Institutions, informality, and conflict in the Sahel
The case for Mali

Ahmadou Aly Mbaye
Nancy Benjamin
Ahmadou Aly Mbaye is a nonresident senior fellow with the Africa Growth Initiative at the Brookings Institution and the vice-chancellor of University Cheikh Anta Diop.

Nancy Benjamin is a nonresident research fellow at the Development Policy Research Unit at the University of Cape Town.

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Abstract

The Sahel is a place of longstanding traditions currently coping with global networks of violent militias. Consequently, there is a surge in the value of national-level public assets, such as security and education systems, prompted by the exploitation of the lack of good governance across the Sahara desert.

Our objective is to integrate the latest governance research with original survey-based results from the Sahel region in order to improve on policy approaches to increasing economic resilience.

The survey data support our recommendations, first by suggesting increased focus on central and local government cooperation, as it documents the importance that business owners place on security and their willingness to trust the central government to help guarantee that security. Second, our survey data show that the local agenda needs to be concerned with the business climate affecting the overwhelmingly informal economy. Third, our survey data show that the local agenda should not be focused only on providing credit rather than grants. Fourth, the surveys document broad concerns with climate change.
1. Introduction

Two facts about the Sahel are indisputable: (i) The sub-region has seen an increase in violent conflict since 2012; and (ii) most of the economy is informal. This paper highlights research that looks at the intersection between these two facts. It asks: How can the productivity of (mostly informal) enterprises be increased in the presence of violent conflict? And how does the presence of informal enterprises affect strategies to mitigate conflict? A third phenomenon, climate change, cuts through both questions.

The underlying project addresses these questions with information gained from surveys of informal firms in Mali and Niger. In form and methodology, the surveys are similar to others the authors have conducted in West and Central Africa (Benjamin & Mbaye, 2012) (Mbaye, Golub, & Gueye, 2020). The samples of firms surveyed and interviewed are drawn both from the capital cities, Bamako and Niamey, and from smaller towns closer to the conflict zones: Mopti in Mali and Diffa in Niger. A total of 700 firms were surveyed in Mali and 856 in Niger.

Given the prevalence of informality in the Sahel economies, raising their people’s economic circumstances requires improving the business climate for informal firms, and several recommendations from our research are in this domain. However, the signature characteristic and most urgent problem in the Sahel is conflict. Many experts have identified the role of weak institutions at the heart of these conflicts and proposed useful agendas for lessening the risks and damage of conflict in the region. The unique contribution of these business surveys in this conflict environment is to strengthen these reform agendas by adding a necessary focus on creating conditions to protect economic investments. This focus adds, for example, to the motivation for increasing central government presence in local areas and strengthening institutions in support of fiscal decentralization. The surveys inform these conclusions by documenting the importance that business owners and civil society place on security, and the key role played by their trust in the central government in guaranteeing that security. Finally, the informal business survey results help us watch out for ways that adaptation to climate change may feed back into conflict.

The surveys of informal firms help point out the best avenues for enhancing the business climate in a conflict-affected environment. For example, research on conflict and post-conflict zones in Africa indicates that grants are more effective in re-building capital stocks than is increasing the supply of credit to small firms, and our survey results reinforce the value of this approach.

2. The conflict/informality nexus in the Sahel

Sahelian economies and populations share many features of other sub-Saharan African countries—including high fertility and youth unemployment rates—but many of the sub-region’s challenges in this area are far more acute than elsewhere. Fertility rates and population growth in Sahel are the highest in the world. Youth make up more than 65 percent of the total labor force and are mostly either unemployed or underemployed, with only two to eight percent finding jobs in the formal private and public sectors (Mbaye & Gueye 2018). These demographic trends put strong pressure on living standards as well as access to infrastructural services and decent jobs. Poverty incidence is higher in the Sahel than in other African countries, with up to 80 percent of the population living on less than $2 per day. Some of these countries have large endowments in natural resources, such as oil in Chad and uranium in Niger, but these capital-intensive industries have been of little help in increasing incomes, raising standards of living, and creating decent jobs. The picture is further darkened by...
critical governance weaknesses, political turmoil, and radical Islamist threats that have brought about serious security challenges and massive forced displacements of people.

