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Unlocking potential: Tackling economic, institutional and social constraints of informal entrepreneurship in Sub-Saharan Africa

--- A review of the findings on social constraints and risk ---

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A joint project by Erasmus University Rotterdam - Afristat Mali - DIAL Paris - GIGA Hamburg - IfW Kiel

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Scope of Research

Significant knowledge gaps regarding the causes of informal sector heterogeneity and implied inefficiencies.

- Examine nature and relative importance of three types of constraints, interaction and impact on enterprise performance:
  - Economic constraints, such as capital market imperfections, lack of insurance and lack of demand for informal sector products,
  - Institutional constraints, such as ill-managed government regulations, limited access to public goods and exposure to corruption and
  - Social constraints, such as sharing obligations with the extended family and inefficient informal insurance arrangements.

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Country Cases

West-Africa

Benin • Burkina Faso
Côte d'Ivoire • Mali
Niger • Senegal • Togo

Vietnam

Peru

Madagascar

Why focus on social constraints?

Paradox about micro and small enterprises

- Research provides evidence (covering LA, Asia, SSA) of high marginal returns to capital in micro and small enterprises, in particular at very low levels of capital *(although some heterogeneity, e.g. by gender)!*

  See, e.g., Banerjee and Duflo, 2004; McKenzie and Woodruff, 2006; De Mel et al., 2008; McKenzie and Woodruff, 2008; Kremer et al., 2010; Fafchamps et al., 2011; Grimm, Krüger and Lay 2011.

- And no evidence for generally high entry barriers.

→ No evidence for poverty traps.

Why focus on social constraints?

Why then are re-investment rates so low ???

- ? Overall low profitability?
- ? Time-inconsistent preferences?
- ? Capital market-imperfections in conjunction with risk-aversion, i.e. precautionary savings-motive?
- ? Lack of savings institutions or lack of knowledge about functioning of saving institutions?
- ? Impossibility to save due to (compulsory) inter-household sharing?

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The role of (compulsory) inter-household sharing

- Literature first of all emphasizes positive effects of social capital, e.g. access to markets, credit, support for prospective migrants etc.

- But literature distinguishes different types of social capital, for example *weak ties* and *strong ties* (Granovetter 1973, 1983)

- *Strong ties* possibly also have a downside: detrimental redistribution!

Examples from the literature

- *Di Falco and Bulte (2011):* Find that kinship size is associated with higher budget shares for non-sharable goods.

- *Baland et al. (2011):* Credit uptake to signal to their kin that they are unable to provide financial assistance.

- *Jakiela and Ozier (2012):* Lab experiments: (Female) participants who know that the outcome of their investment will be made public, make decisions that are expected to be less profitable.

Approaches used in this project

Two approaches two investigate whether micro and small firms are adversely affected by sharing norms:

1. Field experiment

2. Network analysis based on observational data

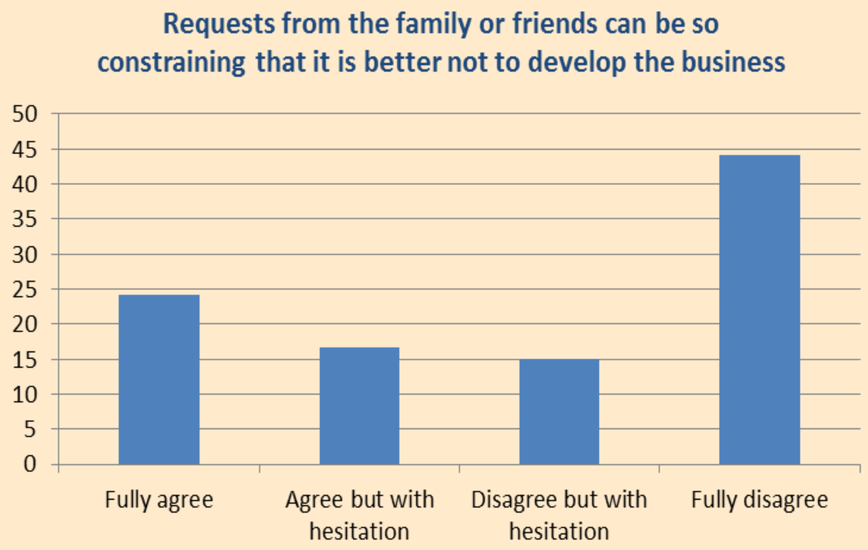
Sample population: 380 Tailors interviewed in Ouagadougou (Burkina Faso) in 2011 and 2012.

