

# Informal Entrepreneurship: Category of Governance or Practice of democracy?’

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## Introduction

I have been on the lookout for research papers written by Africans reflecting on ‘Informal Entrepreneurship’. My impression was that since the informal economy is enormous and pervasive in Africa (as well as of course in other countries in the developing world), African scholarship would be leading the charge in researching the dynamics of the informal economy. After all, it is the work of Keith Hart (1973) which highlighted informal employment dynamics from his anthropological studies in Nima, Ghana. In my considered view, Africa should be leading the scholarship on how its people operate and create alternative economic livelihoods. I must say with disappointment that my search for ‘informal entrepreneurship’ has led me to former Soviet Union countries and to researchers outside of Africa. The phrase ‘informal entrepreneurship’, it appears, has not yet caught the imagination of many African researchers who appear still stuck with ‘informal sector’ and ‘informal economy’ as their key concepts.

The implied questions in this article are both ontological and epistemological. If African governments are catching up with the policy discourse of ‘small businesses’ and ‘entrepreneurship’, where or whom are they looking at? Whom do they refer to as an

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‘entrepreneur’? Is an entrepreneur in the African context those people with NGO-sponsored fancy laptops in places suffixed with ‘hub’ or the 40-year-old repairing shoes by the street corner who has provided that service consistently for the past ten years? In both public and academic discourses from Africa, those participating in the ‘informal economy’ are not described as entrepreneurs but rather disparagingly as ‘traders’, ‘vendors’, ‘survivalist informals’ who provide unfair competition to the ‘formal’ businesses. The label ‘entrepreneur’, it appears, is reserved for those that are in ‘IT hubs’ or from some seductively named foreign funded programme. The word ‘entrepreneur’ in Africa does not fit where exactly entrepreneurship is alive and taking place: in the informal economies of Africa.

Note that I refer to ‘informal economies’ simply because there is no single informal economy in any African country; there are economies, as different people occupy different spaces doing different things, with different dynamics involved. Entrepreneurship in Africa is not dressed in suits and goggles but

in carts and football jerseys in different spaces, offices, streets, old buildings, disused buildings, and behind houses, to name only a few places. The Silicon Valley of Africa, it appears, is not about technology geeks and venture capitalists, but the daily struggles of creating alternative economic spaces, running away from the ambivalence, negligence and apathy of African governments, or in some cases hoping someone ‘up there’ can listen to the need for governments to realise they need to be sensitive when their citizens question the logic and legitimacy of the ‘cut and paste’ institutions they build, incongruent to the lived realities of their citizens.

In this article, I reflect on the interactions between the state and citizens within the informal economic space. I question whether it is ideal for development policies to look at informal spaces as ungoverned spaces which governments should regulate in the name of fulfilling governance mandates. Or alternatively, whether the pervasive nature of informality suggests there are spaces where the state, with its governance machinery, must choose not to interfere with as an act of widening the democratic space and choices for its citizens. Would the pervasive nature of the informal economic spaces be a true expression of economic democracy and participation by citizens?

## 'Informal Sector' as a Pejorative Term

Despite the informal economy contributing upwards of 60 per cent in employment creation and Gross Domestic Product of many African countries, the phrase 'Informal Sector', as used in policy and academic circles, has always carried the burden of being the inferior, substandard and undesirable part of the economy compared to the ideal 'tax paying' and 'developmental' formal sector. Herrle and Fokdal (2011) argue that the idea of informality itself has always been in proximity with poverty and the 'survival economy'. Samers (2005:875) argues that informality is imbued with 'exotic' 'mysterious' properties associated with 'minorities and immigrants'. Keith Hart himself, who is 'credited' with coming up with the phrase 'informal sector', in his own recent writings has either been referencing the 'informal sector' in quotation marks or totally distancing himself from the notion, preferring to refer to the 'informal economy' instead. His argument for doing this is that, as an anthropologist, his experience in Nima, Ghana was not a contest or comparison between those who worked in the formal against those in the informal 'sector', but was about how people lived 'out of the circumstances of their everyday lives' (Hart 2005: 8) and in other cases where those in the formal sphere would 'stabilize' their incomes out of supplementary activities in the informal economy. This reality showed that those who were deemed 'unemployed' were not really 'unemployed' as they had alternative sources of work and income. 'Accra's poor were not unemployed. They worked, often casually, for erratic and generally low returns; but they were definitely working.' He concludes:

'The informal economy was the self-organising energies of people excluded by the exigencies of state rule' (ibid.: 7-8).

