Immigrants in the Informal Sector: Evidence from Africa (Short Note)

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Imigrants in the Informal Sector: Evidence from Africa

A survey of informal businesses in Burkina Faso, Cameroons and Cape Verde shows that roughly half of the businesses are owned by immigrants. Systematic differences between immigrant-owned and native-owned businesses might be expected given that immigrants are usually a vulnerable group and take time to assimilate with the native community. While the survey shows some important differences between native and immigrant owners of businesses, there is no clear evidence that relative to natives, immigrants are either discriminated against, are less efficient or come from a relatively less privileged background. However, immigrants are more likely to be males, unmarried and migrate when young; immigrant-owned businesses are smaller in size but also more efficient; the level of education is roughly same across natives and immigrants and so is the employment-unemployment status prior to starting the business. However, immigrant owners are less likely to have jobs in an established business and more likely to be victimized than the natives. Immigrants also appear to prefer the service sector over manufacturing compared with the natives and also more likely to operate from inside than outside household premises. We also find that some of the reported differences disappear as immigrants stay longer in the receiving city.

Lack of proper economic opportunities, low income levels and high unemployment are known to be strong push factors for migration from the relatively less developed to the more developed regions. Available estimates suggest that there are 214 million international immigrants, roughly equal to 3.1 percent of the global population. A count of individuals migrating within the country (internal migrants) is plagued with data limitations, although available information shows that internal migrants far exceed international migrants in number. For example, a recent study by Bell and Muhidin (2009) estimates that in Ghana, the number of internal migrants living outside their district of birth equaled 28 percent of the country’s population in 2000; the corresponding figure equals 20 percent in Kenya and 15 percent in Uganda.

Another strand of the literature suggests that in many developing countries, a large proportion of economic activity takes place in the informal or the unregistered sector. For example, La Porta and Shleifer (2008) estimate that between 22.5 to 34.5 percent of all economic activity in the world as a whole occurs in the informal sector. Their estimate for countries in the lowest quartile of GDP per capita ranges between 29 and 57 percent. The large size of the sector coupled with low entry and exit barriers and little sunk-cost suggest that a sufficiently large proportion of immigrants are likely to find their way into the informal sector. This raises the important question of how immigrants compare with the natives working in the informal sector. There are two broad reasons why this comparison is important. First, lack of familiarity with their new surrounding and difficulty is assimilating with the native population may put immigrants in a disadvantageous position. This is likely to be reflected in, for example, higher victimization rates and difficulty in accessing finance and infrastructure services for the immigrants relative to the natives. If this is indeed true, then it calls for appropriate policy measures specifically directed towards the immigrant population. Second, push factors mentioned above suggest that a majority of immigrants are likely to come from the relatively less developed strata of the society. Thus, understanding the socio-economic conditions of immigrants vs. natives and how these affect their ability to do business is important for appropriate remedial policy measures.

This note takes one step in highlighting how immigrant and native owners of informal businesses differ in Burkina Faso, Cameroons and Cape Verde. Our data source is a survey of informal businesses conducted by the World Bank’s Enterprise Surveys in 2008-09. A total of 371 unregistered firms were randomly selected in roughly equal proportion across the three countries. The survey provides information on the status of the largest owner of the business as a migrant or native of the city. In the remainder of the note, migrant or migrant-owned business refers to the case where the largest owner of the business migrated to the city where the business is currently located either from another
city within the same country or from another country. Roughly, 50 percent of the businesses surveyed are owned by immigrants. The figure ranges between 40 percent in Cape Verde and 65 percent in Cameroons. About 19 percent of all immigrants are from another country and the rest are internal migrants. Although our main focus in on the entire group of immigrants vs. natives, we provide some selective evidence on how “recent” vs. “earlier” immigrants compare with one another and with the natives; where recent immigrants include all those who migrated to the city within the last 3 years prior to the survey (18 percent of all immigrants). The remaining immigrants are defined as the earlier immigrants.

**Immigrants are more likely to be male, single and more likely to migrate at a relatively younger age**

In traditional societies, where women are seen as primary caregivers in the family and men as the main bread winners, migrating to another city and starting a business may be a particularly daunting task for women. Being married may impose additional responsibilities on men and women, reducing the chances of migrating to another city. Age is also known to be an important determinant of the decision to migrate, with the younger much more likely to migrate than the older individuals. Since we look at the entire stock of immigrants, we might suspect that these differences between immigrants and natives may be particularly sharp across recent and earlier immigrants and the natives. For example, having settled, earlier immigrants would like to get married and start a family, as much as natives.

