

Stanford SOCIAL INNOVATION^{Review}

Feature

Strengthening Africa's Urban Informal Economies

By Joel Bothello & Tim Weiss

Stanford Social Innovation Review
Winter 2025

Copyright © 2024 by Leland Stanford Jr. University
All Rights Reserved

***Please do not share this PDF online or on social media (e.g. LinkedIn).
You can purchase copyright permission to make paper or digital reprints at ssir.org/reprint_permissions.***

Stanford Social Innovation Review
www.ssir.org
Email: editor@ssir.org

Strengthening Africa's Urban

CONVENTIONAL
NEEDS-BASED DEVELOPMENT
POLICIES CAN BE
HARMFUL TO INFORMAL
BUSINESSES.
BY SHIFTING TOWARD
AN ASSET-BASED APPROACH,
DEVELOPMENT
PROFESSIONALS CAN
IDENTIFY HOW EXISTING
SOLUTIONS
CAN FOSTER BUSINESS
RESILIENCE.

Informal Economies

BY JOEL BOTHELLO & TIM WEISS

Illustration by Lincoln Agnew

AFRICAN CITIES ARE HOME TO THRIVING INFORMAL ECONOMIES. Food vendors, taxi drivers, furniture makers, hairdressers, street hawkers, and waste collectors populate these rich ecosystems in cities ranging from Addis Ababa, Ethiopia, to Yaoundé, Cameroon. These economies account for more than half of employment in low-income and lower-middle-income countries and will increase in prominence as African cities receive a projected influx of 900 million additional inhabitants by 2050.¹

Because economic activities in the informal sector occur under the radar—i.e., they are untaxed and lack formal protections—informal workers and entrepreneurs are often highly vulnerable to crime, corruption, labor exploitation by employers, and clients who shirk payment. At the same time, informal economies play an indispensable yet underappreciated role in providing meaningful work, strengthening communities, and creating sustainable livelihoods for urban inhabitants, as well as migrants who struggle to find meaningful work. Urban informal economies therefore function as critical safety nets that prevent vulnerable populations from falling into destitution.

However, Western perspectives of informal economies are often dominated by the misconception that these economies are chaotic and immoral spaces that are impediments to economic development and progress. As business school academics who study economic



development in Africa, we have learned, in contrast, that these economies—and specifically the businesses that populate them—operate upon and are held together by a social order that is too often overlooked. More specifically, our research on informal businesses in Kenya and South Africa has pinpointed how cooperative arrangements fulfill crucial economic and social welfare functions in the absence of the state. Undergirding this social order are long-standing norms, values, and personal relationships that generate business practices and behaviors that are remarkably adaptive.²

In an equally insightful yet troubling discovery, we found that these local arrangements were and remain endangered by current development-policy paradigms that seek to replace informality with formal, Western-style economic arrangements. Much of conventional economic development focuses on entrepreneurship, innovation, job creation, and growth, and is oriented toward the transformation of informal economies to fill in what is perceived to be absent. In so doing, these interventions risk undermining existing economic and social-welfare systems. To prevent harm—and to strengthen what is working—development professionals must do much more to understand the dynamics of urban informal economies. We begin by sharing our research insights into two such economies, one in Kenya and the other in South Africa. We showcase the overlooked social orders in these contexts, how they are at risk of being transformed by conventional, needs-based development, and how an asset-based approach takes a fundamentally different view on strengthening urban informal economies.

THRIVING THROUGH SIMILARITY

INFORMAL BUSINESSES FOLLOW A SOCIAL ORDER. In Nairobi, we studied how a neighborhood called Dagoretti Corner became the location of 105 car-repair businesses.³ These businesses appeared rudimentary from the outside, with compacted dirt floors, corrugated metal walls, and a shed for tools. They seemed remarkably similar in other aspects as well: They offered the same services, were situated in the same neighborhood, and appeared to be identically organized. Despite these seeming redundancies, the number of car-repair businesses in this area grew dramatically, from 12 in 2001 to 105 nearly two decades later. What explains the colocation of these businesses at such scale?

The conventional economic explanation for clustering is that it provides a strategic location within a city where people can conveniently compare offerings for a particular service. But this explanation does not hold for this location, since many such car-repair sites exist across Nairobi—some even in the vicinity of Dagoretti Corner. More crucially, customers in need of car maintenance or repair tended not to enter unsolicited and shop around. Instead, they sought a referral by an existing customer who had a relationship with a particular car-repair business.

