto*; South Africa: *Chita, Chitu, Stokfel, Stockfair, Mahodisana, Motshelo, Umangelo*; Sudan: *Khatta, Sanduk, Sandook Box*; Swaziland: *Stokfel*; Tanzania: *Upato, Fongongo*; Tchad: *Pare*; Togo: *Soo, Tonton, Sodzodzo, Sodyodyo, Abo*; Tunisia: *Noufi, Sanduk*; Uganda: *Chilemba, Kiremba, Upato, Kwegatta*; DRC: *Ikelemba, Osassa, Bandoi, Kitemo, Kitwadi, Adashi, Tontine, Bandal*; Zambia: *Icilimba, Upato, Chilemba*; Zimbabwe: *Chilemba, Stockfair, Kutunderrera* ([www.gdrc.org/icm/rosca-names.html](http://www.gdrc.org/icm/rosca-names.html); Bouman1995a, 129).

Some organizational strategies have arisen out of a need to avoid excessive state interference and political manipulations. In Benin, for example, the military regime had attempted to control all business and market sellers, according to John Heilbrunn. Merchants selling cloth, liquor and food in urban centers and villages all belonged to one organization. Military commander Major Mathieu Kérékou formed the Union Nationale des Commerçantes Béninoises (UNCOBE) in 1976, hoping to bring all market women under the government's control. But the women purposefully kept their activities locally based and outside of state regulation, channeling much of their business into the informal economy, especially into the trade with Nigeria. Others evaded outside control by forming associations within associations. For instance, market leaders of the association oversaw market vendors who, in turn, presided over rotating savings and credit associations called tontines embedded inconspicuously within the UNCOBE structure. UNCOBE eventually withdrew its support from the regime after the banks crashed in 1989 and continued to press demands for freedom of association, political pluralism and a free trade zone (Heilbrunn 1997).

Home town development associations are another form of economic association that became increasingly visible in the late 1980s as urban dwellers sought to provide assistance to the rural towns from which they originated. They used these associations to build schools, orphanages, libraries, and clinics; to establish projects to conserve the environment, and to raise funds for flood relief and other such causes. They assisted businesses by helping build infrastructure (roads, water pipelines, installing electricity, telephone facilities) but also by disbursing soft loans to women's groups and entrepreneurs engaged in business (Barkan et al. 1991). The strengthening of local development associations and the emergence of new ones since the late 1980s is directly attributable to the weakness of local government, especially in the context of economic decline. In Tanzania, many of these associations are taking over functions of local government, e.g. they are taxing local coffee or cotton producers.

Similarly, informal sector associations formed around particular trades became increasingly popular in the 1990s. Kenneth King identified about 400 *jua kali* informal sector associations in Kenya in the 1990s and they had also formed national apex bodies. They were based on locality rather than trade and had become a vital part of civil society in Kenya (King 1996: 419).

Dual sex organizations in West Africa play an important role in regulating and supporting informal economic activities along with other spheres of activity. In Nigeria, for example, Ibo Women's Councils, which have their origins in pre-colonial Africa, continue to be important institutions governing the social, political, economic and spiritual affairs of women. Their flexibility and capacity to respond to changing situations accounts for their durability. The Ibo Women's Councils, for example, intervene in matters that concern the market, ensure moral behavior, sanction men who violate women's rights in the community, govern multiple smaller organizations, and lobby for women's interests at the national level (Nzegwu 1995).

In this dual sex governance system representatives of each gender governs their own members through a Council. These organizations, according to Nzegwu, are autonomous of the state, yet their decisions are binding regardless of social status, education, or income level. Moreover, the local councils can represent women living as far as Lagos, Kano, or

New York. They are distinct from organizations modeled along Western patterns in that they promote a sense of 'shared communitarian values rather than perceived divisive individualistic values', as Nzegwu puts it. Their economic functions are embedded in a wide range of social, cultural, religious, economic and political issues simultaneously.

