



# **Covid-19 Pandemic and the Degree of Informality of Sole Proprietor Entrepreneurship (SPE)**

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## **Authors' contributions**

*This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.*

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## **ABSTRACT**

This study reports a survey conducted July and August 2021 in the cities of Bamenda and Buea respectively capital cities of North West and South West regions of Cameroon amongst 255 sole proprietor entrepreneurs (SPE). The study seeks to examine the personal and Structural factor driving SPE in whole or in part to operate informal and their degree of informality during the Covid-19 pandemic. The study adopted a survey research design. The finding showed that 38.4% of SPE operate wholly informal, 17.3% largely informal, 14.9% largely formal and 29.4% wholly formal since the outbreak of covid-19 pandemic in the cities. Using ordinary logistic regression model, the study revealed that the structural factors of tax avoidance and tax fraud are high in the cities of Bamenda and Buea. Revealing that there is a high significant likelihood that as tax avoidance and tax fraud increase by one unit, more sole proprietor entrepreneur chose to remain wholly informal within the period of covid-19 pandemic. This suggests SPE have adopted tax avoidance and tax fraud as resilience strategies to overcome the challenges posed by Covid-19.

*Keywords: Covid-19; degree of informality; sole proprietor entrepreneurship.*

## 1. INTRODUCTION

The informal economy exists in many countries in the world and account for a significant part of their Gross Domestic Product (GDP). This sector is characterized by unsafe working conditions, absence of trade unionism, unregulated and competitive markets, limited access to credit or other support and protections and reliance on family labour in less developed countries, [1]. The informal economy is integrally linked to the formal economy, [2]. What is known is that, the informal economy incorporates all economic activities that are outside the framework of official institutions and is very diverse. It employed 90% of the occupied work force in 2005 and 2010 [3,4]. In the tertiary sector the informal economy employs over a third of the work force in trade activities. This explain why Sustainable Development Goal (SDG) number 8 recommends the promotion of inclusive and sustainable economic growth, employment and decent work for all.

In many countries around the world and especially in Africa, the majority of informal entrepreneurs are women [5,6], selling perishable goods like fruits and vegetables or even already cooked food. In terms of remuneration, female informal entrepreneurs usually earn less than their male counterparts in many countries, [7]. To ameliorate the working condition of the informal entrepreneurs, municipalities need to recognize informal entrepreneurship as an important source of livelihood to many city dwellers and not a criminal activity [8]. Bhowmik further explained that, recognizing the activities of informal entrepreneurs, can ensure cleanliness of operating space and serve as a good source of revenue for the municipalities. Informal entrepreneurs provide a wide range of service within public space [9]. These activities boost urban growth, pushes expansion of urban infrastructure, guarantee the availability of wholesale products through established social network with suppliers [10]. However, absence of business plan, strategy, skilled staff, structure, finance and style by Small businesses makes them susceptible to challenges [11].

The structure of the informal economy is described as very dynamic, active and a hotly-debated domain, [12]. The incentives that drive the strategic choice of micro-enterprises to be informal are not entirely clear though its impact is felt in all domains of economic life [13]. The

promotion of employment, equitable distribution of income and effective allocation of resources among others have been identified as merits of informal entrepreneurial activities [14]. This economy is also estimated as having enormous potentials in absorbing most of the labour force in urban cities [15]. Cameroon is one of the countries in Sub Saharan Africa with the largest informal economy [16]. Its informal economy accounts for over half of its output and employs over 80% of its population but contributes almost nothing to government revenue. This sector provides on average 44% of the jobs necessary to produce the total output of goods and services. This figure amounts up to 94.3% when the informal sector is extended to the whole household sector (Achille, 2015).