At first glance, one might assume that Dagoretti Corner's cluster of businesses was stagnating because of a lack of specialization and differentiation. However, our research found that, on the contrary, the businesses were surviving and thriving *because* of

their colocation and their similarities, which allowed them to create an informal social-welfare system. Because they collaborated with, rather than competed against, each other, business owners supported each other in intriguing ways. We became attuned to the social order of interdependent relationships between businesses—a mutualistic bond that ties businesses together, despite existing in an environment of crime, corruption, and government negligence. This created a local solution for preventing entrepreneurs, their workers, and their families from slipping into destitution.

Car-repair businesses were not in competition with each other, for instance, by undercutting prices. In fact, competing against each other was sanctioned and policed by business owners, one of whom explained, “We have this code of respect. Don’t go and call somebody’s client.” Instead, they saved money together and invested together. They provided apprenticeships for school dropouts from rural Kenya. They created business opportunities when apprentices graduated. And, perhaps most important of all, they provided an informal insurance system that covered not only business owners and garage workers but also their families. In short, the businesses and the people that operated them invested substantial resources into the collective instead of just themselves. In doing so, they were assured that they would be supported whenever a need arose.

Two examples demonstrate the importance of pooling resources. First, the car-repair businesses in Dagoretti Corner saved and invested together. “We have a group which is like a *chama* [an informal rotating savings and credit association] for the garage owners,” one owner told us. “We are many. Around 50 members.” Although *chama*-like associations are common around the world, particularly in rural areas and among women, this *chama* was unique because it was composed of business owners who came together to pool resources. Members made regular, and often substantive, contributions to collective associations as a way to enhance their resources, access lines of credit from each other, and invest in business activities other than car repair, such as buying real estate to grow collective wealth.

Second, these businesses created an informal insurance scheme to prevent members and their families from falling into destitution. Illnesses, medical emergencies, and deaths in the family were catastrophic costs that could drive these vulnerable populations into financial ruin. Since formal insurance schemes were unaffordable, mechanics helped each other, an ethos in Kenya known as *Harambee*, translating to “let us all pull together.” One business owner told us, “If a book comes around, we will definitely have to contribute. Today, it’s them, and tomorrow it will be you. ... You are the boss, so you have to pitch in.” A book was a type of registry in which each garage’s donations were recorded and subsequently given to those who were affected by misfortune. This one-time, rapid-response mechanism gave workers access to resources that would otherwise have been inaccessible. The insurance payments were not like loans that would have to be repaid with interest. Instead, they were paid forward, in that contributors trusted others to chip in to support the cause if misfortune were to befall them. Without this trust, the social-welfare system would collapse, and with it the mutualistic bond that supported 105 businesses.

The social order was self-generated to ensure that the businesses survived and thrived, despite the often harsh conditions characterizing this informal economy. It was not governed by a central authority, such as a chief or elected representative; instead, it was decentralized and enacted through group-level mutualistic norms and solidarity practices between businesses.⁴

THRIVING THROUGH CONCEALMENT

WHILE WE WERE CONDUCTING OUR research in Dagoretti Corner, we studied an informal economy in Delft, a township on the outskirts of Cape Town, South Africa. The initial research goal was to catalog the businesses operating in this area that formal census takers overlooked. Townships are dormitory settlements on the periphery of major urban areas in South Africa, constructed primarily during the period of apartheid to house Black and mixed-race South Africans. As a result of the legacy of apartheid and ongoing socioeconomic exclusion—coupled with high levels of immigration from other regions of Africa—many entrepreneurs in the township confront daily occurrences of crime and xenophobia. Delft regularly ranks among the municipalities with the highest murder rates in the country.

Despite these vulnerabilities, the township also features a thriving and growing informal economy. In contrast with the dismal unemployment numbers of the official census, Delft South, a large subdivision of the township, alone has 560 businesses per square ki-

The data collection, conducted in multiple waves between 2010 and 2021, revealed dynamics such as dormancy (where businesses hibernated during low-demand periods until economic conditions improved) and the emergence of new industries such as short-term accommodation rentals. To validate the findings, local community members or those with preexisting ties to Delft collected the data.

With this information, we sought to document what economic activity looked like in Delft. We were surprised to find that many of these businesses were concealed from public view. For instance, many *shebeens* (underground taverns) lacked signage and other commercial markers and were instead identifiable through the presence of bottle caps on the lawn. The concealment was, in certain ways, sensible for an informal business: Higher visibility increased the risk that the business would become a target for criminals, police, and/or xenophobic neighbors. But how could these businesses survive and grow if they were hidden?