In writings on informal economic activities by several African researchers, they unfortunately have reproduced the 'Logocentric thinking' (Derrida 1978) characterised by hierarchical binary thinking between oppositional concepts such as Formal (good/ideal) and Informal (bad/inferior). Below, I list some deficit-oriented expressions on the informal economy reproduced by researchers from various articles:

- illegal
- inefficient
- does not contribute to development
- job insecurity
- low productivity
- underpayment
- street economy
- precarious jobs
- survivalist
- petty trading
- street vending and struggle/street peddlers
- 'too much competition'
- 'lack of economic skills'
- 'black market/residual economy/grey economy'

It is the uncritical reproduction and use of these conceptions that are problematic. In a lot of cases, they are used simply to confirm and reproduce other logics, and do not question whether they correctly represent the realities of the people and contexts studied. The interchange between the use of 'informal sector' and 'informal economy' in a lot of these writings is another sign that African scholars are not critically engaging with such ideas and are yet more willing

to appropriate and reproduce them. If Keith Hart has been distancing himself from the reference to 'informal sector' since his writings in 1985, 'Popularity as a jargon word has not helped the informal economy/sector to acquire a measure of analytical precision' (Hart 1985: 55); 'I had no ambition to coin a concept, just to insert a particular vision of irregular economic activity' (Hart 2009), he further explains. According to him, 'the informal sector allowed academics and bureaucrats to incorporate the teeming street life of exotic cities into their abstract models without having to confront the specificity of what people were really up to' (Hart 2005:10). It is an embarrassment that African scholars continue to refer to their own reality as 'informal sector' in the face of such deep reflections and push back from someone who can be regarded as an important thinker and writer on informality.

## Entrepreneurship as a Contested Idea

Rather than defining entrepreneurship, which after all seems to be an extremely problematic endeavour, we have adopted a discourse approach whereby language is seen not only as a way of sending messages but also as a way of constructing – or producing – the world of entrepreneurship (Gartner 1990: 28).

Entrepreneurs are seen as modern-day economic saviours and economic heroes. One does not need to go further than read daily newspapers where words like maverick, innovator, millionaire, flamboyant, visionary etc. are associated with entrepreneurs. Of interest is that the word entrepreneur is now myopically synonymous with the ideal type, positive attributes of life.

To open the entrepreneurship black box, it takes conceptually operating at a level beyond the functionalistic positivist approaches that created the concept. This is why postmodern writers resort to discourse analysis tools to argue that entrepreneur/entrepreneurship are concepts that celebrate Western, white male dominance against women, minorities and non-

Western civilisations. The most prolific writers on entrepreneurship are American researchers and it is argued that the concept retraces the conquering domination of the white male of the American sub-continent, and claims are awash in the political discourse of America having been born from ‘entrepreneurial immigrant ancestors’. The entrepreneurship

concept celebrates the heroism associated with this American capitalism (see Wellington and Zandvakili 2006; Ogbor 2000). This is also illustrated by sentiments expressed to an exclusively white audience in America in a video posted online by The Atlantic. The picture below shows a screenshot of part of the video:

**Figure 1: Entrepreneurship Celebrating Western Whiteness**



**Source:** Twitter, accessed 22 November 2016 (subtitles are original).

Following on the logocentric thinking notion, if entrepreneurship represents the positive and takes place in the

formal economy, as argued, then the opposite of that would be whatever happens in the informal economy. An

illustration of the implied conceptual opposites is given in Table 1.

**Table 1: Entrepreneurship Binary Logic**

Entrepreneurship Definitional Words	Informal Economy = Opposites
innovation	routine, traditional
creation	destruction
risk taking	risk avoidance
profit	non-profit
strategic	ill-advised
dynamic	static, passive
development	decline

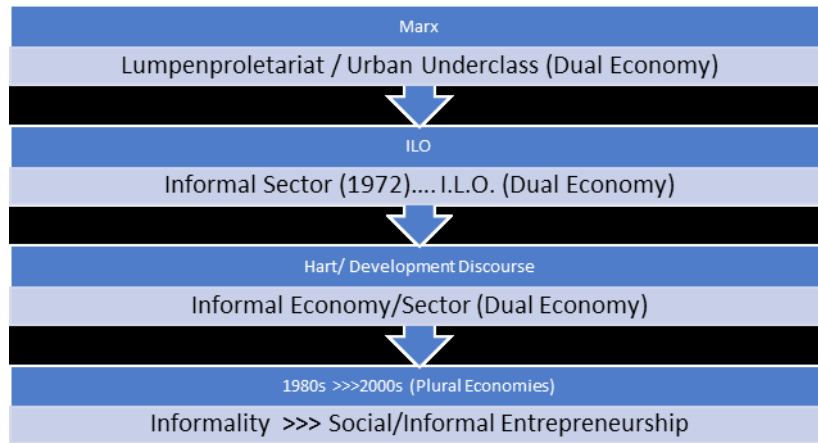
**Source:** Adapted from Berglund and Johansson (2007: )

