To the Graduate Council:

I am submitting herewith a dissertation written by Idrissa Mohamed Ouédraogo entitled "The Urban Informal Sector in Burkina Faso." I have examined the final copy of this dissertation for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy, with a major in Economics.

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THE URBAN INFORMAL SECTOR

IN BURKINA FASO

A Dissertation

Presented for the

Doctor of Philosophy

Degree

The University of Tennessee, Knoxville

Idrissa Mohamed Ouédraogo

May 1996

DEDICATION

To my parents
my son
my wife
and my family

ACKNOWLEDGMENTS

I would like to express gratitude and appreciation to my major professor, Dr. William E. Cole, for his guidance and encouragement. I am also grateful to my Dissertation committee, Dr. Walter C. Neale, Dr. David A. Johnson, Dr. Hui S. Chang, and Dr. Hans E. Jensen for their valuable comments and suggestions. My appreciation also goes to Jeffrey French for providing the editing.

I am indebted to the USIA/ Fulbright fellowships for providing me with the financial support necessary for the completion of my doctoral program. I have also received financial support in the USA from the Center for International Education, and in Burkina Faso from the CEDRES, the "Projet d'Appui Institutionnel" (founded by the CEDI, Canadian Center for International Development), and the "projet RUG" (founded by the University of Groningen in Holland). I am also grateful to all the people in the informal sector who kindly answered to our questions.

Lastly, I thank my family, friends and colleagues in Burkina Faso, especially my wife Marie-Lucie and my son Nordine-Stéphane for their support, love and understanding.

ABSTRACT

The purpose of this study was to collect comprehensive, updated Urban Informal Sector data in order to portray and assess the economic and social impact of UIS in Burkina Faso, and to examine its relationships with other institutions. The role of the country's institutional setting and the overall economic situation have been examined from the perspective of their effect on the expansion of the informal sector. To realize this research, a survey was conducted in order to gather micro data from people in the urban informal sector. Agents of the formal sector were also interviewed and their responses used, along with data from censuses and other government statistics to complement the survey.

The study confirmed the importance of the informal sector in the socio-economic life of Burkina Faso, and found that the burden of the institutions and the cost of complying with all mandatory regulations are so important that they force a significant number of agents to operate in the informal sector. In light of problems faced by agents in the informal sector, and the different programs initiated in the country in order to promote the informal sector, the study found that it would be appropriate to initiate actions designed to enhance and complement the efforts already underway.

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CHAPTER 1

INTRODUCTION

Since the concept of the informal sector was first used during the 1970s, it has been admitted that the so-called informal activities in Less Developed Countries (LDCs) constitute a major source of employment for those rural immigrants and urban dwellers who were seeking employment in the formal sector and were unable to find any. The relative importance of the informal sector for employment varies according to country, varying from 20 percent to 60 percent of urban employment. Despite the recognition of the importance of the informal sector in LDCs, during the 70s the prevailing idea, among policy makers and some economists, was that the informal sector was a phenomenon with adverse effects and so had to be reduced.

Nowadays, with the persistence of economic crisis and the constant increase in the unemployment rate in LDCs, the attitude toward the informal sector has completely changed; the tendency is to promote and expand it wherever possible. Policy makers and development agencies tend to give a central role to the informal sector in development strategies, realizing that any development program that does not properly take into account the informal sector will likely fail to promote economic progress. One should try to understand the functioning of the informal sector, and the needs of participants in the sector, in order to incorporate it into development strategies. This is the primary motive for this study.

1.1 Purpose and objectives

This study is both analytical and empirical. Three objectives are set. The first is to determine an operational definition of the informal sector, to collect comprehensive, updated Urban Informal Sector (UIS) data in order to assess the economic and social impact of the UIS in Burkina Faso. After many years of debate and controversy about the notion of informal sector, scholars still disagree about the correct definition of informal activities. Thus, to achieve the primary goal of this study, it will be important to review the major contributions about the subject in order to provide an acceptable analytical framework.

The second objective is to identify and analyze the forces that govern the behavior and the composition of the UIS in Burkina Faso. What are the factors that explain the existence and the growth of the UIS? Who are the informal sector agents, their clients, and what are the factors that move them into informal activities? While a description of traits of the informal sector is indeed essential, it is not sufficient: one must pay attention to the effects of the institutional setting upon the informal economy.

The third objective of this study is to use the defined framework and the estimates to stress the central role of the urban informal sector in Burkina Faso and, primarily, to lay down some principles for incorporating the informal sector in a larger development strategy. In this respect, the study will be useful for planners and policy makers.

Policy makers and planners base their decisions on national accounts data. Understanding the driving mechanisms of the informal economy and developing accurate measurement techniques would most likely yield better official statistics. This, in turn, would enhance the policy making process and, consequently, improve economic performance at both micro and macro levels. One contribution of this study will be to provide national accountants, planners, and policy makers with rational, empirical evidence and a theoretical framework for their decision-making process. This is particularly important in a country such as Burkina Faso, where the informal sector is estimated to account for 40 to 75 percent of urban employment and to provide more than 25 percent of the GDP (ONPE, 1987; Charmes, 1989). Moreover, there are no studies of the informal sector in Burkina Faso aimed at understanding the relationship between the more formal institutional settings and the informal economy.

It is of particular interest to look at the behavior of the informal sector in the context of the Structural Adjustment Program (SAP), a program which has been implemented in Burkina Faso since March 1991. Because structural adjustment programs are aimed at improving economic efficiency through a generalized economic liberalization, it is important to determine the interactions between the SAP and the informal sector. Especially, does an increase in economic liberalization undermine or facilitate the development of the informal economy?

1.2 Some generalities about Burkina Faso and the informal sector

Burkina Faso--known as Upper Volta until 1984 when, after a military coup d'etat executed a year earlier, the new authorities changed the name of the nation--is a landlocked West African country with an area of 274,112 sq km (105,835 sq mi). As most former French colonies, Burkina Faso obtained its independence in 1960.

Because of its colonial past the political and socio-economic life of the country is highly influenced by France (economic, political, and technical cooperation; financial assistance). Burkina Faso is a member of the West African Monetary Union (UMOA: Union Monétaire Ouest Africaine). As part of this Union, Burkina Faso is automatically a member of the Franc Zone. Being a member of the UMOA involves, among other elements, the use of a common currency, the CFA Franc which is at a fixed parity with the French Franc (since the devaluation of January 1995, 1 FF equal 100 FCFA)[1].

In 1993 the population was estimated at 9.8 million (World Bank, 1995), mostly concentrated in the center and the south of the country. Around 77 percent of the Burkinabè live in rural areas. The major cities of the country are Ouagadougou (the capital city), Bobo Dioulasso, Ouahigouya, Koudougou and Banfora. The urban population (23 percent), which is concentrated in the first two cities, is growing at an annual rate of 10.4 percent (this is four times the 2.6 percent rate of growth of the total population). In the country as a whole, adult literacy was estimated at 18 percent in 1990; life expectancy at birth was 47 in 1993; and infant mortality was 129 per 1,000 live births.

Burkina Faso is one of the poorest nations in the world. The per capita Gross National Product (GNP) was estimated at 300 U.S. dollars in 1992. For the same year, the Gross Domestic Product (GDP) was approximately US$ 2.8 billion. The GDP grew annually by an average of 3.9 percent between 1982 and 1987. Burkina Faso is basically an agricultural country with a relatively small industrial sector. The principal agricultural exports are cotton,

[1] In this study it will be considered that US$ 1= 283.16 FCFA. This corresponds to the 1993 average exchange rate.

shea nuts, and sesame. Value added in this sector grew by 7.1 percent per year between 1982 and 1987. Between 1983 and 1987 the primary sector had provided 40 percent of the GDP, while the secondary and the tertiary sectors contributed respectively 20 and 35 percent; Import Duties represented 5 percent of GDP (INSD, 1993b). According to a survey carried out in 1988 by the National Institute of Statistics and Demography (INSD: Institut National de la Statistique et de la Demography), the modern industrial sector was made up of about 200 firms of different sizes covering a wide range of activities.

Even though the country's external debt has been growing during the past two decades, foreign debt has not been considered a major problem, as compared to the situation in other African countries. The total external debt was estimated at US$ 330 million in 1980, and at US$ 1,144 million in 1993. In 1993 the debt to exports ratio was 121 percent, which is relatively low as compared to 533 percent in Côte d'Ivoire, a neighboring country. In the same year the total debt services to exports ratio was estimated at 7 percent in Burkina Faso, and 30 percent in Côte d'Ivoire (World Bank, 1995). However, the country did suffer from a large deficit of its overall balance of payments: 20 percent of total exports in 1989.

Since the early 1970s, issues related to informal activities have been a major concern for policy makers in Burkina Faso. Over the last three decades, population growth and rapid urbanization have led to an increase in activities in the urban informal sector. In 1985 the Burkinabè administration conducted a census over the entire country. It was estimated that more than 30 percent of the working population was self-employed, and more than 60 percent of informal workers were non-wage earners.

Since 1988 the INSD has provided, along with its annually published data, an estimate of the contribution of the informal sector to the country's GDP. According to data from this Institute, the share of the informal sector in total value added stayed relatively stable between 1985 and 1992, fluctuating between 31 and 34 percent (Table 1.1).

With regard to employment it is important to note the major role played by the informal sector in this domain. According to the ILO/Job and Skill Program for Africa (PECTA: Program des Emplois et des Competences Techniques pour l'Afrique), 73 percent of the population in urban areas are engaged in the informal sector (PECTA, 1977a). Charmes (1989) estimated that the informal economy employs 22 percent of the country's labor force, that women account for two-thirds of all informal activities, and that the UIS represents 15 percent of the total employment in the informal economy (i.e., including the rural sector).

Table 1.1: Distribution of Value Added by Source, 1985-1992

	1985	1986	1987	1988	1989	1990	1991	1992
Modern sector	31	36	37	37	36	36	35	35
Informal sector	32	32	32	31	33	33	31	32
Primary Sector	37	32	31	32	31	31	34	33

Source: INSD, 1993b

More importantly, the informal sector is becoming an increasingly large portion of the total work force in Burkina Faso. In a recent study, Van Dijk (1991) noted that in the neighborhoods where he organized censuses in 1980 and again in 1990, the informal sector had increased by almost 70 percent during that period. Almost 50 percent of the sample population had gone into business during the previous two years. Even more surprising is the diversification of activities. New activities such as photocopy shops, homemade yogurt vending, and ice and ice cream selling are all evident. Van Dijk found that 50 percent of the informal workers in Ouagadougou (the capital city) are less than 30 years old; 80 percent are under 40; the average worker is 33 years old. Sixty percent of the informal sector workers were or are still engaged as part-time farmers.

1.3 Data collection and the sample

Information derived from theses studies and reports will be used to corroborate some of the statements made in this dissertation. The main source of information in the study will be derived from the survey conducted by the author during a field research in Burkina Faso. The survey was carried out between January and May 1993 in the country's major cities. A sample of 1098 micro entrepreneurs responded to a questionnaire of 76 main items. Information sought through the questionnaire relates to the entrepreneurs (background, socio-economic characteristics) and the unit of production (nature of activity, size, legal status, operating condition, turnover, income level). (See appendix for complete questionnaire). I conducted the survey with the assistance of fifteen students from the Economics Department of the University of Ouagadougou, who were hired, briefed and performed a one day trial period on the field. They were asked to turn in the filled questionnaires every evening so that the I could take a close look at them and take action if necessary before they go to the field. In the different cities visited I managed to interview at least one representative of each of the activities retained in the sample.

In order to increase the accuracy of data related to sensitive aspects of the business (turnover, profit), agents were not only asked to provide information on their own activity but also asked to state estimate of what they think others are doing. For instance, they were asked to provide, along with their yearly turnover, estimates of the turnover of someone who is doing well in the business and the turnover of someone who is performing poorly. This way of proceeding provided us with checking points. The investigators were able to detect and readjust, often during the interview, figure that seemed to be unrealistic. In most cases, they had the feeling that agents were sincere about the information provided. Agents were more confident because they knew that we were not agents of the public administration, and because they were assured anonymity.

Agents surveyed were from thirty different activities representing five economic sectors: production, service, commerce, construction, and transportation. Detailed description of the activities selected are provided in Chapter 5. The economic sectors and the activities were chosen based on the country's 1985 general census and a study on the urban informal sector done by the National Bureau for Employment Promotion (ONPE: Office National de la Promotion de l'Emploi) in 1987. Activities reported by the census as part of the urban informal sector were given according to their relative importance in total urban informal sector. It was then, decided to retain in the sample only activities that were importance in terms of number of units of production. The number of agents to be interviewed in each city was determined on the relative size of the informal sector in that particular city.

Having determined the size of the sample in each city and the type of activity to be surveyed, we had to search for units of production we believe fit to our description of enterprises of the informal sector. As Lubell (1991, referring to Hans Singer) put it, "an informal sector entity is hard to describe but you know it when you see it" (p. 11). In searching for informal sector enterprises in each of the cities visited, we attempted to cover the different parts of the town. As one might have expected, informal activities were more frequently found in the poorer districts. We went to the agents and interviewed those who accepted to talk to us. In most cases they were more than willing to sit and talk about their activities and problems.

Information was also collected from agents of the formal sector through discussions (this type of interview was conducted solely by the author). Households deriving their income from the formal sector, employees, and heads of enterprises were interviewed to collect their opinions about the country's economic situation, the functioning of the institutions (procedures, tax level) and their impact on society and the economy and other related questions. They were also asked to describe briefly their consumption habits and how they handle the economic situation. Elements of this survey along with data gathered from censuses and other government data will be used in this study.

The dissertation consists of seven chapters. Chapter 2 provides a review of selected literature dealing with theoretical and measurement issues relevant to analysis of the informal sector. Chapter 3 analyzes the causes of the emergence of the informal sector in Burkina

Faso. In Chapter 4, a currency demand model will be estimated using the Ordinary Least Squares (OLS) method in order to generate an estimate of the size of the informal sector in Burkina Faso. Chapter 5 provides a description of the informal sector at the micro level. Chapter 6 identifies and discusses the major obstacles to the expansion of the informal sector in Burkina Faso. This chapter also reviews and assesses the efficiency of existing formal institutions and structures that deal with the informal sector, and then outlines some actions to be implemented in order to promote the informal sector. Chapter 7 summarizes and concludes the study.

CHAPTER 2

ISSUES ON THE INFORMAL SECTOR: REVIEW OF THE LITERATURE

One of the most striking facts revealed when observing the informal sector is the interdiciplinarity illustrated by the amount of material in different fields (anthropology, sociology, economics) that deal with various aspects of the phenomena. Danesh (1991), in his review of the literature on the informal economy, has identified twenty specific major categories of related issues. But despite this fact, this chapter, designed to present previous works on the informal sector, will concentrate on the literature that is relevant to the scope of this study. The first section of this review deals with the literature on the concept itself, the ways of defining the informal sector. Different methods of estimating the size of the informal sector will be presented in the second section of this chapter.

2.1 The informal sector: some definitions

Although the informal sector has been analyzed extensively, it remains a "fuzzy concept" (Peattie, 1987) whose definition varies according to the analyst and the particular aspect of the informal sector being scrutinized. Despite this fuzziness one can frame the concept of the informal sector in the tradition of dualistic analysis of economic development.[1]

[1]Peattie argued that "the dichotomy between a 'formal sector' and an 'informal sector' can be viewed as the latest in a series of dualistic conceptualization which has stressed the contrast between two sets of economic activities: one relatively profitable and privileged, the other relatively disadvantaged." Peattie L. (1987, p. 852).

Lewis in his 1954 paper draws attention to the existence of casual jobs in the urban area of overpopulated economies.[1] The workers performing these activities constitute the urban counterpart of the "disguised unemployment" prevailing in the agricultural sector; they are part of the "surplus labor" that is being transferred from the subsistence sector to the modern, urban industrial sector.

In Lewis' analysis, the casual laborers are considered to be a passive and cheap army of manpower meant to fuel the growth of the modern sector. The shift of these workers from one sector to the other is also regarded as a mean of solving the structural imbalances prevailing in dual economies. Such interpretations of labor migration not only fail to recognize the inner dynamism of the casual jobs but also seem to overestimate the capacity of the modern, urban sector to absorb the new entrants to the urban labor force. The notion of the informal sector appeared in the literature in response to these concerns.

The concept of the informal sector was first used by the British anthropologist Keith Hart, in his study of urban employment in Ghana, to portray the "income-generating activities of the urban sub-proletariat" of Accra (Hart, 1973, p. 61). This analysis was primarily an attempt to account for the phenomenon occurring in the urban labor sector that was unexplained by conventional dualism. Several empirical studies undertaken during the late 1960s in Africa and other developing areas revealed that, contrary to the statement of W. Arthur Lewis' model, the modern sector in these countries was unable to absorb the "surplus

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[1]These are "the workers on the docks, the young men who rush forward asking to carry your bag as you appear, the jobbing gardener, and the like.... Petty retail trading is also exactly of this type." (Lewis, 1954)

labor." It was shown that quite aside from the employment opportunities of the modern sector, other income-generating activities were presented to the rural migrants.[1]

The novelty of this interpretation of the urban labor force lies in the fact that it considers the informal sector to be a genuine socio-economic system that plays an extremely important role in developing countries. Informal activities, treated thus far with condescension, are regarded as the constituent elements of a dynamic and autonomous sector capable of generating enough income to sustain the living of an increasing number of urban laborers. In addition, it was argued that in the context of developing economies, where jobs conceived in the western way are denied to a large portion of the working population, the issue of unemployment is irrelevant. Rather, poverty, working-poor, income levels and equality are the more pressing employment problems in these countries (Hart, 1973; ILO, 1972).

Todaro, in his tri-sectoral model, had already questioned the ability of the traditional labor migration theory to accurately explain the mechanisms of migration and unemployment in developing countries. Figures of the 1960s indicated that most of the developing countries were experiencing both an increasing urban unemployment level and a rising rate of rural-urban migration. This, Todaro claimed, was an indication that the underlying market-clearing assumption of the Lewis-Ranis-Fei migration model is not suitable in the cases of the

[1]The pioneering studies of the ILO helped to stress the important role of the informal sector for urban employment. Indeed, it was the ILO mission to Kenya that pointed out the importance, even the central role, that has to be given to the informal sector when analyzing population growth, unemployment, and underemployment in Third World countries.

countries under analysis[2]. In these countries, it is not the rural-urban nominal wage differential, but rather the expected urban modern income that prompts potential migrants to make the final decision of moving to the city[2]. Most of the underemployed rural migrants, who moved to the city with the expectation of finding a better job, found themselves in "a large pool of unemployed and underemployed workers who had arrived in town earlier and were still waiting for a modern sector job" (Todaro, 1969, p.142).

As indicated by Cole and Sanders, "The Todaro model clearly assumes that all members of the pool, as well as all migrants, are intent upon eventual U-M [urban modern] sector employment." (Cole and Sanders, 1985, p. 481). This assumption fails to account for the rural-urban migrants who sought permanent employment in the "urban subsistence" sector, i.e., the informal sector. In fact, the model does not consider the informal sector as an independent factor to be included in the analysis; and yet, its existence introduces another dimension into the migrants' decision making process: working in the informal sector is another alternative presented to prospective migrants. Although informal earnings are generally lower than urban modern income, the fact that informal activities are ease of entry and, are more likely to provide higher income than those prevailing in the country side affects rural inhabitants decisions to migrate or not. As a result, one can state that it is not only the rural-urban modern expected income differential that has to be considered in labor migration

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[1]The classical theory argued that rural-urban migration would slow down when nominal wages adjust to correct the imbalance caused by the excess supply.

[2]The probability of finding an urban modern sector employment enters in Todaro model as a discounting factor to determine the expected income.

studies, but also the rural-informal sector income differential should be included in the analysis as a major determinant of labor supply.

Mazumdar (1975) made similar observations, and then suggested a migration model which depicts two groups of migrants with different motives: the temporary and the definitive migrants. According to Mazumdar the former group (the temporary migrants) are most likely to find themselves performing informal activities. Migrants of the latter group, those who intend to dwell permanently in urban area, will be looking for a formal sector job.

More broadly, analysts argue that the new migrants who were not employed in the modern sector, and those of the low-income earners seeking supplemental income, found new ways to survive by creating their own employment or working for small-scale, family-owned enterprises. A common characteristic of these activities is that they are unregulated and hardly fit into any of the conventional economic categories. Activities viewed as part of the informal sector range from fringe and survival strategies (e.g., street vending, letter writing, and shoe shining) to more organized operating units (e.g., small artisans, mechanics, and carpenters).