The answer lay with community support. The business owners who concealed themselves could afford to do so because they had built deep relationships in their geographic, ethnic, and religious communities and did not need to promote their businesses. They tended to be older South Africans who had lived in Delft for most of their lives and were thus embedded in their neighborhoods. They also tended to be women, who were less able to venture outside Delft to establish their business because of care duties at home and the threat of gender-based violence. These business owners operated viable but concealed enterprises primarily out of their homes, eschewed signage, kept shorter hours, and had few or no employees. Crucially, they could depend on their community for not just patronage but also protection from crime and corruption.

**How could businesses survive and grow if they were hidden?
The answer lay with community support.
The business owners who had concealed themselves could
afford to do so because they had built deep relationships in their communities
and did not need to promote their businesses.**

lometer—18 times that of the greater New York metropolitan area. In fact, between two major surveys of Delft, in 2011 and 2015, the number of microenterprises had more than doubled from 824 to 1,798 within two square kilometers.⁵ Many business owners were operating successful ventures—some growing and even diversifying into other industries—yet chose to remain in Delft.

In collaboration with the Cape Town-based nonprofit Sustainable Livelihoods Foundation (SLF), we examined 1,600 township entrepreneurs operating in Delft to understand how their businesses survived and overcame the considerable challenges facing them.⁶ SLF pioneered a method called the small-area census, which combines survey, interview, geospatial, and photography data to generate a comprehensive image of township economies.

In this way, business owners in a dangerous environment created sustainable livelihoods because they were entrenched in a communal structure that concealed and shielded them.

A mixed-race South African woman we interviewed, for example, operated an unmarked wedding-rental business in her living room in Delft South. She was nearing 60 and operated her business alongside her husband and children. She also ran a weekly soup kitchen out of her home, supplied by vegetables growing in her backyard, and was an active member of the Ismaili (a branch of Shia Islam) community in Delft. Because she belonged to these communities and networks, she did not need to seek clients. “Through word of mouth, people in the community hear about me,” she said. “I’m always busy on the weekends with events.”

Informal-economy systems are at odds with —and risk being disrupted by— dominant development policies of governments, aid agencies, and for-profit actors. Such approaches are anchored in Western norms and measures of socioeconomic progress.

Relationships were of fundamental importance among the most robust businesses in Delft. An older South African mechanic we interviewed had no shortage of clients because he and his children were well known within the spinning community (spinning is a popular South African motorsport). His customers contacted him through spinning groups on WhatsApp, as well as through the church adjacent to his business. Similarly, a popular Delft pastor operated a bakery, tailor shop, and a tech hub within his church—businesses that were unmarked on the outside but known to and patronized by his congregants. Across these examples, community embeddedness was pivotal to supporting the businesses and reducing risk.

Those without community support were more vulnerable to theft by petty criminals, product confiscation by police, or extortion by gangs. A Nigerian migrant operating a stall on a street with high foot traffic sold miscellaneous goods such as socks, underwear, and nail clippers. His only community was an evangelical church in another neighborhood. He sought to make his business visible to clients but felt exposed to attacks or theft: “I used to pay a gang member [protection money]. If I didn’t pay, he would take my products. ... He was killed [recently], but someone else could take his place at any time.” In the interim, the high-foot-traffic location of his business earned him between \$2 and \$5 daily.

In contrast with Dagoretti Corner, where relationships among businesses created a social-welfare system, the arrangements in Delft between entrepreneurs and their respective social, religious, and geographic communities safeguarded businesses from external threats. Despite the diminished visibility, the embeddedness of these owners ensured a steady stream of customers, allowing the entrepreneurs to create livelihoods for themselves and their families while minimizing undesirable attention.

PITFALLS OF CONVENTIONAL APPROACHES

OUR FINDINGS IN DAGORETTI CORNER and Delft indicated that these informal economies functioned within social orders that conventional development practitioners often overlooked. What facilitated their existence was not so much the actions individual business owners took as the *in between*—their relationships to other businesses and the communities in which they were embedded. Mutual support and community em-

beddedness created a protective layer around businesses and their owners in informal economies, enabling them to survive and thrive.

These insights taught us that these systems were and remain at odds with—and at risk of being disrupted by—dominant development policies of governments, aid agencies, and for-profit actors. Such approaches are anchored in Western norms and measures of socioeconomic progress. The interventions primarily target entrepreneurs and their businesses and aim to induce entrepreneurial growth, differentiation, and formalization with the hope of enabling broader economic development and—through tax revenue—social development. Although well-intentioned, these aspirations tend to be based on implicit assumptions of what economic activities *should* and *could* look like in these contexts and what deficits require filling to make such aspirations a reality. Such needs-based approaches also overlook the social fabric of informal economies, potentially eroding the mutualistic and community bonds safeguarding informal workers and business owners.