The outbreak of Covid-19 has brought in many challenges globally that has put a cold grips on almost all sectors of the global economy [17] and disrupted the business world [18]. Covid-19 pandemic has brought in unprecedented implications in informal entrepreneurial activities around the globe [19]. The informal workers and enterprises are the most affected by the Covid-19 pandemic in Africa through lockdown, social distancing and travel bans, [20]. For instance, without alternative income sources, labour income is lost as a result of the barriers measure thereby increasing relative poverty for the informal workers and their families (International Labour Organisation (ILO) [21]). In a survey conducted by GICAM in 2020, 92 percent of enterprises in Cameroon admitted that the pandemic has negatively affected their turnover and hence budget. Entrepreneurs in the informal sector are highly concerned about the Covid -19 outbreak and have even qualified it as the worse pandemic ever head of and as a silent world war, [18].

The Informal entrepreneurs usually organize factors of production to realize an outcome. Hence both the activities and outcome are important determinant of entrepreneurial success in the phase of an external shock like Covid-19 panedemic. Recent studies have placed emphases on the effect of covid-19 on the outcome of informal entrepreneurial activities such as informal employment and income, [22,23 and 24]. This study test Williams and Shahid [25] hypothesis that the degree of informality is determined by a variety of factors. As a result it seeks to answer the question what are the personal and structural factors driving sole proprietor entrepreneurship to operate informal

and how does this explain their degree of informality during the outbreak of Covid-19 pandemic in the cities of Bamenda and Buea in Cameroon. Specifically the study seeks to answer the questions (i) what is the degree of informality of Sole Proprietor Entrepreneurship (SPE) and (ii) what are the personal and structural factors driving SPE to operate informal in whole or part.

## 2. THEORETICAL FRAMEWORK

According to the ILO resolution No.204 of 2015, the informal economy comprises all economic activities by workers or economic units not sufficiently covered by formal arrangements. Hallam and Zanella [26], define informal entrepreneurship as economic activities that are not within the boundaries of formal institutions yet produce legitimate goods and services that are consumed by the society. This view is in line with Webb et al. [27], view that informal entrepreneurship are not entirely in the black market enterprise such as illegal gambling drug etc. Welter et al. [28] explained that informal entrepreneurship involve a wide range of entrepreneurial activities with the sole exception being that it does not operate within the ambit of the laws and regulations.

The informal economy comprises the collective economic activities of the firms, their customers and supplier [29]. It also includes persons working as small farmers, street vendors, hawkers, small traders, micro-entrepreneurs, home-based workers, rag-pickers, porters, labourers, artisans etc. Hence policy makers still need to understand composition of the sector and its demand worldwide [30]. Changes in the form and structure of entrepreneurial activities in Africa are mostly caused by changes in the institutional framework [31]. Hence abiding or not abiding by these institutional framework makes certain entrepreneurial activities to be considered formal or informal.

Street Vending Entrepreneurship (SVE) is qualified as one of the three urban informal players most visible in urban space. Their activities are usually accompanied by undisciplined urban commercial pattern and inherent confusion [32]. As a result, municipalities are constantly looking for better approaches to regulate the activities of street vendors but this has remained an arduous task given that licensing and regulations affect their working condition [10]. The inability of

municipalities to effectively regulate Street Vending Entrepreneurship has led to mutual mistrust and hostile relation between municipal authorities and street vendors [33]. The hostile relationship drains the earnings, asset and time of Street Vending Entrepreneurs through imposed workplace insecurity, harassment and confiscation of stock by municipal authorities [9].

The activities in the informal economy are diverse in nature, and portray how social forces upset the organization of economic activities [34]. They are both hidden and visible [35] and a safety net for disadvantage groups in society [36]. The motivation to operate informal is demand driven [37]. For instance, the informal economy grow when people have extra time from formal employment [38] and seek opportunities to utilize this time to earn supplementary income [39]. Also during an economic shock, when people lose their jobs in the formal sector, they turn to the informal economy [40,41], which has hitherto remain a choice and path to progress for the less privilege in the society [42]. Information and Communication Technology (ICT) meaningfully reduces transaction cost in the informal economy and hence propel its growth [43]. Informal entrepreneurs use mobile phones to communicate with suppliers and this facilitates the doing of business over distances and payment received through mobile money [44].