The notion of the informal sector was thus set to embrace and explain a varied bundle of activities operating outside the modern sector; too broad to be comprehended in a single accurate and straightforward definition. In general, observers rely upon a set of characteristics to identify informal activities. The attributes to be considered in defining the informal sector depend on the focus of the study being conducted. Although issues related to the informal sector are numerous one can trace down two or three major themes that influence the attributes choice. The most common criteria encountered in the literature relate to individuals, their social and living conditions on the one hand, and on the other hand, the physical characteristics and the functioning of the unit of production and its social organization and legal status.

In this manner the definition of the informal sector provided by Hart uses individuals and households as the unit of observation and, poverty and marginality provide the basic elements for the definition. According to Hart, "the distinction between formal and informal income opportunities is based on that between wage-earning and self-employment" (Hart, 1973, p. 68). In this view the informal sector consists of all the self-generated activities that sustain the living of the urban poor. These activities include all types of income opportunities outside formal employment; size and legal and moral considerations notwithstanding. A wide range of what ought to be considered as crimes (e.g. hustlers, receivers of stolen goods, pickpockets, larceny and gambling) are listed as part of the illegitimate informal income opportunities (Hart, 1973).

The ILO Kenya mission had suggested a firm oriented definition consisting of several different criteria. To be regarded as part of the informal sector, firms should display the following characteristics:

a) ease of entry,
b) reliance on indigenous resources,
c) family ownership of enterprises,
d) small scale of operation,
e) labor-intensive and adapted technology,
f) skills acquired outside the formal school system, and
g) unregulated and competitive markets (ILO 1972, p. 2).

As one can see from the attributes listed above the unit of production is the central point of analysis. One of the problems that frequently occurs when dealing with a definition that uses firms as the unit of observation is the impossibility, not only of fully accounting for urban employment, but also for poverty and marginality in cities. The informal-formal division is generally associated with low-wage vs. high-wage employment. Data seem to contradict this standpoint.

> Some owner-managers will have earnings that are above average and skilled labor will receive a wage higher than that of unskilled or menial labor. It is obvious then that not all labor in the informal sector can be lumped into a poverty class. Furthermore, the companion assumption that the informal sector effectively encompasses all of the poor within its ranks is inappropriate. (Cole and Fayissa 1991, p. 780).

According to Cole and Fayissa, the definition of formal and informal sectors on the basis of firm size and organization "tends to blind analysts to the actual conditions of employment."(Cole and Fayissa, p. 7) To bypass these weaknesses the authors suggest a new and complementary taxonomy that considers the urban labor force as the unit of observation.

Another shortcoming of the multi-criteria definition, outlined above, is that although it provides a useful framework, it seems to underweight interrelations between the informal and formal sectors. In order to take into account this missing factor, analysts believed to be operating within a Marxian or neo-Marxian perspective provided a definition of the informal sector, labelled functional definition or petty production, in which petty production is thought to contribute to the spread and perpetuation of capitalism. In fact, petty production is seen as being overexploited by international capital and its allies, the local bourgeoisies. It is believed that the alleged self-employed do not operate in a situation of real independence; their so called self-employment is a myth insofar as they are indirectly working for the benefit of powerful capitalist enterprises (Bromley and Gerry, 1979)[1]. Indeed, petty production is not

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[1] Kennedy (1981) provides a good outline of these views

only a source of low-cost labor for capitalist firms but also a supplier of cheap goods and services. By making cheap products available to capitalist firms' employees, petty production indirectly contributes to the perpetuation of low wages in the formal sector. In this way, petty producers participate actively in the reproduction of the labor force at a low cost and thus allow capitalist enterprises to increase the level of their profit. As a result, the informal sector is defined here "...as a pool of labor from which the modern sector takes what it requires and rejects what it no longer needs [...], as a place of reproduction of the labor force with the lowest cost..." (Charmes, 1990, p.13).

Less radical, the "new institutionalist" (Olson, 1982; North, 1990) offers an alternative working framework. The new institutional approach attempts to understand the relationship among institutions and economic development in order to determine how the institutional settings affect the informal sector.

> As a general proposition, economic agents are regarded as members of the 'formal' sector of any economy when their actions adhere to, or are protected by, the established institutional rules of the game. Conversely, when their actions fail to adhere to the established rules, or are denied their protection, the agents are regarded as members of the 'informal' sector of the economy. (Feige, 1990, p. 990).

According to this analysis, since agents in the informal sector do not bear the burden of the established institutional rules, they display a different set of transformation and transaction costs from those prevailing among people in the formal sector. It is the "differences in the transformation and transaction costs associated with formal and informal sectors that give rise to their importance for the development process" (Feige, 1990, p. 990).

Following this approach to the informal economy the tendency today is to define informal sector according to whether agents comply or not with the existing regulations. De Soto regards the informal sector as "...a gray area which has a long frontier with the legal world and in which individuals take refuge when the cost of obeying the law outweighs the benefit." (De Soto 1989, p.12) Assessing the cost of formality and informality in order to determine the impact of the institutional settings on individuals' decisions to behave formally or informally becomes here a key element of analysis.

Setting themselves apart from economic dualism and social marginality, Portes, Castells and Benton (1989) invite analysts to consider the informal economy as a process rather than an object. According to these authors, informal economy is not confined to a particular portion of society but is comprised of individuals belonging to different social strata. It is the fact that activities are regulated or not, rather than their nature, that determine whether they are part of the informal economy. The informal economy is then defined as "not an individual condition but a process of income-generation characterized by one central feature: *it is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated.*" (Portes et al. p. 12)

In a recent report the Director-General of the ILO (1991) has provided a definition of the informal that is somewhat a synthesis of the different viewpoints outlined above. Enterprise's characteristics and its legal status are combined to give a two-fold definition where

> the term "informal sector " [....] refers to very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban areas of developing countries, some of whom

> also employ family labor and/or a few hired workers or apprentices; which operate with very little capital, or none at all; which utilise a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low and irregular income and highly unstable employment to those who work in it. They are informal in the sense they are for the most part unregistered and unrecorded in official statistics; they tend to have little or no access to organised markets, to credit institutions, to formal education and training institutions, or to many public services and amenities; they are not recognised, supported or regulated by the government; they are often compelled by circumstances to operate outside the framework of the law, and even where they are registered and respect certain aspects of the law, they are almost invariably beyond the pale of social protection, labor legislation and protective measures at the work place. Informal sector producers and workers are generally unorganised (although informal local associations of those engaged in specific activities may exist), and in most cases beyond the scope of action of trade unions and employers' organisations. Being unorganised, beyond the protection of the law, and working at very low levels of productivity and income , they generally live and work in appalling, often dangerous and unhealthy conditions, even without basic sanitary facilities, in the shanty-towns of urban areas. (ILO 1991b, pp. 4-5).

As can one see, economic development literature provides several ways of defining the informal sector, but none seems to account fully for the multiple aspects of the phenomenon. For an accurate definition it would be necessary to consider the constituent elements of the definitions outlined here as the different faces of the same phenomenon and adopt a country-specific definition based on direct observation of the informal sector in the country under consideration. This is how the informal sector will be defined in the study; this will be discussed more thoroughly in Chapter 5.

2.2 Measurement techniques

One of the most controversial issues in studies of the informal economy is, with no doubt, how to measure it: estimations are highly sensitive to valuation methods. The nature of the subject under analysis has certainly something to do with this. By nature, informal agents try to avoid direct observation, leaving analysts with no other choice than the use of indirect methods to estimate income generated in this sector. Methods used can be arranged under two headings: micro and macro approaches.

Several empirical studies have gathered useful information by direct and close observations of micro units. Data are collected through participant observation, i.e. by approaching informal agents in such a way to gain their confidence. Here, observers participate to the daily routine of informal agents, pretending to be part of the system. This way of collecting data has the advantage of providing disaggregated information about the units under study. It is however, difficult if not impossible, to generate from these data an overall assessment of the informal economy.

Micro information can also be collected from sources such as surveys, census reports, and central administration employment and tax data. However, costs and problems associated with this type of investigation make it a risky venture. The problems arise because data are based on individuals' responses to survey questions. This adversely affects the quality of information collected when individuals, as they often do, refuse to reveal the facts about their activities. Besides, although rich in details, census and survey data can't be used for trend analysis insofar as they depict the informal economy for a given point in time.

Macro data sources constitute the other alternative for collecting information in order to evaluate the informal sector. Data collected by official agencies for other reasons constitute the basic element for measuring informal activities. Most of the macro data methods have been inspired by techniques used to estimate the underground economy in developed countries. Because of the availability of data and its relative simplicity, the macro method most often used in developing areas is the monetary approach. This method consists of observing monetary statistics in order to detect discrepancies between the observed demand for currency and what should be demanded when relying only on formal sector activities.

Gutmann (1977) was the first to use monetary data to measure the size of what he calls the subterranean economy. His approach, the Currency-Deposit Method, was inspired by a method used by Cagan (1958) to analyze the determinants of the currency ratio in the United States. Following Cagan, Gutmann assumes the following:

(i) currency is the main means of transacting in the informal economy;

(ii) there is a benchmark, or normal, period in which there was no informal economy;

(iii) any increase in the currency/demand deposit ratio (C/D) over the ratio prevailing during the normal period is to be attributed to changes in the size of the subterranean economy;

(iv) income velocity of currency is identical in the official and the underground economy.

By virtue of assumption (ii) the normal C/D ratio can be computed and then used to estimate the amount of currency demanded for the transactions motive in the regular economy for any given year. To do so, one would have to multiply the normal C/D ratio by the demand deposit observed during the year of interest. The difference between total currency held outside banks and currency used in the regular economy is attributed to the underground economy. The informal income is then estimated by multiplying the excess currency demand by the ratio GNP/M (standing for the income velocity of money); with M being the sum of currency used in the formal economy and demand deposits.

Feige (1986, 1989b) adopted a similar approach to generate what he called the General Currency Ratio (GCR) which, according to him, is sufficiently large to encompass all other existing currency ratio methods, and can be easily applied in third world countries. The method specifies that both the actual stock of currency (C) and the stock of demand deposits (D) are decomposed into their informal and official parts:

$$C = C_i + C_o \text{ and}$$

$$D = D_i + D_o.$$

Accordingly, the ratio of currency to demand deposit is also divided into two components

$$k_o = C_o/D_o \text{ and}$$

$$k_i = C_i /D_i.$$

Similarly the income velocity in the informal and official sector are respectively define as

$$v_i = Y_i/(C_i + D_i) \text{ and}$$

$$v_o = Y_o/(C_o + D_o)$$

with Y_i and Y_o representing income in the informal and official sector. The income velocities in the two sectors are then used to define the parameter $\beta = v_i/v_o$.

Combining these variables and after different computations the income in the informal sector is derived in terms of the observable variables and the parameters defined above and is depicted by the following:

$$Y_i = \beta*\gamma*Y_r*[(k_i+1)*(C-k_oD)/(k_o+1)*(k_iD-C)]$$

where the parameter $\gamma = Y_o/Yr$; it portrays the relationship between the income in the official sector and the recorded income.

Several writers (Feige, 1979; Tanzi, 1982; Isachen et al., 1982) have questioned the reliability of Gutmann's method on the ground that most of its assumptions are unrealistic and, therefore, can be misleading. Feige (979) indicates that contrary to assumption 1), there is evidence that some underground transactions are paid for by other means than currency, checks and credit cards for example, without being detected[1]. It has also been shown, as Cagan's study had suggested, that fluctuations of the ratio of currency to demand-deposit are not solely explained by changes in the size of the underground economy but, can be also attributed to variables such as the opportunity cost of holding currency and demand-deposits, the expected real income, the volume of retail sales, the volume of travel, the level of urbanization, the level of income taxation and the volume of bank failures. One should also expect that the diversification and the development of methods of payment (credit card for instance) can affect the cash-deposit ratio. Since there is no special reason to minimize the effect of all these other factors, calculations based on the C/D method appears difficult to accept.

Moreover, the assumption that income velocity in the two sectors is the same is questionable. Feige (1979), has argued that setting the two velocities equal leads to an underestimation of the underground economy as the income velocity is higher in this sector. He thinks that the irregular sector is more integrated and more service intensive than the

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[1]It is certanly important to recall that the main concern of most of these studies was the underground economy. Thus, some of the penomenon a being described here happen more in the underground economy than the informal sector.

regular sector and, because of that, the hidden economy is able to eliminate from the production process a good number of financial and intermediate transactions. It is then possible for this sector to require less cash to produce a dollar of final output than the regular sector would need. Contrary to this assertion, Cagan (1958) had indicated that agents in the irregular economy are more willing to hoard money than those operating in the regular economy, suggesting that the turnover of currency in the underground economy is lower than that in the regular economy. Thus, assuming that the equalities of the velocities would, in this case, lead to an overestimation of the size of the irregular economy.

The choice of a benchmark period in which the irregular economy is supposed to be negligible has also raised some concerns. It appeared to authors like Thomas (1992) that the choice of this period is not based on a steady method (in most cases the first year of the period being studied is chosen to represent the normal period) and yet, the results of the C/D method are highly sensitive to the choice of the base year.

This series of problems casts doubt on the accuracy of the Currency-Deposit Ratio method to measure the size of the informal sector. Along with the critics, alternative monetary methods had been proposed to overcome the shortcomings underlined above. Feige (1979, 1989a), had proposed the Money Transaction Approach to generate an estimate of the underground economy. This method, which relaxes some of the C/D approach assumptions (for instance the exclusive use of currency), is based on the equation of exchange developed by Irving Fisher, $MV = PT$, where M, the stock of money, comprises currency and demand deposit; V is the transactions velocity of money; P represents the price level, and T is the physical level of all transactions. Feige argued that while PT, the value of total transactions, accounts for both activities in the regular and irregular economy, the recorded income py (where p represents the price index of newly created goods and services, and y is income) accounts only for income measured by official statistics. If this is true, one can get an estimate of the underground economy by comparing total transaction to the observed income. Since it is impossible to get an independent estimate of total volume of transactions one can use an estimate of MV, the total volume of payments, to derive the unrecorded income. To do so one would have to abide by the following:

- $(py)^*$ represents total income and is decomposed into its two components: $(py)_r$ the regular income and $(py)_i$ the irregular income.
- Money (M) is divided into currency (C) and demand deposit (D); each of these two components has its own transaction velocity V_c for currency and V_d for demand deposit. The equation of exchange then, can be expressed as follows:

$$CV_c + DV_d = PT$$

If one assumes that total transactions are proportional to total income, then one can infer from Fisher's equation that

$$PT/(py)^* = k^*$$

If it is further assumed that there exists a benchmark period in which irregular activities are non-existent, i.e. $(py)^* = (py)_r$, it would be possible to estimate k^* for this period and then derive an estimate of total income for any other as follows:

$$(py)^* = (CV_c + DV_d)/k^*$$

The irregular sector's income for any given year can then be estimated by setting

$$(py)_u = (py)^* - (py)_r$$

This method of estimating the informal economy has the advantage of relaxing the assumption that irregular activities are performed solely through currency. However, it still requires a base period and further admits, as in the previous approaches, that changes in M as compared to the normal period, are exclusively caused by changes in the size of the irregular sector, which is unrealistic. As stated earlier, fluctuation of the monetary variables under investigation (C or M) can be explained by a myriad of other factors than transactions in the underground economy. Leaving these other causes out of the analysis raises questions about the accuracy of the estimates derived by these methods.

One way of taking into account the effects of the other factors is to use regression models. That is the path taken by several researchers. Based on Cagan's (1958) work, the method consists in specifying a regression model that includes among the explanatory variables terms that represent forces causing changes in the underground economy; with DC (demand for currency) as dependent variable. According to Bagachwa and Naho (1994), the generalized form of such function could be stated as follows:

$$\ln DC = f(X_1, X_2, \ldots, X_n; X_{n+1}, \ldots, X_t) + U$$

with DC representing any of the following measures of demand for currency: C/DD (the currency-demand deposits ratio), C/M1 (the currency-narrow money ratio), and C/M2 (the currency-broad money ratio). $X_1, \ldots, X_n$ represent the traditional independent variables used in currency demand analysis (e.g., income, interest rate, inflation, etc...); $X_{n+1}, \ldots, X_t$ are proxies used to portray phenomenon that cause changes in the size of the underground economy; U represents the error term.

Vito Tanzi (1983) developed an econometrics model to estimate the size of the underground economy. His method is based on the idea that since most of the underground transactions are carried out through currency, factors that encourage informal activities can be consistently considered as explanatory variables in a currency demand function. It is also assumed that high tax levels are the primary causes of underground activities and can be used as a proxy to measure changes in the irregular economy. The model used for the empirical analysis is:

$$\ln(C/M2)_t = \alpha_0 + \alpha_1 \ln(1+T)_t + \alpha_2 \ln(W/Y)_t + \alpha_3 \ln R_t + \alpha_4 \ln(Y/N)_t + u_t$$

where C represents currency holdings; M2 is money (currency and demand and time deposits); T stands for one or another indicator of the level of taxation[1]; W/Y is the share of wages and salaries in personal income; Y/N represents real per capita income; R denotes the interest rate on time deposits; and u is the stochastic disturbance term.

The method consists of using the currency demand function specified above to estimate the volume of currency holdings that can be attributed to taxation. To do so one can proceed as follows:

1- The equation is solved and the predicted values of C/M2 are used to derive, for each year, the predicted level of actual currency holdings (C_t^T). These values are computed by letting Z_t represents the righthand side of the equation and then setting

$$Z_t = \ln(C/M2)_t$$

Solving this equation in term of C leads to:

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[1]It may be important to note here that applying this method to the United States, the author proposed three alternatives measures of tax rate: the ratio of personal income taxes to personal income net of transfert (T1), the top-bracket statutory tax rate (T2), and (T3) the weighted-average tax rate on interst income.

$$C_t^T = \exp(Z_t + \ln M2_t)$$

2- In order to estimate predicted currency holding in the absence of the underground economy (C_t^R) the regression equation is estimated under the assumption that the tax variable equals zero. The yearly values of C_t^R are calculated following the same procedure as above:

$$C_t^R = \exp(Z_t^* + \ln M2_t)$$

3- The amount of currency used for underground activities is determined by setting

$$C_t^I = C_t^T - C_t^R$$

4- An estimate of the underground economy is computed by multiplying currency held in the irregular sector by the income velocity of money in the regular sector.

One of the criticisms of the multiple regression presented above is that variations of the dependent variable C/M2 can be caused by the relative changes in the relationship between currency and bank deposits. Financial innovation and changes in payment practices are, among others, factors that can modify the relationship between C and M2. One way to avoid this problem is to estimate a currency demand function as suggested by Isachsen et al. (1982) and Bagachwa and Naho (1994). The approach is inspired by the studies of Baumol (1952), Tobin (1956) and Cagan (1958) on the transaction demand for money. Isachsen et al. argue that the approach as presented in its original form is weakened by the fact that the Mitchell-Hawtrey effect, an important determinant of the transaction demand for currency, is not taken into account in the analysis. This effect states that over the business cycle the relative use of currency is affected by the following factors: A unit of retail transactions requires relatively more currency than in other form of transactions. Due to the fact that wages are usually paid in cash, an increase of wage income relatively to total income leads to an increase of currency demand.

The regression model used to estimate demand for currency is stated as:

$$\ln(C/P)_t = \alpha_0 + \alpha_1 \ln Y_t + \alpha_2 R_t + \alpha_3 \pi_t + \alpha_4 (CON/Y)_t + \alpha_5 T_t + \ln(C/P)_{t-1} + U$$

Where C represents currency held by the public in real terms, P is the implicit price deflator of GDP, Y stands for real GDP, R is the rate of return on time deposits, the rate of inflation is calculated as follows $\pi = 100*(\ln P_t - \ln P_{t-1})$, CON/Y represents a ratio of private consumption expenditure to total income (this variable is used to proxy the Mitchell-Hawtrey effect) and T stands for tax level and proxy the irregular economy. The lagged dependent variable is used to represent short run adjustment of currency and deposits to long-run levels.

Bagachwa and Naho (1994) used similar equation to estimate the size of the second economy in Tanzania. In addition to the variables described above, these authors argued for the use of the following: NBCI standing for the index of the of National Banks of Commerce branches; GVI the ratio of parastatal employees over total employees, representing government intervention; and POER the ratio of parallel exchange rate to the official one. The last two variables are used here, along with the tax variable, to capture the proportion of demand for currency induced by the underground economy.

Apart from the specification of the equation to be fitted (as has noted above) this method proceeds exactly as Tanzi's approach to derive estimates of the hidden economy. Predicted values of currency demanded for transactions in the regular economy are derived by setting tax level to zero. This is then subtracted from the actual predicted value of currency to obtain cash used in the underground sector. The hidden economy income is estimated, as in Tanzi's, by multiplying irregular currency by income velocity of money in the regular sector.

The macro method has the advantage of estimating the informal sector's global size and general trends. In fact, this method acts as a complement to micro investigations in assessing the informal sector in less developed countries. Unfortunately this has not been the case for Burkina Faso. Until now there has been no available estimate of the informal sector in this country using the monetary discrepancy method. Instead, the survey approach has been widely used (U.N. Employment Program for Africa "PECTA", 1976, 1979; Charmes, 1989; Van Djik, 1991).