The construction of “needs” in an informal economy creates a basis for external intervention (e.g., theories of change by development specialists). The intended beneficiaries of these initiatives are often individual entrepreneurs and their businesses.⁷ For instance, World Bank-led entrepreneurship development programs focus on identifying scalable formulas, seeing informal business owners as entrepreneurs who need to identify business opportunities and differentiate their offerings so that they can employ more people and generate higher sales and profits.⁸ Measurements of success tend to be limited to indicators such as changes in individual mindsets and business-revenue growth.⁹

The effects of these interventions on the relationships between businesses—and with their communities—are rarely measured and therefore insufficiently understood. Such relationships are often seen as hindrances to progress, as they keep individuals from becoming market-driven and competitive. Instead, randomized controlled trials (the gold standard of development economists) allocate support or intervention for some owners and businesses and not for others. Although this method makes sense from the perspective of those testing the efficacy of interventions, the control group bears the social cost of having no support and potentially being left behind. In addition to possible social rifts this dynamic may cause in the community, businesses that stay hidden to ensure successful operation may never receive support—because development actors will simply be unaware of their existence. As a result, such well-intended interventions risk frac-



turing the social order between businesses as they introduce previously unseen socioeconomic asymmetries.

Beyond these issues, large-scale efforts to formalize businesses and introduce norms such as property rights may be detrimental. For instance, a study on Argentinian squatters randomly given land titles (i.e., property rights) found that these individuals were more likely to develop individualist and materialist market beliefs (e.g., that one can be successful without the support of a community) than were squatters who did not receive such titles.¹⁰ In other words, the collectivist ethos in this setting was eroded by the introduction of individual-oriented market norms and in-

stitutions such as property rights.

Similarly, in urban Ghana the development of modern market infrastructure is displacing the traditional institution of Ghanaian market queens, women who regulate industries ranging from tomatoes to textiles.¹¹ The creation of formalized market stalls has induced scarcity, limiting the number of market participants that can operate within the new market, dispersing traders across multiple locations, and, in doing so, undermining the queens' ability to govern their traders. Likewise, multinational corporations' strategy of formalizing telecommunications and consumer-goods markets in rural Ghana has crowded out local informal market intermediaries who sold cell phone minutes or single-serve items.¹² A crucial problem, therefore, is the proclivity of external development interventions to overlook and undermine locally developed collective solutions that allow informal-economy businesses and workers to function effectively.

Dagoretti Corner and Delft are similarly vulnerable to development interventions. With its 105 colocated car-repair businesses, Dagoretti Corner appears from a Western perspective to be inefficiently organized and lacking in competitive dynamics. Informed by principles from industrial organization and strategic-management textbooks, the conventional solution would instruct mechanics to disperse themselves more evenly across the city to avoid direct competition, to perhaps merge and develop economies of scale, or to specialize in a particular service or vehicle manufacturer to differentiate themselves from other mechanics. Pushing

toward distinctiveness, in terms of either car-brand expertise or cost, would potentially create a basis for specialization, efficiency, and ultimately profitability and growth, generating a possible pathway out of poverty. Ostensibly, formalizing the cluster would also aid in this goal, providing access to finance for growth or signaling further legitimacy to potential customers. Yet pushing forward such a comprehensive development agenda would likely destroy the informal social-welfare system, along with its economic and social safeguards. While a few mechanics could benefit from this arrangement, the majority would be at high risk of personal destitution.

Similar risks apply to the businesses in Delft, where a needs-based approach would mistake the lack of visibility of businesses as an absence of business altogether. Interventions promoting formalization would be potentially counterproductive. For instance, formalization in the townships involves costly bureaucratic engagements such as land rezoning and building approval, which make the business more visible to the state.¹³ The process also sends a signal to other stakeholders (e.g., competitors) that the entrepreneur is successful enough to undertake the administrative costs of exiting the informal economy. Similar issues arise with prescriptions for growth: Pursuing growth (through, for instance, seeking more clients or employing more staff) would increase attention from jealous neighbors, as well as resource-extracting stakeholders like criminals or corrupt law-enforcement officers, who would potentially demand money for protection. Such interventions would generate undesirable attention and leave business owners worse off.

Given the drawbacks of a needs-based approach to development that focuses on the individual and the firm, what if instead we focused on the *in between*, the relational fabric that exists not only among businesses but between businesses and their communities?