Another factor that favours the growth of informal entrepreneurship is financial development. Financial development has the potentials of pushing economic actors to prefer informality to formalization [45-49]. For instance, economic actors will be motivated to engage in informal economic activities without taking necessary steps to formalization when a tax system is porous [50-52]. Also all attempts to reduce production cost may not derail the interest of economic actors in the informal economy [53].

The informal economy has been depicted as constituting negative attributes [54]. The activities of the different actors in the informal economy include; local barter, mutual aid and self-help [55]. Their activities flourish in domains such manufacturing, construction, transport, trade [56] and in small enterprises such as hotels and restaurants, and personal services sectors [57].

Four schools of thought have emerged to explain the growth of the informal economy. These are the dualistic, the structuralist, the legalist and the

il-legalist schools of thought. The dualistic school argues that, informal operators are excluded from modern economic opportunities due to higher growth rates of the population than modern industrial employment and they have not the skills needed for the structure of modern economic opportunities, hence resort to the informal economy to seek employment. The structuralists on their part argue that informality is due to the nature of capitalism where in attempt to, reduce production cost increases competitiveness. Due to the stiff competition, small entrepreneur turn to the informal economy to seek avenues for high profit. The legalists argue that aggressive legal system leads to informal activities. According to the legalist cost and time for registration, minimum requirement for registration are driving forces for entrepreneurs to operate informal. The il-legalist school believe that, the choice to operate informal is the deliberate choice of avoiding regulations and taxation.

Williams and Shahid [25], have hypothesized that business operate at four levels of informality. The distinction is based on three variables (legal Status, type of account kept and Tax registration status) which are used to construct the index of informality on a four point scale that is (i) wholly formal, (ii) largely formal, (iii) largely informal and (iv) wholly informal. Legal status of a company was ascertain by registration as a limited liability company. Type of account kept was determined by compliance with company ordinance 1984 of Pakistan. Tax registration was assess through registration with the tax authority for the purpose of tax deductions.

### 3. MATERIALS AND METHODS

The study draws on other researches undertaken in the field of informal sector entrepreneurship but adopts the definition of informal sector by Williams [58] that, informal entrepreneurs are those starting a business or are the owner/manager of a business who participate in monetary transactions not declared to the state for tax, benefit and/or labour law purposes when they should be declared but which are legal in all other respects.

#### 3.1 Study Design

A cross-sectional study design was adopted to examine driver of sole proprietor entrepreneurship to operate informal either in whole or in part and their degree of informality in

the cities of Bamenda and Buea in Cameroon in the months of July and August 2021. The population of the study was all the sole proprietor entrepreneurs operating in the domains of (i) Retail (provision Store) (ii) Food manufacture (iii) Support services (e.g shoes repair, phone repair, car repairs) and (iv) Beverages (eg drinks, fruits). Cameroon has ten regional capital cities and the cities of Buea and Bamenda were selected for this study for the following reasons (i)The two cities are unique in that they are the only regional capital where the official language of communication in English language in a country highly dominated by French. (ii)These cities have been undergoing an armed conflict since late 2016. This conflict has been disrupting economic activities in the cities.

#### 3.2 Sampling Method

A convenience sampling method was adopted in this study. As it is a preliminary stage, the study is not intended to be generalized to the whole sole proprietor entrepreneurship in the country.

#### 3.3 Questionnaire Development and Data Collection

The information gathered from the review of literature guided the development of the questionnaire. The questionnaire has three sections. Section A; demographic data from respondents with seven questions. Section B the degree of informality and section C was the structural drivers to informality. A 5-points likert scale was employed to measure the parameters.

#### 3.4 Variables in the Models

Referencing the definition of informal sector enterprises established by the 15<sup>th</sup>. International conference of labour statisticians in 1993 [59], three variables are used to construct an index of the level of informality. These include: (1) Its legal Status: (2) Tax registration status and (3) the type of accounts kept. This enabled a four point scale of the level of informality to be constructed ranging from wholly formal through low levels of informality to wholly informal.