In Africa’s recent history, conflict has become one of the main causes of deterioration of economic conditions. While, globally, most stable developing countries are on track to reach the target of eradicating extreme poverty by 2030, fragile states are not (Burt, Hughes, & Milante, 2014). Indeed, the share of extreme poor that are residents of fragile states grew dramatically from 2005 to 2010 and is projected to double by 2030 (Gertz & Chandy, 2011).

At the same time, economic growth can help countries emerge from conflict: Some studies identify economic opportunity as a major factor in developing resilience in fragile states with weak institutions (World Bank, 2011). In that way, private sector development and its accompanying job creation are critical parts of the pathway out of extreme poverty and toward reducing fragility in countries. In fragile and conflict-affected countries, the informal economy—which encompasses a broad range of activities and actors including informal credit systems, artisanal mining and manufacturing, kinship-based commercial networks, cross-border traders, associations of informal workers, informal enterprises and service providers, informal land transactions and refugee camp economies—is often the main source of livelihoods, especially for vulnerable and marginalized groups.

3. State failure, fragility, and informality

At the crux of informality and conflict is state failure, which is a common feature in Africa, regardless of language, geographic, or colonial background. The informal sector is, in part, a symptom of institutional deficiencies, and the existence of large informal firms in particular is a symptom of government failure to enforce regulations that should apply to these firms, as well as the burdensome nature of regulations and taxation that inhibits compliance. State failures are often identified as a central factor contributing to the spread of the informal sector in developing countries. Recent literature views informality as a rational choice in response to costs and benefits of formal versus informal status, and the institutional environment heavily conditions this choice. Formalization means greater access to public services but also requires compliance with regulations and payment of taxes.

Until recently, the informal sector in the Sahel has been engaging in legal activities. However, the political instability that has escalated recently, especially in Mali, but also Burkina Faso, Mauritania, and Niger, has gradually transformed parts of these territories into war economies, where the absence of state authority coupled with a drastic decline in licit productive activities has contributed to the development of drugs, arms, human trafficking, and other illicit trade, in turn contributing to the increase in violence. Thus, the once-flourishing and lawful trans-border trade in the Sahel has given way to international criminal activities, with these countries becoming major hubs (Anderson, 2015). Prior to the emergence of the jihadist movements, cross-border trade in West Africa tended to strengthen and integrate state structures and economies. By contrast, the traffic networks currently underway, motivated by illicit trafficking in mining products and weapons, weaken states in the region (Meagher, 2015). Among the factors accounting for the strong predispositions of the Sahelian region to harbor illicit activities, the place of the informal sector is certainly key, but the fragility of the state, the lack of economic opportunities, and the increasing concentration of income at the very top are ultimately the underlying causes (Blattman & Ralston, 2015).

The countries of the Sahel share a colonial legacy that has left a profound mark in institutional terms and contributed to forging the current social contract and economic relations. In addition to a common language, five of the six Sahelian countries share several economic institutions inspired by the colonial power, France, which have led them to broadly harmonize their economic policies through membership in regional organizations to which many member states’ economic prerogatives are transferred.
Mauritania, which claims an Arab-Berber heritage, has gradually distanced itself from the other countries of the Sahel, notably through a policy of Arabization affecting all segments of the country’s socio-economic life. The colonial legacy is not only limited to the structure of the economy, but also affects the relations of power based on patronage and clientelism. Under the pressure of an ever-demanding political clientele and increasingly powerful political and social elites, governments have adopted economic policies for political reasons, with negative consequences for economic growth and social welfare.

4. The case of Mali

Mali epitomizes the complex nexus among institutions, informality, and conflict. Mali is land-locked and among the world’s least-developed countries with an incidence of poverty of 47.2 percent (Instat, 2015). Social indicators are particularly low, even with respect to other countries in the region: The proportion of Malians with access to potable water is around 27 percent, child mortality is 10.2 percent, and life expectancy is 53 years. The informal sector contributes 53 percent of GDP, mainly in agriculture (98 percent of value added to the primary sector) and services (66 percent of value added to the tertiary sector). Since 2012, Mali has been undergoing a period of violence and political instability, mainly affecting its northern regions, and rapidly spreading to the rest of the country. As a consequence, the country is now split in two: the north, mainly composed of the Sahara Desert and three administrative regions (Kidal, Gao, and Timbuktu), makes up about two-thirds of the national territory but only about 10 percent of the total population; and the south (most of the Sahelian region and the southern Savannah tip), which has the concentration of economic activities as well as population (Coulibaly & Lima, 2013). In between, the city of Mopti has become the de facto frontier between the jihadist-occupied or otherwise rebellious northern part, and the south, which is under the central government’s rule.