Whatever definition of entrepreneurship one may prefer, unless the entrepreneurship itself is called into question, the buzzwords used to describe it are always positive and

imbued with ideals of ‘goodness’ to society and the economic wellbeing of countries. Contrast this with the deficit-orientation and proximity to poverty associated with informality

highlighted above. I will not burden you with definitions of entrepreneurship, suffice to intimate you with some of the words associated with the concept.

### Why informal entrepreneurship?



#### *Evolution of the Concept of Informality*

The concept of informality has gone through a process of evolution, from the beginning of industrialisation to the present. Usually the conceptual changes and thinking behind such evolution are totally ignored as researchers rush to appropriate buzz-words. However, a closer reading of this history shows an incremental intellectual evolution. In recent times, informality in the economic sphere is now being referred to as informal entrepreneurship. This comes after a realisation that formal and informal are not a question of black or white or mutually exclusive, but that the lived experiences of people show that people are placed differently along a continuum between the extreme poles of formal and informal. Differences between formal and informal economies must not be seen as ‘sectors’ or boxes but a flow with patches that have shades of grey.

There are different degrees of informality as there are differences in formality. Each time

the government talks about ‘deregulation’, it simply means some degree of informality within the so-called formal economy. Somehow, in this logic, it seems acceptable for ‘formal’ enterprises to engage in informal practices, such as when cellphone companies use street traders to sell their airtime/data cards. They call this innovation. But the same street trader selling the airtime/data at a well thought out street corner with a significant flow of human and vehicular traffic – that is called precarious work! Informality as a practice is ubiquitous and exists in the formal economy, within bureaucracies, civil society, etc.

There is still a need to understand how informal entrepreneurs work and how they place themselves in particular economic spaces. As a researcher, I am disappointed that a lot of this kind of research and theorisation is happening in places such as Eastern and Western Europe – yet Africa has pervasive informality.

### Informal Entrepreneurship and the State

When the informal is illegal, the obvious response is to crack down on rule-breakers; but the danger here is that such moves will be merely cosmetic – the biggest offenders will escape and the law will be made to appear an ass (Hart 2005: 16).

Most informal economic activities have simply been dismissed as illegal. However, I have not seen many research papers (as yet) from Africa that seek to establish the rationale of the entrepreneurs on how they operate and continue to operate informally. Without good research, academics are advising governments with strategies that will continue not to work. I would want to explore the idea that operating informally is a critique by citizens on the illegitimacy of state institutions and how the affairs of the state have been handled.

One of my respondents said to me ‘We are punished for being good citizens’. The entrepreneur

had formalised his business, employed an accountant to ensure tax compliance but the tax authorities kept coming to him that the business owed them money, including a 100 per cent charge as penalties. The entrepreneur decided to deformalise his business, after trying to operate formally for some years, hence his sentiments above.

This is a typical example where the incongruence of state institutions incentivises entrepreneurs to operate informally when they would rather be formalised. My respondents particularly did not like the attitudes shown to them by tax authorities. The authorities were bullies, know-it-alls, insensitive and very rude to the informal entrepreneurs that interacted with them.

In the policy discourse, there is much talk about improving laws and providing information packs and more training for entrepreneurs to know the formalisation processes. The same governments have not invested in the attitudes of those that interface with entrepreneurs, neither do they seek to reassure entrepreneurs of the moral necessity of continued tax compliance. The need to pay tax is taken for granted as a legal requirement, but does that make that particular law (or thinking behind the legislation) socially legitimate in the eyes of the entrepreneur? Do informal entrepreneurs have the right to question the legitimacy of tax laws, especially if the state is not at all involved in the process in which the entrepreneurs create and run their businesses? The right to impose taxes by the state has not really been put under scrutiny in the structure of the modern African state, and it is one notion which citizens are expected to accept without question.

