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An integrated package of incentives and services to support the formalization process aimed at different categories of enterprises / economic units in Cape Verde.

Feasibility study

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This document was prepared by Social3, Consultoria, Assessoria, Formação together with a team of consultants (Adelsia Almeida; António Baptista, Carlos Mendes, Mónica Furtado and Walter Gomes, in close collaboration with the ILO team and national institutions in Cape Verde.

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Acronyms

BAI	Angolan Investment Bank
BCA	Atlantic Commercial Bank
BCN	Cape Verdean Business Bank
CEFP	Employment and Vocational Training Centre
ICLS	International Conference of Labour Statisticians
IEFP	Institute for Employment and Vocational Training
IGAE	General Inspection of Economic Activity
IMC	Continuous Multi-Objective Inquiry
MFI	Micro Finance Institutions
INE	National Institute of Statistics
INPS	National Institute of Social Security
MFIDS	Ministry of Family and Social Inclusion
MMSEs	Micro, Medium and Small Enterprises
MSEs	Micro and Small Enterprises
ILO	International Labour Organization
NGO	Non-Governmental Organizations
REMPE	Special Regime for Micro and Small Enterprises
UPFs	Formal Production Units
UPIs	Informal Production Units


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Executive Summary

The *"Feasibility Study: An Integrated Package of Incentives and Services to Support Formalization, Aimed at Different Categories of Enterprises/Economic Units in Cape Verde"* is part of a consultancy requested by the ILO in Geneva and is part of the country's strategies and efforts for the transition from informality to formality. The study (based on the results of international benchmarking and on the experience gained in several countries and regions) examines the problem of formalization of economic production units, the identification of the main segments of economic units most susceptible to formalization, the identification and definition of objective criteria for prioritizing formalization, and the definition of a set of incentives and services to support formalization, targeting different segments, enterprises/economic units. Finally, the study will allow *to identify the feasibility and modalities for the implementation of an "Integrated Package of Incentives and Services to Support Formalization in Cape Verde"*.

From a technical and methodological point of view, the study was based on different classical research approaches, namely:

- **Desk research** exploring in particular the **ILO references** on formality and informality, allowing us to identify: i) the recommended conceptual framework, in particular the guidelines of the 15th and 17th International Conferences of Labor Statisticians (ICT); ii) the main tools and approaches for the transition to formality, highlighting the four quadrants of the recommended approach to formalize enterprises; the formalization pyramid; the cost-benefit analysis of formalization and the dimensions of formalization (registration of MSEs, licensing, tax compliance, social contribution compliance, formal transactions); iii) the main recommendations, in particular recommendation 204 adopted by the 104th International Labor Conference in 2015.

- A quantitative analysis allowing us to know the characteristics of the informal economic production units (UPI) most prone to formalization, in order to identify and build groups of economic units to be prioritized through incentives and prioritized, integrated and attractive strategic approaches.

- Analysis of existing **mechanisms** and potential for formalization in Cape Verde to identify existing opportunities, improve and adapt procedures, and complement the current framework.

- Qualitative analysis, through specific guided meetings, interviews and discussion in specific focus groups. The approach of the Theory of Change in the systematization of the results and the technique of the theory of the economics of behavior were also privileged, allowing the filtering and prioritization of policies adjusted to the segments of informal units identified.

The qualitative research carried out, in order to improve and adjust the quantitative profile, confirmed the complexity in identifying the main segments to be prioritized for formalization. The result of the systematization of the qualitative analysis focused more on the characteristics inherent to the units themselves, such as the turnover, the number of personnel employed, and the location of the business, preferably in a fixed location; and complemented transversally by the influence of the gender of the promoter and nature/ sector of activity. In relation to gender, the system is aligned with the ILO's general guidelines, paying particular attention to vulnerable groups, including businesses managed/run by women. In relation to the nature/sector of activity, the systematization of the qualitative analysis points to the first phases, preferably to activities in the 3 groups/business domains, such as: i) Trade/Sales and Fishing Sector, excluding street vending; ii) Services Sector; iii) Transport Sector.

The study diagnosed a number of ***existing mechanisms and incentives, noting good*** practices, gaps and barriers related to access to finance; market access; access to technology; access to capacity-building Programs; access to social security; social dialogue, organization and representation; strategies for local development; promotion of equality and fight against discrimination: gender in the informal sector. The country has a range of **mechanisms and a set of good practices, strategies, initiatives, and actions** to facilitate the transition from "informality ➲ formality" highlighting: i) the case of the Sucupira50[1] project, which articulated the intervention of different sectors, operationalizing a program focused on informal markets and with a formalization rate of almost 100% among the participants; and ii) REMPE which aims at simplification business registration procedures and, to a certain extent, encourage the formalization of economic units operating in the informal sector.

In addition, the study also adopted a **qualitative approach**, allowing validating, aligning and adjusting the evidence and diagnoses from the quantitative approach, through the auscultation of perceptions, suggestions, and interviews and focus groups) with the target audience. The **systematization of the results of this approach made it possible to formulate proposals for public policies** and a **set of recommendations** adjusted to each segment of economic units most likely to be formalized if they are given the incentives and the right conditions are created for it.

Considering that informality is often linked to the context that surrounds the individual, behavioral economics was used as a methodology to complement the path to formalization of informal units. The proposal narrates different incentive regimes for different categories of enterprises, the integrated package of incentives, as well as public policy proposals that encourage formality. Behavioral economics suggests that people decide on the basis of habits, personal experience and simplified rules of thumb. It accepts solutions which are only satisfactory, seek swiftness in the decision-making process, have difficulty balancing short- and long-term interests, and are strongly influenced by emotional factors as well as the behaviors of others.

The path to the formalization of informal SMEs in Cape Verde, which is now proposed, includes several complementary steps that accompany the entire formalization process. Excluded from this framework are informal survival activities (street vendors; fishermen) whose main role should be the prioritization of their integration into social security. At the same time, these must be integrated into the social policies of productive inclusion to ensure the reinforcement or conversion of the activity carried out.

The proposal of the operational model aims to bring a new paradigm, based on the idea that the formalization of businesses/economic units must be adapted to the particularities of the sector and the people who work in it, making the processes of access to social protection more flexible; increasing and adapting social benefits aimed at informal workers; encouraging systems organization of informal units, diversifying the modalities of micro-enterprises and cooperatives; and creating systems for the registration and identification of workers in the sector. Another fundamental aspect necessarily involves a strategy of communication, information and proximity training with the informal workers who make up the informal production unit, with the perspective of direct gains (for the beneficiaries) and indirect gains (for the State, collective and inter-relational elements) as the central element.