CHAPTER 3

ORIGINS OF THE INFORMAL SECTOR IN BURKINA FASO

In this study it is particularly important to analyze the causes of the emergence of the phenomena being scrutinized. Such analysis not only furthers our understanding of the subject, and thus its role, but is also of policy relevance. Knowing the factors that drive agents to operate their businesses beyond the state's regulation can help to formulate policies to recommend. These driving factors may vary from one country to another and according to the socio-economic environment in which the process is occurring; it is, however, possible to trace some common factors to explain the emergence of the informal sector and to help determine how they explain the situation in Burkina Faso.

3.1 Migration and unemployment

It is commonly stated that the emergence and the development of the urban informal sector in less developed countries is the consequence of excessive internal migration, on the one hand, and the inability of the modern sector to generate enough employment opportunities for the new migrants, on the other hand. It has been suggested that, because of inappropriate development strategies in most developing countries, the benefits of development efforts have been unevenly distributed to the detriment of rural areas. The resulting harsh living conditions in the countryside and the shrinking of employment opportunities combined with the attractiveness of the cities (better living conditions, greater job opportunities, better health and educational facilities) led to a massive and continuous migration from rural to urban areas. This has resulted in a rise in the rate of urbanization; which, in turn, has generated an upward shift in the labor supply. In addition, because of the use of capital-intensive technologies in most industrial units, employment creation in urban areas was not great enough to absorb the growing flow of rural migrants. The result of the imbalance so created in the labor market has been a problem of chronic unemployment and underemployment in these countries. In this context of labor surplus, low-income-generating informal activities appeared to be the best alternative for migrants who are thus excluded from employment in the modern sector.

In the case of Burkina Faso, this explanation seems to have a some validity. In the last three decades, the level of urban unemployment in Burkina Faso has been growing continuously. Data from the national population censuses[1] indicate that while the total population annual growth during 1975-1985 was 3.3 percent, the urban population was growing at about 8 percent per annum. Over the same period 60.000 new jobs were created in urban areas; far from enough to absorb the labor supply. The resulting outcome is an increase in the rate of urban unemployment from 9.6 percent in 1975 to 10.8 percent in 1985. In addition, the share of the secondary sector (one of the major sources of employment in urban areas) in total urban employment declined from 33.8 percent in 1975 to 13.3 percent in 1985.

[1] Censuses conducted in 1975 and 1985 by the National Institute of Statistics and Demography (INSD)

Data from the field research undertaken by the author seem to refute the belief that informal workers are predominantly migrants. Table 3.1 provides information on the migration status of informal workers by cities. As one can notice, the overall figures show the predominance of non-migrants (53.8 per cent) over the migrants (46.2 per cent). But it would only be fair to say that Ouahigouya and Koudougou, where non-migrants represent an important portion of informal workers, are also cities with an insignificant portion of industrial units; in fact, these cities are economically stagnant. The major industrial unit of Koudougou was created during the 60's. Ouahigouya has no serious production unit. Most prominent industries are concentrated in the three other cities, and the growing number of enterprises are being installed in these cities, particularly Banfora.

Contrary to the ongoing explanation, which suggests that the economic crisis and the lack of adequate employment opportunities in the countryside can be considered as a major factor in explaining the advent of the informal sector, data from the INSD reveal that, due to the dynamism of agriculture and other rural-based activities, unemployment in rural areas has not been a major problem in Burkina Faso. According to the INSD's statistics, 860,000 new jobs were created in Burkina Faso between 1975 and 1985; out of this total, 800,000 (93 percent), were accountable to the rural sector. In fact, during this period the rate of unemployment in this sector had decreased from 4.2 per cent in 1975 to 0.3 per cent in 1985. Besides, our survey reveals that the number of new migrants operating in the informal sector has been decreasing over the past five year. Data displayed in Table 3.2 indicate that less than one-third of the migrants workers had moved to the cities during the previous five years; and only 14.6 per cent of the worker had migrated during the last two years.

Table 3.1: Informal sector workers' migration status by location (percentages)

	Status	
Cities	Migrants	Non-migrants
Ouagadougou	51.0	49.0
Bobo Dioulasso	55.9	44.1
Ouahigouya	3.9	96.1
Koudougou	29.1	70.9
Banfora	62.7	37.3
Total	46.2	53.8

Source: Author's survey

Table 3.2: Number of years of migration

	Frequency	Percentage
Less than three years	66	14.6
Three to five years	76	16.8
Six to ten years	99	22.0
More than ten years	210	46.6
Total	451	100.0

Source: Author's survey

3.2 Economic Crisis, the Structural Adjustment Program, and Informality

The economic crisis that has affected the world since the mid-70's and the Structural Adjustment Programs (SAP) implemented by the IMF (International Monetary Fund) have often been used to explain the expansion of the informal sector. Over the last two decades sluggish economic growth, distortion of the production structure, high rates of unemployment, and a rising inflation have characterized the economies of the developing countries. Economic growth, which averaged about 6 percent during 1965-1973, fell to 4 percent between 1973 and 1980 and to 3.5 percent by 1986. Accordingly, during the same periods the real GNP per capita declined for most of these countries; some even experienced a negative growth in real terms. One of the most striking features of the crisis and its corollary, the SAP, that is of particular interest for this study is its effect on employment in urban areas. In many developing countries the adjustment policies implemented to counter the effects of the recession have led to a worsening unemployment situation because most Adjustment packages include drastic cuts in government expenditure. Public sector spending reduction has often been accompanied by a lay-off of workers who, in an unfriendly urban environment, end up seeking ways of survival in the informal sector.

Since March 1991 Burkina Faso has been implementing a Structural Adjustment Program after years of hesitation. Unlike most developing countries, Burkina Faso did not enter into the SAP in a situation of profound crisis but to prevent probable imbalances. The past decade had witnessed a substantial economic growth in this country. During the period between 1982 and 1987, Burkina Faso had experienced an average annual growth rate of the Gross Domestic Product of about 3.9 percent. The country's GNP per Capita was growing at an average annual rate of 1.0 percent between 1980 and 1992, which seems to be a good performance as compared with -0.8 percent averaged by the Sub-Saharan African countries. But despite these encouraging results, the economic and financial situation of the country was becoming worrisome. Public finance and external balance were at the center of this disquiet. In 1989 and 1990, after ten years (excluding 1982 and 1985) of surplus, the country suffered a major deficit in its overall balance of payments. Along with that, the public sector deficit was growing so big that the government was unable to honor the payment of its debt. In fact, the country's economy was entering a zone of turbulence and uncertainty and, if nothing was undertaken Burkina Faso would have faced a severe and unprecedented macroeconomic and financial crisis. In order to cope with this situation, in 1991 the government of Burkina Faso launched a SAP with the support of the World Bank and the IMF.

The economic crisis and the SAP undoubtedly affected the employment situation in Burkina Faso. Statistics on urban employment from the National Bureau for Employment Promotion (ONPE: Office National de la Promotion de l'Emploi) indicate that since 1986 the supply of labor has been increasing (with the exception of 1991 and 1992) whereas the demand for labor has shown a tendency to decrease (except in 1989) (see Table 3.3). This was a clear indication that the latent economic crisis in which the country was involved since the beginning of the 1980's is disturbing the employment situation in cities. This is due to the fact that in countries like Burkina Faso, the public sector is the main purveyor of formal employment in the urban areas. Because of the financial difficulties encountered the government had to slow down the rhythm of recruitment of new workers for the public sector. In addition, the private sector fearing a deeper recession had also cut back its

Table 3.3: Demand and supply of labor in Burkina Faso (1986-1992)

Years	Supply of labor	Demand for labor
1986	31,974	5,470
1987	35,324	5,102
1988	34,568	3,820
1989	38,102	5,601
1990	41,989	3,982
1991	34,821	3,669
1992	29,784	3,128

Source: ONPE Annual Report, 1993, Unpublished Documents recruitment. At the same time the educational system, mainly the university, was overflowing the labor market with its new graduates. The rate of production of graduates was much higher than the economy's absorption capacity. During the period 1989 and 1992 the system had produced 11,349 new graduates. Of these, more than 6,000 had graduated from the university. In the meantime, only 1,844 new positions were opened for college and university graduates. This give an absoption rate of 16.25 percent.

The urban unemployment during this period can also be linked to the political situation of the moment. During the revolution period (1983-1987) it was a common fact of life for public sector workers to be dismissed. In this way, an important number of civil servants went to bolster the list of the unemployed. Most of them end up, as do those who were already there, seeking a job in the informal sector. During the revolution not only agents were dismissed but the purchasing power of those still working had considerably decreased because of the freezing of wages and the reduction of the amount of all allowances additional to basic salaries (some allowances had been suppressed). In fact the revolution in Burkina Faso was a period of self-adjustment. The government was behaving as if the country was implementing an Adjustment Program. This is so true that when the government decided to implement the SAP with the support of the IMF and the World Bank, it was easier than expected to bring the people, including trade unions, to accept it without serious resistance.

The economic policy implemented as part of the SAP has had an important impact on the employment situation and the development of the informal sector in Burkina Faso. The basic policy measures suggested to realize the SAP's objectives come under the following: i) reorganization of the production structure and development of the private sector;

ii) restructuring the public sector (including state owned companies which, in most cases, are to be privatized);

iii) reduction of external financial imbalances;

iv) liberalization of domestic and foreign trade.

For the full implementation of these objectives most of the measures adopted under the revolution had to be maintained or, in certain cases, be fostered. In that way, measures such as the freezing of wages and the reduction or consolidation of allowances had been advised as one of the main components of the SAP. All these measures had directly or indirectly affected the expansion of the informal sector in Burkina Faso.

On the social front, all this had been translated as an important decline of the level of employment in both the public and private sector and, had also fostered the decline of purchasing power that workers in cities have been experiencing since the revolution. According to the terms of the SAP, during the years of implementation of the agreement, total wages and salaries should be contained in acceptable proportions. The fulfillment of this requirement led the administration to reduce recruitment of public agents to the strict minimum. Only departments, such as education, health, finance and environment were allowed to hire new workers. Along with this restriction the administration had encouraged workers to leave the public sector through formulas such as early retirement, voluntary and compensated leave. Those of the public agents who accepted the government offer and left the public service did it hoping to find their way in the private sector; but unfortunately, as they soon realized, the amount of money allotted is so low that it was almost impossible to meet all the expenses required to found a viable business in the formal sector. Some of them ended up in the informal sector struggling for survival. To these people one should add those who in the private sector and the state-owned enterprises lost their jobs because of the adjustment program. In 1992 there were 339, coming from different enterprises, who lost their employment because of privatization and reorganization; some of these enterprises had been simply shut down.

The precariousness of the employment situation under the SAP is revealed by the statistics on the demand for labor by the departments where recruitment is still allowed. Over the three first years of implementation of the SAP these departments had recruited a total of 4311 new workers (Table 3.4). This was far below the number of applicants. The figures reported in Table 3.5 indicate that the ministries of Health and Education, the main public sector recruiting departments, were capable of absorbing only a tiny portion of the supply of labor: in the department of Health only 1.49% of the applicants had been recruited; the rate of recruitment is a little bit higher in the Education department (4.94%). Difficulties in finding an employment in both the public and private sector and the reduction of the purchasing power of wage earning workers had led a large number of unemployed and others agents, those looking for supplemental means of living, to search for alternative income outside the formal sector.

Even though figures on the evolution of employment in the informal sector are not available for recent years, there is strong evidence that employment in that sector had been growing at a faster rate than in the formal sector. The reduction of real income in urban areas had forced many households to modify their consumption habits in favor of goods and services supplied by the informal sector (most of them can't anymore afford goods provided

Table 3.4: Demand for Labor in Selected Departments

Departments	1991	1992	1993
Heath	505	570	626
Education	----	950	1300
Finance	130	130	-----
Environment	----	100	-----
Total	635	1750	1926

Source: Secrétariat Permanent du PAS

Table 3.5: Employment situation under SAP in selected Departments

Department	Agents recruited	Applicants	Rate of absorption
Health	570	38109	1.49
Education	950	19219	4.94

Source: Secrétariat permanent du PAS

by the formal sector).[1] But despite the increase of the demand in the informal sector, it has been noticed that at the micro level the share of the market allotted to each individual unit was shrinking. This assertion can be supported by the fact that a large number of agents (82.6% of our sample) affirm having witnessed a slow down in the level of activity during the past two years (i.e. 1992 and 1993). They also think that the number of agents operating in the sector is excessive: a total of 72.1 percent of the agents surveyed affirm this. It is not surprising then to learn that most informal workers (85.0 percent) ascribe the difficulties they are encountering to the competition within the sector (for 44.1 percent of the sample) and the overall economic situation (40.9 percent); there are only 10.7 percent who think that the slow down they are experiencing is due to competition from the modern sector; the remaining 4.3 percent attribute the difficulties to the lack of adequate infrastructure. If these figures reflect reality, and there is no reason not to think so, this would be an indication that an increasing number of new activities are being operated in the informal sector in recent years. As stated earlier, Van Dijk (1991) had noted that during the period 1980 through 1990 the informal sector had increased by almost 70% in the neighborhood where he organized censuses. He also realized that almost 50 percent of the sample population had gone into business only during the previous two years.

[1]This assertion is based on personal observations and discussions with households believed to be representative of the country's socio-economic landscape. Some informal agents had also reported this fact

3.3 Legal and Institutional Environment

As stated earlier, it is now commonly admitted that the state's legislative and regulatory system is an important factor that caused the emergence and the spread of the informal sector. It is believed that the burden of the institutions, the cost of complying with all mandatory regulation is so important that it forces those of the agents who can't afford it to seek refuge in the informal sector. This section deals with this issue with regard to the situation in Burkina Faso; it will be shown that, in the case of this country, not only the state's regulation and legislation are costly but that the alleged benefits and protection offered by the state to agents who comply with the law is a privilege reserved to those who are financially well off or politically well connected.

3.3.1 Regulation and cost of legality in Burkina Faso

Three series of regulations are analyzed here. The first pertains to the formalities to be performed in order to operate legally in Burkina Faso. The second relates to the tax and its impact on the informal sector. The regulation and the functioning of the labor market are also examined.

3.3.1.1 Administrative Procedures and their cost

When considering the regulations put in place in Burkina Faso for the creation of an industrial or a commercial unit, one might be surprised by the considerable number of the documents needed to operate legally. The legal barriers and their costs are so significant that one might need great courage and patience to embark upon such a venture; there are not less than ten formalities to be met before being able to operate legally as indicated in Table 3.6

This table displays both the prescribed time required to carry out various formalities and the related costs. Looking at the data, one might be tempted to believe that it is relatively easy and inexpensive to launch a business venture in Burkina Faso. Theoretically, it would take an entrepreneur with a good project three to four weeks to obtain the authorizations necessary to launch his operation. He would spend between FCFA 50,000 (US$ 176.58) and 100,000 (US$ 353.16) in processing fees.

In truth, this theoretical time frame and these costs are well below what they actually would be. According to certain established business owners, who went through these procedures, it takes an average of six months to three years, depending on the nature of the unit to be established, to accomplish all the required formalities. In the process, small business owners spend between FCFA 100,000 (US$ 353.16) and 300,000 (US$ 1059.47) in various fees (including bribing) to operate legally. These amounts represent respectively, 1.10 and 3.35 times the country's 1991 GDP per capita. It is important to note here that Table 3.6 does not include the formalities to be performed prior to these procedures. Before starting the procedures described above one needs to get an agreement from the Minister of Industry, Commerce and Mining. For this, one has to send an application to the Ministry describing the activity to be undertaken, the products and the technology to be used. For the Minister to make his decision a moral standard enquiry about the applicant(s) has to be conducted and then, the application is to reviewed by a technical committee to see whether all technical,

Table 3.6: Registration and costs

Steps	Time (days)[1]	Cost (FCFA)[2]
1. Registration of the company's constitution with the estate, registration and stamps office	7	400
2. Legal publication of the company establishment in a national newspaper	1	25000 per 1/4 page of a daily paper
3. Registration with the Register of commerce (requires different steps)	1 to 21	15000
4. Registration with the Chamber of Commerce	1	230
5. Registration with the taxation office and get a Fiscal statement	-	-
6. Get a professional trader's license	2	975
7. Get an Identification number with the National Institute for Statistics and Demography	1	no fees
8. Get an identification number as an employer with the National Social Security Fund	1	no fees
9. Get an identification number as a supplier of the State and its related services	1	1100
10. Registration with the Department of Labor and Social Laws (requires different steps)	21	500

[1] This column represents the cost of compliance with the law in terms of days spent for registration. These are estimations made by the authorities.

[2] In 1993 the average exchange rate was US$ 1 = 283.16 FCFA.

Source: Author's Survey

health and security standards are met. As one might imagine, this can take months, if not years to come to the end.

Entrepreneurs who wish to launch *SARL* (Limited Liability Company) or *SA* (Joint-Stock Company), have to release entirely the nominal capital (for an African only one quarter of the capital has to be released). In addition to the costs listed above, they must deal with notary fees, approximately 10% of the capital, registration taxes (3% of the capital) and 40,000 F in various expenses related to the company's constitution. Obviously, this legislation was not designed for small businesses.

3.3.1.2 Taxation

Since January 1993, Burkina Faso has been implementing a new form of taxation of the informal sector called the *CIS, Contribution du Secteur Informel* (Contribution of the Informal Sector). The *CIS,* a lump sum tax, represents all the taxes that members of the informal sector are required to pay, with the exception of municipal taxes and taxes on wages. This tax is an innovation in Burkina Faso's fiscal system and seems to have significant advantages over previous forms because of its simplicity.

This system of taxation of the informal sector, only recently put into place in Burkina Faso, has not yet succeeded in curbing the negative opinions which members of the informal sector have towards taxes. They continue to act as if nothing had changed. They are still trying, for the most part, to avoid taxation, by systematically concealing trading results and deliberately refusing to invest in their own businesses.

Before the fiscal reform of 1993, the principal tax paid by members of Burkina Faso's informal sector was the *Patente* (a tax paid in order to be able to exercise a trade or a profession) for enterprises with fixed locations, or a lump sum tax called "market tax" for businesses without permanent locations. The patente was composed of two parts: one fixed portion determined according to turnover, and a second part proportional to the rental value of the premises (8% of the rental value). Because the amount of the patente depends in part upon the rental value of the premises, business owners hesitate to make new investments for fear of being noticed by tax agents. A too visible investment taking the form of improvements of the workplace or the acquisition of new equipment can lead to a upgraded of the value of the patente. For this reason, certain small business owners, such as tailors, carpenters, or welders refuse to purchase new machines or to pay for improvements to their workshops for fear of seeing their taxes increase. For the same reasons, wealthy restaurant owners choose not to renovate or to improve the level of service they offer. These business owners are conscious of the impact that even seemingly trivial investments can have on the economic results of their businesses.

The CIS only partially resolves the problem. It is true that the rental value of the premises is no longer explicitly a part of the tax base of the informal sector; instead it is the turnover that allows the authorities to determine which businesses can benefit from the *CIS*. According to the new tax regulations, individuals obligated to pay the *CIS* would be those working in a permanent location or ambulant whose annual turnover is not more than 5 million CFA Francs (US$ 17,657). The problem is that the turnover of a given activity is determined by the tax authority from the probable results of the business. This kind of estimation is based, among other elements, on exterior signs of success. Conscious of this fact, a good number of entrepreneurs in the informal sector, particularly merchants, declare turnovers which are below the ceiling above which entrepreneurs no longer qualify for the CIS. The best way to achieve this aim is to avoid showing any visible signs of success to tax agents. Moreover, we have been made aware of the existence of numerous conflicts between certain business owners, who estimated their *turnover* at less than 5 million, and the tax authority, who arrived at much larger sums (7 million for example).

It is important to point out that since January 1, 1994 the maximum turnover allowed for the CIS is 15 million CFA Francs (US$ 52,973). This ceiling is reasonable to the extent that very few members of the informal sector can achieve an annual turnover that approaches this amount. In addition, if one considers in detail the different tax levels of the CIS and the corresponding turnover, one finds that the tax rate is generally less than 3%. Normally, if this tax reform is implemented correctly, it would be difficult to consider taxation as a factor causing the emergence and the growth of the informal sector in Burkina Faso. Nevertheless, it would be sound practice to determine in the midterm its real impact on the behavior of the members of informal sector.

3.3.1.3 Labor

In the literature, one of the most cited causes of the expansion of the informal sector is the reaction of agents toward the rigidities introduced in the labor market by the state's regulation and powerful trade unions. It is believed that agents choose to operate outside the law in order to alleviate the burden of the constraints they face in terms of financial cost and rigidities.