Our data do not reject the above hypotheses. About 47 percent of the natives are women. The corresponding figure for immigrants is much lower at 33 percent (figure 1). Not too surprisingly, among recent immigrants, female ownership is even lower, equaling a mere 21 percent. The proportion of business owners that are single is roughly same for natives and immigrants (31 vs. 33 percent, respectively). However, among recent immigrants, the proportion of unmarried is much higher at 45 percent. A similar pattern is observed for the age of the owner. That is, the average age of a native is 39 years compared with 31 years for the recent immigrants and 39 years for the earlier immigrants.

**Figure 1: Compared with natives, immigrant business owners are less likely to be female than male**

<table>
<thead>
<tr>
<th>City</th>
<th>Natives</th>
<th>Immigrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full sample</td>
<td>50%</td>
<td>45%</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>45%</td>
<td>40%</td>
</tr>
<tr>
<td>Cameroons</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>31%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: Enterprise Surveys

**Immigrant-owned firms are smaller but more efficient**

There is now substantial evidence showing that the relatively disadvantaged groups such as women have businesses that are much smaller in size than males. Does this apply to immigrants, another
potentially disadvantaged group? We find some evidence that the answer to the question is in the affirmative. That is, immigrant-owned businesses are smaller than native-owned businesses in terms of the number of people working at the firm in a regular month (2.8 vs. 3.3, figure 2), but total sales in a regular month is much higher for immigrant-owned businesses (USD 6487 vs. 2973). In short, immigrant-owned firms have fewer workers but they are more efficient as measured by the average productivity of labor. Part of this higher efficiency of immigrant-owned firms can be explained by their relatively smaller size, but the rest remains unexplained.

**Figure 2: Immigrants have smaller businesses in terms of employment than the natives**

![Figure 2: Immigrants have smaller businesses in terms of employment than the natives](image)

Source: Enterprise Surveys

**Recent immigrants are less likely to be engaged in manufacturing than the rest**

High entry and sunk-costs that are typically associated with manufacturing relative to service (retailing) may be particularly unattractive to the newly arrived immigrants who may not be sure about their duration of stay and how they would fare in their new location. Pure retailing, with low entry and exit costs, may be a natural starting point for such immigrants. Our data do not reject this conjecture. About 49 percent of natives and 48 percent of the earlier immigrants compared with only 34 percent of the recent immigrants are engaged in manufacturing activity. The relatively low participation in manufacturing by the recent immigrants relative to the rest holds across all the three countries, although to a relatively small extent in Cape Verde.

**Recent immigrants are also less likely to work from home than outside**

Anecdotal evidence suggests that working from home or inside household premises is common in the informal sector. Compared with operating from outside household premises, working from home allows for a more convenient balancing of work and family responsibilities; the set-up cost of home-based work may also be lower. However, on the downside, working from home may signal that business activity is tangential or secondary to other (household) activities, making it difficult for businesses to, for example, obtain loans and lucrative contracts; home-based work may also insulate the entrepreneur, at the margin, from potential customers and suppliers. These possible detrimental effects may be especially
relevant to the recent immigrants, who are new to the city and also in the process of establishing their business.

Our data confirms greater proclivity among the recent immigrants relative to the rest to work from outside than from home. Specifically, 59 percent of the natives compared with 76 percent of the immigrants operate from outside than inside household premises. The corresponding figure for recent immigrants is much higher (85 percent) than for the earlier immigrants (74 percent).

Relative to natives, immigrants are more likely to use external finance and have a bank account
Contrary to what one might expect and relative to natives, immigrants show few signs of lagging behind in access to finance indicators including reliance on external vs. internal funds, having a bank account and difficulty in obtaining loans. In fact, in some ways, immigrants appear to be better integrated with the financial system. For example, the percentage of firms using externally borrowed funds from moneylenders, banks, microfinance institutions and credit from suppliers/customers for their day-to-day operations equal 45 percent for the group of immigrants and a somewhat lower 38 percent for the natives. Similarly, internal funds is the single most used form of finance for the day-to-day operations of the business for 67 percent of immigrant-owned businesses compared with 72 percent of native-owned businesses. However, due caution is necessary in interpreting these results as the reported differences are not statistically significant (at the 10 percent level). Similarly, the percentage of firms that are credit constrained defined as those who needed a loan but did not apply for it for reasons such as complex application procedures, high interest rates and lack of required collateral is roughly same for immigrants and natives (56 vs. 53 percent, respectively). Where immigrants do significantly outperform natives is in having a bank account. That is, only 33 percent of the natives compared with 44 percent of the immigrants use a bank account for business purposes.