One of the major consequences of the crisis in Mali, as in other Sahelian countries is the decline of the formal sector and parallel expansion of the informal sector. For a long time, Mopti had been the backbone of the Malian economy, concentrating such diverse activities as tourism, agriculture, and trade, as well as inland navigation, but most of these have been adversely affected by the crisis (CMRA, 2016). Indeed, transportation flows on the Niger River have dramatically slowed down. Since Al-Qaeda in the Islamic Maghreb (AQIM) hijacked foreign tourists, the hospitality industry has likewise encountered trouble. International tourist arrivals dropped by 22 percent between 2008 and 2013, and flight arrivals by 92 percent between 2011 and 2013. While several international flights used to connect Mopti with several European cities for tourism reasons, nowadays few of those routes remain, mainly transporting goods destined for humanitarian assistance. Most hotels and restaurants in Mopti are closed due to the crisis. According to a World Bank report (World Bank, 2018), the only sectors that support growth in Mali are agriculture and gold mining, both of which tend to be informal. The dual relationship between informality and violence is thus reinforced: While the formal sector further shrinks with political violence, the rise of informality moves the bulk of job seekers to more vulnerable activities, making them potentially more likely to join jihadist rebel forces. Figures 1 and 2 illustrate these daunting trends. While the share of the formal sector in total value added is dwindling (Figure 1), the informal sector is booming. If we look at the special case of the service sector, which was predominantly formal in the early 1980s, the patterns are even more dramatic: The share of the formal sector in total service value added has declined from 60 percent to below 40 percent between 1980 and 2015, while that of the informal sector took the opposite course, increasing to above 60 percent.

On the employment side, the working-age population in Mali is estimated at 8,765,065 and is increasing at the pace of 473,000 new entrants every year. In contrast, though, the Malian formal sector grows at an annual rate of only 30,000 jobs.
How institutional weaknesses are fueling both informality and conflict in Mali is very much evidenced by recent firm-level surveys’ findings (Mbaye et al., 2018). In addition to confirming the precariousness and pervasiveness of informal employment, the results of the surveys underscore the perception of formal institutions’ incapacity to properly deal with informality and conflict. Most survey respondents believe that modern institutions (whose main symbols are central and local administrations, the police, and the courts) are incapable of ending the spiraling violence in the country. They almost unanimously have more trust in traditional local institutions than in modern ones to deal with issues that so often are major drivers of conflict, such as those related to land, resources management, and jihadist infiltration. Local institutions use alternative instruments such as social capital, mainly kinship and
religious networks, and a rather diverse set of actors, including marabouts, kadijs, chiefdoms, and community leaders. Their main point of reference are communities’ particular ethical and moral values, as well as long-standing intercommunity social conventions and agreements to a peaceful neighborhood.\(^1\) Both in Bamako and Mopti, formal and informal business managers showed more trust in informal than formal institutions. Close to 70 percent of interviewed firm managers in Bamako, regardless of their formal/informal status, think informal institutions are better fit to address the different types of conflict in Mali. In Mopti, this share increases to 90 percent.

In contrast, surveys in Diffa, Niger, while also indicating trust in local authorities to handle local disputes, show residents are content to have greater central government presence to maintain security against outside militias and protect international borders. U.N. surveys of Senegalese villages on the border with Mali show similar preference for central government forces to maintain security at village and international borders (UNDP, 2020). Residents of Mopti similarly lament the attacks by jihadists on government-run local schools. A recent U.N. security council agreement providing armed forces to address the conflict in Mali encourages the government to increase its control in the central and northern regions of the country (G5 Sahel, 2020.)