From the documentary analysis and primary data collection, it can be seen that incentives will only be an effective means of formalization if the problems they are intended to combat are well defined and the incentives are considered significant for informal entrepreneurs. This may require not only reducing the costs of formalization, but also increasing the perception of the benefits of formalization through financial and operational gains

[1] video : https://www.ilo.org/empent/areas/ef/WCMS_827536/lang--fr/index.htm (en français);
https://www.ilo.org/empent/areas/ef/WCMS_827537/lang--en/index.htm (en portugais)

It is also associated with the entrepreneur's motivation to start a business, i.e., whether the entrepreneurial attitude was out of necessity or opportunity (more likely to formalize).

Identification of policy measures

Access to credit is a major constraint for businesses in Cape Verde. Taking into account the existence of liquidity in commercial banks, Central Bank of Cape Verde can enable access to resources by microfinance institutions at a reduced cost, enabling them to increase their capacity to respond to requests and also to finance the end customer at a more affordable cost and, in return, regulate the concentration of the MFIs' portfolio in the informal sector, obliging microfinance institutions to increase their interest in enhancing the formalization of productive units.

From a gender perspective, women are particularly disadvantaged due to the lack of access to traditional forms of collateral to access credit, so the registration of movable collateral, such as machinery, equipment and receivables, in the implementation phase, is a necessary step to secure financing. However, where legal and institutional protections are inadequate, banks are often reluctant to accept movable assets as collateral.

Digital tools can be valuable in supporting access to financial services, as well as other business support services. The implementation of institutional reforms and incentives to enable the development of mobile money as a tool for the financial inclusion of enterprises, especially those managed by women, could promote business opportunities for these micro and small enterprises.

The limited knowledge of how the tax system works was cited by the different operators as a reason for abandoning the idea of formalizing their enterprises, especially when it involves fines for tax non-compliance.

In this context, investing in training that improves tax literacy as well as raising awareness about tax citizenship, fiscal responsibility and state bureaucracy will be a tool to support formalization.

REMPE is an important reform in the formalization strategy. Its results were perceptible and its continuity will be essential to consolidate the gains achieved, however, it needs an in-depth evaluation to better understand its impacts and correction needs. As a way of adapting the tax and contributory system, a single annual payment package may be created, with flexibility of contributions during this period, considering the irregularity of income that characterizes micro and small enterprises.

During the focus groups, informal operators showed that **licensing and cards issued by municipal authorities are of the utmost importance and value them greatly**. The creation of a single contribution system between municipal authorities, the tax system and social security, through a single collection document integrated into the application and renewal of licenses and/or cards, can boost the formalization and fulfillment of obligations. Access to the public procurement market and integration in the value chain also seem to be relevant measures to support the success of formalized enterprises. Formalization support programs should adopt a cluster approach, i.e., they should be implemented in all links of the business value chain as a way to self-reinforce the formalization stimulus.

Supply and value chains can provide market opportunities for informal businesses. These enterprises can provide services to larger enterprises that require reliable, standardized supply chains for the production and distribution of their products, and services that lead to the development of capabilities and market opportunities.

Investing in the training of entrepreneurs to improve their entrepreneurial and management skills is a necessary and essential step in the business formalization strategy, which in turn will allow the effective use of new technologies to facilitate innovation and sustainable business development, since between the micro and small businesses, information technology skills shortages and associated costs are the main obstacles to business growth.

Cooperatives and associations can support informal enterprises in their transition to formality, facilitating access to financial services, serving as a platform for high-level representation, and providing opportunities for training, securing permanent business locations, among others. They can also collaborate in the transfer of information and skills, communicating the benefits of formalization or being part of a technical assistance intervention.

A framework of currently existing incentives is presented in the annex to the Study, identifying the measures, the access criteria and the target group.

1. General Introduction

With the adoption of Recommendation 204 by the 104th International Labor Conference in 2015, the ILO made the transition from the informal to the formal economy one of its priorities for action. This international labor standard aims both to facilitate the transition of workers (Informal Employment) and Economic Units of the Informal Economy (UPI) to the formal economy, as well as to promote the creation of enterprises and decent jobs in the formal economy and to prevent the transition to the informality of formal jobs. In Cape Verde, informality is diagnosed in different documents and studies, among which the following stand out:

- Report of the Informal Sector Survey (INE, 2015);
- Special legal regime for micro and small enterprises (REMPE), implemented in 2016, which aims to facilitate the formalization and development of micro and small enterprises.
- The National Strategy for the Transition from the Informal to the Formal Economy (PAENCE/CV, 2017);
- Report "Informal Employment" (ILO/Dakar, UNWTO, 2021) which explored informality in Domestic Work and in the formal sector of Tourism, Hotels and Restaurants, in Cape Verde, in the years 2019 and 2020;
- National Integrated Program for the Acceleration of the Transition from the Informal to the Formal Economy 2022/2025

This is how the set of measures and strategies that the country has is outlined - initiatives, actions and mechanisms to facilitate the transition "informality formality", as is the case of the Sucupira50[2] project, which articulated the intervention of different sectors, operationalizing a program focused on informal markets and with a formalization rate of almost 100% among participants. However, despite the government's consistent and significant efforts to accelerate the formalization of informal businesses, the impact has not been as desired. In fact, the cited studies revealed some of the gaps and challenges in this area, highlighting: i) the legal environment and public administrative procedures, which are not very conducive; (ii) insufficient information on the phenomenon at the sectoral level; (iii) weak supervision and control of economic activity, including UPIs; (iv) inadequate communication mechanisms between the parties concerned; (v) lack of coordination of the actions of the main actors mandated and, above all, (vi) the absence of a national program to address and reduce informality.

In order to address this context of informality, aggravated by the COVID-19 pandemic, the country has taken some measures by creating, in 2018, the Commission for the Strategic Management of the Transition from the Informal to the Formal Economy — GETIF[3], as well as the Program for the Acceleration of the Transition Process from the informal to the Formal Economy in 2020. In 2021, this initiative will be revised and consolidated into a strategic document, in the form of a concept note, to

[2] video : https://www.ilo.org/empent/areas/ef/WCMS_827536/lang--fr/index.htm (en français);
https://www.ilo.org/empent/areas/ef/WCMS_827537/lang--en/index.htm (en portugais)

[3] Resolution No. 45/2018, in BO No. 31

"Accelerate the transition process from the informal to the formal economy, within the framework of the recovery of the Cape Verdean economy after the COVID-19 pandemic", called "National Integrated Program for the Acceleration of the Transition from the Informal to the Formal Economy 2022–2025".