The deformalisation of businesses is a phenomenon I am yet to see written about and suggested as a reality in particular contexts. The assumption is that once formalised, the story ends there, but reality is showing otherwise. Deformalisation is, in this case acts of protesting against terrible treatment and illegitimacy of state 'rules of the game'. Deformalising is a reverse process where businesses that were legally compliant become non-compliant in some legal respects, especially taxation. Informal entrepreneurs do not necessarily have the time, capacity and skills to lobby for change in policies but part of the continued perversity of informality is institutional incongruence and illegitimacy.

The assumption that all informal entrepreneurs do not pay taxes or contribute to the development of their countries is simply false. My study has shown that at different times or phases in the development of the enterprise, entrepreneurs comply with all tax obligations for various strategic reasons. However, the apathy and misuse of taxes by state institutions and politicians have also incentivised entrepreneurs to quietly protest by deformalising their businesses. In Zimbabwe for example, most state-owned vehicles used for personal business by officials do not pay for toll gates, even when they are not on state business. Such lack of honesty and responsibility at the individual politician or bureaucrat level is what entrepreneurs observe and loathe. Consciously or otherwise, they simply mirror such behaviour by withdrawing or not fulfilling all their tax obligations.

Informal entrepreneurs have wrongly been identified as poor and not well educated. The continued collapse of formal economies has pushed young graduates especially

into informality. The capacity to analyse policies and engage in sophisticated economic processes, such as IT-based transactions, is there. The state cannot assume that there are no consequences for all their elitist policies and misgovernance. Deformalisation of businesses is one of the ways entrepreneurs are protesting. James Scott (1985) illustrated the significance of the 'weapons of the weak'. Deformalisation should be seen as one such weapon.

My argument here is based on data that shows that the trajectory of formalisation does not flow only from informal to formal as is usually reasoned in a lot of research and policy papers. My study shows that informal entrepreneurs do strategically deformalise their businesses as well, and their reasons for doing so, according to my data, are a political protest. It is this protest mentality that allows them to rationalise the moral questions against not paying taxes.

### **Reflections: Governance Versus Democracy**

The suggestion that governments must come up with more and better policies to 'formalise' the informal is essentially that the informal economic space should be subject to governance by the state. The puzzle to this thinking is reflecting on why informality has been present in both developed and developing countries in different forms. Should informality be regulated in 'developing' communities and yet expect less or no regulation when it comes to 'developed' communities? For example, a lot of internet-based commerce is not regulated or is untaxed in developed countries, and this is a type of informality. The suggestion here is for us to think carefully about

whether more state laws in informal economic spaces unaccompanied by increased accountability and legitimacy of the state itself will result in a net good for society.

The informal economy is heterogenous and its pervasive nature shows the possibility of skills mixture and the presence of institutional intermediaries that can advise informal entrepreneurs on how to behave/react when certain legal changes are made. In some contexts, informal entrepreneurs are well informed about the various laws and policies and it is simply not true of all contexts that actors are not well informed. State-driven formalisation becomes a rat race since formalisation alone is not the end of the story. Formalisation, in fact more specifically tax compliance, cannot be decoupled from the underlying morality, accountability and legitimacy of state institutions. The picture of what drives people to formalise their enterprises is more complicated and cannot be won by resort to legality alone. With moral ambiguity by state institutions, it becomes more difficult to convince protesting informal entrepreneurs to formalise, in other words to live within the law when the state itself abuses or expediently ignores the provisions of the same laws.

## Conclusion

It may be easy to dismiss my arguments above as anarchist and that no country can run without law and order. Unfortunately, it is already happening, as arguments in this article are based on the lived reality of informal entrepreneurs. African governments cannot continue coming up with and sustaining illegitimate institutions

and still not expect consequences from their actions or inactions. I have tried to argue that informal entrepreneurship can be seen as a 'weapon of the weak', a weapon of 'hidden dissent' by citizens. A closer look at different types of informal entrepreneurship shows that there are some informal entrepreneurs that are strategically deformalising their businesses largely against state institutional illegitimacy and opaque governance. Deformalising is a reverse process where businesses that were legally compliant, become non-compliant in some legal respects, especially taxation. I have argued that formalisation cannot be achieved by resort to legality when states conveniently ignore the same legal statutes.

The state cannot govern informal economies without improving on accountability, inclusion and legitimacy. As it already exists outside the law, the informal economy cannot be tamed by more laws but by appealing to morality and the greater good. Appealing to morality cannot be achieved by a state that is not sensitive to the democratic needs of sections of its citizens and accountable as to how taxes are used. The greater sentiment from informal entrepreneurs is that the state must not expect to 'reap where it didn't sow'.

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