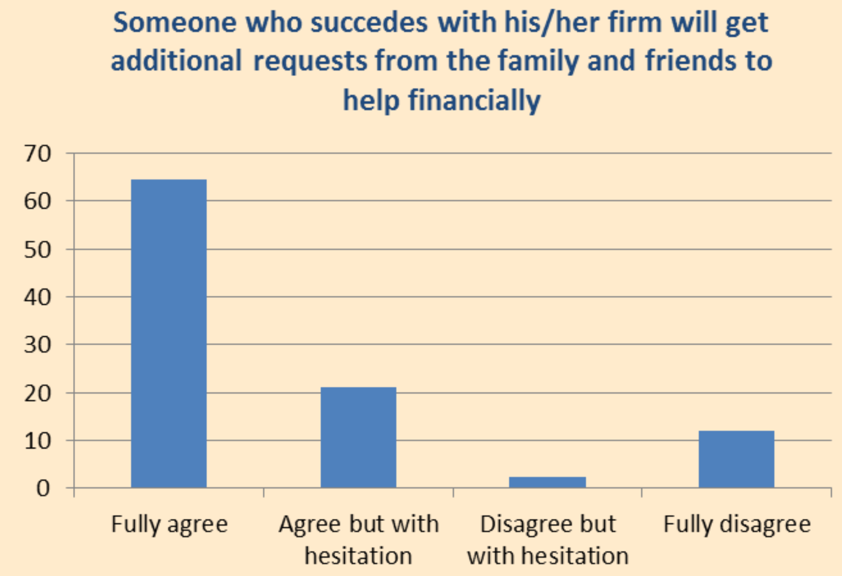
Sample description

	Mean
Age of firm	7.4
Firm is registered (=1)	0.31
Has a workshop (=1)	0.84
Has access to electricity (=1)	0.85
Has electric sewing machine (=1)	0.68
Monthly turnover in US$	288.6
Physical capital in US$	851.0
Firms size (staff, incl. owner and fam. helpers)	3.8
Total monthly hours	868.9
Invested past 12 months (=1)	0.76
If invested, financed through savings (=1)	0.97
Investment past 12 months in US$	285.1
Current owner set up the enterprise (=1)	96.8
Help from others, those still paying back (=1)	0.11

Source: Tailor Survey, Burkina Faso.

Perceived pressure for redistribution





Source: Tailor Survey, Burkina Faso.

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Field experiment: The effects of obliged solidarity

To examine the effect of obliged solidarity (in contrast to altruist solidarity) among tailors in Ouagadougou

- Tailors received an order (making bags).
  - Treatment group: Network is informed
  - Control group: Network is not informed
- Finding: “Obliged solidarity” significantly reduces working effort.
- We find an average treatment effect of 25% lower effort.
- If solidarity obligations are made explicit parents on average claim 20% of the marginal earnings.

Source: Hadnes, Vollan and Kosfeld (2013).

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Network analysis: The effects of redistribution cum informal insurance

Transfer-Investment-Pattern is consistent with two types of regimes:

1. *Growth regime*, i.e.take distance to their network, share little or nothing, forego informal insurance and invest.

2. *Insurance regime*, i.e. entrepreneurs stay in network, share a lot, are (fully) insured by the network and invest only very little.

→ Pressure to redistribute and risk aversion influence choice between both regimes.

Source: Grimm, Hartwig and Lay (2013).

Conclusions and implications

- Informal sharing within extended families can be a deterrent to private sector development including “jobs”.

- Yet, directly changing norms that guide such sharing networks is neither desirable nor possible.

- However, the substitution of informal (compulsory) insurance through formal insurance devices or other post-shock safety nets may soften sharing obligations and thus have positive second order effects on investment.

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Conclusions and implications

- Obviously the introduction of insurance, possibly along with credit, does create its own problems in a setting where institutional capacity and trust in formal institutions is weak.

- However, a number of countries in Sub-Saharan Africa have started to introduce health insurance schemes.

- Given that health shocks, as shown, pose an important threat on households, health insurance schemes may imply a softening of sharing obligations.

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Next step: Field experiment on health insurance

The Formal Insurance and Productive Effects Study

- Sample: Rural households in Burkina Faso and members of their sharing network in urban areas
- Randomized encouragement for the take-up of health insurance
- Study effect of insurance on labour allocation, investment and productivity.