This study, *"Étude de faisabilité: Paquet intégré d'incitations et de services d'appui à la formalisation, ciblé aux différentes catégories d'entreprises/unités économiques au Cap-Vert"*, promoted by the ILO in Geneva, is part of the efforts already made by the country and seeks, based on the results and lessons learned from the strategy of transition from informality to formality, to define a set of incentives and services to support formalization, aimed at different enterprises/economic units.

1.1. Objectives of the study

The general objective of this study is: To determine the feasibility and modalities for the implementation of an "integrated package of incentives and services to support formalization, aimed at different types of enterprises/economic units" in Cape Verde. It makes it possible to explore several necessary issues and provide elements to improve the effectiveness of the transition from informality to formality in accordance with Recommendation 204 adopted by the 104th International Labor Conference in 2015, highlighting good practices and national and international lessons in the implementation of the strategy "informality ➲ formality".

Specific Objectives

1. Identify the segments of **informal enterprises/informal economic units** that are able and willing to formalize, through appropriate incentives and assistance that can be made available to them, including the assessment of sectors in which informal entrepreneurs (women/men and youth) are particularly active, as well as the characteristics, circumstances and challenges they face when formalizing and expanding their businesses.

2. Identify the **existing incentives** in the main **formalization** pathways **of informal economic units**, as well as the eligibility requirements for them to have access to the different tax incentive regimes, proposing potential incentives and support services to complement and reinforce these "formalization pathways" by category or segments of informal economic units.

3. Identify the types of **entrepreneurs eligible for formalization**, as well as the relevant organizations/structures and existing partners to be mobilized; propose the types of partnerships to be forged and the services/incentives that can be developed and made available, indicating the appropriate modalities, as well as innovative ways that can be operationalized in the specific context of Cape Verde, paying special attention to women in each sector.

4. **Develop recommendations** for the operationalization of the integrated package of incentives and services for formalization in Cape Verde, indicating the relevant partners and their respective roles, proposing effective measures for analysis at the macro, meso, and micro levels that will support the mitigation of adverse factors, building on strengths and exploiting existing opportunities.

1.2. Organization of the study

This study is divided into 5 interrelated parts:

- The **first part** corresponds to the **introductory** part, addressing the context, objectives and structure of the work.

- The **second part** is dedicated to the general technical-methodological aspects that guide the work, presenting the main international and national references, the concepts and the types of data that feed the **quantitative approach** dealt with in the third part.

- The **third part** fundamentally addresses the conception and design of a “theoretical path” of formalization, going through quantitative research of an econometric type to build the “profile of economic units prone or susceptible to formalization”, allowing the identification of segments of enterprises to be prioritized in the formalization process. This item also works on a proposal for a “path to operational formalization” of economic units in Cape Verde, based on the ILO’s main international references, good practices observed in other countries and a diagnosis of the country's situation.

- The **fourth part** includes the systematization of data/information obtained from a **qualitative analysis**. Based on semi-structured interviews with the main stakeholders in the formalization sector and focus group discussion techniques, information was collected for adjustments and improvements to the operational formalization path. The systematization of the content obtained was done using the **Theory of Change** and the use of behavioral insights in the elaboration of public policies for the transition.

- The **fifth part** presents a **proposal for the operational model of the path & policy measures**, presenting the **recommendations** in the form of proposals for segments of enterprises to be formalized, associated with the types of incentives differentiated and adjusted to each segment. The study concludes with the final conclusions and recommendations, followed by bibliographical references and annexes.

Part 2:
Study methodology: general design, international and national references in terms of informality/formality