This explanation seems to be consistent with the situation of Burkina Faso where the official labor market is heavily regulated and protected. The state and its related services seems to be ruling every aspect of this market by enacting laws to regulate the processes of hiring and layoff of workers. In the process, an important role is given to the National Bureau for Employment Promotion (ONPE: Office National de la Promotion de l'Emploi). This public service is in charge of centralizing and advertising all employment openings in the private sector and then proceeding to the selection of candidates to be proposed to fill these positions. This procedure is obviously cumbersome and can be discouraging for entrepreneurs.

Another form of rigidity introduced in the labor market by the state is the process of determination of salaries in the formal sector. In the private sector the level of salaries and wages, with the exception of the *SMIG (Salaire Minimum Interprofessionel Garanti),* the Minimum Wage, which is fixed by ministerial decree, are determined through negotiations involving the State, trade unions and employers' representatives. Salaries set that way do not reflect the state of the market but the negotiating power of the parties involved in the process and could be detrimental to either one of these groups. However, the main opposition to this way of proceeding comes from employers. They truly believe that the levels of salary in the country are relatively high. This conviction is certainly based on the fact that while the minimum wage in the country is set, for formal sector employment, at 25,000 FCFA per month, the average monthly salary in the informal sector, as revealed by the survey, is 10,000

FCFA. The legal minimum wage is thus twice as high as the average salary earned in the informal sector. In addition to the legal salary paid to employees, employers in the formal sector have to bear the burden of National Insurance Contributions. According to regulations in Burkina Faso, employers are expected to pay 18.5% of each declared employee's salary as National Insurance Contribution (4.5% for retirement pension, 11.5% for family allowances and 2.5% for employer's liability insurance); employees must contribute 4.5% of their salaries.

The rigidities introduced by these regulations and the induced increase of labor cost has contributed to the expansion of the informal sector in different ways. First, it has forced some businesses to simply ignore the laws and regulations. Second, it has contributed to the worsening of the employment situation and thus, to the development of the informal sector. The Search for more flexibility and low labor cost had also driven a good number of businesses of the formal sector to deal with agents of the informal sector through subcontracting. Many entrepreneurs of the formal sector, particularly those from the construction business, have realized that it would be more profitable for them to perform some operations of the production process outside the enterprise. In most cases these operations are carried out by subcontractors that operate in the informal sector.

3.3.2 Legal Structures and the Protection of Members of the Informal Sector

In Burkina Faso, all commercial and industrial activities are subject to a common regulation and legislation. Thus, although one might think that members of the informal sector are protected by law in the same way as those who work within the formal sector, this protection is more theoretical than real. Taking into account the ponderous nature of the judicial system, legal procedures and the costs linked to these procedures, small businesses rarely use legal means to resolve their disputes. In any case, because the most common transactions within the informal sector rarely include a contract, it is difficult to turn to arbitration by formal institutions when disputes arise. The procedures which deal with the recovery of debt and the code of investment are two examples, among others, taken here to illustrate the fact that despite the claims made by public officers, the informal sector agents rarely benefit from the legal system.

3.3.2.1. The Recovery of Debt

Just as in all commercial or industrial activities, agents of the informal sector sell products or provide services on credit. They sometimes have trouble recovering their debt. When they find themselves in this situation, they prefer negotiating a schedule of repayment with the client, rather than calling upon the country's legal system which we shall see is cumbersome and discouraging.

In Burkina Faso the law provides for a number of procedures meant to help creditors force debtors to honor their outstanding loans. The simplest and least costly of these procedures is an injunction ordering a debtor to repay a loan. This procedure applies, among others, to debts which are less than or equal to 1,000,000 FCFA. It requires, along with bailiff's fees, the payment of 5,000 FCFA in registration fees for the warrant of payment. The procedure can take more than a year; after the judge has handed down the injunction, the law allows six months to notify the debtor, who then has the right to appeal the injunction. For a member of the informal sector this procedure is both cumbersome and costly. The sum of the debts in question, usually existing between entrepreneurs and their clients, is generally much smaller than the sum required to take legal action.

3.3.2.2. Investment Codes

In most African countries the investment code has been used not only to attract foreign investment but also to encourage local entrepreneurs and potential investors to operate legally. A set of economic measures such as tax breaks, payment arrangement, are adopted to lower the cost of investments and make them more competitive.

In June 1992 a new investment code was adopted in Burkina Faso in order to promote the private sector in the coutry, as required by the SAP. Category A of this new code is theoretically open to small and medium scale enterprises and to artisans. Firms belonging to this category are those whose initial investment is less than 200 million FCFA. Enterprises of the category A that are qualified to take advantage of the provisions of the code are exempted for five fiscal years from paying five type different business related taxes. They are also granted the possibility of spreading out over four years the payment of registration fees (3% of the initial capital as mentionnned earlier).

The various formalities to be carried out and the documents which must be presented to be classified under Category A of the investment code are so prohibitive that one would think they had been conceived to discourage entrepreneurs from applying for such classification. To be granted the benefits of the investment code, candidate entrepreneurs need to send a application to the Minister of Industry along with fifteen copies of a pamphlet describing the activity for which the request is being made; a list of all raw material and intermediate goods, and a description of the material and equipment (including spare parts), to be used in the production process and for building construction should be included in this pamphlet. According to the terms of the order on enforcement of the code, the maximum delay for the consideration of a request for classification is fifteen business days. There is an additional delay of 30 business days to allow the Minister of Industry to make a definitive judgment. However, according to the facts and according to remarks made by business owners, it is not uncommon to wait three months for a case to be decided.

CHAPTER 4

ESTIMATING THE SIZE OF THE INFORMAL SECTOR IN BURKINA FASO

One of the objectives of this research was to determine a measurement technique in order to estimate the size of the informal sector in Burkina Faso. As stated earlier, evaluating the informal sector is of policy relevance in countries like Burkina Faso where the informal sector accounts for a large portion of national income. An accurate assessment of the size of the informal sector would enhance the quality of national data. This, in turn, would improve economic analysis and thus the effectiveness of public policy.

The object of the present chapter is to provide estimates of the informal sector in Burkina Faso using the macro models presented in chapter 3. The method used here is based on those developed by Tanzi (1982, 1983), Isachsen et al. (1982), and Bagachwa and Naho (1994). These models have been chosen, first, because of data availability and their readiness to be used in developing countries. Second, these models allow, along with variables representing transactions in the informal sector, the use of other factors to explain changes in the dependent monetary variable. Moreover, they do not assume the existence of a base period in which no informal economy existed; it would have been difficult to substantiate theoretically such a choice in the case of Burkina Faso.

4.1 The model and data

As stated earlier, the macro approach of estimating the informal sector is based on the idea that one can specify a demand for currency equation in which factors that encourage underground activities can be introduced to proxy changes in the underground economy. The basic assumptions for this are that most underground transactions are mainly carried out through currency, and that high tax levels are the main causes of underground activities. It may be important to note here, that although in most cases tax rate has been selected to portray the underground economy, "the choice of variables to represent the effects of irregular sector has tended to be *ad hoc*" (Thomas, 1992, p. 155).

The dependent variable of the model (C/DD) is the ratio of currency (C) to demand deposits (DD). The explanatory variables are:

(i) Y, the nominal Gross Domestic Product (GDP) used here to proxy factors that are related to development levels and can affect the currency ratio but for which it would be difficult to get consistent time series data. These factors are financial innovation, the volume of travel per capita, the degree of urbanization and the rate of expansion of commercial banks' branches. This variable, Y, is supposed to be negatively linked to the dependent variable.

(ii) The real interest rate on saving deposits ($d-p^*$), defined as the difference between nominal interest rate on saving deposits (d) and the rate of inflation (p^*), is used to measure the opportunity cost of holding currency. The deposit rate of interest is the rate offered by commercial banks to the public. The expected rate of change in the price level is determined as follows: $p^* = 100 * (\ln P_t - \ln P_{t-1})$ with P representing the GDP deflator. The currency demand deposits ratio is expected to vary either positively or negatively with the real deposit interest rate depending upon the sign of d-p*.

(iii) The ratio of private consumption expenditures to GDP, denoted PCY, is added to the model to capture the Mitchell-Hawtrey effect, as advised by Isachsen et al. (1982). Tanzi has suggested the use of the share of wages and salaries in personal income in order to capture changes in the currency ratio caused by changes in the composition of income. This variable is not considered in the model. It has been proved to be highly correlated to real GDP and was performing poorly. The ratio of private consumption expenditure to GDP, which also captures the effect highlighted by Tanzi, yields better results and therefore, is chosen for computation. This variable and the currency ratio are expected to change in the same direction.

(iv) The last variable of the model is an indicator of government intervention meant to capture the effect of state related factors that induce informal economy. Total central government's salary expenses (SALPUB) is introduced in the model in order to capture this effect. A Tax variable is not selected for the analysis because it is believed that the main concern of participants of the informal sector is not the official tax rate announced by the administration, but the state itself, its regulation and the real cost of regulation they face, i.e. the official and the unofficial (bribery and other forms of harassment) as shown in chapter 3[1]. The number of state employees is a good indication of the capability of the administration to properly carry

[1]During trial estimation several regressions were performed using different tax level indicators. All the regressions displayed poor results (low R^2, coefficient non significant) confirming the fact that in the case of Burkina Faso the level of taxation is not a major determinant or, at least can't be consistently used as an explanatory variable of a currency demand function.

out its regulation. An increase in the number of employees is, among other factors, an indication of the desire of the government to foster its position in the socioeconomic system. This also means an increase in the level of state intervention that would make it difficult for agents to ignore the law. If this is true, it would then be possible to use the level of state employees as a proxy for measuring the facility with which one can run illegally a business in the country without being detected. The greater the number of state agents is, the harder it will be to ignore the law. Considered this way, this variable (the number of civil servants) has a negative impact on the informal sector: an increase of the state employees yields a decrease in the size of the sector. But the problem is that in a country like Burkina Faso where the state is one of the major formal sector employers, a rise in the number of public sector workers also means an increase in the demand for goods produced in the informal sector and thus, the size of the sector.[1] As one might have suspected, an important portion of the output of the informal sector is exported to the formal sector. Given this fact that most transactions in the informal sector are carried out through currency one can side with Cole and Sanders (1985) and state that the level of income in the informal sector is largely determined by the money value of exports. If so, any growth in the number of consumers in the formal sector will more likely be translated in an increase of demand in the informal sector.

Consistent time series data on central government employment level were not available for the analysis. Since the level of salary is highly correlated with the number of employees it is believed that it can be used to represent government intervention. The

[1] According to the 1985 census out of 110,000 workers employed in the modern secondary and tertiary sector, 50,000 (45.45 percent) were public or para-public agents.

currency demand deposit ratio is expected to vary negatively or positively with the public salary variable depending upon the relative power of the two effects described above. In order to find the functional form, the dependent variable was plotted against each explanatory variable. The plot of C/DD against GDP showed a logarithmic trend. The plot of the data for the other independent variables did not indicate a clear pattern. Since no clear pattern emerged in these plots it was decided to use the equation suggested by Isachsen et al. (1982) which appeared to fit the data more accurately than other alternatives. The model used for computation displays the following form:

$$\ln(C/DD) = \beta_0 + \beta_1 SALPUB + \beta_2(d-p^*) + \beta_3 \ln Y + \beta_4 PCY + \epsilon \qquad (4.1)$$

This model will be used to explore the determinants of currency demand and then estimate the size of the informal sector in Burkina Faso for the period 1970-1992. The data were derived from various sources. All monetary and financial variables were taken out of *International Financial Statistics* (1993, 1994), published by the International Monetary Fund (IMF). This publication includes relevant financial and monetary data. Nominal GDP, the GDP deflator and private consumption expenditure are obtained from the *World Tables* (1987; 1992), a publication of the World Bank. *Les Comptes economiques de la Nation* (the National Economic Accounts) published by the INSD (1986, 1993b) (The National Statistics and Demography Institute) were used to derive government and corporate revenue and expenditure data. Some of the data points were filled by data from sources other than the ones mentioned above[1]. Yearly data is used in the computation. Because of definitional

[1]These sources are: *Tableau de bord de l'economie Burkinabè,* (Minitry of Economy Finance and Planning); *Burkina Faso, Memorandum Economique* (World Bank); *Burkina Faso, Revue des Dépenses Publiques,* (World Bank); *Comptes Nationaux du Burkina Faso 1985* (INSD).

inconsistencies in the data prior to 1970, the sample covers only twenty one years (1970-1990).

4.2 Estimation and analysis of regression results

The model described in equation 4.1 was estimated by the Ordinary Least Squares (OLS) method. The estimated regression parameters and statistics are presented in Table 4.1. The figures in this table indicate that the model has a good fit as expressed by the F-test which is significant at the 1 percent level. The R^2 shows that the model equation explains 70 percent of the variation in the data. The Durbin-Watson statistic (D.W.) indicates the absence of first order auto-correlation.

All the estimated parameters bear the expected sign. The intercept and the coefficient for all the explanatory variables are significantly different from zero at the 5 percent level. The sign of nominal GDP indicates that the ratio of currency to demand deposits in Burkina Faso decreases with the rise of development level. The other variables have a positive effect on the ratio C-DD, which indicates that the proportion of currency demanded relative to demand deposits, changes in the same direction as real interest rate, government salary expenditure and private consumption expenditure. The overall results seems to be satisfactory and can be used to derive estimates of the informal sector.

Table 4.1: Regression results (Dependent variable: ln(C/DD)

Variables	Parameter	OLS Estimate	t
Intercept	β_0	6. 064094*	3.934
Government salary expenses	β_1	0.000016918*	3.262
Real interest rate	β_2	0.020582*	2.292
Nominal GDP	β_3	-0.630503*	-4.641
Private consumption expenditure	β_4	1.895907*	2.566

Other Statistics:	F-statistics = 9.661
	$R^2 = 0.7061$
	DW = 2.434

* = Significant at 5 percent

4.3 The size of the informal economy (GDP) in Burkina Faso

To estimate the size of the informal economy it will be necessary to use the equation (4.1) to derive the amount of currency predicted by the regression equation. To do so, let's proceed as Tanzi and Isachsen et al. by rewriting equation (4.1) as follows:

$$\ln C - \ln DD = \beta_1 SALPUB + \beta Z \qquad (4.2)$$

where Z represents all explanatory variables but SALPUB, the government intervention variable. Solving this equation in term of C leads to the following estimated currency holding for any given year:

$$\hat{C}_g = \exp(\ln DD + \beta_1 SALPUB + \beta Z) \qquad (4.3)$$

with $\hat{C}_g$ representing predicted currency holding with intervention, β_1 and β standing for the regression coefficients.

To compute the currency demand deposit ratio in a situation where informal economy is absent the government intervention variable will be set equal to zero. The following equation (equation 4.4) is then solved for each year with all the other variables with their coefficients remaining the same:

$$\ln(C/DD) = 6.064 + 0.0205\,(d\text{-}p^*) - 0.6305 \ln Y + 1.8959\, PCY + \epsilon \quad (4.4).$$

The predicted currency holding without government intervention ($\hat{C}_0$) is determined as previously and expressed as follows:

$$\hat{C}_0 = \exp(\ln DD + \beta Z) \qquad (4.5)$$

The difference between the two forms of predicted currency holding gives an estimate of how much currency is held in the informal sector due to government intervention (C_I).

$$C_I = \hat{C}_g - \hat{C}_0 \qquad (4.6)$$

Figures of currency holding determined through this process are displayed in Table 4.2.

Having defined currency held for transaction in the informal sector, the estimation of the size of informal income is straight forward. Assuming that income velocity of informal or illegal money is equal to income velocity of formal money, an estimate of informal income can be computed by multiplying money held in the informal sector by income velocity of money. The velocity of money in the formal economy is calculated by dividing the national income (GDP) by formal sector money. Money used in the formal sector is obtained by subtracting C_I, the informal currency, from M1, the sum of currency in circulation and demand deposits. Results of these computations are presented in Table 4.3.

Figures in this table indicate that globally, the importance of the informal sector in the economy had been growing during the two decades covered by the study. Some years (1974, 1981, 1990) had witnessed a decline of the share of the informal sector in the country's GDP but, this did not affect the general trend. Data in Table 4.3 seem to be consistent with figures reported by the INSD (at least for the first three years the INSD had provided estimates of the informal sector, i.e. 1985, 1986 and 1987). A striking feature in this table is the magnitude of the shift of the informal sector as a proportion of GDP in 1989. The informal sector is believed to represent 68.54 percent of recorded GDP during this year (this represent a annual growth of 57.81 percent). The share of the informal economy in GDP had declined by almost 14 percent in 1990 but remained at high level during this year. The increase of the informal economy during the last years of the study (1988-1990) can be attributed to the political and economic situation of the country and the region. As explained in chapter 3, the economic crisis and political uncertainties had pushed an important number of agents to seek means of

Table 4.2: Estimates of currency holdings in Burkina Faso 1970-1990 (Millions FCFA)

		Currency estimated		
Years	C	$\hat{C}_g$	$\hat{C}_0$	C_I
1970	5,740	5,282	4,930	352
1971	5,650	5,334	4,889	445
1972	5,770	4,958	4,476	481
1973	7,130	8,498	7,489	1,009
1974	8,510	7,218	6,261	957
1975	10,650	11,854	9,954	1,899
1976	12,850	14,480	11,710	2,769
1977	14,750	13,939	10,769	3,169
1978	13,500	17,418	12,796	4,621
1979	17,360	17,698	12,395	5,303
1980	19,900	22,700	15,143	7,557
1981	24,830	22,464	14,293	8,171
1982	27,030	24,893	14,490	10,403
1983	31,740	27,161	15,194	11,967
1984	31,240	33,092	18,017	15,074
1985	30,970	34,456	17,918	16,538
1986	43,430	40,270	19,656	20,614
1987	43,710	40,025	17,859	22,166
1988	49,310	46,077	18,167	27,909
1989	53,280	63,032	20,217	42,814
1990	58,690	55,402	17,003	38,399

Table 4.3: Estimates of the size of the informal sector 1970-1990

Years (1)	Formal sector's Money (2)	Income Velocity of Money (3)	Nominal informal sector's GDP (4)	Real Informal sector's GDP[1] (5)	Informal sector as % of GDP[2] (6)	Yearly Growth Informal Sector (7)
1970	8,787	12.79	4,510	15,343	4.01	....
1971	9,024	13.05	5,810	19,115	4.93	21.98
1972	9,408	13.74	6,624	20,573	5.12	7.35
1973	12,490	10.68	10,779	32.567	8.07	45.93
1974	15,422	10.39	9,956	27,129	6.20	- 18.26
1975	20,600	8.66	16,468	41,379	9.22	42.21
1976	24,780	8.35	23,139	54,446	11.17	27.44
1977	27,610	8.92	28,305	56,723	11.48	4.09
1978	29,778	9.91	45,845	80,290	15.52	34.74
1979	29,456	11.20	59,403	98,676	18.00	20.62
1980	34,112	10.59	80,092	121,352	22.15	20.68
1981	40,658	10.52	86,032	114,709	20.09	- 5.62
1982	43,956	11.63	121,044	149,253	23.66	26.32
1983	48,362	11.18	133,867	157,491	24.74	5.37
1984	51,435	11.00	165,848	184,276	29.30	15.70
1985	53,001	12.13	200,695	211,704	31.20 (32.4)	13.87
1986	64,815	11.85	223,677	235,946	31.80 (32.3)	10.84
1987	69,013	10.88	241,177	241,177	32.11 (32.4)	2.19
1988	72,960	11.24	313,945	305,097	38.25 (31.3)	23.51
1989	62,465	13.25	567,313	543,924	68.54 (33.4)	57.81
1990	65,230	13.23	508,325	473,301	58.86 (32.5)	- 13.90

Units: col. (2) (4) and (5): Millions FCFA;
col (6) and (7): percentage.

[1] Nominal GDP deflated by the Implicit GDP deflator (1987 = 100).

[2] Figures in parenthesis represent estimate of the informal sector provided by the National Institute of Statistics and Demography (INSD)

survival in the informal sector. To theses explanations one should add the following monetary phenomenon. Because of the economic crisis and the implementation of Structural Adjustment Programs in most of the sub-Sahara African Countries, there were persistent rumors of monetary devaluation (as part of the economic recovery plan) within the Franc Zone which would have affected the CFA Franc[1]. These rumors produced an unusual transfer of currency from the African members of the Franc zone to France; many people especially the wealthy, who had the opportunity to travel abroad were carrying important sums of CFA Francs along with them in order to exchange them into foreign currency, believed to be safer in this period of uncertainty. The transfer of currency was so important that in August 1993, when it reached unprecedented amounts, the monetary authorities of the African Countries concerned by this question decided to stop the redemption of all CFA notes held outside their territory. In 1986 currency held outside the CFA Franc zone amounted to 4.5 billions FCFA; in 1992 the central banks were asked to redeem 8.5 billions FCFA representing currency held outside their territory. In the light of this monetary phenomenon, it would be appropriate to readjust the estimate provided for the years 1988 to 1992. With regard to the figures before 1988 and the data provided by the INSD one can state that in recent years the informal sector had provided 30 to 40 percent of the country's GDP.