#### 3.5 Dependent Variable

The dependent variable for this research was the degree of informality of sole proprietor entrepreneurs' operators. To capture the dependent variable, responded where asked if

(1) the Business was registered, (2) if they had a bank account and (3) if they had a tax payer's card. The dependent variable of this research was developed based on causal theory of informal economy on 4 different school of thought [60].

### 3.6 Independent Variable

To create independent variable I asked respondents about the characteristics of their activities. Indicator variables (independent variables) for this study were divided into two main groups (1) individual level factors and (2) the institutional factors. The individual factors included: age of the sole proprietor entrepreneurs, gender, level of education, age of business and reason for starting the business. The institutional factor comprised tax avoidance, public sector corruption and porous tax system.

### 3.7 Data Analysis

Both qualitative (categorical) and quantitative (numerical) methods of data analysis were used. The main data analysis is inferential statistics to test hypotheses and relating finding to the sample or population. In this stage questionnaire was edited, coded and analysed using SPSS computer program and technique used logistic regression analysis. In the main stage of analysis we can see finding that relationship of dependent variables and independent variables based on hypothesis test. This dependent variable is not continuous so that logistic regression analysis is good method.

## 4. PRESENTATION OF RESULTS

### 4.1 Descriptive Findings

The study revealed that, of the two hundred and fifty-five sole proprietor companies (SPC) owners surveyed in Buea and Bamenda in the South-West and North West Regions of Cameroon, respectively more than fifty percent operate informal (ie Wholly informal 38.4% and largely informal 17.3%). That notwithstanding, 29.4 percent of the sole proprietor companies surveyed are wholly formal. In terms of gender, female SPC are more wholly informal than the male owned SPC during the outbreak of Covid-19 in Bamenda and Buea. A greater proportion of the business in terms of gender are either wholly formal or informal. This is in line with Perry [61]

hypothesis that the share of women in informality exceed that of men. Also 60 percent of SPC owned by those of the age group 51 to 60 years are wholly informal. In the same light, SPC owners who were below 18 years of age recorded the highest percentage of wholly formal (ie 37.5%). Referencing level of education, the study revealed that, 50 percent of SPC owners with no primary school certificate were wholly informal during the outbreak of Covid-19 as opposed to 33.8 percent who had bachelor's degrees. Similarly, although the observed fluctuation in level of education and degree of informality, the study showed that, more holders of postgraduate certificates were wholly formal during the Covid-19 outbreak. What this means is that, educated persons care more about operating their businesses legally than less educated persons. This is possibly so since the educated persons can easily understand the legal requirements of owning a business.

Extant literature depicts two broad reasons for starting a business which are either necessity driven or opportunity driven [62-64]. Based on this distinction, the study showed that 39.8 percent of necessity driven SPC owners are wholly informal as opposed to 33.9 percent who are opportunity driven. This is likely so because necessity driven entrepreneurship result out of lack of job, loss of job or as means of earning a living. Their main focus therefore is likely not legalization that will require spending money but rather making money to meet up with their basic needs that pushed them in the first place to starting the business.

### 4.2 Empirical Findings

Williams, and Shahid [25] hypothesized that, the degree of informality varies according to individual level and structural level factors. We test this hypothesis with reference to covid-19 using a sample of 255 sole proprietor entrepreneurs operating in the cities of Bamenda and Buea. We used an additive Ordered Logistic model to analyse the effect of individual and structural level factors on the degree of informality of sole proprietor entrepreneurs in the wake of covid-19. In our first model (Model 1), we regress the individual level variable (City of Location, Gender, Age of respondents, educational level, age of business and reason for starting business) on the levels of informality. In the second model (Model 2), we add the structural level factors (tax avoidance, Public sector corruption and tax fraud) to the

individual level factors to estimate their proprietor entrepreneurship within the covid-19 contribution to the degree of informality of sole pandemic.