TOWARD AN ASSET-BASED APPROACH



AN ASSET-BASED VIEW OFFERS a compelling alternative.¹⁴ Since it emerged in the field of community development in the early 1990s, the approach has challenged the prevailing view that US neighborhoods are full of victims and problems requiring fixing. Instead, proponents of the asset-based view adopt an approach centered on this inquiry: What has the community done to make things better? Asking this question shifts the focus from an outside-in problematization that creates a basis for intervention by external actors toward an inside-out perspective that identifies and leverages existing strengths, resources, and capabilities within communities. The approach has been applied around the world to tackle issues ranging from crime to urban blight.¹⁵

Although multiple types of underappreciated resources exist within communities (e.g., individual human capital, stories, and spaces), the asset-based view focuses on social capital—i.e., building and strengthening relationships and trust among community members. The formation of community networks and associations is what allows inhabitants to tackle problems on their own terms. When the focus is on relationships, rather than individual actors, the role of external intervention shifts from direct imposition toward facilitation and support of existing social arrangements and initiatives.

An asset-based approach is a generative lens that can assess how urban informal economies and the businesses that constitute them sustain themselves. Applied to settings like Dagoretti Corner and Delft, the asset-based view encourages us to recognize and build upon existing solutions and reveal the social orders that shape business in these contexts. For example, the unique business practices that ensure survival in urban informal economies should

not be conceptualized simply as obstacles to growth but should instead be considered as possible safeguards that can prevent people from falling into destitution, even in the harshest of conditions. Similarly, an asset-based view examines how entrepreneurs are enabled, rather than limited, by their community embeddedness. When we move away from “what should be,” a deeper appreciation of “what is” emerges.

In practice, an asset-based approach would assess and then intervene in Dagoretti Corner in a way that is fundamentally different from a more conventional, needs-based approach. Community-centered methodologies could identify how businesses operate in Dagoretti Corner to comprehensively capture the mutualistic bonds created by businesses and then identify ways in which these could be further strengthened. An asset-based approach would recognize that car-repair businesses grow together and that thus any intervention of upgrading organizing and marketing skills would need to ensure that anticompetition norms between businesses stay intact and that all businesses benefit. Interventions could be targeted at making the informal insurance schemes more robust to increase their capacity for rapidly supporting struggling business owners, mechanics, and their families. This informal provision of social welfare is particularly important given recent experiments showing that Kenyans do not use formal health-care policies, even when those are offered free of charge.

An asset-based approach could also support businesses in identifying their own vulnerabilities, as well as ways to handle free riders who exploit the social-welfare system or customers who prey on car mechanics. Reputation, for instance, is a double-edged sword in Dagoretti Corner: Mechanics are highly effective at collectively dealing with and adjudicating misbehavior, ranging from theft to repeated shoddy repair work to drunken mechanics, in order to protect the reputation of Dagoretti Corner as a safe haven for high-quality workmanship. Yet mechanics often have abandoned cars in their workshops, covered with thick layers of dust, sometimes occupying more than half of their workspace. These cars are often repaired but then never picked up by their owners. Given the relational nature with their customers, business owners are reluctant to sell these cars, even if they could do so lawfully. An asset-based approach would propose developing a collective rule for disposing of such vehicles in a manner that would preserve the reputation, legitimacy, and integrity of Dagoretti Corner.

In Delft, an asset-based approach would focus on strengthening the existing social and economic fabric, rather than improving the economic viability of individual entrepreneurs and businesses. For example, a neighborhood watch association called the Community Policy Forum (CPF) formed to patrol Delft streets at night to ensure that any conflict would be deescalated before it led to violence. In interviews, CPF members shared that they were less likely to be the target of home burglaries because the Delft gangsters knew and respected them. Such mechanisms of community-based justice and governance have the potential to be further supported and scaled up.

An asset-based view of development focuses on working with, rather than against, the existing strengths of informal economies. This means valuing and enhancing the collective problem-solving abilities, informal insurance mechanisms, and community-based

support structures that already exist. It also involves appreciating that business success is often a collective, rather than individual, achievement. Following an asset-based approach, development agendas must ensure that they fully comprehend these collective assets.

AN ASSET-BASED AGENDA

AN ASSET-BASED APPROACH eschews radical innovations that promise to lift people quickly out of poverty. Instead, the approach identifies and reinforces—and, in some cases, encourages incremental improvements to—ongoing local practices, processes, and arrangements that are already enabling resilience at great scale. Below, we indicate how an asset-based approach offers opportunities for rethinking current economic development in urban informal economies. In doing so, we seek to bolster the existing ability of these settings to safeguard economic activities and generate livelihoods for their inhabitants.