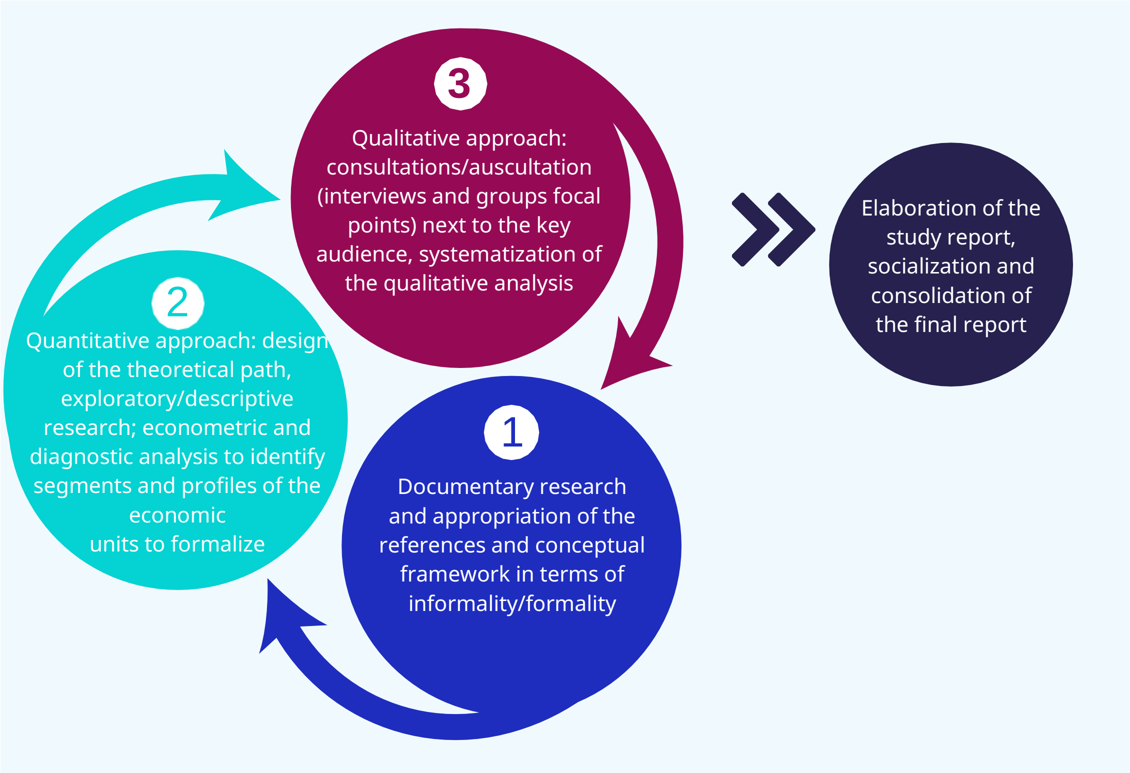
2

2. Study methodology — general design and frameworks adopted

2.1. General design of the study

Overall, in order to carry out the main tasks and achieve the objectives of this study, a pluralistic evaluation methodology has been outlined, combining document review and quantitative and qualitative approaches. Starting with the appropriation of the theoretical-conceptual framework, the work was preceded by an extensive and careful documentary and bibliographic review of the scope, followed by a diagnosis of the aspects that favor the transition to formality, the incentives, the implementation and application of existing national legislation, policies and programs related to formalization and the transition from the informal to the formal sector. A sectoral analysis was carried out and the programs and projects underway at the national level (central and local) and others at the international level were systematized. In the documentary analysis, special emphasis was placed on the basic reference documents produced by the International Labour Organization (ILO), which guided the operationalization of key concepts, namely those of informality and formality, as well as the concepts and good practices used at the level of the National Statistical System (NSS) in relation to informality/formality in terms of economic units.

▶ Figure 1: Schematic summarizing the general methodological design



Source: Authors of this study

2.1. Appropriation of the conceptual framework: references, concepts, and tools

Operationalization of the terms informality/formality and the transition of economic units from informal to formal based on international and national references.

2.2.1. International references

The **working papers** and **the conceptual theoretical framework** developed by the International Labour Bureau (ILB), the Expert Group on Informal Sector Statistics ("Delhi Group"), and Women in Informal Work: Globalizing and Organizing (WIEGO) with its focus and central axis on the *"sexual division of labor"* (Directives of the 15th and 17th International Conference of Labour Statisticians (ICLS) complement and establish a coherent link between the *concept of firm-based informal sector employment and the broader concept of employment-based informal employment*.

▶ Table 1: Conceptual framework on informal employment (17th CIET Directives)

Type of production unit	Employment according to status in the profession								
	Self-employed		Employers		Family workers in the family business	Employees		Members of production cooperatives	
	Informal	Formal	Informal	Informal	Informal	Informal	Formal	Informal	Formal
Enterprises in the formal sector					1	2			
Informal Sector Enterprises	3		4		5	6	7	8	
Family Attachés	9					10			

Source: ILO, 2013, pp. 43-44: "Measuring informality: a statistical manual on the informal sector and informal employment". The meaning of numbers 1 to 10 is in the same reference.

2.2.2. National reference: concepts, definitions and data

At the national level, the concepts and good practices used at the level of the National Statistical System (NSS) in relation to informality/formality of economic units were used. In this sense, it is noteworthy that at the national level, the NSS itself adopts the international conceptual theoretical framework recommended by the ILO in relation to "informality", trying to distinguish them in the operationalization by the INE: informal sector; informal economy; informal employment in the informal sector and informal employment (in Table 1 above). The data used come from the survey of the informal sector, carried out in 2015 by the National Institute of Statistics of Cape Verde.

Therefore, using the specific concepts and criteria related to the informal sector (Chart 1), the data from this survey will be analyzed with the aim of generating objective evidence on its conditions, demographic and profile socio-economic status of enterprises/economic units (production units) with a propensity for formalization. This analysis was important because it is the only way to have a quantitative profile based on nationally representative empirical data.

2.2.3. Reference tools for a comprehensive approach to formalization

The methodological tools used in this work are based on the BIT documents, particularly those produced in 2021, including the following:

1. **Recommended approach to business formalization:** This tool will help you understand why business formalization is important. This tool will help you understand how to facilitate the transition to formality. The formalization of enterprises should be supported by public policies that promote workers' rights, private sector development and social cohesion. One of the main objectives of enterprise formalization is to ensure that workers (including employers, employees, the self-employed and unpaid family workers) can benefit from decent work opportunities. Formalization strategies should be designed for specific contexts, and approaches should be tailored to the needs and characteristics of the economic units identified upstream, following an assessment of their readiness for formalization. The differences between formal and informal enterprises — and between different categories of entrepreneurs, including "opportunity" entrepreneurs, the self-employed, and micro and small enterprises — are a function of their level of productivity. Formalization strategies can contribute to the achievement of the Decent Work Agenda4 and the Sustainable Development Goals.

2. **Formalization pyramid:** This approach allows us to see that formalization strategies should be designed for specific contexts and approaches, adapted to the needs and characteristics of previously identified economic units and segments, following an assessment of their readiness to formalize. Furthermore, the formalization pyramid approach is based on the fact that the prospects for a successful transition from the informal to the formal economy, as envisaged in ILO Recommendation 204, clearly depend on the profile of the informal enterprises that will make the transition and that, according to one of the information theories ("dual economy" theory), formal laws and regulations are far from the reality of the segment of these economic units and therefore less sensitive or prone to formalization (ILO, 2021).

3. **Cost-benefit analysis of formalization:** This approach is based on the idea that we can increase the attractiveness of formality while making informal status less attractive to firms. Following this logic, it is assumed that formalization is associated with monetary and non-monetary costs, including entry costs (registration with the registry offices, registration with the tax authorities, obtaining licenses) and recurring compliance problems (payment of taxes, social security contributions, declarations, renewal of licenses).

4. **The dimensions of formalization:** This approach shows the schema and dimensions for formalization in compliance with all relevant regulations (employment, commercial, environmental, sector-related, etc.).

▶ Figure 2: Dimensions of formalization

Source: These tools can be found at the following link with detailed explanations.
https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_768033.pd

Design of the theoretical path for the formalization of informal economic units and their operationalization in Cape Verde

3

3. "Theoretical path" for formalization: design and diagnosis

Business formalization strategies can contribute substantially to the fulfillment of the Decent Work Agenda and the achievement of the Sustainable Development Goals (ILO, 2021).

3.1. Why is the formalization of informal economic units important?

The formalization of enterprises is part of a balanced and multidimensional approach, as outlined in ILO Recommendation 204[4] for the transition from the informal to the formal economy.

Box 1: What is already known?