**Table 1. Characteristics of Sole Proprietor Companies (SPC) by degree of informality**

	Wholly Informal	Largely Informal	Largely Formal	Wholly Formal	All
All Respondents	38.4%	17.3%	14.9%	29.4%	100.0%
<b>Gender</b>					
Male	34.5%	16.4%	18.2%	30.9%	100.0%
Female	41.4%	17.9%	12.4%	28.3%	100.0%
<b>Age</b>					
Below 18	37.5%	12.5%	12.5%	37.5%	100.0%
18 to 30	33.3%	24.4%	15.6%	26.7%	100.0%
31 to 40	42.9%	12.1%	13.2%	31.9%	100.0%
41 to 50	34.0%	18.0%	16.0%	32.0%	100.0%
51 to 60	60.0%	0%	20.0%	20.0%	100.0%
60+	0%	100.0%	0%	0%	100.0%
<b>Level of Education</b>					
Primary no certificate	50.0%	16.7%	16.7%	16.7%	100.0%
Primary school certificate	42.1%	21.1%	21.1%	15.8%	100.0%
Secondary school no certificate	41.7%	12.5%	12.5%	33.3%	100.0%
secondary school certificate	46.2%	3.8%	19.2%	30.8%	100.0%
High School no Certificate	58.3%	25.0%	8.3%	8.3%	100.0%
High School Certificate	37.2%	9.3%	25.6%	27.9%	100.0%
Some University Courses	32.3%	22.6%	9.7%	35.5%	100.0%
Bachelor's Degree	32.8%	26.6%	10.9%	29.7%	100.0%
Postgraduate	33.3%	12.5%	8.3%	45.8%	100.0%
<b>Reason for starting Business</b>					
Opportunity Driven	33.9%	13.6%	15.3%	37.3%	100.0%
Necessity Driven	39.8%	18.4%	14.8%	27.0%	100.0%
<b>Type of Economic Activity</b>					
Retail Provision Store	37.0%	19.0%	16.0%	28.0%	100.0%
Food Manufacture	35.9%	25.6%	10.3%	28.2%	100.0%
support services	46.5%	11.3%	16.9%	25.4%	100.0%
Beverage	31.1%	15.6%	13.3%	40.0%	100.0%
<b>Sources of Start-up Fund</b>					
Saving	35.5%	18.2%	15.7%	30.6%	100.0%
Gift	34.1%	31.7%	17.1%	17.1%	100.0%
Njangi	47.1%	10.3%	14.7%	27.9%	100.0%
Pension	10.0%	10.0%	10.0%	70.0%	100.0%
Remittance	37.5%	12.5%	0%	50.0%	100.0%
donation	71.4%	0%	14.3%	14.3%	100.0%
<b>Years of Operation</b>					
less than 1 year	42.9%	19.6%	17.9%	19.6%	100.0%
1 to 5 years	33.9%	16.9%	10.5%	38.7%	100.0%
6 to 10 years	41.3%	15.2%	26.1%	17.4%	100.0%
11+	44.8%	17.2%	10.3%	27.6%	100.0%

Source: Research Results, 2021

**Table 2. Ordinal logistic models for the determinants of the degree of informality of Sole Proprietor entrepreneurship in Bamenda and Buea during Covid-19 pandemic**

Variable	Model 1	OD	Model 2	OD
<b>Personal Factor</b>				
CITY	1.614***	5.022	1.460***	4.304
GENDER	-0.028	0.972	-0.119	0.888
AGE below 18	-1.085	0.338	-0.598	0.550
AGE 18-30	-1.190	0.304	-0.009	0.991
AGE 31-40	-1.492	0.225	-0.503	0.605
AGE 41-50	-1.107	0.331	-0.112	0.894
AGE 51-60	-1.688	0.185	-0.935	0.393
Education Primary no certificate	-0.785	0.456	-1.485*	0.226
Education Primary school certificate	-1.050*	0.350	-1.119	0.327
Education Secondary school no certificate	-0.382	0.682	-0.202	0.817
Education secondary school certificate	-0.591	0.554	-.760	0.468
Education High School no Certificate	-1.042	0.353	-1.253	0.286
Education High School Certificate	-0.559	0.572	-0.855	0.425
Education Some University Courses	-0.186	0.831	-0.283	0.753
Education Bachelor's Degree	-0.365	0.694	-0.630	0.533
Age of Business less than 1 year	-0.587	0.556	-0.281	0.755
Age of Business 1 to 5 years	0.239	1.270	0.597	1.817
Age of Business 6 to 10 years	-0.311	0.732	-0.110	0.896
Reason for Starting Business	0.178	1.194	-0.127	0.880
<b>Institutional Factors</b>				
Tax avoidance			-2.905***	0.055
Public sector Corruption			0.237	1.267
Porous Tax system			-0.739**	0.478
Number of Observation	254		254	
Wald $\chi^2$	57.693***		168.538***	