Opportunity 1: Redirect the portfolio approach. | In recent years, economic development practice has begun to embrace a portfolio approach, which involves implementing multiple interventions in parallel, rather than engaging in a single point of change.¹⁶ Such thinking recognizes that informal economies are dynamic, interconnected systems that are unique from one setting to the next, and that the participation of the local community is critical to the change process. This perspective—albeit in a nascent stage—is commensurate with the asset-based approach, which recognizes that businesses and communities in informal economies are inter-

and well-established problem in informal economies. A conventional portfolio approach would advocate not only for access to financial institutions but also for financial and accounting literacy training for business owners. An asset-based approach, conversely, would recognize that local financial solutions already exist, such as rotating saving and credit associations (ROSCAs), which are common in several African countries (in Kenya they are called *chamas*, and in South Africa, *stokvels*). Despite high interest rates for some of these arrangements, many of the communities we encountered prefer them to formal bank accounts, mainly because of distrust of formal financial institutions.¹⁷

Thus, rather than building new lending facilities, an asset-informed perspective for access to finance would begin by strengthening existing financial arrangements and finding productive ways to interact with them. Interventions here could focus on identifying and trialing more robust governance structures that enhance the ROSCAs' capacity to meet members' financial needs while lowering risk and, by extension, interest rates. Alternatively, in countries like Kenya, where greater trust in mobile finance exists, digital technologies can play a role by allowing members to monitor payments in a common mobile banking account, requiring checks and balances for withdrawals and as such engendering more safety for all ROSCA members. Here, development interventions interface with, rather than displace, existing arrangements.

In addition, instead of sidestepping existing assets by channeling funding and capacity-building through separately created entities, preexisting assets can be used in an equally, if not more, effective manner. A case in point is the *hawala* system, an informal money distribution system widely used among Muslim populations, which aid agencies leveraged to disburse large sums

Strengthening the ability of urban informal economies to absorb the large projected influx of migrants to African cities may mean investigating informal apprenticeship systems and identifying ways to enhance their capacity to train and accommodate more workers.

dependent and that lived experience shapes business activity.

Yet, even in this paradigm, the underlying philosophy of a portfolio approach is premised on unfulfilled needs, where informal economies are understood as problematic and deficient systems requiring multipronged interventions. Although the local community is involved, the external agent is still the protagonist that engages in, for instance, rapid ethnographies (i.e., short field observations taking place over a few weeks, rather than the months or years of typical ethnographies) aimed at transformative change.

Reframing the portfolio approach to be asset informed, rather than problem centered, opens an opportunity to identify a range of collective solutions that already exist in an informal economy. Take access to credit for business growth, a long-standing

of money in Afghanistan, rather than build up their own capabilities and reporting requirements.¹⁸ The rich ecosystem of preexisting money pooling and distribution systems that governs urban informal economies can—rather than being replaced altogether—be made more robust by reducing free-riding and theft opportunities.

Opportunity 2: Recognize human development in informal economies. | An asset-based approach provides a useful basis for understanding how informal economies upgrade the skills of those who join them. Dagoretti Corner represents an informal arrangement that has been absorbing and training large numbers of unskilled migrants from rural areas for decades, offering them opportunities to create and sustain new businesses. The growth of this neigh-

borhood is due in part to the apprenticeship system through which people from rural areas become connected to car mechanics in Nairobi. Here, informal networks of extended families tend to facilitate the matching of unskilled labor with training opportunities. Apprentices then train on the job for two to three years, preparing to launch their own business or become a mechanic at another garage. In Delft, similar networks exist for foreign nationals such as Somalians, who use kinship networks to create apprenticeships for new Somali arrivals or build low-cost supply chains.¹⁹

Strengthening the ability of urban informal economies to absorb the large projected influx of migrants to African cities may mean investigating informal apprenticeship systems and identifying ways to enhance their capacity to train and accommodate more workers. This concept is particularly important because the entry barriers to the formal sector are high and job opportunities are scarce. One way of enhancing capacity could be through support of on-site training opportunities that meet apprentices where they are, rather than building up costly technical colleges and having them enlist. In informal economies, learning occurs by “doing” on the job, not by being “taught” concepts in an unfamiliar educational setting. Bringing knowledge to apprentices and places where they work could be a low-cost model of knowledge deepening and upgrading at scale.

At an elementary level, an asset-based approach could take stock of the abilities, skills, and other assets in an informal economy before launching any type of intervention. SLF has done so by bringing together entrepreneurs from Delft to engage in a hand-mapping exercise, where participants trace both their hands and write on

are highly distrustful of outsiders, especially those they deem potential representatives of the state. Discovering existing solutions in these settings therefore requires new types of collaborations.