[1] The devaluation took place in January 1994 after years of conjecture. That was the first devaluation for most of the African Countries members of the Franc Zone since their independence. The previous devaluation took place in 1948.

4.4 Some shortcomings of the estimates

It maybe important to note here that given the different problems related to the estimation method one should keep in mind these shortcomings when reading these results. As Isachsen et al. (1982) put it, estimates of currency used to fuel the underground economy derived this way are largely determined by the specification of the model and the estimation period. The use of proxy variable can also be considered as a major source of uncertainty. The question is to know how well these variables account for the phenomena they stand for. The use of public salary to proxy government intervention can be challenged on the basis that fluctuations of global salary are not necessarily generated by changes in the number of workers; changes in individual salary levels can also cause variation at the global level. Furthermore, one can state that all public workers are not law enforcement agents.

One should also be concerned by the assumption that income velocity in the two sectors is the same. Given the fact that it is impossible to get actual measure of income velocity in the informal, one have to rely on surrogates. The easiest way of doing so is to assume the equality of velocity in the two sectors. Yet, as stated earlier there are good reasons to believe that they are different. Feige (1979), has argued that the irregular sector is more integrated and more service intensive than the regular sector and, because of that, the hidden economy is able to eliminate from the production process a good number of financial and intermediate transactions. It is then possible for this sector to require less cash to produce a dollar of final output than the regular sector would need. He concluded that setting the two velocities equal would leads to an underestimation of the underground economy as the income velocity is higher in this sector. Contrary to this assertion, Cagan (1958) had indicated that agents in the irregular economy are more willing to hoard money than those operating in the regular economy, suggesting that the turnover of currency in the underground economy is lower than that in the regular economy. Thus, assuming that the equalities of the velocities would, in this case, lead to an overestimation of the size of the irregular economy. The situation in Burkina Faso seems to be better described by Feige's analysis. As we shall see (Chapter 5) the informal sector in Burkina Faso is a service intensive sector. More than 80 percent of informal sector's participants are engaged in tertiary activities. If one assumes that income velocity is higher in the informal sector than in the formal, then the estimates of the size of the informal sector would be higher than what have been reported here.

The final source of uncertainty bring us back to the question of the reliability of official statistics in developing countries, and thus the effectiveness of strategy built upon these data. It is well known that in these countries national statistics are generally inconsistent and offer limited coverage of the aggregates being reported. Because of lack of financial resources and expertise data submitted to the United Nations misrepresent the situation in the country (non-reporting or under-reporting). Because of all these problems, one should be careful reading the estimates provided above.

CHAPTER 5

CHARACTERISTICS OF THE INFORMAL SECTOR IN BURKINA FASO

The purpose of this chapter is to provide a description of the informal sector at the micro level. Who are the agents that operate in this sector, who are their clients and what are their relationships with the rest of the economy? A good knowledge of this world can be of great help in designing policy in favor of this sector. The analysis will be based mainly upon the information obtained from the survey conducted by the author. Other sources that will be used to complement are contained in three essential sources: the studies performed by the National Employment Agency (Office National de la Promotion de l'Emploi / ONPE), the National Socio-Economic data published by the National Institute for Statistics and Demography (Institut National de la Statistique et de la demographie / INSD), and different other studies carried out previously by the author[1].

5.1 The sector of economic activity: an overview

The first exhaustive description of the informal sector in Burkina Faso was from the 1985 general census. This was followed by a study on the urban informal sector done by the ONPE in 1987. The 1985 census indicated that out of the 4 millions individuals that constitute

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[1] These studies are: Diabré Z. and Ouédroago I. M. (1989), *Evaluation des Retombées Economiques du Fespaco 1989,* Université de Ouagadougou, FESPACO.
Ouédraogo I.M. and Ouédraogo G. J. (1994), *Etude sur le Secteur Informal au Burkina Faso,* Mission Residente Banque Mondiale, Ouagadougou.

the country's active population, 528,000 (i.e. 13.2 percent of the labor force) were engaged, full or part time, in the informal sector. Of these, a total of 94,000 (36,000 women and 58,000 men) were full time workers in the informal sector. In the urban areas it was found that the informal sector represents 52% of the working population.

The distribution of the urban informal sector labor force in the country is provided in Table 5.1. This table reveals that a major portion the informal sector in Burkina Faso was engaged in the service sector of the economy. Added together tertiary activities represented more than 80 percent of urban informal sector employment. This seems to confirm the general acceptance that the tertiary character of the informal sector increases with the degree of urbanization.

The most important categories of activities that employ the rural migrants are small-scale commerce and mechanics. Preference for this type of job is due to the fact that there are almost no barriers to entry. First, it is very easy to start a small business such as street vending or motorbike repair because of the low level of initial investment. This type of activity is often exercised in the street; there is no need to rent a shop or a place for business. In any case parents, relatives and friends often provide the initial capital. Secondly no special formal schooling or training is needed to undertake these activities.

5.2 Defining the informal sector in Burkina Faso

As we have learned from chapter 2, economic development literature provides several ways of defining the informal sector, but none appear to account fully for the multiple aspects of the phenomenon. In order to cope with the diverse and multiple informal sector issues, it

Table 5.1: Distribution of the urban informal sector by activity (percent)

Commerce	**69.72**
Construction	**2.44**
Transportation	**2.63**
Production activities	**13.15**
Tailors	6.79
Carpenters	2.04
Tinsmiths and iron workers	1.41
Jewellers	0.50
Bakers	1.04
Tapestry workers	0.12
Other	1.25
Service	**12.06**
Mechanics (bike & motorbike repair)	6.80
Plumbers	0.29
Hairdressers	1.02
Electricians	0.63
Radio/TV repair	0.50
Watch repair	0.18
Photographers	0.16
Garage owners	0.05
Other services	2.43

Source: Derived from General census, 1985 and ONPE is necessary to deal with each of the different taxonomies given above--to consider them as complementary definitions--each of them addressing specific aspects of the phenomenon. Because informal activities display differences from one country to another, a country-specific definition, based on direct observation of the informal economy in Burkina Faso, has been adopted to conduct this dissertation. The informal sector is defined as consisting of all income-generating activities performed outside the legal institutions and, for this reason, are not, or are only partly, recorded in official statistics (national income accounts). Prohibited activities (narcotic, currency or arms trafficking, commodity smuggling) are excluded from the universe of the informal sector--these activities are considered as belonging to the underground economy. One should bear in mind, however that in certain situations informal activities are nothing more than the 'legal' manifestation of illegal activities. For instance, smuggled goods are often openly sold on streets and market places. Once on the market it is difficult to single out these goods and provide evidence that they are smuggled.

In the questionnaire designed for the field research, a series of five questions were meant to determine whether agents are part or not of the informal sector as defined above.[1] The questions pertained to the agents' adhesion to formal institutional settings. They were asked to state explicitly by a yes or no: i) if they are registered in the register of commerce; ii) if they are enrolled with the National Social Security Fund; iii) if they are enlisted in the municipal register; iv) if they use a standardized accounting system; v) if they utilize formal checking or deposit accounts with a bank.

[1]As stated in chapter 1, 1098 informal sector's agents were surveyed between January and May 1993 in the country's major cities. The complete questionnaire is provided in the appendix.

5.2.1 Legal status of the enterprises surveyed

The first three questions are designed to capture the legal status of the enterprises surveyed. The findings of this study reveal that in Burkina Faso it will be worth discussing the concepts of legality and illegality in terms of level of compliance with the country's regulatory requirements[1]. Such an approach not only alleviates definition difficulties, but also allows more detailed sectorial analysis. The study indicates that a good proportion of the enterprises surveyed are in one way or the other registered by local administrations. About 29 percent of the participants of the informal sector are registered with the municipal authorities, 9 percent within the register of commerce and 4 percent are enrolled with the National Security Fund. For the purpose of this study, the three questions will be used to define different degrees of legality and illegality. An enterprise will be considered as fully illegal if it does meet any of the prescribed requirements; near illegal if it meets one registration; near legal when two of the required registrations are met; and fully legal when the unit of production is registered with all the administrative bodies mentioned above.

Table 5.2 provides a distribution of the enterprises according to their legal status as just defined. As one can see from this table one third of the enterprises have been registered at least once. But beyond this general observation, and more important for the analysis is the information contained in Table 5.3 and Table 5.4. Data in these tables show that the rate of compliance with the existing legal requirement is higher within the commerce, production and service sectors than the construction and transportation sectors. Another point of interest to

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[1] Elizondo N. (1992) made similar observations in his study the Mexico City's Urban Informal Sector. Because of practical difficulties to use the legality-illegality criterion he chooses to approach the concept in terms of degrees.

Table 5.2: Distribution of the enterprises surveyed by legal status

Status	Number of enterprises	percentage
Fully illegal	730	67.0
Near illegal	271	24.9
Near legal	76	7.0
Fully legal	12	1.1
Total	1089	100.0

Source: Author's Survey

Table 5.3: Breakdown of enterprises by legal status and sector of activity

Sector	Fully illegal	Near illegal	Near legal	Fully legal
Commerce	59.3	29.7	9.9	1.2
Production	62.9	26.9	8.9	1.4
Service	70.3	24.7	4.7	0.3
Construction	83.7	4.7	9.3	2.3
Transportation	80.2	19.8	0.0	0.0

Source: Author's Survey

Table 5.4: Distribution of enterprises according to type of registration fulfilled

Type of Registration	Yes	No
Register of commerce	8.9	91.1
Municipality	29.8	70.2
Social Security Fund	3.9	96.1

Source: Author's Survey

be mentioned is that informal agents are more willing to comply with the requirement set by the municipal authorities than those of the central administration. This can be explained by the fact that registration procedures with municipalities are less cumbersome and cheaper. It is also difficult to openly carry out an activity in a municipally owned site or space without being noticed by city authorities and being compelled to pay the required fees or taxes. In order to avoid paying extra fines most agents, mainly those who have to expose their activities (commerce, service and some form of production activities) choose to get a municipal operating license. On the other hand, entrepreneurs seem to be more reluctant to comply with social security and labor obligations. In fact, a good portion of informal agents are not aware of the existence of such requirements and most of those who know about it perceive it as another way for the government to extort their money without any tangible benefit in return. It is interesting to note that agents running fringe activities such as human and animal traction cart and street vending are less willing to fulfill institutional obligations. This can be attributed to the fact that these type of activities are generally considered as transitory occupations. Agents perform them while waiting for a better one. Therefore, there is no incentive to legalize the enterprise.

5.2.2 Identification of informal enterprises in Burkina Faso

The last two questions (i.e. use of standardized accounting system and utilization of formal checking or deposit accounts) are not direct indications of enterprises legal status. They are used here to proxy the entrepreneurs' willingness to become legal. These are preliminary and necessary requirements toward legality. In general, producers who perform these steps intend to fully comply with the country's legal requirement. In addition, the use of a standardized accounting system, has been widely used (mainly in studies of the Sub-Saharan Africa's informal sector) as the main, if not the unique, criterion to define informal activities (see Lachaud, 1990). Moreover, complying with these two criteria can also give the opportunity to national accountants to extrapolate micro units production levels from banking account history and accounting documents.

These five questions thus give the basis for identifying activities to be considered as part of the informal sector. The next task after defining the questions is to find how to set the cut-off line between legality and illegality and consequently, between the formal and the informal sector. It would be unrealistic to define the informal sector as comprising only those of the enterprises that have not fulfilled all the requirements (only 55.8 percent of the enterprises surveyed meet this criterion). This would leave out of the analysis an important, and maybe the most dynamic, portion of the sector. One is however compelled to exclude from the sphere of the informal sector those activities that meet all five criteria. Thus in this study, all activities classified as fully illegal, near illegal and near legal are considered as part of the informal sector. Based on this definition the activities listed in Table 5.5 which were selected and surveyed will serve as the core of the ongoing research. As one can see, the sample displayed in this table is biased, compared to figures from the 1985 census (see table 5.1). The weight given to the different economic sectors does not reflect the situation in the field; activities other than trade seem to be over represented: the commerce sector here represents only 16.6 percent of the sample enterprises while, the production and service sectors represent respectively 41.6 and 28.4 percent of the enterprises surveyed. The reason

Table 5.5: Distribution of the sample by activity

Activities	Frequency	Percentage
Production activities	**433**	**41.6**
Dolo Brewers	91	8.7
Tailors	81	7.8
Cabinet makers	67	6.4
Tinsmiths	49	4.7
Aluminum founders	40	3.8
Leather workers	31	3.0
Upholsterers	24	2.3
Metalworkers	50	4.8
Service	**296**	**28.4**
Hairdressers	68	6.5
Launderers	48	4.6
Bike & motorcycle repairers	40	3.8
Shoeshiners & repairers	41	3.9
Tire repairers	36	3.5
Parking attendants	35	3.4
Battery chargers	28	2.7
Commerce	**173**	**16.6**
Restauranteurs	47	4.5
Book & supply merchants	42	4.0
Fruit & vegetable vendors	38	3.7
Hardware merchants	24	2.3
Water & ice vendors	22	2.1
Construction	**43**	**4.1**
Masons	23	2.2
Brickmakers	20	1.9
Transportation	**81**	**7.9**
Animal traction carts	41	3.9
Human traction carts	36	3.5
Taxi drivers	4	0 .4
Other activities	**15**	**1.4**
Missing cases	57	-----
Total	1098	100.0

Source: Author's Survey

for this "biased" distribution is to concentrate on the other activities. Even though the commerce sector accounts for more than 65 percent of the country's urban informal, production conditions and the behavior of agents operating in the different activities of this sector do not vary significantly with the nature of the individual activity. There are certainly significant behavioral differences between ambulant seller and shopkeeper but there are no important differences within a group of traders, say shopkeepers, because of the nature of the goods they are selling. Thus, in order to capture the main feature of this sector it is not important to inflate the number of the activities in the sample. It is rather essential to include in the sample representatives of the different types of trade. On the other side, entrepreneurs' attitudes and strategies in the production and service activities change with the type of activity. For instance, metalworkers and cabinetmakers which, as traders, have to be visible in order to attract their clientele are more likely willing to comply with the law. Aluminum founders and tinsmiths, for which the production and the marketing sides of the business are separated, easily operate in the underground without fear of being detected by law enforcement agents. Because there is no special need for these producers to be in direct contact with consumers (the items produced are standardized e.g., size of cooking pots, stoves, buckets...) the activities are generally carried out within a compound or a backyard and behind closed door. The production is then taken out to the market place or sold to a wholesale dealer.

5.3 A profile of the informal sector agents

Information about the personal characteristics of the workers in the sector will be provided here. On several points, the results of the survey are similar to the features reported in others studies.

5.3.1 Age, migration status and gender issue

Data presented in Table 5.6 inform on the age distribution of the country's urban informal sector participants who, on average are, 33 years old. As one can read from this table, in Burkina Faso 49 percent of the informal workers in urban areas are less than or 30 years old; 80 percent are 40 or under 40. This distribution reflects quite accurately the state of beliefs in Burkina Faso. Indeed it is generally admitted that young people use their dynamism to generate income for the whole family. Generally, single persons or new couples are the ones that can easily migrate. Furthermore, it is generally accepted that over a certain age it is better to go back to the village, unless your income is such that you earn a decent living.

Table 5.6: Age of the informal sector agents

Group of age	Frequency	Percentage
Less than 20 years old	58	5.5
20 to 30 years old	464	43.8
31 to 40 years old	324	30.6
41 to 55 years old	176	16.6
More than 50 years old	38	3.6
Total	1060	100.0

Source: Author's Survey

This is even more true because the survey had revealed that 46.2 percent of the informal sector participants were migrants from different parts of the country (40.3 percent) and from other African countries (5.9 percent). Of these migrants, 76.1 percent were 40 years old or less. And 65.1 percent of them declared being married and 30.9 were single persons. A breakdown of migrants marital status by the number of years of migration seems to confirm the fact that the propensity to migrate is high within the rural dwellers who are not married: 57.5 percent of the migrants who have been in urban areas for less than three years were single; 46.2 percent of those who have been living in cities for three to five years and 35.9 percent of the migrants that have moved to cities from six to ten years were single. Only 14.1 percent of those with more than ten years of residency were not married.

Given the fact that most of the activities selected for this study were male dominant, the proportion of men in the sample is relatively high: 82.5 percent of the informal sector participants surveyed were male; only 17.5 were female. As compared to the 1985 census this seems to be low. Indeed, in 1985 it had been estimated that 38.29 percent of full time workers in the informal sector were women. The contribution of women in the process is worth noting; according to the census, women represent 88.84 percent of unpaid family workers and 9.94 percent of self employed workers. In recent years the level of female participation in the urban informal sector increased substantially revealing a new survival strategy and also a changing of values. The economic crisis and the need for additional income forced urban low income males to give up their traditional behavior toward women and allow them to undertake income earning activities out of the home. In urban areas women are generally found working as street vendors, restauranteurs, brewers, domestic servants and hair dressers:

In the five cities where the survey was conducted women account for 90.1 percent of the dolo brewers; 62.2 percent of the fruits and vegetable vendors; 41.2 percent of the hairdressers and 36 percent of the water and ice vendors.

5.3.2 Education level, training and experience

The level of education among Burkina Faso urban informal sector workers is relatively low: more than half (52.1 percent) of the producers interviewed had no formal schooling; 31.8 percent had primary level education (six years of schooling). Only 11.8 percent have been educated to a level higher than a primary leaving certificate (11.4 percent had reached secondary school and 0.4 percent the university). The remaining 4.4 percent claimed to have some form of adult education. Of the sample 92.2 percent declared to have acquired their technical skills through on-the-job training and 7.8 percent have attended formal training institutions. As regarding work experience, the typical informal sector agents in Burkina Faso have 10 years of experience. They declare to spend, on average 10 hours per day at work.

From these distributions it is possible to infer that, contrary to the formal sector, education levels do not constitute a barrier to entry into the informal sector. As stated earlier, preference for certain type of activities can be explained by this fact. Table 5.7 displays the most important activities that attract non educated workers.

Table 5.7: Level of illiteracy for selected activities

Activities	Percentage of illiterate workers
Restauranteurs	80.4
Human traction carts	77.8
Animal traction carts	77.5
Dolo brewers	76.1
Fruits and vegetable vendors	67.6
Tinsmith	65.3
Aluminum founders	61.5
Tires repairers	58.3
Brickmakers	55.0
Shoeshiner	53.7
Leather workers	53.3
Masons	52.2
Metal workers	52.0

Source: Author's Survey

5.3. Conditions of production in the informal sector

5.3.1 Initial investment, equipment and technology

The amount of the initial capital needed to enter the informal sector is variable and often very modest. The average initial investment needed to create an enterprise in the informal sector is 148,000 FCFA (around US$ 522.7). The minimum amount of initial investment declared was 20 FCFA (US$ 0.07), and the maximum was 15 Millions FCFA (approximately US$ 52,973). Some of these figures (mainly those that are at the lower end of the distribution) should be considered in light of the age of the unit of production, some of these were created in the forties. But despite these disparities it is clear from Table 5.8 that most activities in the sector require little capital to be undertaken: two thirds (66.9 percent)

Table 5.8: Level of initial investment (FCFA)

Amounts (FCFA)	Number of Enterprises	Percentage of Total Enterprises	Cumulative Percentage
Up to 10,000	442	40.4	40.4
10,001 to 30,000	185	16.9	57.3
30,001 to 50,000	106	9.7	66.9
50,001 to 100,000	147	13.4	80.4
100,001 to 150,000	57	5.2	85.6
150,001 to 250,000	53	4.8	90.4
250,001 to 500,000	74	6.8	97.2
More than 500,000	31	2.8	100.0

Source: Author's Survey

of the agents interviewed declared having spent 50,000 FCFA (US$ 176.6) or less as starting investment. As one might expect, the commerce and service sectors shield the activities that require the least amounts of starting investment: 68.6 percent of traders and 68.1 percent of agents operating in the service sector affirm having spent only 30,000 F or less to start their businesses. On the other hand, in the production sector 53.8 percent of the producers claimed having spent more than 30,000 FCFA.

Regarding the origins of the initial investment, an overwhelming proportion of the entrepreneurs in the sample had either used their own savings (54.7 percent) or got it from a family member (39.6 percent). Credits from the formal banking system and from the state account each for 0.6 percent of the cases. To start their business some of the agents (4.2 percent) had borrowed from other informal agents operating in the informal money market.

One important element to which this distribution points is the lack of strong linkages between the informal sector and the rest of the economy particularly the formal financial institutions. Asked about this aspect of their economic activities, the great majority of the agents interviewed (95.6%) claimed they had never applied for a bank loan. More surprising, only 6.0 percent of the agents surveyed utilize a formal checking account with a bank: of the sample 16.1 percent hold a saving account.