1. The formalization of the enterprise is, above all, aimed at "opportunity entrepreneurs".
2. Entrepreneurs by necessity: those who are content to survive, but do not always have the means, knowledge or ambition necessary to formalize their businesses.
3. Entrepreneurs make the rational choice between formalizing or not: they compare the expected costs of entry and maintenance in formalization with the advantages that this presents. When the "profitability argument" does not justify formalization, many entrepreneurs prefer to practice out of sight of the regulator.
4. Reducing the costs of complying with formal obligations (tax, social security and labor protection) is perhaps more important than reducing the cost of the transition to formality (time and money to register).
5. It is probably not so much the costs expected from formalization and its advantages that are at the heart of the decision to formalize or not.
6. Reforms related to business creation can help to increase the number of businesses that are incorporated , which are cost-effective in terms of additional income and job creation.
7. Simplification of business registration is not enough on its own. It is also important for entrepreneurs to improve their productivity, improving their income and therefore their ability to cover the costs of formalization.
8. Interventions should include "carrots" (incentives) and "sticks" (coercive measures).
9. It seems much easier to formalize enterprises that are in the process of being created than to formalize enterprises that are already installed.
10. Meaningful incentives, as well as measures combining several reforms, can be more effective than piecemeal measures. One-off reforms must tend towards a reduction in formalization costs in order to have significant effects.

Source: (ILO, 2021)

[4] Retrieved from: https://www.social-protection.org/gimi/gess/RessourcePDF.action;jsessionid=DADNVeWFjjDNU6J3oiO-8g33-JJumoUxQp1L5zxsAFoiytfe6yC-c!1750948109?id=54927

Business formalization measures include:

- Reduce barriers to entry by making it easier to register, obtain a license to operate, and comply with regulations;
- Encourage formalization by facilitating access to markets, improving social security coverage, and reducing taxes or other financial obligations;
- Improve business productivity by increasing business efficiency, providing technical skills and access to finance and business development services;
- Facilitate dialogue by encouraging the government, business organizations and workers to establish relevant and stimulating services, through awareness and sensitization activities, the participation of associations of production units and informal representative bodies;
- Strengthening inspection and monitoring through the adoption of preventive and corrective measures.

Basic Assumption (ILO, 2021)

- Some “opportunity entrepreneurs” would be able to formalize their activity if the right policies, regulations and support measures were put in place.
- Other survivalist entrepreneurs need support to address decent work deficits as a first step towards possible formalization in the future.
- Strategies for formalizing entrepreneurs in search of opportunities may include measures to facilitate registration and compliance with the law (e.g. through simplified legislation and procedures), to make formalization more attractive (by increasing incentives and removing barriers to formalization) and accessible (by increasing business productivity) and to make informal activities less attractive (e.g. through strengthened enforcement measures and the promotion of legal compliance). These strategies should also include reforms to include UPIs within an attractive and favorable legal framework. The development, implementation, monitoring and evaluation of business formalization strategies depend on a process of dialogue to identify, consider and address the constraints that affect the targeted informal enterprises and prevent their formalization.
- When formalization means that an enterprise can engage in formal business transactions, it can make formalization very attractive. Formal enterprises can issue invoices, enter into contractual agreements, and participate in tenders. When formal market opportunities exist, that opportunity can significantly increase revenue. It is an opportunity for small businesses to grow because it guarantees access to markets.

3.2. Strategy in the construction of the “theoretical path” for formalization

The basic approach to the construction of the theoretical path for the formalization of economic units in Cape Verde has considered the framework of reference and the main formalization tools recommended by the ILO as an integrated and coherent process, following the following strategies:

a. Adoption: consists of the “design of a theoretical path” of formalization for Cape Verde through the adoption of the approach recommended by the ILO for formalization (as a basic reference), complementing it with benchmarking of some countries, allowing the research of some experiences and good practices and improvements introduced in the formalization paths (e.g., incentives, strategies adopted, etc.);

b. Adaptation of the “theoretical path” transforming it ➲ into a proposal for an “operational path” of training for Cape Verde, improved and adjusted to our reality using two complementary approaches:

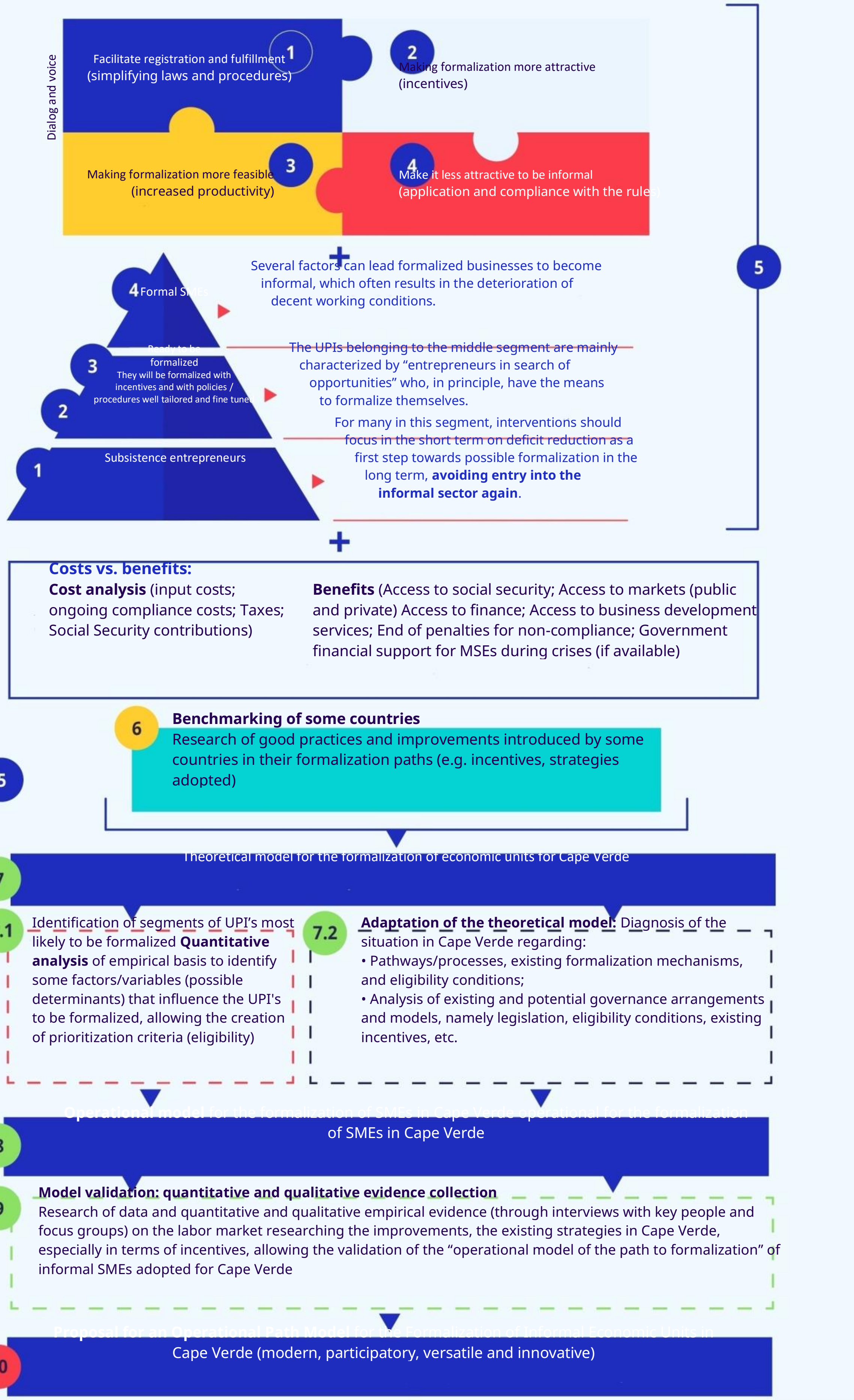
   i. An econometric analysis allows us to know the characteristics of the informal economic units of production (UPI) most likely to be formalized. To this end, the existing data were used to quantify the propensity to formalization (identify and estimate the factors that influence the susceptibility to formalization — “determinants of formalization”) and to create a quantitative profile in terms of segments/characteristics of the economic units, allowing the classification, focus and prioritization in the formalization strategy of the economic units most “susceptible” to formalization if the conditions, incentives, contexts are set and attractive. This segmentation will take into account the categories of the target groups, for example in terms of age, gender and other individual characteristics of the promoter and the economic unit, sub-sector of economic activity, degree of informality, geographical location, among other important characteristics that influence formalization through appropriate incentives and assistance.