We see an opportunity for long-term research capacity to be developed through research-driven, community-based organizations. For example, unlike nonprofits constrained by the narrow, short-term proposal cycles of donor agencies, SLF began by inductively studying the dynamics of the township economy, free from donor agendas. The nonprofit adopted careful methods of entry into the township with its small-area census, hiring and training locals to do fieldwork systematically, street by street.²⁰ Even small details, such as the manner in which SLF entered the field, were important: Its researchers conducted surveys on bicycles while wearing SLF attire to appear nonthreatening to respondents. Importantly, many of the subsequent SLF programs were actively cocreated with township inhabitants, aligning with the ethos of respecting local knowledge and expertise by allowing community members to define what constitutes a “solution” or “success.”

SLF not only identified the existing assets of Delft but also cocreated new solutions that people in Delft perceived as worthy. For example, SLF engaged in a project called Safe Shebeens, working with tavern owners to tackle the problem of alcohol-induced crime and violence in the *shebeens* (e.g., by writing house rules and assigning each rule an easily identifiable symbol). In line with the aims of the asset-based approach, the tavern owners taking part in the process also developed a sense of solidarity (by sharing business best practices) and collective responsibility (holding each other accountable for maintaining order in their respective *shebeens*).

The needs-based development philosophy is anchored in the idea of “raising the ceiling”—in other words, removing constraints preventing entrepreneurial individuals from escaping poverty. An asset-based approach, on the other hand, starts with reinforcing the floor.

each finger of one hand five skills, and on the other hand five values that help their business. Through this exercise, they reflect upon what assets, skills, and values they possess, rather than on what they are missing. Such practices help to reinforce entrepreneurs’ confidence in what they are doing that is working.

Opportunity 3: Build and collaborate with community-based organizations that prioritize research. | Conventional data-collection efforts have been implemented mainly by state agencies or contract-based expert consultants, involving either highly visible entrances into impoverished areas (e.g., in SUVs with armed security) or the removal of research participants from their neighborhood. Yet these approaches are problematic, given that inhabitants of informal economies are oftentimes marginalized and vulnerable and thus

SLF’s work across multiple townships reveals that no two urban informal economies are the same. This discernment stands in contrast with much of the development work and research that focuses on collaborations with highly skilled research labs to implement randomized controlled trials, with the aim of generating insights that can be generalized across settings. An asset-based approach would redirect some of this effort to support research-driven community-based organizations; here the goal would be to reveal context-specific insights about the social orders of urban informal economies. As many such organizations already exist across the African continent, development efforts must therefore support these organizations as they build inductive research capacity, which can be more cost effective than broad, multisite interventions and can also, importantly, generate critical and unexpected insights.

Opportunity 4: Demarcate formalization, professionalization, and growth. | An asset-based approach is not necessarily at odds with formalization, business professionalization, or growth. Rather, these transformations should happen without undermining existing social and economic support systems. Research in the market of La Salada, in Buenos Aires, Argentina, has shown that the market is structured to offer newcomers not only a low barrier to entry but also pathways to scale businesses into increasingly more formal structures.²¹ Specific areas are demarcated for higher-performing businesses that enjoy increasing visibility and more customer traffic.

In Dagoretti Corner, business owners that sought to grow left the area to establish their own, formalized businesses. Similarly, in Delft, growth-oriented entrepreneurs sought clientele outside the township. For example, we interviewed a woodworker who had recently been released from prison and posted and sold his products on Facebook Marketplace. A craftswoman who made beaded jewelry opted to leave Delft to sell her wares on weekends on a waterfront boardwalk in Cape Town. These examples illustrate pathways to growth that already exist and do not challenge, but are commensurate with, collectivist norms. When such pathways are reinforced, the transition to growth becomes easier for informal businesses and existing welfare systems remain intact.

A MINDSET SHIFT

THE NEEDS-BASED development philosophy is anchored in the idea of “raising the ceiling”—in other words, removing constraints preventing entrepreneurial individuals from escaping poverty. An asset-based approach, on the other hand, starts with reinforcing the floor—improving the safeguards that prevent vulnerable populations from falling into destitution. These approaches are not mutually exclusive and can be implemented in tandem. We envision, for instance, a phased approach in which development approaches start by asking, “What are the ways in which people and businesses safeguard each other from worse poverty outcomes?”

This analytical shift invites an appreciation for how businesses and the communities they are embedded in facilitate survival and thriving amid harsh conditions. Once a comprehensive, context-sensitive understanding of preexisting solutions is developed—and measures that can further strengthen these solutions are trialed—conventional development policies can identify approaches to facilitating upward mobility and resource accumulation. The work to strengthen urban informal economies thus starts by increasing the resilience of existing safety nets and welfare systems before engaging in interventions to lift people out of poverty. ●

JOEL BOTHELLO is an associate professor in management at the John Molson School of Business and Concordia University research chair in Resilience and Institutions.

