

Formalisation and the MSD approach: business growth, resilience and improved working conditions

Written answers to questions asked during the webinar

(some questions were answered live, and some in writing)

How do you overcome the fear of the costs of compliance/formalisation?

There are several options which should ideally go hand in hand:

- reduce the cost of compliance (e.g. tax rebates)
- reduce red tape / the time required to formalise (e.g. less procedures, one stop shops, new technology)
- less requirements for micro enterprises and self employed
- 'entry level' legal statutes which make it easier to register, for example as an 'individual micro entrepreneur'
- link entry level statutes to incentives (in some countries the individual micro entrepreneur will have access to social security)
- identify and put in place other incentives (e.g. access to finance, access to new market opportunities)
- Last but not least, if you want to shift many enterprises into the formal economy, it is important to increase their productivity so that they can actually bear the cost of formalising and seize the incentives

How do you promote formalisation sustainably?

This is partly answered above. A comprehensive approach is needed, in which formalisation is made easier and more attractive (incentives) and through which productivity of small enterprises is enhanced. Effective incentives need to be identified. Access to social security has proven effective but it is important to do careful calculations so that social security coverage is not too heavily subsidised.

Seems challenging to make carrots happen without a catalyst like ALCP...

Indeed. Outside the MSD approach, governments can also play an important role but it takes a lot of time, commitment and willingness.

What are the pain points you experienced when supporting formalisation? And did you solve them?

Difficult to answer as it depends on the country context and the nature of the economic units. Yet if I should mention one, I would say that a government attitude to "find and then fine" the informal entrepreneurs, does not help.

What would you suggest as the best way to engage informal actors in the economy and formalise them?

Some countries introduce 'intermediate legal forms' for these types of operators. Organising in associations or cooperatives may also work.