Such associations offer legitimate sources of authority because they embody culturally relevant ways of ensuring accountability. Accountability is maintained by a strict monitoring system where nothing is hidden and the threat of public humiliation and ostracism weighs heavily as a deterrent to violations of council norms. Accountability is tied to community validation, which is an extremely effective constraint on corruption in this context. Once again, the pattern of authority, accountability, legitimacy diverges considerably from formal NGO type organizations that follow more Western models of organization.

## **5. Government policy toward the informal economy**

Government policies have both facilitated but mainly constrained the informal sector in Africa. Although there is greater recognition of the importance of the informal sector, it is still treated as separate from other sectors of the economy in policy making with little recognition of the complementarity and interconnectedness of the informal and formal sectors. Industrial policies still favor large-scale industry, both public and private, through tax exemptions, tariff protection, direct and indirect subsidies, and access to capital and foreign exchange. A self-employed tailor in Burkina Faso pays 50 percent customs duty when importing a sewing machine, while a company registered under the investment code is exempt from such a tax (DPCSD 1996: 27). The lack of foreign exchange means that informal sector operators have poor access to technology and quality inputs that could make them more competitive. Pricing policies favor production technologies and the capital goods sector. Meanwhile, the constraints on the informal sector remain almost unchanged.

There has been poor integration between formal and informal financial systems that would improve flow of financial resources to high potential enterprises (Aryeetey et al. 1997). Often informal sector operators pay high rates of interest on loans, sometimes as high as 1,000 percent annually if they are borrowing from moneylenders. Yet they have difficulty accessing formal banking institutions because they do not have the collateral. The lack of integration between the informal sector and formal financial institutions means that small-scale operators do not have access to cheaper loans.

The government contributes in other ways to the broader environment within which the informal economy operates. The weakness or absence of property rights is a major constraint on small scale enterprises, making it difficult to plan, take business risks, transfer property, and ensure secure inheritance arrangements (Tomeko and Aleke-Dondo 1992). Often uncertainty of business location means that informal sector operators are less likely to invest in improving the workplace and working conditions, leading to greater levels of theft, fire, flood and injury. For women, the lack of or insecurity of property and inheritance rights and the frequent need to access capital, land, and resources through husbands or fathers places additional constraints on their capacity to conduct business.

Little attention has been devoted to improving markets and the quality of products; to upgrading trade, literacy, management and accounting skills. Low levels of education make it difficult for informal sector activities to expand. Ministries of education have rarely integrated relevant practical and accounting skills to this sector into primary school curricula or in the expansion of the numbers of vocational, trade, and technical schools. Technical schools need to provide skills in business management, book-keeping, procurement and supply management, staff supervision and marketing. Distance education via the radio and TV needs to be expanded to provide some of these courses. Adult education courses need to address these concerns as well, especially by holding short courses in the rural areas. School days should be organized to accommodate children who work in the informal sector to minimize high levels of absenteeism and lower levels of enrollment. Technical and vocational schools need to provide opportunities for informal sector workers to take short courses to upgrade their skills. Much of the education of microentrepreneurs takes place on the job in the form of apprenticeships. While apprenticeships are an ideal way to learn a trade, they have their limitations that could be addressed in a school setting. Apprenticeships exclude those who don't have access to skilled workers. They do not necessarily expand the menu of skills and variety of enterprises, nor do they provide avenues for improving technical skills.

Ministries of labor do almost nothing to monitor labor conditions of this sector. Moreover, ministries of finance and planning have virtually ignored questions of how to create a conducive business environment for this large sector, while focusing their energies on policies directed at the miniscule private sector. There has been little consideration of restricting the importation of goods widely produced by the informal sector. Few concerted efforts have been taken to improve the infrastructure, transport and communications, water and power supply specifically in the areas where informal sector workers are concentrated (ILO 1995).

Government involvement with this sector frequently ends up being repressive. Harassment by city officials of informal sector operators continues unabated in many cities. Laws restricting this sector are outdated. There are unnecessarily tedious, lengthy registration procedures to navigate and often they require countless bribes. This undermines the development of an entrepreneurial culture (Buckley 1997: 1090). Paying for a business license, registration, buying land, obtaining a loan, clearing goods through customs or getting a public health certificate for a restaurant, frequently necessitates bribing a government official. Excessive government corruption makes legitimate business cumbersome since it does not seem worth the effort to obtain proper documentation when the bribes are excessive. It undermines state legitimacy and creates serious disincentives for informal entrepreneurs to expand their businesses and become more formal.