TIM WEISS is an assistant professor in the department of management and entrepreneurship at Imperial College London. He is cofounder of the Interdisciplinary Network for Technology and Entrepreneurship Research in Africa (INTERA) and editor of *Digital Kenya: An Entrepreneurial Revolution in the Making*.

NOTES

- 1 OECD/UN ECA/AfDB, *Africa's Urbanisation Dynamics 2022: The Economic Power of Africa's Cities*, Paris: OECD Publishing, 2022.
- 2 Paul C. Godfrey, “Toward a Theory of the Informal Economy,” *Academy of Management Annals*, vol. 5, no. 1, 2011.
- 3 Tim Weiss, Michael Lounsbury, and Gary Bruton, “Survivalist Organizing in Urban Poverty Contexts,” *Organization Science*, January 2024.
- 4 Mary Njeri Kinyanjui, *African Markets and the Utu-ubuntu Business Model*, Cape Town: African Minds, 2019.
- 5 Andrew J. E. Charman and Leif Petersen, “Temporal and Spatial Enterprise Change in a Township Informal Economy: A Resurvey of Micro-enterprises in Delft South,” *REDI3x3*, February 2017.
- 6 Robert S. Nason et al., “Sight Unseen: The Visibility Paradox of Entrepreneurship in an Informal Economy,” *Journal of Business Venturing*, vol. 39, no. 2, 2024.
- 7 Susan Watkins, Ann Swidler, and Thomas Hannan, “Outsourcing Social Transformation: Development NGOs as Organizations,” *Annual Review of Sociology*, vol. 48, no. 1, 2012.
- 8 Alexandria Valerio, Brent Parton, and Alicia Robb, *Entrepreneurship Education and Training Programs Around the World: Dimensions for Success*, Washington, DC: World Bank, 2014.
- 9 David McKenzie et al., “Training Entrepreneurs,” *VoxDevLit*, vol. 1, no. 3, 2021.
- 10 Rafael Di Tella, Sebastian Galiani, and Ernesto Schargrodsky, “The Formation of Beliefs: Evidence from the Allocation of Land Titles to Squatters,” *The Quarterly Journal of Economics*, vol. 122, no. 1, 2007.
- 11 Arielle B. Newman and Jay B. Barney, “Entrepreneurial Political Action in the Informal Economy: The Case of the Kumasi Petty Traders,” *Entrepreneurship Theory and Practice*, vol. 48, no. 1, 2024.
- 12 Stephanie Decker and George Obeng Dankwah, “Co-opting Business Models at the Base of the Pyramid (BOP): Microentrepreneurs and Multinational Enterprises in Ghana,” *Business & Society*, vol. 62, no. 1, 2023.
- 13 Andrew J. E. Charman, Leif Petersen, and Thiresen Govender, *Township Economy: People, Spaces and Practices*, Cape Town: HSRC Press, 2020.
- 14 John Kretzmann and John P. McKnight, *Building Communities from the Inside Out*, Chicago: ACTA, 1997.
- 15 Alison Mathie and Gord Cunningham, “From Clients to Citizens: Asset-Based Community Development as a Strategy for Community-Driven Development,” *Development in Practice*, vol. 13, no. 5, 2003.
- 16 UNDP, *System Change: A Guidebook for Adopting Portfolio Approaches*, Bangkok: UNDP, 2022.
- 17 Sustainable Livelihoods Consultants, *The State of Financial Participation Amongst Township Residents: A Qualitative Investigation* (unpublished report), Cape Town: FNB SLC, 2019.
- 18 Charles-Antoine Hofmann, “Cash Transfer Programmes in Afghanistan: A Desk Review of Current Policy and Practice,” background paper, London: Humanitarian Policy Group, 2005.
- 19 Andrew J. E. Charman, Leif Petersen, and Lawrence Piper, “From Local Survivalism to Foreign Entrepreneurship: The Transformation of the Spaza Sector in Delft, Cape Town,” *Transformation: Critical Perspectives on Southern Africa*, vol. 78, no. 1, 2012.
- 20 Andrew J. E. Charman et al., “Small Area Census Approach to Measure the Township Informal Economy in South Africa,” *Journal of Mixed Methods Research*, vol. 11, no. 1, 2017.
- 21 Silvia Dorado and Pablo Fernandez, “An Institutional Framework to the Scaling Up of Inclusive Social Innovations: The Case of La Salada,” in Gerard George et al., eds., *Handbook of Inclusive Innovation*, Cheltenham, England: Edward Elgar Publishing, 2019.