More recent efforts have focused on the importance of improving the overall environment in the Sahel by raising the quality and extent of governance, security, and the business climate, as well as the ability to adapt to climate change.\(^2\)

The need to improve the quality and reach of governance has been noted by many (FERDI, 2018), but there was little success in early stage programs in the early 2000s.

Nevertheless, the diagnosis of poor governance as a major shortcoming hindering stability in the Sahel is certainly correct. Serge Mikhailof in “Crisis and Development: The Lake Chad Region and Boko Haram” (FERDI, 2018) summarizes the governance challenge in the Sahel and describes a number of promising approaches strictly addressing governance issues. An October 2020 CSIS-sponsored Sahel Summit confirmed the observations of EU and U.S. ambassadors to the Sahel that stable governance in conflict zones is essential for establishing settlements across combatant parties. The summit participants concluded that such governance must embody inclusivity of local stakeholder groups, legitimacy in the view of these groups and ownership through local control.

### 5. Policy implications

The impact of fragile and conflict-affected circumstances on the informal economy is strongly influenced by institutions. Governments’ failure to exert effective control over borders and territories is *de facto* synonymous with surrendering those territories to radical Islamist groups. Even in areas that the government controls, we observe similar failure to enforce basic legal rights such as property rights and communities’ traditional rights on land, and existing weak police and judicial institutions, with very loose authority. Finally, well-entrenched cronyism in state-business relationships is pervasive. These three trends constitute important ingredients fueling jihadist expansion, intensified intercommunity violence, and an accelerated increase in the informal sector.

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\(^1\) The relations of violent groups with traditional local authorities in small villages tend to be driven by force and are predatory, rather than in the interest of competing with the national government in providing services, although in some towns, religious militants have sponsored Koranic schools. They may take over some localities and regions, but do not specifically aim at replacing national governments in the capitals.

The lengthy borders between countries are particularly vulnerable to attacks from violent groups, including Boko Haram, active along the borders of Niger, which hampers important sources of livelihoods by seizing livestock and other assets as well as interfering with cooperative trade. In militant-controlled areas, modern schools and other symbols of the central states are vandalized and ultimately closed. Formal activities can hardly survive in this insecure and chaotic environment, making the informal sector and militant movements the de facto dominant job providers. In these particular circumstances, policy must address the security issue while promoting decent livelihoods concomitantly.

Policy interventions for economic growth that are typically recommended in conflict-affected areas are improved financing and training. For small informal actors throughout the country, and especially in conflict-affected areas, the most used sources of financing are retained earnings, family savings, family loans, support from friends, and the like. Our survey results tell us that, in fact, 80 percent of informal actors in Bamako and 70 percent in Mopti use personal savings as their main sources of investment financing. Now that most sources of livelihoods are drying up due to the conflict, it is likely that opportunities for financing will become even rarer.

Policy initiatives that act through formal credit arrangements, including micro credit, have not been found to have any discernible impact on social stability. Cash grants were found to have greater impact on building assets, for example, in terms of livestock financing, developing self-employment and increasing income over the long run (Blattmann & Ralston 2015).

As for training, the issue most often first addressed was lack of capacity for managing government institutions in a way that was effective in dealing with groups causing conflict. Governance initiatives often began with capacity building programs, which inevitably suffered from the circumstances of pouring skills into an empty well – where there was never enough to change government operations – and where much leaked out through transient staff. Unfortunately, training and resources also leaked out to certain militias who had found it advantageous to insinuate certain members into the government.

In addition, various programs have attempted to reduce the supply of new recruits to violent groups in the Sahel by offering better alternatives. Observing the youth bulge in North and West Africa, these programs subsidized the creation of jobs for young people in the hope that reducing youth unemployment would diminish the attraction of joining militant groups. While they succeeded in creating jobs, the hoped-for impact on participation in militias was not observed (Berman, Felter, & Shapiro, 2018). Two important factors include the somewhat internationalized market for militant labor, and the tremendous amount of damage that can be caused by a very small number of militants.