The survey has also indicated that the informal sector is heavily dependent on raw material originating from the formal sector. Of the sample 70.3 percent rely on goods originated directly or indirectly from formal sector enterprises. Out of these, imported raw material account for 45.2 percent[1]; goods manufactured locally represent 14.4 percent of total raw material; the remaining 10.7 percent are industrial recycled goods.

Due to the nature and the small size of businesses within the informal sector, individuals working within this sector most often possess only the bare minimum of equipment their work requires. One can easily understand why members of this sector are under-equipped: the cost of equipment is such that it cannot be covered by the kind of financing used within the informal sector. Equipment is most often purchased with personal savings or through loans and gifts from family and friends. Here also, very few members of the informal sector resort to bank loans.

As one can expect in such situations, production techniques in the informal sector are labor-intensive. Some of the producers (39.4 percent of the sample) use traditional technology; 38.3 percent have adopted a somewhat modern technology and 22.3 percent of the surveyed try to combine traditional and modern technology. Activities that use the most traditional technology are those that are directly derived from traditional artisanship. For instance, 92.9 percent of the dolo brewers, 72.5 percent of the aluminum founders, 63.3 percent of the leather workers and 52.1 percent of the tinsmiths operate predominantly with traditional technology. It is certainly important to recall here that these activities are being operated in urban areas and the goods being produced compete with the ones supplied by the formal sector. In other words, traditional technology is been used to produce "modern goods" in order to meet the needs of the low income urban dwellers. This is an interesting aspect of

[1]For instance metalworkers use imported iron and steel; cabinet makers rely on imported wood for their production.

the informal sector to stress: its ability to understand peoples' needs and to adapt production to their demand.

The lack of equipment in the informal sector is compensated by an excessive number of workers (family help, apprentices and paid employees). This can have an effect on productivity in the sector. Table 5.9 displays, for selected activities, the level of production, the time and labor required to realize this level of production. It takes four days for a carpenter with the help of three to seven apprentices and or employees to make a bed, they would take fourteen days to make a living-room suite; a tailor would make three or four pairs pants in one day. These data seem to indicate that productivity is low in the informal sector. It would likely take less time and less labor to produce the same quantities in well-equipped units operating in the formal sector. But despite this fact, most of the agents surveyed (75.2 percent) when asked about their production techniques declared that they are satisfied with their technology. This can be explained by the fact that low wage rates in the informal sector allow entrepreneurs to realize substantial profit margins despite the prevalence of low productivity in the sector.

Table 5.9: Capacity of production in selected activities

Activities	Product	Quantities produced (units)	Time required	Number of persons required
Tailor	Trousers	3 to 4	1 day	1
Cabinet maker	Beds Living-room suites Sideboard	1 1 1	4 days 14 days 3 days	an average of 4 to 8 persons
Metal worker	Doors windows	3 to 5	1 day 1 day	4 to 7 4 to 7
Aluminum founder	Cooking-pots (different sizes)	150 to 200	1 day	7 to 18

Source: Ouédraogo M. Idrissa and Ouédraogo G. Jacques (1994), *Etude sur le secteur informel au Burkina Faso,* Mission Résidente Banque Mondiale, Ouagadougou.

5.3.2 Employment wages and income in the informal sector

The average size of the informal enterprise, in terms of number of workers was found to be 4.01 including the head of the enterprise. On average, firms in the urban informal sector employ 1.27 unpaid family workers, 1.14 apprentices and 0.60 paid employees. As one would expect, unpaid family workers constitute the largest employee group. They represent 42.1 percent of total employees in the informal sector, apprentices account for 38.0 and paid employees represent only 19.9 percent of the workers.

The informal sector entrepreneurs' average turnover was estimated to be 690,898 Franc CFA (US$ 2439.9) per year out of which he or she generates 366,991 Franc CFA (US$ 1296) as income. This average level is not as low as one would expect; it is a little higher than the average monthly wage for a protected menial. As we already know the guaranteed minimum wage is 300,000 FCFA per year. Of course there is a wide disparity in income distribution between activities and also between participants in the same activity. There are also seasonal variations. Table 5.10 and Table 5.11 show respectively turnover and income for selected activities in the informal sector. Data in this table confirm the scattered distribution of income in the sector. In the trade and construction sectors the estimated average earning is well above the legal minimum wage, but for some activities accounted for these sectors (brickmakers in the construction sector, water vendors and hardware merchants in commerce) the average income is below or, is not significantly different from the minimum wage. On the other hand, the average revenue of agents operating in the service and transportation sectors is below the legal minimum wage even though, average earnings of taxi drivers and human traction carters is a little bit above the legal minimum wage.

Table 5.10.: Turnover in the informal sector (FCFA)

Activities	Turnover Average	Turnover Minimum	Turnover Maximum
Production activities	**698,342**	**6,000**	**9,000,000**
Dolo Brewers	871,037	6,000	3,927,000
Tailors	458,615	1,000	562,186
Cabinet makers	808,308	18,000	7,200,000
Tinsmiths	614,875	54,000	4,800,000
Aluminum founders	642,048	50,000	3,600,000
Leather workers	419,000	16,000	1,800,000
Upholsterers	358,500	24,000	900,000
Metalworkers	794,200	25,500	3,600,000
Service	**456,095**	**4,440**	**19,500,000**
Hairdressers	310,111	4,440	1,800,000
Launderers	479,575	24,000	9,000,000
Bike & motorcycle repairers	279,571	5,000	1,080,000
Shoeshiners & repairers	252,934	6,000	2,700,000
Tire repairers	279,743	9,000	1,200,000
Parking attendants	1,201,060	72,000	19,500,000
Battery chargers	619,666	9,000	3,360,000
Commerce	**1,009,319**	**9,600**	**15,000,000**
Restauranteurs	1,230,874	9,600	15,000,000
Book & supply merchants	1,204,881	15,000	15,000,000
Fruit & vegetable vendors	854,335	24,000	8,100,000
Hardware merchants	1,068,068	120,000	3,600,000
Water & ice vendors	249,264	15,000	1,200,000
Construction	**1,052,136**	**20,000**	**12,000,000**
Masons	1,557,272	90,000	12,000,000
Brickmakers	547,000	20,000	2,400,000
Transportation	**348,750**	**18,000**	**1,800,000**
Animal traction carts	457,800	30,000	1,800,000
Human traction carts	207,519	18,000	720,000
Taxi drivers	664,000	360,000	1,152,000

Source: Author's Survey

Table 5.11: Income in the informal sector (FCFA)

	Income		
Activities	Average	Minimum	Maximum
Production activities	**366,300**	**1,000**	**3,825,000**
Dolo Brewers	384,320	1,000	2,550,000
Tailors	360,910	6,000	1,800,000
Cabinet makers	481,568	3,000	3,240,000
Tinsmiths	356,127	22,950	3,825,000
Aluminum founders	207,225	15,000	900,000
Leather workers	246,784	6,000	1,200,000
Upholsterers	217,500	6,000	510,000
Metalworkers	439,763	20,000	3,468,000
Service	**206,416**	**3,000**	**2,160,000**
Hairdressers	234,896	3,825	1,275,000
Launderers	186,265	6,000	2,160,000
Bike & motorcycle repairers	198,270	4,800	765,000
Shoeshiners & repairers	180,990	3,000	1,800,000
Tire repairers	210,475	6,000	1,080,000
Parking attendants	192,386	25,000	612,000
Battery chargers	257,360	32,400	765,000
Commerce	**697,143**	**500**	**10,200,000**
Restauranteurs	596,776	500	7,200,000
Book & supply merchants	1,100,642	10,000	10,000,000
Fruit & vegetable vendors	378,690	10,200	2,160,000
Hardware merchants	320,429	15,300	1,530,000
Water & ice vendors	255,375	12,000	780,000
Construction	**481,076**	**2,000**	**6,000,000**
Masons	684,346	18,000	6,000,000
Brickmakers	260,866	2,000	720,000
Transportation	**270,505**	**6,000**	**1,020,000**
Animal traction carts	311,352	6,000	1,020,000
Human traction carts	286,057	30,000	1,710,000
Taxi drivers	308,333	75,000	720,000

Source: Author's Survey

But beyond these considerations it is important to stress the fact that one can find in the informal sector entrepreneurs who earn higher income than some formal workers. This is to say that in Burkina Faso, as in other countries, it would be inappropriate to equate the informal sector with poverty and marginality. It would be however admissible to consider that due to the fact that wages in the informal sector are generally lower than those of the formal sector, the proportion of wage earning poor is much higher in the informal sector. In fact, as indicated in the previous paragraph a large proportion (80 percent) of the informal sector employees are non-wage earners. Family workers, for instance, do not receive payment directly linked to their position in the enterprise; their subsistence is however, guaranteed by the head of the enterprise.

Regarding apprentices, in Burkina Faso, contrary to countries such as Cote-d'Ivoire where apprentices must pay for the training they receive, no payment is required in order to be engaged as an apprentice. On the other hand, apprentices should not expect any payment from the entrepreneurs from whom they are getting their training. But, in most cases the employers offer them a per diem of 100 FCFA to pay for lunch and also a certain amount of money at the end of the week. In general, apprentices receive between 200 FCFA and 700 CFA per week as pocket money.

As stated earlier, the average wage (around 10,000 FCFA) paid to wage-earners in the informal sector is far below the legal minimum wage (25,000 FCFA). In general the amount and modes of payment are determined by common accord of both the enterprises head and the employee. Payment can take the form of a flat rate paid periodically (monthly or weekly). Employees can also be paid by the piece. This second form of payment is more frequent and has two variants: a flat rate paid for each performed piece and, a system of allotment of net income earned by the employee. The share of net earnings that goes to each party is determined in advance or left to the decision of the employer. Table 5.12 provides examples of payment methods and wage levels for selected activities. As one can read from this table, the system of payments in place is extremely versatile. This introduces a certain level of flexibility into the informal labor market. It is perhaps important to mention here that in the informal there is no written contract between employer and employee. The essential terms of a potential contract (duration, trial period, wage rate, mode of payment) are negotiated and agreed upon but, without any kind of formal writings. In general it is implicitly admitted that each party can terminate the agreement without advance notice. Employers often take advantage of this feature.

5.3.3 Means of transaction in the informal sector

A important point that need to be mention here relates to the means of transaction in the informal sector. The survey confirmed the fact that in urban areas, most informal sector's transactions are carried out through currency (Table 5.13 and Table 5.14). Data displayed in these tables inform that informal agents rarely use the formal banking system when transacting with their clients or purveyors for instance, 95 percent of the sample population never use checks when dealing with their purveyors. The data also reveal that barter arrangements are almost nonexistent in the sector: less than 5 percent of the agents surveyed declared having made this type of arrangement when transacting with their clients or purveyors.

Table 5.12: Method of payment and wage rate for selected activities

Activities	Methods of payment	Amount paid
Tailors	Flat rate paid by the piece	250 FCFA per shirt 500 FCFA per pants
Cabinet makers	By the piece	10 to 50 % of net earning (share varies according to the piece of work)
Metal workers	Monthly wage plus bonus by the piece	5000 to 10,000 FCFA
Aluminum founders	By the piece	7 to 17% of net earnings (share varies according to worker's qualification)
Mechanics	By the piece (paid daily)	10 to 50% of net earnings

Source: Ouédraogo M. Idrissa and Ouédraogo G. Jacques (1994), *Etude sur le secteur informel au Burkina Faso,* Mission Résidente Banque Mondiale, Ouagadougou.

Table 5.13: Means of payment of informal sector's purveyors

Means	Never	From time to time	Often	Exclusively
Cash	2.4	0.7	6.6	90.3
Check	95.0	2.6	2.1	0.2
Transfer	97.8	1.3	0.7	0.1
Barter	96.7	1.5	1.1	0.7

Source: Author's Survey

Table 5.14: Means of payment of informal sector's clients

Means	Never	From time to time	Often	Exclusively
Cash	0.7	1.8	11.5	86.0
Check	90.1	6.0	3.5	0.4
Transfer	98.3	1.1	0.6	0.0
Barter	95.6	2.1	1.8	0.4

Source: Author's Survey

5.4 The demand side

5.4.1 Price setting, markets and competition

Unlike the formal sector where prices are set institutionally, prices in the informal sector are generally determined through a bargaining process between seller and buyer. The final price of the item to be sold is set at the moment when the transaction is being conducted. Because of that, prices generally change according to the bargaining power of the parties involved in the process. The same good can be sold to different customers at totally different prices. Even the starting price (the price upon which the bargaining process starts) is variable. It is set according to buyers' look and behavior: the starting price will be relatively high for tourists, foreigners and those of the residents whose demeanor (clothing, means of transportation etc.) causes the seller to believe that they are part of the wealthy of the country. It is however important to know that even though price variations are important in the informal sector, production costs influence significantly the price setting process. In general agents set to themselves a floor price not to be exceeded that includes factor cost and a little profit margin.

When observing the configuration of the goods and services market in Burkina Faso one can note that in general, for a given product, there exists three different groups of suppliers: the first one is made up of agents of the informal sector selling goods and services produced within the sector. The second group of suppliers operate in the formal sector and provide to consumers products that are manufactured by local enterprises. The third group is comprised of sellers that provide consumers with imported goods. Naturally, the quality and prices of the goods and services differ from one category of suppliers to another.

Table 5.15 shows prices, for a selected number of goods, prices proposed to consumers by the different groups of sellers. Data in this table confirm, this is not surprising, that prices in the informal sector are generally lower than those of the formal sector. For instance:

- on average the price of an imported shirt can buy three locally made shirts;
- the cost of an imported living-room suite is the double of those made by the informal sector cabinet makers;
- the price of a dining-room table made locally within the formal sector is one and a half times higher than the price of the informal sector's dining table;
- shoes made locally within the informal sector are two and half times cheaper than the imported ones

For some products however, prices in the informal sector are relatively higher than those proposed by the others. This applies mainly to imported second hand goods (clothe and shoes). This is why the price of a shirt made in the informal sector is two times higher than a second hand shirt; second hand pants are 60 percent cheaper than those of the informal sector; second hand shoes are 25 percent cheaper than those made by leather workers in the informal sector.

5.4.2 The clientele

The informal sector clientele is heterogeneous. The demand addressed to the sector comes from all the social strata. But, as shown in Table 5.16, most of the sales are made to households (74 percent) and to traders (14 percent). International institutions and other Non

Table 5.15: Type of suppliers and prices for selected products

Activities (1)	Products (2)	Informal sector average price (FCFA) (3)	Other suppliers (4)	Other suppliers' average price (FCFA) (5)	Price differences equal (3) - (5)	
					Amount	Percentage
Cabinet maker	(1) Living-room suite	150,000	Formal sector	(1) 250,000 (2) 250,000	- 100,000 - 180,000	- 67 - 257
	(2) Dining-room table plus six chairs	70,000	Imported	(1) 390,000		
Metal worker	(1) Door (2) Window	25,000 4,000	Formal sector	(1) 35,000 (2) 9,000	- 10,000 - 5,000	- 40 - 125
Tailor	(1) Pant	4,000	Formal sector	(2) 4,000	- 1,500	- 60
	(2) Shirt	2,500	Second hand clothes (imported)	(1) 2,000 (2) 1,000	+ 2,000 + 1,500	+ 50 + 60
			Imported from China	(2) 1,500	+ 1,000	+ 40
			Ready to wear	(2) 8,000	- 5,500	- 220
Leather worker	(1) Ladies hand bag	4,000	Formal sector	(2) 12,000	- 6,000	- 100
	(2) Mens shoes	6,000	Second hand shoes (imported)	(2) 4,500	+ 1,500	+ 25
			Imported	(1) 15,000	- 11,000	- 183
Dolo brewer	Dolo (local beer)	150 per liter	Industrial beer	432 per liter	- 282	- 188
Aluminum founder	Cooking pots (size 2)	1250	Local industries	1,400	- 150	- 12
			Imported	6,000	- 4750	- 380

Source: Author's Survey

Table 5.16: Clients of the Informal Sector

Type of Clients	Percentage
Households	74.00
Traders	14.36
Other artisans	0.55
Public Administration	4.00
Modern sector enterprises	2.36
Others	4.73

Note: Others include International Institutions, Non Governmental Organizations (NGO)
Source: ONPE

Governmental Organization account for almost 4.73 percent of the informal sector clientele. The public sector, and enterprises operating in the formal sector are also represented among the informal sector clients and they are accountable for 6 percent of the demand in the sector. This distribution confirms the observation made earlier about the lack of strong linkages (forward linkages in this case) between the two sectors.

The prevalence of households among the sector's clientele can be explained by the fact that the informal sector seems to be much more connected to the people than the formal sector. Because they live with the people, members of the informal sector have a better knowledge of agents needs and purchasing power. This in turn, gives them the ability to respond more accurately to consumers' demand. Each household can find in the informal sector goods tailored to its taste and income. This is even more true since a large portion of the household that are the informal sector's clients belong to low and middle income classes; expatriates and high-income households prefer (thanks to snobbery !) formal sector's goods imported or produced locally.

Traders have close relationships with agents operating in the informal sector. They generally buy wholesale from informal sector producers in order to supply their own shops in the formal sector. An important number of informal sector agents, mainly in the production sector, take advantage of this situation. Among others, leather workers (96.5 percent), aluminum founders (82.1 percent), tailors (78.5 percent) and tinsmiths (75.1 percent) are the producers that most use traders distribution networks.

CHAPTER 6

PROPOSITION FOR INCORPORATING THE INFORMAL SECTOR IN ECONOMIC DEVELOPMENT PROGRAM

The previous chapters have revealed the importance of the informal sector in Burkina Faso socio-economic life. It is now clear that for any development strategy to succeed in promoting economic progress in this country it would be of primary importance to give a central role to the informal sector. This chapter tries to lay down some principles for incorporating the informal sector into the country's development program. To do so, it would be appropriate first to identify and analyze the factors that can hamper the development of the informal sector, and assess what has been done until now to overcome these problems. Section 6.1 discusses the major obstacles to the expansion of the informal sector in Burkina Faso. Section 6.2 reviews and assesses the efficiency of existing formal institutions and structures that deal with the informal sector. Section 6.3 outlines some actions to be implemented in order enhance the impact of the existing structure for the promotion of the informal sector.

6.1 Major problems and constraints affecting the informal sector

In order to have an idea of the informal sector agents' feelings about their own problems they were asked to indicate in order of importance three obstacles that they believe hinder the expansion of their activity. The answers were astonishing by the number and the nature of the problems and constraints cited; they have reported more than forty different obstacles. The most common ones, as presented in Table 6.1 and Table 6.2, relate to the State and its role, the level of education and technical training of agents, the lack of capital, the limited size of markets, the nature of equipment and the overall economic and operating conditions.

The data displayed in these tables reveal an interesting feature of the informal sector in Burkina Faso. A priori, one would expect to see most of the agents indicating financial and credit problems as their primary concern. This is not the case. Agents seem to be more concerned by the impact of the economic situation, regulation and taxation on their activities rather than problems related to finance and banking system. These questions occupy third place in the ranking of the obstacles. They still believe that the procedures put forth by the formal banking system to grant credit are de facto ways to restrict the access of informal sector enterprises to capital. The truth is that the procedures and the requirements (different forms of guaranty, property title, collateral) for getting a credit from a formal bank are so constraining that most informal agents (even the most impetuous ones) choose sources other than formal banks to finance their activities.

As one can read from Table 6.1, 31.71 percent of the entrepreneurs have listed economic and working conditions as a major constraint to their expansion. It is important to indicate here that this generic appellation accounts for a myriad of problems including the economic crisis and its corollaries (SAP, devaluation), the lack of proper infrastructure in the country, accessibility to raw material etc. The entrepreneurs have also shown an important concern about regulation and taxation; 22.9 percent have mentioned these questions as

Table 6.1: Problems of informal sector enterprises

Type of problem	Percentage
Formalities and taxation	22.69
Equipment and technology	6.22
Credit, finance and banks	9.75
Training and education	9.58
Market condition	8.18
Competition	2.69
Lack of organization	3.75
Economic and working conditions	31.71
Other obstacles	5.43

Source: Athor's Survey

Table 6.2: Ranking of problems by informal sector enterprises (percentage)

Type of problem	Cited as 1st constraint	Cited as 2nd constraint	Cited as 3rd constraint
Formalities and taxation	15.9	26.4	31.8
Equipment and technology	3.5	10.6	5.7
Credit, finance and banks	0.6	17.4	18.1
Training and education	9.5	10.4	8.5
Market condition	6.9	7.4	12.1
Competition	4.5	1.2	1.0
Lack of organization	4.0	4.4	2.3
Economic and working conditions	50.8	15.0	15.2
Other obstacles	4.5	7.2	5.2

Source: Author's Survey

constraints to their performance. When asked about the level of taxes paid, most of them (76.4 percent) indicated that the amount of taxes they are paying is extremely high, compared to 8.2 percent who think that it is low and 15.5 percent who believe that tax levels are acceptable.