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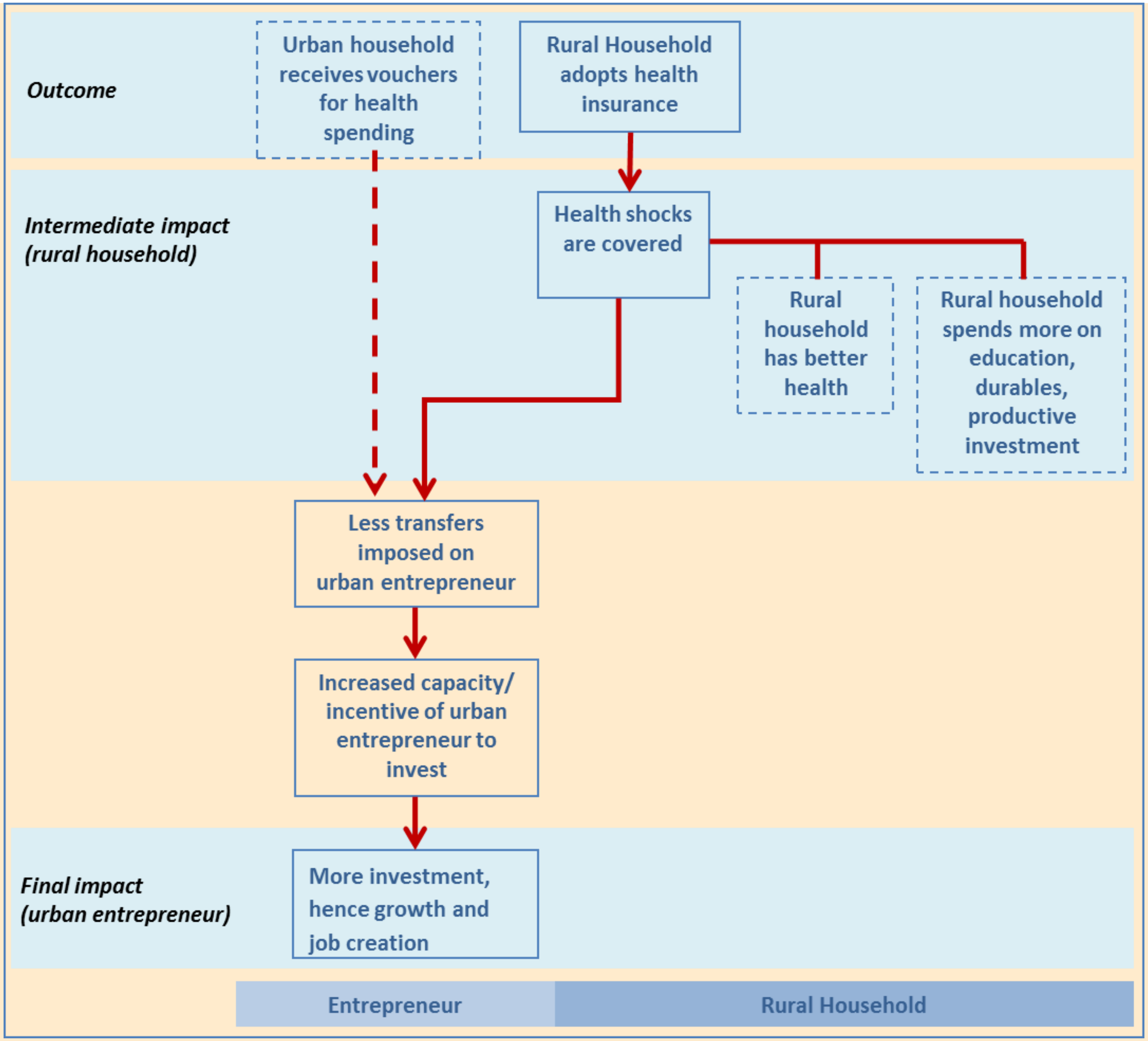
Experimental Set-up and Program Theory



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Further information:

- FIdES Policy Briefs
- http://www.wiwi.uni-passau.de/development-economics/forschung/health-insurance/

FIdES Policy Brief — 1 — May 2014

A step towards universal health insurance

Demand for Community-Based Health Insurance in Rural Burkina Faso

Key points

- Community-based health insurance schemes are the foundation for the planned national insurance scheme in Burkina Faso.
- Illness and care are costly for rural households.
- Insurance knowledge is low.
- If affordable the potential demand for insurance is high.

Background

Thus far the health situation in Burkina Faso remains precarious. Child mortality rates are still very high. The incidence of malaria, the most common cause of child death in Burkina Faso, lies ways above the regional average in Sub-Saharan Africa.

Access to health care is still insufficient, especially for poor households. Although healthcare contacts per inhabitant increased from 0.22 in 2001 to 0.77 in 2011, they remain at a generally low level and exhibit great regional variation.

The low levels of health care utilisation are also a result of high costs for health care. Currently less than 10% of the Burkinabe population is covered by some form of health insurance. Exceptions are mutual schemes for some employees in the public and private sector, military staff and students. Private commercial health insurances cover less than 1% of the population. The large majority of the population is therefore financially fully responsible for the costs of medical care and essential drugs.

The Government of Burkina Faso has recently voiced strong commitment to implement universal health insurance. This commitment is manifested in the National Social Protection Policy.

Mutual, community based health insurance schemes have existed in Burkina Faso since 1963. At the moment there are about 188 small-scale, mutual schemes operated in the country. The Government aims to leverage on these existing schemes and plans to deploy a national health insurance scheme through new and already existing mutual health insurance arrangements. For this purpose, community based schemes shall be expanded throughout the country in the coming years. In the longer run, these schemes shall be harmonized and merged into one large risk pool.

One recent expansion is the community based health insurance scheme in Ziniaré, implemented with the support of ASMADE, a local not-for-profit organisation with a long-standing expertise in this field.

The Implementing Agency – ASMADE

ASMADE supports local communities in the establishment and operation of community based health insurance schemes (CBHIs). Throughout Burkina Faso, 20 CBHIs are currently operated with the support of ASMADE, benefiting ca. 30,000 people directly. ASMADE is a member of the National Mutual Health Insurance Network (RAMS) and collaborates with several international partners including the Belgian NGO *Solidarité Socialiste* and the World Bank.

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Thank you!