   ii. Identify and build groups of segments of economic units to be prioritized in order to formalize through incentives and approaches priority, integrated and attractive strategies.

c. Diagnosis and analysis of existing mechanisms and potentials for formalization in Cape Verde.

At this point, a diagnosis and analysis of the existing mechanisms and governance models is carried out, as well as the potentials, namely in terms of legislation, eligibility conditions, incentives, etc. This topic also describes the national context and the existing regulatory framework in relation to formalization, allowing the identification of incentives for the formalization of informal economic units, as well as the eligibility requirements for them to have access to the different tax and non-tax incentive regimes. Thus, the analysis focuses on the registration and payment mechanisms of enterprises; the incentives that exist for the different forms of formalization, specifying the analysis of the social protection system and access to financial services as strong incentives for formalization; the role of representative associations and local authorities; and a specific analysis focused on gender, as women are a specific group in the context of Cape Verde.

Figure 3: Proposal for the Design of the "Theoretical Path" for the formalization of UPI's in Cape Verde



Source: authors of this study

3.3. Econometric analysis: quantitative profiling through the determinants of formalization

Several studies have shown that the exit from informality requires an integrated, multisectoral and multidisciplinary approach. To this end, it is first necessary to know and characterize the informal units and to identify the causes that keep them in informality or prevent them from accessing the existing transitional measures. On the basis of a diagnosis, it is possible to identify opportunities to improve the governance framework and to adapt policies and measures to respond to the different profiles and specificities of informal units. Above all, there is a need for policy coherence in an integrated strategy with the explicit aim of facilitating the transition to formality.[5]

What are the characteristics and segments of informal economic units of production (IPU) that are most prone to formalization?

The development of this analysis recommends subsidizing *STEP 1 "Identification of economic segments/units that could and would like to be formalized if they received good incentives and assistance through the support offered to the formalization of businesses" according to the previous theoretical model*.

The summary of the **econometric analysis** interacts a set of explanatory variables inherent to the promoter itself **(Promoter profile)**, others related to the UPI itself **(UPI profile)**, and others related to the context (business environment). These variables can be considered as potential factors influencing the "propensity" of UPIs to be formalized.

For this, it was identified that it would be necessary to carry out a quantitative analysis to help identify some potential factors/variables (possible determinants!) that influence the UPIs to be formalized and allowing the creation of prioritization criteria (eligibility). For this analysis, we favored the econometric modeling of the logit type, which is widely documented in the literature to model and explain socioeconomic phenomena. The variable that is intended to be explained is the "susceptibility/predisposition to formalization". This variable is a dichotomous qualitative variable and, therefore, the choice of the binary logit model for this analysis is justified, complemented and enriched by qualitative information collected through interviews and focus groups, considering that from the methodological point of view, the dependent variable "sensitivity to formalization" being dichotomous, can mask, in practice, the degree of susceptibility/sensitivity of entrepreneurs to formalization. Therefore, qualitative information was essential, for example, to test and validate the operational path as shown in point 9 of the path diagram. Another aspect that is reinforced by the search for qualitative information to complement the quantitative analysis and that is not reflected as much in the quantitative approach is, for example, the ability of economic units to comply with the relevant procedures beyond registration.

From the theoretical foundations, the main hypothesis for this analysis is that the decision to formalize economic activities is determined by both voluntary and involuntary factors.

3.3.1. Construction of the variable "Intention to formalize"

Given that in the 2015 Informal Sector Survey, the variable on formalizing intention was not directly observed, it is not possible to start from the data of this survey to have specific data on this variable. However, data was collected on some important variables that may serve to **"build the intention to be formalized"** of the promoters of the UPIs. For this, the following questions of the "Informal Sector 2015" questionnaire were used, which is a more recent survey where some variables on the "intention to formalize" can be found.

[5] Policy Resource Guide supporting transitions to formality (OIT)

Box 2: Construction of the dependent variable “intention to formalize”

The construction of this variable was based on steps/cases:

A: Direct cases

Decision: All promoters who answered “yes” to at least the following questions were included in the “intention to formalize” variable:

1.Are you willing to register UPI with the administration?

2.Have you ever tried to get a NIF?

3.Would you be willing to pay UPI taxes?

B: Specific cases

Decision: all promoters who answered “yes” to at least one of the following questions were included in the variable “intention to formalize” (Note: given that it is the “intention to formalize”, if the answer is yes to all 5, it does not mean that they are formal, but perhaps that the intention to formalize is stronger in these cases).

1. Is the production unit you manage registered with a Tax Identification Number (NIF)?
2. Is the production unit you manage registered with the Land and Commercial Registry?
3. Is the production unit you run registered with the INPS?
4. Is the production unit you run registered with the City Council?
5. Does the production unit you run have a bank account for your enterprise?