Clearly, more institutional reforms are needed to curb violence and at the same time mainstream formal entrepreneurship. First and foremost, a better distribution of roles and responsibilities between central and local governments is needed. In the Sahel, like in other francophone African countries, a Jacobin, often ineffective and corrupt central government overwhelms local governments in all respects, even in areas where local governments would likely be more effective. As a consequence social services to local populations are mostly failing, with schools and public hospitals lacking the basic equipment to function and facing high absenteeism from teachers and health care providers. In addition, due to contested land regulations, communities feel despoiled from their land to the benefit of politicians and their cronies in the private sector, without any kind of compensation. All these contribute to fuel resentment against the central state and neighboring communities, and further develop sympathy with Jihadist movements. A more forceful and targeted decentralization policy could result in people being more involved in public decisions concerning their daily lives, and encouraged to invest in, and protect, their territories.
Our recommendations build on this and other work on the Sahel, as well as our own surveys, but focus on the particular need for effective governance to support and sustain the business climate for the small informal firms that prevail in this market.

We emphasize two issues:

First, the need to extend central-level government control to the full extent of the Sahel countries’ international borders, with emphasis on populated areas. This includes the presence of customs services at relevant junctures for cross-border trade, though not the full application of customs rules as written. Customs officers might take account of what is being traded, and perhaps charge a small fee per vehicle. Given the concentration of people and resources in their southern and western districts, Mali and Niger Governments have in the past been tempted to focus their efforts in the south. However, under the current conflict conditions, where militias thrive in under-governed areas, neglect of any region in the country is not an option.

The point above directly implies the need to build and support decentralization from the center to villages in conflict zones, making use of recent successful technical and institutional innovations. A substantial initiative toward decentralization was launched in several francophone West African countries in the 1990’s, with limited success. Mali, for example, was among those inclined to hold onto resources at the center to avoid sharing with the regions (USAID, 2010). And yet 21st century communications facilitate the exchange of simple spreadsheets throughout the country, which in turn facilitate the programmed control of transfers out to decentralized areas as well as accountability in localities over the use of money sent.

Those experienced in decentralization efforts in West Africa are quick to raise the problem of low capacity at the local level. Not only do local officials lack the skills to transparently manage any resources sent, but they lack the training to make decisions on the efficient use of those resources. How can those who cannot read design an effective school program? How can those who do not understand where malaria comes from design an effective health program?

In recent years, however, institutional innovations have had some success by tying capacity building directly to the incentives that would motivate local authorities. In other words, financial transfers from the center are directly leveraged against attaining certain capacities. This improves results over telling localities that they need to spend ten years developing literacy and numeracy skills before any money will come.

As Frank, Bergman, and Vaillancourt point out, “Weak capacity should not be a deterrent to engaging with SNG (sub-national governments). The risks of weakening support for peace are even higher if state-society relations cannot be improved because SNG are devoid of means to deliver basic services to the populace.”(World Bank, 2014), ‘

The circumstances are challenging, but it is difficult to imagine the government improving conditions in the conflict zones without increasing its local presence. What our surveys and focus groups tell us is that trust in the central government authorities is key; where it exists it must not be squandered. Where it is low, the government must be willing to cooperate with local authorities and provide more resources under regulated agreed arrangements. While local authorities may cut deals with militant groups in the interest of self-protection, these are not fundamental alliances based on common objectives. Residents would be content to have central government forces provide security, social services, and even customs services—as long as the latter do not disrupt local trading practices.

Second, our surveys reveal that people close to the conflict areas value government services that require central and local governments to collaborate, including on plans to improve the business climate. (This agenda is explored in greater detail in the full study.) In this domain, providing basic security is critical. Economic growth and the supply of credit in the Sahel depend on some
entrepreneurs succeeding in building some surpluses. No one is interested in developing surpluses that cannot be protected from predatory invaders. As confirmed in our surveys, the highly risky business climate, including in agriculture, underlies a longstanding tradition of borrowing only from family and personal friends, or from retained earnings. Without the means to protect savings from retained earnings, the means and incentive for new investments and new businesses will disappear.

Clearly, without central government presence, some form of authority will rise to the top and take control. If local authorities are not able to maintain that control, it could easily be taken by armed groups that have no interest in the business climate, and resilience will suffer in consequence.
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