Because of the high levels of involvement of youth and women in the informal sector, they frequently end up being the targets of government harassment, especially if they do not have proper licenses or are operating in non-sanctioned locations. In Dar es Salaam the militia usually extracted bribes from them or confiscated their goods. This kind of harassment confounded most people, who could not see the logic in making the poorest members of society pay for the right to seek a living, especially poor women who are already supporting many family members from their business and are shouldering many expenses including school fees, healthcare, care for the elderly—all basic needs which the government could not come even close to covering.



One woman entrepreneur from a rural village in northern Tanzania, Mwanga, described this alternative logic in a seminar of small-scale businesswomen.<sup>7</sup> I quote her at length because she clearly and eloquently describes the illogical nature of government licensing and harassment of the poorest microentrepreneurs, who gain nothing from the government, yet provide a social security net for the children, old, sick and poorest members of society (Tripp 1997).

You may see that a mother is selling her cassava, when she sells her cassava, she gets money, at that time you may see that that mother has borrowed some money from someone and bought cassava, carried it, carried firewood and roasted it, you may think that this is just a simple thing and say 'this mother is just roasting cassava'. But this mother is feeding five kids, has her husband, has her mother-in-law, father-in-law, sisters-in-law, children of her sisters-in-law. If that woman gets 200 sh profit, she will buy 1 kg of maize flour, spinach and cook for the family that day and be satisfied.

You may think that being a mother is a simple thing, and that is why problems are happening. Municipal officers, city council officers and village officers do not see that these women are trying to be self reliant by employing themselves, raising the family. One thing that we may ask the guest of honor who is the minister<sup>8</sup> that he meet with his other fellow minister and health minister and other district officers, some of whom them are here, and let us help each other open our eyes.

You see someone roasting her cassava, then you [the militia] come and tell her, 'take this away' and throw her business in the trash. They shouldn't discriminate against us because there isn't any compensation when you humiliate that poor person, when you break down her stall. She has brought firewood, wood for building the hut, she has hired a tractor or cart, she has hired a mason, and you just look at her and pass by there, and you tell her that she should pay 3000 sh per year. You receive the money and give her a receipt. Tomorrow you tell her to break it down. Things like those are a curse, painful thing to that poor person. We ask for these city officers to count the number of those [women] who are self employed at the market, kiosks at the road, and those roasting cassava and maize. They do a lot in the family and in the society. We want to make this clear to all village leaders, wards, districts and every place to open their eyes, and those who have been given the task of the city, health officers must do their job.

I ask for these big shots to know that these poor people have a big task of being self-reliant. They don't ask for your money . . . they don't ask you for school fees . . . they ask you nothing because they are self-reliant. They should be encouraged, and the big shots should recognize their presence. Remember those who are facing such difficulties are mostly women who are trying to be self-reliant. Therefore when we see them taking on challenges in various activities, we ask our leaders to help them and encourage them, and those who are responsible for the city council must be aware.

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<sup>7</sup> Comments made at a seminar on 'Women Entrepreneurs in the Local Economy,' hosted by Umoja Wanauchumi Wadogo Wadogo wa Mwanga (Small Entrepreneurs Association of Mwanga), March 7-10, 1994.

<sup>8</sup> Cleopa Msuya, who at the time was Minister of Trade and Industries, was attending the part of the seminar she was addressing.

## 6. Conclusions

The resilience of the informal economy in the face of failed economic reform initiatives and the difficulties experienced by the formal economy call for serious reflection on what has and has not worked in Africa and why. This paper begins to point us in some new directions, suggesting that it is necessary to consider more seriously the nature of African markets and their particular characteristics. African institutions, whether we call them 'non-formal', 'indigenous', 'informal', may resemble similar institutions in other parts of the world (e.g., ROSCAs). But they do not necessarily resemble Western idealized perceptions of markets. By examining how real African economies function, we will understand better the possibilities for enhancing economic development.

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