C: Other specific cases:

Decision: all prosecutors who had answered “no” to at least one of the previous questions (in case B) were also included in the variable “intention to formalize” provided that they had mentioned the following reason: “because it is in the process of” obtaining a NIF; or obtaining a Land and Commercial Registry; or to register with the INPS; or to register with the City Council; or in the process of opening a bank account (NIB). As an example, at the national level this percentage is around 4.4%, while the percentage of those who answered “no” to at least one of the questions about the registration of the productive unit they manage and who answered "does not want to cooperate with the State" is either 6.4% (INE, Informal Sector Survey 2015).

Why isn’t the production unit you run registered?

1. Very complicated process
2. Very expensive
3. In the process of registration
4. Not required
5. Don’t know if you should sign up
6. It doesn't want to collaborate with the State
7. Other

The construction of the variable “intention to formalize” is represented by Y_i and coded as follows:

- Y_i= 1 if the manager/promoter is willing to formalize his/her UPI’s, corresponding to “yes” to at least one of the cases A, B or C.
- Y_i = 0 otherwise. This corresponds to cases in which there was no “yes” to any of the cases of A, B or C

3.3.2. Identification of the main variables and potential explanatory factors

Based on the literature review[6] on "determinants of the formalization of UPIs", it was possible to identify and select three groups of variables that can influence the "intention to formalize UPIs in Cape Verde. These variables are:1) individual characteristics of the promoter himself; 2) the characteristics of the UPI itself, and 3) the characteristics about the business context.

Table 2: Variables identified and adapted to Cape Verde according to the intention to be formalized

Variables	Type	Condition of the variable in the study	Explanation
Formalization status	Qualitative	Dependent	This variable 1=yes; 0=No
Promoter Profile (7)			
Sex	Qualitative	independent	Male or female Manager's Age
Age	Qualitative	independent	Age of UPI Promoter/Manager
Marital status	Qualitative	independent	The marital status of the manager/promoter
Educational level	Qualitative	independent	Level of education achieved by the manager
Occupation at UPI	Qualitative	independent	Occupation at UPI as a primary or secondary occupation
Decision to create UPI	Qualitative	independent	Individual decision to create UPI
Space Sale Decision	Qualitative	independent	Individual decision on the sale of the space where it carries out activities
UPI Profile (7)			
UPI Seniority	Qualitative	independent	Duration (in terms of year) of existence of the UPI after its creation (or entry into operation)
Domain (county/island or grouping of islands/county)	Qualitative	independent	Geographical location (island/municipality of residence of the UPI)
Means of residence	Qualitative	independent	Geographic location (means of residence)
Workplace	Qualitative	independent	UPI with fixed or mobile workplace
UPI has capital	Qualitative	independent	Ownership of capital
Activity	Qualitative	independent	Branch of activity in the sectors of commerce, industry, crafts or services
UPI Size	Qualitative	independent	Measured by the number of employees
Business Environment (3)			
Complication in the process: Entrepreneurs' perception of bureaucracy (Whether or not they are aware of administrative formalities (Complication in the process, Perception of the procedures)	Qualitative	Independent	Assessment and perceptions of the level of bureaucracy (Knowledge or lack of administrative formalities (Complication in procedures, Perception of procedures)

[6] Basically, the consultants of this work relied on their extensive experience in the field of eco-metric modelling and on two articles as clear references on the purpose: **Traoré Nohoua, 2016** *"Les déterminants de la disposition des managers à formaliser les PME informelles en Côte d'Ivoire"*: on line at https://journals.openedition.org/etudescaribeennes/10358 **SAWADOGO Halimata, 2020**: *"Déterminants de la formalisation des entreprises du secteur informel à travers le dispositif d'accompagnement des centres de gestion agrées (CGA) au Burkina Faso"*, on line at: http://labiblio.ensea.ed.ci/opac_css/doc_num.php?explnum_id=248.

Access to public/private markets (Accessibility to markets)	Qualitative	Independent	Have access to public and/or private markets in the formal sector for the sale and purchase of products
Access to finance (Accessibility to financing markets, credit, etc.)	Qualitative	Independent	Communicate the facility or name to the financial market (banks, credit bureau, etc.)

Source: authors' own elaboration based on Traoré Nohoua (2016) and SAWADOGO Halimata, 2020

3.3.1. Result of the multivariate analysis: Intention or "propensity" to formalize

This section presents a multidimensional and quantitative analysis, based on empirical data, of the "propensity to formalize" to support the identification of the main segments of UPIs most likely to formalize. From this analysis it is expected to construct "Determinants of Formalization of Enterprises / Economic Entities (UPI) in Cape Verde", serving as a **quantitative profile in terms of the propensity or likelihood of UPIs to formalization**, and it is important to note that the results of econometric modeling alone do not explain the will / motivation to formalize and that it is always necessary to introduce the dimension of validation / refinement / adjustment of the results with the information gathered from field interviews and stakeholder commitments.

The results of these estimates are presented in Table 2. This table shows the "impacts" of three groups of variables: 1) individual characteristics of the promoter himself; 2) the characteristics of the UPI itself, and 3) the characteristics of the business context. Value estimates are interpreted in terms of "chance or probability", with values greater than 1 (value of the reference category) meaning an increase in "chance" in relation to the category of comparison variable, and values below 1 means a reduction in "chance" in relation to the category of comparison variable using a significance level of 5% or 10%.

In Table 2, the **model 1** (correlation, or the individual effect of the different variables analyzed individually) allows us to evaluate the effect of each of the variables considered in isolation (**crude effect**) on the chance or probability of formalization. Based on the estimation of model 1, some variables that were not statistically significant in isolation were eliminated at the 5% significance level. Therefore, for the global model (final model) that translates the correlation or the joint effect of the variables (the net/simultaneous effect of the variables), only the variables that were statistically significant in the final model at a significance level of less than 10% were considered/analyzed.

It was preferred to work with the significant variables, indicating that by combining all the variables simultaneously, a more precise idea of the "intention of formalization" can be obtained. For the estimates, the unweighted number of observations was used. In terms of the quality of the estimates, it was observed that the model is globally significant or a threshold of 1% in relation to the p-value of the test (Prob > chi2=0.00 less than 1%) with a pseudo-R2 that rises to 0.353. Regarding individual significance, the results show that all variables have very significant coefficients at 1%; 5% or 10% in or at least one of the categories in relation to the reference category.