Immigrants are as educated as natives and as motivated to exploit business opportunities
Common push factors mentioned above for migration such as low incomes are more likely to affect the less educated individuals. So, we might suspect that immigrants are likely to be less educated than the natives. For similar reasons, immigrants are more likely to start business in the informal sector out of necessity rather than to exploit business opportunities. Of course, the catch here is that we are looking at the informal sector which is likely to absorb a large number of relatively less educated natives as well as those natives that are unable to find suitable jobs elsewhere. The data show little difference between immigrants and natives in education level or motivation for starting the business (figure 3). For example, for the motivation to start a business, 76 of the natives vs. 72 of the immigrants reported desire to have own business rather than failure to find a job or loss of job or other reasons. These differences and the ones in education level shown in figure 3 are neither statistically significant nor economically large.

Figure 3: Immigrants have a similar level of education as the natives
Immigrants are no more or less likely than natives to be unemployed prior to starting the current business. However, fewer immigrants currently have a job in an established business. Anecdotal evidence suggests that lack of alternative jobs is a strong contributory factor to the size of the informal sector. Prior to starting the current business, about 26 percent of the natives were unemployed. The corresponding figure for immigrants is not too different, equaling 29 percent. In other words, there is little evidence to suggest that higher unemployment in the less developed regions of a country forces agents to migrate to the more developed regions and start an informal business. One area where immigrants in our sample lag behind the natives is in having a job in an established business. The survey shows that about 15 percent of natives compared with only 7 percent of the immigrants have a job in an established business. The difference is particularly sharp in Burkina Faso (15 vs. 4 percent), followed by Cameroons (9 vs. 5 percent) and Cape Verde (18 vs. 13 percent). Whether these differences are by choice or due to discrimination against immigrants is a moot point.

While the level of parental education is same for natives and immigrants, the latter are more likely to come from a business family. The level of education of parents is a reasonably good predictor of one’s socio-economic status. Using this indicator, we checked whether immigrants come from a relatively less privileged background the natives, but found little evidence of this. For the highest level of education of either of the owner’s parents, about 40 percent of the natives compared with 36 percent of the immigrants have parents with no education; primary education was achieved by 31 percent of the natives and 32 percent of the immigrants, while secondary education was achieved by 19 percent of the natives and 24 percent of the immigrants. Where natives and immigrants do differ is in the occupational background of parents. That is, about 45 percent of the native’s parents own a business compared with a much higher figure of 59 percent for the immigrants. The finding is somewhat surprising in that it implies that migration to another city in search of work is preferred over working in family business in one’s own city.
Immigrants are more likely to be victimized than the natives, especially when operating from outside household premises

Criminals often target the relatively weaker and the less protected sections of the society. Women and immigrants, especially the recent immigrants, may therefore be particularly prone to crime. Our data strongly support this hypothesis. For example, less than 7 percent of native-owned businesses compared with over 24 percent of the businesses owned by the recent immigrants and 10 percent of the businesses owned by the earlier immigrants. The corresponding figure for all migrant-owned businesses equals 12 percent. This holds despite the fact that there is not much difference in the proportion of natives, recent and earlier immigrants that spend on security (17, 15 and 22 percent, respectively). One could argue that working from home (inside household premises) may protect agents against crime; so, the difference between natives and immigrants in the incidence of crime may be particularly large for firms that operate from outside household premises. We find that this is indeed the case. About 6 percent of natives compared with over 13 percent of immigrants operating from outside household premises were victims of crime. For firms operating from home, the corresponding figures equaled less than 7 and 9 percent, respectively.

References

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i These figures are as reported by the International Organization for Migration (IOM), U.N. Details are available at http://www.iom.int/jahia/Jahia/about-migration/facts-and-figures/lang/en.
ii Data and sampling methodology are available at www.enterprisesurveys.org.
iii We check that this difference in sales is not due to difference in the industry composition (manufacturing vs. service) of native-owned vs. immigrant-owned firms.