Another important problem that affects the informal sector enterprises that needs mention relates to education and training in the sector. More than 28 percent of the agents surveyed had mentioned these problems at least once as a major reason for the stagnation of their activities. Burkina Faso's formal educational system is only rarely open to informal sector activities; and even when it does show an interest in them, through technical schools and professional training centers, the cost and the length of the training discourages most potential students. In any case, the programs' inadequacy vis à vis the real needs of technical training result in a lack of interest in these programs among members of the informal sector. This explains in large part the low level of general and specialized training among members of Burkina Faso's informal sector. As said earlier, the majority of those surveyed have acquired their technical skills through on-the-job training. In spite of its merits on-the-job training presents some weaknesses among which one can mention the followings:

- The first weakness is that on-the-job training is unstructured and, as a consequence, neither very demanding nor very rigorous. This in turn can affect negatively the quality of the finished products proposed to clients. In fact informal producers have serious problems with the finishing of their products and this makes it difficult for them to compete with formal sector enterprises in terms of price quality ratio.

- The second weakness is the limited scope of on-the-job training. While it is relatively easy to acquire technical skills through on-the-job training, it is practically impossible to learn marketing or elementary accounting by simply observing the head of the enterprise who, himself in most cases is not aware of these techniques.

In addition to these main problems the entrepreneurs have expressed some concern about their inability to enter certain markets mainly the ones in which the State is involved. Because of institutional and legal barriers (procedures and standards) cost, building codes, health and hazard regulation and different other standards) most informal sector enterprises are unable to respond to the State's invitation to tender. It is generally required from enterprises that wish to enter the government bidding process to be straight with the country's regulations; this means having fulfilled all required registrations. The production should be also carried out in accordance with specific regulations and standards such as public health and safety. The irony in this is that despite the official or institutional refusal of informal sector goods by public sector agents, these goods are more and more being supplied to the same public agencies through sub-contracting. The other constraints mentioned by the entrepreneurs relate to their equipment and the technology used, competition from agents of the formal sector, lack of organized structure within which members of the sector can meet and try to find solution their own problems.

6.2 Informal sector support structures in Burkina Faso

It would be tedious and of little interest to review all the organizations that have expressed an interest for the informal sector.[1] It will be rather useful to select the most important among those who have indicated an interest in the sector to conduct the analysis. In general, informal sector support organizations are found to be helping informal participants in various domains but they often concentrate on technical assistance, training and financial aid.

6.2.1 Governmental agencies and technical assistance

In 1991 the US/AID had commissioned a study on microenterprises in Burkina Faso; this study reported that in Burkina Faso, there are no less than 23 governmental agencies from at least fourteen different ministries that are involved in Micro and Small Enterprises MSEs related activities (Grant et al., 1991, p. xi). In recent years the government has decided to centralize its effort toward (MSEs) and the informal sector in general within a reduced number of institutions coming mainly from the Department of Labor and Social Security and the Ministry of Industry Commerce and Mining. The Ministry of Economy, Finance and planning, the Department of Social Action and Family and the Department of Education also shield some of these supporting institution but to a lesser degree.

At the Ministry of Labor and Social Security there is the Informal Sector Promotion Department (ISPD) that is specifically devoted to members of the sector. It is this department

[1] Almost all the Non Governmental Organizations that operate in Burkina Faso have claimed in one way or the other their interest with the informal sector.

along with other agencies that define and implement governmental policy toward the informal sector. The objectives assigned to the ISPD describe very well the government strategy for promoting the informal sector. According to the terms of the decree that organize the Department of Labor and Social Security, the ISPD should:

> - contribute to a better knowledge of the sector, to the identification of its needs for improvement, training and organization;
> - conceive a strategy for improving informal sector jobs and implement it with the collaboration of other department concerned by these questions;
> - help modernize the sector by stimulating the creativity of micro entrepreneurs, and disseminating technology;
> - participate in the formulation of the national strategy to promote small and medium scale enterprises - small and medium scale industries (SME-SMI);
> - keep an ongoing dialogue with the actors of the informal sector and their organization;
> - keep good relations with national and international organizations that are involved in the informal sector.

It is evident that if these objectives are properly implemented they would insure a better insertion of the informal sector within the country's economic development strategy. At this time it will be difficult to provide an accurate assessment of the ISPD (this department was created in 1992). But from discussions with its staff one can learn that the department is already generating interesting results. The department has established contact with a good number of individual entrepreneurs and with the existing trade associations. The agents and their associations are constantly invited to participate and voice their opinions to meetings, seminars, and symposia related to the informal sector or to micro enterprises. Nevertheless there is a fear that the department may not be able to realize its objectives because of lack of equipment and human and financial resources.

At the Ministry of Industry Commerce and Mining the official policy for promoting craft industry is defined and implemented by the Department for the Promotion of Craft Industry and Small and Medium Scale Enterprises. The tasks assigned to this department cover areas as diverse as the elaboration of the national strategy for promoting cottage industry, the creation of a data base on the sector, the search for financing and the elaboration of regulations adapted to the specific needs of the sector.

Among actions to be counted in favor of this department one can mention the elaboration of the "Plan Directeur pour la Promotion de l'Artisanat du Burkina Faso" which now serves as the country's official craft industry policy; the creation, with the collaboration of the German Voluntary Service, of two "Bureaux des Artisans" (BA) in Ouagadougou and Bobo Dioulasso. These BA are conceived and managed as information and supporting centers where participants of the informal sector, micro entrepreneurs can seek counseling regarding the functioning of their enterprises. According to the instigators of these programs the BA's work well and seem to respond to the needs of the entrepreneurs. It might be important to mention here that the craftsmen representatives were involved in the conception and the realization of the BA. But beyond these successes one should be concerned by the future of these Bureaus which are entirely financed by the Germans. The initiator should look for ways and means with which the BA would function without the support of Germany. In any case, financial autonomy of the Bureaus would certainly make the entrepreneurs more responsible.

In addition to the two main Departments that conceive and implement the country informal sector promotion strategy, the Ministry of Economy, Finance and planning is hosting a financial supporting group for women in the informal sector; the Ministry of Social Action and Family support agents of the informal sector through its actions toward the poor and the marginal. The Ministry of Education tries to provide training to agents of the informal sector through its professional schools. But as one might imagine, it will be relatively difficult for the modern educational system to train these agents, more than 50 percent of whom have no formal schooling. It may be important to note here that besides the Department of Education other institutions such as the Chamber of Commerce (CCIA), the Employment Office (ONPE) and many others NGO's had provided valuable training to informal participants and micro entrepreneurs.

As one can infer from the ongoing discussion, there have been tremendous efforts to organize and promote the informal sector in Burkina Faso in recent years. But unfortunately the multiplicity of governmental agencies and other support institutions and the lack of coordination seriously hamper the impact of these efforts. This is so true that despite all the government attempts to promote the informal sector, the feeling among informal sector entrepreneurs is that the government is of no help for them; 70.9 percent of the agents surveyed believe so. Thus there is a need for restructuring and rethinking the strategy.

6.2.2 Financial support institutions

In Burkina Faso, formal financial institutions rarely finance activities of the informal sector which are believed to be of high risk and too costly to handle. The truth is that the formal banking system was conceived to serve certain types of enterprises (those functioning within the boundaries of the legal institutions) and they are today unable to adapt to the new aspects of the country's economic and social life. The rules and procedures implemented by these banks and financial institutions, which are in most cases branches of Western countries banks, are generally a replica of banking regulations in force in Developed countries (principally France in the case of Burkina Faso). And yet, things are totally different in these two universes. The informal sector is dominant in Burkina Faso and enterprises that really need banking credits belong to this sector. They are also the ones who are more likely to have tremendous difficulties providing the required guaranties in order to obtain a credit. The law makes it even more difficult for them to meet these requirements. In Burkina Faso, land belongs to the state; an individual cannot exercise his/her property rights on a portion of land unless it is exploited, meaning, having a valuable building or a house on it. The banking system instead of internalizing this specificity and modifying drastically their procedures, issued rulings still based on property rights prevailing in France. They now require, just as the state put it, a title with indications that there is an edifice erected with durable material on it. This is among others, an institutional barrier put forth by banks that restrict informal sector agents access to capital.

To compensate for the weaknesses of the formal banks some institutions and support programs generally initiated and run by grass roots organizations and NGO's try to provide credit to informal agents. There are two types of these financial institutions: the Saving and Credit Unions (SCU) and the Credit Programs (CP).

The Saving and Credit Unions are financial structures conceived by peasants cooperatives in order to provide banking services to their members.[1] The services provided

[1] It is important to note here that even though the movement had started in villages it is now spreading in urban areas. The most prominent not only have their headquarters in major cities but also are developing their activities within the urban informal sector. In 1993, more than 40 percent of the loan approved by the SCU went

vary from union to union. But most often they perform the double function of collecting savings and distributing loans. In general the loans allotted by the SCU are for a short period that rarely exceed 12 months and the rate of interest rate varies between 11 and 16 percent. Some of the unions pay interest, varying between 4 and 5 percent, on savings.

The most interesting aspect of these structures resides in the way they manage to operate and succeed in an environment considered as highly risky by the conventional banks. The success of these alternative banks rests on the fact that they have adopted an approach within which the ranking of values is totally different from what is proposed by the formal banking system. In the latter, applicants for loans are generally asked to provide tangible proof (equipment, titles, collateral...) of their ability to pay back their credit. In the SCU system the material forms of loan security are required but at a secondary level. In general it is required that a loan applicant not only be member of the union but also be an account holder for certain period (6 to 12 months depending to the union) this requirement is to give to the union credit committee the opportunity to know the person (morality and credit history). It is also asked of the applicant to contribute a certain percentage (20 to 30 percent) of the value of the loan; it is required that the applicant has this sum in his or her saving account. This is somehow an indicator of the person's seriousness about the project being financed. Lastly, the applicant should provide a guarantor that can be another member of the union or a solidarity group. Among all these requirements the last one, the use of other members of the union as guarantor, is the most powerful tool to insure the repayment of loans. The moral pressure of the group or the society is so important that people prefer

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to microenterprises operating mainly in urban areas.

repaying their loan than having to confront the sarcasms of their peers. According to the study carried out by GEMINI the rate of non-payment of loans varies from union to union and from one region to another. For example, while in Yatenga (Ouahigouya is the main city of this region) the rate of non-payment is 0 percent, it is 7 to 8 percent in Ouagadougou (GEMINI, 1991 p. 59).

Unlike the SCU the credit programs are conceived and financed through governmental agencies and donor organizations. These programs have generally a target group (e.g. women in the informal sector, food processing microenterprises...); the object here is to promote these groups by providing them with funds that they cannot get from the formal banks. The credit programs lending policy is not very different from the policy describes earlier. The philosophy behind it is the same. However, here an individual cannot be a guarantor for a loan; it is required that the loan applicant be guaranteed by a solidarity group.

6.3 Recommendations

The ongoing analysis has revealed that in Burkina Faso the informal sector is one of the most appropriate forms by which economic progress can be realized. The increasing level of unemployment in the country makes it more compelling to create the conditions for a more dynamic and better integrated informal sector. The new policy initiated by the country authorities to promote informal sector activities and the support provided to the sector by the different organizations mentioned above are remarkable in different respects. We shall now define ways to complement and foster these initiatives. The areas where actions should be implemented in order to enhance the efforts of the support agencies and organizations should be determined in the light of the problems and constraints expressed by the agents and outlined earlier. The actions to be performed relate to maket, finance and credit, technology and productivity, education and technical training and organization.

6.3.1 Informal sector and markets

The country's economic situation (economic crisis) and the recent events (implementation of Structural Adjustment Program, devaluation of the CFA Franc) had created a favorable environment for the promotion of the informal sector. The decline of the purchasing power of agents in the country has generated an increase in the demand for locally produced goods and particularly products from the informal sector. This is a good time to initiate a strategy for enhancing the demand for informal sector goods, mainly the demand coming from those of the consumers who derive their income from the formal public and private sector. These consumers constitute the real base for a sustainable growth of the sector. Demand generated within the sector itself is certainly important but due to the low income level in the sector this form of demand would barely generate growth. As we have learned from chapter 4 the level of income in the informal sector is largely determined by the value of output transferred or exported (to put it in Cole and Sanders words) from the informal sector to the formal sector. It is thus important to encourage and foster market links between the two sectors. For this goal to be reached it would be necessary to make these products known and available to the public. This means the implementation of activities such as fairs, sales promotions, advertisement, distribution networks etc...

In addition to the actions described above the state would have to open up public markets to the informal sector by loosening the public procurement procedure or by simply eliminating some of the requirements. Sometimes, the scale of the operation is beyond the individual informal entrepreneur's ability to fulfill the contract (e.g. producing and supplying on time the quantities required). In such cases, the state can divide the batches in smaller amounts in order to allow informal sector agents to present their bids. It would also be desirable for the agents to group and bid together; it would be helpful if the entrepreneurs had trade associations that could serve as guarantor for those who want to apply for public procurement and have some difficulties to find one.

6.3.2 Financial assistance

One might have certainly noticed from what has been said so far about the supporting institutions in the informal sector that the financial assistance is the only type of support that has shown tangible signs of success. The Saving and Credit Unions and the Credit Programs seem to be able to fill the vacuum made by the formal financial institutions. The major concern that should be addressed here relates to the basic principle that has guided the implementation of these structures, and its impact in the long run on today's successes. Very often, the rationale sustaining the creation of these institutions is to provide financial opportunities to the poor and the marginalized who, otherwise would be deprived of funding. Based on this conception most of the SCU and CP apply interest rates that are below the market rate. Also, they rarely charge for processing costs. These institutions are able to function this way because they generally rely on external financing and assistance to back their credit activities.

In the long term, this dependency on outside funding can be detrimental for these structures. There is a risk that those who provide these funds try to influence or dictate the policy and the type of operations to implement. The problem here is that most external funding is provided under certain conditions (target group, type of activity to finance, amount and term of credit) which sometimes are very limiting. It would be advisable for these institutions to set a management system which would allow them to rely less on external help, and to operate their activities on their own self-generated funds. One way to realize this is to raise the level of interest rate on lending, and set a service charge, at an acceptable level, on all profit-making transactions. The truth is that informal sector entrepreneurs are not reluctant to pay some type of fees when they clearly perceive the benefits of the proceedings. Here, producers are mainly concerned about the barriers they face in trying to access capital. In adopting a realistic interest rate policy the SCU and CP would open up the possibility for the more formal financial intermediaries to use their network and expertise in order to provide credit to the informal sector.

6.3.3 Technology and equipment

After several years of unsuccessful technology transfer it appears today that the promotion of production techniques that use simple technology can be more effective in promoting growth in the informal sector in countries like Burkina Faso where those who are in need, the informal sector entrepreneurs, do not have the means and expertise to access sophisticated and expensive imported technology.

In order to increase productivity and improve the quality of informal sector made products without increasing prices, a policy of user friendly technology should be undertaken. The most effective way to achieve this is to initiate a program of Research and Development on appropriate technology and quality improvement. This would require a systematic study of the technology being used in each sector of activity and define how it can be improved and adapted to the new production conditions. The most efficient technologies identified this way would be proposed for use by all producers in the sector concerned. Training sessions might be required to ease the use of these new and or improved technologies. We shall elaborate on training later but for now, let us say that it would be easier for informal sector agents to assimilate how to operate traditional adapted technologies than those transferred from the West.

Beyond this form of support it would be necessary to set up in the main cities a kind of center that could provide producers with some services (heavy machinery for example) they would need but cannot afford because of their limited resources. These centers (which could be existing workshops or training centers) will be well equipped and will be providing services at an affordable price. These services can be performed on the site, by using machinery for example (milling machines, planing machines....). The agents can also rent from these structures tools and other material that they would have difficulties to acquire individually. These structures can also serve as units of information, documentation and counselling for the entrepreneurs.

6.3.4 Training

Currently, none of the country's universities or training centers offer programs specially designed to improve the skills of informal sector agents. However some of the support agencies and organizations propose training sessions to entrepreneurs of the informal sector. These sessions are generally designed in accordance with the initial objectives and philosophy of the structure that is providing the training. But, given the fact that there exists little coordination between these structures, they sometimes provide the same type of training to the same individuals. This can be confusing for the agents. Moreover, the method used here, classroom type training, is generally unadapted to the agents' needs. They don't have either the intellectual means (general education level) nor the time to attend classroom.

In order to establish an effective training program for informal sector agents, methods already used in the sector should be utilized: the traditional apprenticeship system. In this system, the pedagogy is rather active. People are trained in the workplace, and they learn by observing and practicing the master's actions. The agent trained in this way is versatile and can accommodate any stage in the production unit. The training program should be designed in conformity with the needs of producers in the sector. It should be a short term and flexible program which will be provided in the workplace by very skilled masters or by professional teachers having experience in adult education. The teaching should cover various topics spanning from basic educational training (reading and writing) to technology, management, and marketing. The goal here is to bring the trainees to have a minimum understanding of the different functions of the enterprise, and to get a good technical knowledge of his or her activity.

As one already knows, in a program based on apprenticeship system, the quality of the training depends largely on the master's skills. This can be a limiting factor for an effective functioning of the program. In order to alleviate this problem it would be appropriate to allow the masters and the teachers to attend seminars (within the country or abroad) where they would improve their knowledge, and also learn about new technologies in their field. This means that there should exist interaction and strong coordination between R & D and training. Training sessions are good opportunities to disseminate R & D results.

6.3.5 Institutional support and organization of producers in the informal sector

Above all these propositions, the role of the State is of particular importance in promoting the informal sector. It is now commonly admitted that the abusive actions of the State had played an important role in the emergence of the informal sector in Burkina Faso. For the program proposed here to be more effective the perception of informal sector agents toward the public sector should change. To achieve this change the state should implement actions that would restore the trust of informal sector producers. Among others, actions to be implemented can take the form of less bureaucratic requirement to entering legality (or at least the simplification of registration procedures), reduction of registration fees. In sum, the state should adopt a general attitude whereby all unnecessary regulation would be identified and eliminated, and those that are important for the functioning of the society and of public interest (health, and safety) would be simplified and enforced with more flexibility.

The last element that will be suggested here concern the agents themselves, and is essential for a successful implementation of any strategy aiming to promote the informal sector. Any program attempting to promote the sector is likely to fail if the agents are not involved in one way or the other, to its conception and execution. For this reason, the state should have to develop ways to bring micro entrepreneurs together and recruit their cooperation. It will be advisable to encourage them to form a unified body in each economic activity branch. This will provide them institutional and administrative settings where resources and expertise would be pooled in order to interact with the central administration (different administrative procedures) and with the formal private sector.

CHAPTER 7

SUMMARY AND CONCLUSION

The purpose of this study was to collect comprehensive, updated Urban Informal Sector data in order to portray and assess the economic and social impact of UIS in Burkina Faso, and to examine its relationships with other institutions. The role of the country's institutional setting and the overall economic situation has been examined from the perspective of their effect on the expansion of the informal sector. To realize this research, a survey was conducted in order to gather micro data from people in the urban informal sector. Agents of the formal sector were also interviewed and used, along with data from censuses and other government statistics to complement the survey.

The review of the literature contained in Chapter 2 had revealed that despite the profusion of literature dealing with the informal sector, researchers have not yet reached a consensus on how to define the informal sector. The works reviewed had provided elements for a definition of the sector in Burkina Faso. Given the fact that none of the definitions provided in the literature fully account for the multiple aspects of the phenomenon, a country-specific definition based on direct observation of the informal sector in Burkina Faso was adopted, and is discussed in Chapter 5. The informal sector is defined as consisting of all income-generating activities performed outside the legal institutions and, for this reason are not, or are partly recorded in official statistics.

The literature review also developed the basis for selecting an appropriate method for measuring the size of the country's informal sector. The method used was based on those developed by Tanzi (1982, 1983) and Isachsen et al. (1982). A currency demand function was estimated with C/DD (the ratio of currency to demand deposits) as the dependent variable. Gross Domestic Product, real interest rate, the ratio of private consumption expenditure to GDP, and central government salary expenses were identified as the main explanatory variables. The OLS method was employed to estimate the model.

Results of the estimation indicated that GDP is negatively linked to the ratio C-DD suggesting that in Burkina Faso the demand for currency decreases with economic progress. The remaining variables, on the other hand, have a positive effect on C-DD which means that the level of currency demanded rises as the real interest rate, private consumption expenditure and government salary expenditure increase. It is important to recall the fact that the last variable is used to proxy government intervention and its impact on the informal sector. The findings here mean that government intervention is a significant factor that explains the expansion of the informal sector in Burkina Faso.