Source: Research Results. Note Dependent variable is level of formality on a four-point scale. The reference groups are Location Buea, Gender male, age 60 and above, education postgraduate, age of business 11 years and above. Significance \*\*\* $P < 0.01$ , \*\* $P < 0.05$ , \* $P < 0.1$

**Model 1: The Effect of Individual Level Factors on the Degree of informality of Sole Proprietor Entrepreneurship in the wake of Covid-19 pandemic:**

In the first instance, we estimate the effect of individual level factors on the degree of informality in the wake of covid-19 pandemic. There is evidence that formalization increases as we move from Buea to Bamenda since the outbreak of Covid-19 pandemic. There is no evidence of relationship between the gender of the sole proprietor entrepreneur and formality. In the same light age of the sole proprietor entrepreneur, age of business and reason for starting the business show no evidence of relationship with formalization in the wake of covid-19 pandemic in the cities of Buea and Bamenda. Sole Proprietor entrepreneurs who have primary education with certificate, show some evidence of formalization. These finding are largely in contrast with Williams and Shahid [25] hypothesis that formalization increases with

age, and level of education. This is likely so because of the pandemic that has brought in high degree of uncertainty following the barrier measures put in place by the government. In a country like Cameroon where formalization is done manually through face-to-face contact the restriction on face-to-face contact could likely propel most entrepreneurs not to consider formalization.

**Model 2: The Effect of Institutional Factors on the Degree of informality of Sole Proprietor Entrepreneurship in the wake of Covid-19 pandemic:**

In the second model we examined the effect of institutional factors (Tax Avoidance, Public sector corruption and tax fraud) on the four degrees of informality as depended variable. When the institutional factors are added together with the individual level factors, we observe a more than triple improvement in model fit (LR  $\chi^2$  (19) =160.298,  $p < 0.001$ . The Pearson chi-square

test ( $\chi^2(626) = 611.340$ ,  $p=0.649$  and the Deviance test ( $\chi^2(626) =459.00$ ,  $P= 1.00$  were both non-significant suggesting good model fit. The results therefore suggest the level of formalization is better explained with the introduction of more variables. All individual level factors continue to be insignificant except city of location of business during the covid-19 pandemic.

In this model, tax avoidance and porousness of tax system are both negative and significant with respective beta values of -2.905 and -0.739. What this means for example in the case of tax avoidance is that, as more sole proprietor entrepreneur develop resilience in avoiding tax within the covid-19 pandemic in the cities of Bamenda and Buea, there is a higher likelihood that most business will remain wholly informal. This equally applies to increase porousness of the tax system.

## 5. CONCLUSION

This study set out to test Williams, and Shahid, hypothesis that businesses operate at different degrees of informality. The survey was conducted in the cities of Bamenda and Buea with 255 sole proprietor entrepreneurs in July and August 2021. The population was randomly selected from a heterogeneous population of sole proprietor entrepreneurs. Using a number of individual level factors and structural level factors, the study confirms Williams, and Shahid, hypothesizes that businesses operate at different degree of informality. The study further revealed that, tax avoidance and Porousness of tax system significantly explain the degree of informality of sole proprietor entrepreneurs during the Covid-19 pandemic in the cities of Bamenda and Buea. The increase in degree of informality during the covid-19 pandemic is likely to continue until the pandemic comes to an end. Hence mass vaccination is recommended in these cities to bring the cities safe again.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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