The study found that the burden of institutions and the cost of complying with all mandatory regulations are so important that they force an important number of agents to operate in the informal sector. It has been shown that, despite the official claims, it takes an average of six months to three years to accomplish all the formalities required in order to operate legally. The entrepreneur would spend in the process a sum ranging from FCFA 100,000 (around US$ 353) to 300,000 (US$ 1059). These amounts correspond respectively to, 1.10 and 3.35 times Burkina Faso GDP per capita in 1991. It was also found that not only the legal cost is high, but that the alleged benefits and protection offered by the state was a privilege reserved to the financially well off or politically well connected.

Along with this element, the country's institutional system, other factors were identified as relevant causes for the emergence of the informal sector in Burkina Faso. The study revealed that rural-urban migration, unemployment in urban areas, the economic crisis and its corollary the Structural Adjustment Program can also be held responsible for the growth of the informal sector. It has been shown that the crisis and the policy implemented as part of the SAP had a negative impact on employment and on household purchasing power, and had favored the expansion of the informal economy.

The study confirmed the importance of the role that the informal sector has in the socio-economic life of Burkina Faso. The sector as a proportion of the GDP had grown at a steady rate during the two decades covered by the estimate i.e. 1970-1990. Between 1970 and 1975 the informal sector was representing on average 6 percent of the country's GDP; in 1985, the informal sector accounted for more than 30 percent of GDP; and in 1990 it was estimated that around 40 percent of the country's GDP was generated within the informal sector.

The survey carried out between January and May 1994 in the five main cities of the country covered 30 different activities in production, service, commerce, construction and transportation. The data revealed that in Burkina Faso, 46.2 percent of the urban informal sector participants are migrants from other parts of the country and from other African nations. They are on average 33 years old, and in most cases are 40 or less than 40 years old. The level of education among workers in the informal sector is low. More than half of those surveyed had no formal schooling. Most of them (92.2 percent) have acquired their technical skills through on-the-job training. They have an average of 10 years of experience.

Concerning the enterprises' legal status, the study indicated that a good proportion of the enterprises surveyed are in one way or the other registered by local administration. About 29 percent of the participants of the informal sector are registered with the municipal authorities, 9 percent within the register of commerce and 4 percent are enrolled with the National Security Fund. It was also shown that the rate of compliance with the existing legal requirement is higher within the commerce, production and service sectors than the construction and transportation sectors.

The average size of enterprises was estimated at 4 persons including the head of the enterprise. The amount of initial capital needed to create this enterprise was found to be relatively low: FCFA 148,000 (approximately US$ 523) on average. In most cases the sources of initial investment were personal savings or borrowing from family members or friends. Credit from the formal banking system and the state accounted each for 0.6 percent of the cases. Because of the low level of investment and difficulties in accessing capital, producers in the sector are under-equipped, and production techniques are labor-intensive. Technology used in the sector varies according to the nature of activities from traditional to modern; in some cases traditional and modern technology are combined.

The estimated average income in the sector as a whole was a little higher than the legal minimum wage. The average wage paid in the sector was well below the legal minimum wage. But a closer look at the distribution of earnings by activity reveals that there is a wide disparity of income distribution not only between economic sectors but also among members of the same activity. The main point made here was that in light of the high level of income earned by some informal sector participants it would be inappropriate to equate this sector with poverty and marginality even though, the proportion of wage earning poor is higher among informal sector agents.

Regarding the linkages between the informal sector and the rest of the economy, the study found that producers in the informal sector depend largely on the formal sector to provide them with raw material. They have almost no link with the formal banking system. The study had also indicated that the demand for informal sector products comes from all social strata. However, households and other traders (wholesale dealers) represent the largest portion of the sector's clientele.

Entrepreneurs in the informal sector identified the major constraints that hinder the expansion of their activities to be: formalities and taxation; equipment and technology; education and technical training; credit and finance; market opportunities; lack of organization; competition; and the overall economic and operating conditions.

In light of these problems and the different programs initiated in the country in order to promote the informal sector, the study found that it would appropriate to initiate actions designed to enhance and complement the efforts already being executed. A set of recommendations combining actions in different domains was made and can be summarized as follows:

- It has been suggested to initiate a strategy that would open up public and private formal market to the informal sector. To do so, it was proposed to loosen public procurement procedures or eliminate some of the requirements. The implementation of activities such as fairs, sales promotions, advertisements etc.. were proposed to attract consumers from the formal sector.

- It was found that although Saving and Credit Unions and Credit Programs are successful in filling the vacuum made by the formal financial institutions, it would be advisable for these institutions to reconsider their management procedures. It was especially advised to raise the level of interest rate on lending, and set processing fees in order to generate funds that would allow them to rely less on external help.

- A program of research and development was proposed to provide informal sector agents with appropriate and adapted technology. It was also recommended to initiate training programs based on the traditional apprenticeship system.

- The study had also recommended actions that should be implemented in order to restore the trust of informal agents toward the state. Among other actions, it was suggested to simplify registration procedures, and to identify and eliminate all unnecessary regulation.

- Finally, the study found that it will be advisable to encourage informal sector's participants to come together in order to form a unified body in each economic activity branch. This would provide them with means to interact with the formal sector.

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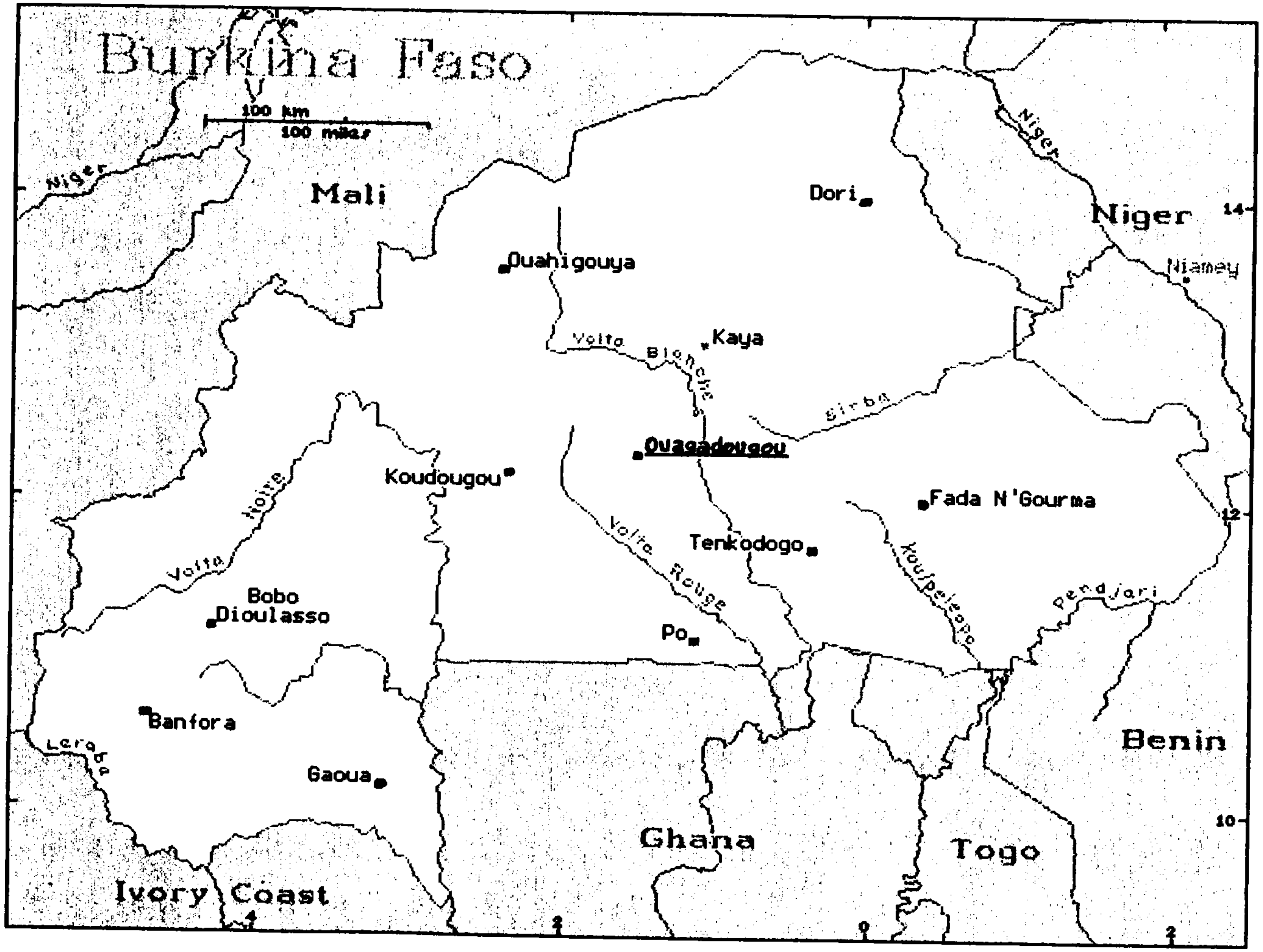
APPENDIX

APPENDIX A:

BURKINA FASO: MAIN CITIES



APPENDIX B:

QUESTIONNAIRE

1- City: ______

1. Ouagadougou (__)
2. Bobo-Dioulasso (__)
3. Koudougou (__)
4. Ouahigouya (__)
5. Banfora (__)

2- Activity:____ ______

3- Year enterprise was created:____________ ______

4- Are you enrolled with National Social Security Fund?:
1. Yes (__) 2. No (__) ______

5- Are you registered in the register of commerce?: ______
1. Yes (__) 2. No (__)

6- Are you listed in the municipal register?:
1. Yes (__) 2. No (__) ______

7- Respondent age:______________**years** ______

8. Do you use a standardized accounting system?:
1. Yes (__) 2. No (__) ______

9- Gender: 1. Male (__) 1. Female (__) ______

10- Marital status: ______

1. Married (__)
2. Single (__)
3. Widow (__)
4. Divorced (__)

11- Number of children: ________ ______

12- Level of education: ______

1. Illiterate (__)
2. Primary school (__)
3. Secondary school (__)
4. University (__)
5. Adult education (__)

13- Technical training: ______

1. On-the-job training (__)
2. Formal schooling (__)

14- Number of workers:

1. Apprentices______ ______
2. Employees _____ ______
3. Unpaid family workers ______ ______

15- Time spent at work (hours per day):__________ ______

16- Indicate number of years of experience in this activity?:__________years ______

17. Are you involved in another activity?: 1. Yes (__) 2. No (__) ______

18- If yes, specify:____

19- Are you a migrant?: 1. Yes (__) 2. No (__) ______

20- If yes, indicate region of origin:________________________ ______

21- Indicate number of years of migration:_______years ______

22- Indicate reason why you have migrated?: ______

1. Job opportunities (__) 4. Health (__)
2. Family (__) 5. Adventure (__)
3. Conflicts (__) 6. Other reasons (specify)__________________________

____

23- Are you in touch with your village of origin?: ______

1. yes (__) 2. No (__)

24- If yes, how?: ______

1. Send goods and/or money (__)
2. By mail (__)
3. I visit (__)
4. My relatives visit me (__)

25- Indicate total value of goods and money send back to village:_____________F/per______________

26- Why did you choose to work in a city? (mark only one option): ______

1. High income (__)
2. Jobs are less laborious (__)
3. Better job opportunities (__)
4. It is easy to acquire technical skills (__)
5. Other reasons____

27- Enterprise's location: ______

1. On a market place (__)
2. At home (__)
3. A shop (__)
4. Ambulant business (__)
5. Fixed place in the open air (__)
6. Other (specify)____

28- Why did you choose this location?_________________

____

____

____

29- Indicate amount of initial investment:______________________F

30- Where did you get the initial investment ______

1. Personal savings (__)
2. From a relative or a friend (__)
3. Loan from a formal bank (__)
3. Loan from informal sector (__)
4. From the state or other institutions (__)
5. Other sources (specify)______________________

31- Origin of capital needed to run enterprise on a daily basis: (for each case mark the response that best describes your situation):

	Never	From time to time	Often	Exclusively
1. Personal funds	(__)	(__)	(__)	(__)
2. From relative or friend	(__)	(__)	(__)	(__)
3. Loan from bank	(__)	(__)	(__)	(__)
4. Loan from informal sector	(__)	(__)	(__)	(__)
6. Advances from clients	(__)	(__)	(__)	(__)
7. Other sources	(__)	(__)	(__)	(__)

(specify)____

32- Indicate average weekly production____________

33- How much do you think the turnover of someone who is doing well in your activity would be?_______________F/per_____

34-How much do you think the turnover of someone who is doing poorly in your activity would be?_______________F/per_____

35- Please indicate your highest monthly turnover in 1993?______________F

36- Please indicate your lowest monthly turnover in 1993?______________F

37- Please indicate your average turnover_____________F/per______

38- Please indicate how much you spend for the following:

1. Raw material _______F/per_____
2. Maintenance of equipment _______F/per_____
3. Rent (working place) _______F/per_____
4. Salary paid to employees _______F/per_____
5. Personal expenses _______F/per_____

39- Please indicate an estimate of your profit___________F/per______

40- Please indicate amount of total tax paid ___________F/per______

41- What do you think about this amount? ______

1. High (__)
2. Fair (__)
3. Low (__)

42- Do you have other sources of income (rent, pension, etc...): ______

1. Yes (__) 2. No (__)

43- If yes please indicate amount____________**F/per**_______

44- Please indicate how much of your income do you spend for the following:

1. Food	__________F/per_____
2. Clothing	__________F/per_____
3. rent	__________F/per_____
4. Electricity	__________F/per_____
5. Water	__________F/per_____
6. Health care	__________F/per_____
7 Education	__________F/per_____
8. Furniture for household	__________F/per_____
9. Leisure	__________F/per_____
10. Transportation	__________F/per_____
11. Aid to parents	__________F/per_____
12. Social ceremonies (baptism, marriage, funeral etc...)	__________F/per_____
13. Savings	__________F/per_____

45- Are a member of one or more of the following:

• A professional association	1. Yes (__)	2. No (__)	______
• A cooperative	1. Yes (__)	2. No (__)	______
• A mutual	1. Yes (__)	2. No (__)	______
• A G.I.E (Economic Interest Group)	1. Yes (__)	2. No (__)	______

• Other organizations (specify and describe)____

____

____

____

46- Do you follow special rules in the profession?
(everybody in the profession act according to these rules)

1. Yes (__) 2. No (__) ______

47- If yes, please describe:

____

____

____

48- Who are the parties affected by these rules? ______

1. Colleague (agents performing the same activity) (__)
2. Purveyors (__)
3. Clients (__)
4. Other (specify)____

49- Who are your main purveyors: (For each type of purveyor, mark the response that best describe your situation)

	Never	From time to time	Often	Exclusively	
1. Wholesale dealers	(__)	(__)	(__)	(__)	____
2. Local enterprises	(__)	(__)	(__)	(__)	____
3. Informal sector's agents	(__)	(__)	(__)	(__)	____
4. Import myself	(__)	(__)	(__)	(__)	____
5. Other	(__)	(__)	(__)	(__)	____
(Specify)________________					

50- Who are your clients: (For each type of client, mark the response that best describe your situation)

	Never	From time to time	Often	Exclusively	
1. Households	(__)	(__)	(__)	(__)	____
2. Tradesmen	(__)	(__)	(__)	(__)	____
3. Agents of the informal sector	(__)	(__)	(__)	(__)	____
4. Public sector	(__)	(__)	(__)	(__)	____
5. Local enterprises	(__)	(__)	(__)	(__)	____
6. Tourists	(__)	(__)	(__)	(__)	____
7. Foreign enterprises	(__)	(__)	(__)	(__)	____
8. NGO's	(__)	(__)	(__)	(__)	____

51- Do you sell your product through a network? ____

1. Yes (__) 2. No (__)

52- If yes, describe how:____

____

____

53- Do you have difficulties selling your products? ____

1. Yes (__) 2. No (__)

54- If yes, what are the reasons for these difficulties?:

1. Competition from the modern sector (__)
2. Competition from the informal sector (__)
3. Lack of infrastructure (__)
4. Country's economic situation (__)

55- What do you think about the number of agents operating in your sector of activity? ____

1. Very high (__)
2. High (__)
3. Fair (__)
4. Low (__)

56- Have you witnessed a lessening of your activity in the past two years?

1. Yes (__) 2. No (__) ____

Explain?____

____

____

57- please compare your sales of 1992 and 1993 ______

1. Sales had increased notably (__)
2. Sales had increased fairly (__)
3. Sales stayed the same (__)
4. Sales had decreased fairly (__)
5. Sales had decreased notably (__)

58- Do you hold:

- **A checking account?** 1. Yes (__) 2. No (__) ______
- **A saving account?** 1. Yes (__) 2. No (__) ______

59- Have you ever applied for a loan from formal banks? ______

1. Yes (__) 2. No (__)

60- Have you ever had a loan from formal banks for the benefit of your enterprise? ______

1. Yes (__) 2. No (__)

61- If yes, indicate amount____________________F

62- Please indicate means of payment when transacting with your purveyors (For each means of payment, mark the response that best describe your situation)

	Never	From time to time	Often	Exclusively	
1. Cash	(__)	(__)	(__)	(__)	______
2. Check	(__)	(__)	(__)	(__)	______
3. Transfers	(__)	(__)	(__)	(__)	______
4. Barter	(__)	(__)	(__)	(__)	______

63- Please indicate means of payment when transacting with your clients (For each means of payment, mark the response that best describe your situation)

	Never	From time to time	Often	Exclusively	
1. Cash	(__)	(__)	(__)	(__)	______
2. Check	(__)	(__)	(__)	(__)	______
3. transfers	(__)	(__)	(__)	(__)	______
4. Barter	(__)	(__)	(__)	(__)	______

64- Indicate type of raw material used in your activity: ______

1. Agricultural products (__)
2. Locally manufactured product (__)
3. Imported products (__)
4. Recyclable products (__)
5. Other (specify)____________________________________

65- Indicate type of technology used in your activity: ______

1. Traditional (__)
2. Modern (__)
3. Both (__)

66- **Are you satisfy with this technology?** ______

1. Yes (__) 2. No (__)

Expain?____

____

____

____

67- **Please indicate origin of your equipment:** ______

1. Made by myself (__)
2. Made by local artisans (__)
3. Made by local modern enterprise s (__)
4. Imported (__)

68- **Are you satisfied with your equipment?:** ______

1. Yes (__) 2. No (__)

Explain?:____

____

____

69- **In your production process do you use the following?**

1. Wood/charcoal	1. Yes (__)	2. No (__)	______
2. Fuel/kerosene/gas-oil	1. Yes (__)	2. No (__)	______
3. Electricity	1. Yes (__)	2. No (__)	______
4. Natural gas	1. Yes (__)	2. No (__)	______
5. Water	1. Yes (__)	2. No (__)	______

70- **Please indicate how much you spend for the followings:**

1. Woods	________F/per______
2. Charcoal	________F/per______
3. Fuel/kerosene/gas-oil	________F/per______
4. Electricity	________F/per______
5. Natural gas	________F/per______
6. Water	________F/per______

71- **Have you witnessed an improvement of your living conditions because of this activity?** ______

1. Yes (__) 2. No (__)

Explain?____

____

____

72- **Would please you indicate three reasons why you choose to work in the informal sector**

1. ____
2. ____
3. ____

73- Do you think that the public administration is helpful? ______

1. Yes (__) 2. No (__)

Explain____

____

____

74- Would please you indicate three actions that you think the country's formal institutions (State, banks, municipality, Social Security Funds etc...) should implement in order to help you:

1. ____
2. ____
3. ____

75- Would you like to go into the formal sector? ______

1. Yes (__) 2. No (__)

76- Would you please indicate three obstacles that hinder your move from the informal to the formal sector

1. ____
2. ____
3. ____

THANK YOU

VITA

Idrissa Mohamed Ouédraogo was born in Mopeleguin, in the region of Ouahigouya, Burkina Faso, on January 1, 1954. He attended schools in the public system in Ouahigouya and Bobo Dioulasso, where he graduated from Lycée Ouézzin Coulibaly in July 1975. In October 1979, he received the degree of Maitrise d'Economie Appliquée from the University of Abidjan, Ivory Cost. He entered the University of Clermont-Ferrand, France during September of 1980 where in July, 1985 he received the Doctorat de IIIème Cycle in Economics. He has also earned the degree of Diplome d'Etudes Approfondies in Geography/ National and Regional Development from the University of Clermont-Ferrand. After teaching for three years at the University of Ouagadougou, Burkina Faso, he was awarded a Fulbright Scholarship to enter the Ph.D. program at the University of Tennessee, Knoxville. In May of 1996 he received the Doctor of Philosophy degree in Economics.

After defending his dissertation in December 1995, Idrissa M. Ouédraogo returned to Burkina Faso to resume his work at the University of Ouagadougou.