The final econometric analyses are based on the parameters of the **Final Model**, where the significant variables were used and the interpretation is made for the categories of the same variable considering "all other characteristics equal". All values on the effect of the independent variables on the dependent variable "intention to formalize" will be analyzed considering the following statistical conventions: p-values < 0.001 (extremely significant), p-values < 0.05 (significant 5%); p-values < 0.1 (significant 10%); p-values > 0.1 (not significant at 10%).

Under these conditions, when we put into interaction all the variables about the relevant individual characteristics of the promoter/entrepreneur of the UPI, those of the UPI and also those of the business context itself, considered important to explain the **"intention or propensity of the promoters to formalize"** the UPI, it is observed that:

Promoter's profile:

1. ***Gender:*** The propensity to formalize UPIs is about 2 times higher for men than for women. In this case, taking into account this fact and knowing that we can, for example, positively discriminate in favor of women, we need to intensify strategies and incentives for women.
2. ***Age:*** The promoters who are most likely to be formalized are those between the ages of 30 and 44 (about 82% more likely) compared to younger promoters (those under 30), while promoters aged 45 and over, although less likely, are more likely to be formalized (about 77% higher) compared to young promoters under 30. These results may indicate that the effect of the age of the promoters of the UPI on the "intention to formalize" seems clear, even when controlling for other variables. However, this reinforces the need for further complementary qualitative information.
3. ***Marital status:*** This variable, analyzed simultaneously with other variables, shows that married or cohabiting promoters are about 39% more likely to formalize their UPIs than single promoters or those no longer in a de facto union.
4. ***Level of education:*** Education appears to be a good stimulus for the formalization of UPIs when analyzed simultaneously with other variables. In fact, in this exercise, it was found that the level of education alone has a significant effect on formalization at the significance level of less than 5%. In fact, entrepreneurs with post-secondary education are about 3 times more likely to formalize economic units compared to entrepreneurs with less than secondary education.
5. ***Occupation in the UPI:*** If the activity of the promoter/entrepreneur in the UEI is carried out exclusively/mainly as a main activity, the probability of formalizing the UEI is about 87% higher compared to cases in which the activity is carried out as a secondary activity/occupation.
6. ***Decision to create the UPI:*** when the decision to create the UPI's is shared or participated, it is verified that the chance of formalizing the UPI increases by about 76% compared to cases in which it is decided to create the UPI is up to the promoter/entrepreneur himself. Thus, it can be considered that the decision to create a UPI is a differentiating variable from the intention to formalize the UPIs.

BOX 3: Further clarification on the effect of education level.

According to the ILO, globally, the higher the level of education, the lower the rate of informality. People who have completed secondary or tertiary education are less likely to be in informal employment than workers without education or who have completed basic education. This phenomenon can be observed on a global and regional scale and there are similar trends between emerging and developing countries and developed countries. However, some studies on the determinants of formalization, e.g. Traoré Nohoua (2016) and SAWADOGO Halimata (2020), found that the level of education was not statistically significant to explain the intention of formalization.

7. **Decision to sell the space:** for promoters with the intention to sell the space where they carry out the activity at UPI, it is observed that this attempt/intention accelerates by more than 3 times the chance or intention to formalize the UPI compared to the cases in which the sale of the space has not been thought/intended.

Characteristics of UPIs:

8. **UPI Seniority:** Seniority seems to be an obstacle to formalization. Older enterprises have a lower chance of formalization, and this chance is reduced by 20% compared to newer UPIs.
9. **Residence:** UPI developers/entrepreneurs located in rural areas seem to be less likely to formalize (about 19% less) compared to those in urban areas, but the fact that the intention to formalize also depends on other variables at the same time and therefore the environment of residence does not seem to be decisive.
10. **Areas:** With the exception of the island of S. Vicente, where the intention to formalize for the promoters with UPIs based on this island/county seems to be no different from the promoters with UPIs based in the city of Praia, it seems that in the other domains/islands or municipalities, the chance of formalizing the UPIs seems to vary from 4 times more (in the other municipalities of Santiago Island) to about 9 times more (on the island of Maio), compared to the city of Praia.
11. **Place of work:** UPI promoters/entrepreneurs who have a fixed place to carry out their activities seem to be more prone to formalization, having about 3.5 times more chances compared to promoters of UPIs without a professional location. For this analysis, it is important to emphasize that the workplace variable does not refer to working conditions, but simply to physical conditions and location. Therefore, it is important to consider other data to complement this analysis.
12. **UPIs have capital:** In principle, UPIs without capital are more likely to formalize, having about 44% more chances compared to UPIs with capital. Research on the determinants of formalization of informal production economic units indicates that there are internal and external factors that hinder the formalization of informal enterprises. In fact, it has already been observed that, for example, internal factors such as lack of human capital and working capital, the use of obsolete technologies or poor implementation are undeniable barriers to business growth (Ishengoma and Kappel, 2006, cited by Traoré Nohoua, 2016).

13. Branch of activity: UPIs that carry out activities in the extractive sector are the least likely to formalize. However, considering the 10% limit, it is observed that the UPIs whose main activity belongs to groups of activities such as agro-food, clothing/manufacturing, clothing, their propensity to formalize is about 3 times more compared to the UPIs whose main activity belongs to the extractive branch. However, it is observed that the promoters of UPIs that develop their activities in the other considered branches of activity are more likely to formalize themselves compared to those whose main activity belongs to the branch of Extractions. In fact, this "propensity to formalize" varies from 4 times more (for UPIs whose activities belong to the construction branch) to about 49 times more in UPIs whose main economic activity belongs to the transport sector (e.g. taxis or *"hiaces"*) compared to UPIs developing activities in the mining sector. It should be noted that UPIs in the trade sector (wholesale or retail) are about 8 times more likely to be formalized than UPIs that carry out their activities in the extraction sector. However, it should also be noted that the econometric analysis provides an overview of the propensity to formalize, but in general it is always necessary to have other additional qualitative information to better frame the quantitative analysis.
14. **Size of the UPI:** The size of the UPI has a decisive influence on the propensity to formalize: the probability of formalization increases with the size of the UPI. In the case of Cape Verde, this study shows that a two-person UPI is about three times more likely to formalize than a one-person UPI. This odds ratio increases to about 12 times higher for UPIs with 3 or more people compared to a one-person UPI. Some studies show that the decision to formalize a business depends on its size. They argue that family businesses don't need a set of risk management mechanisms because their customers are usually neighbors and their small size makes institutional credit less important. Therefore, it is better for them to remain informal (Maloney et al. (1998) and Maloney et al. (2006), cited by Traoré Nohoua (2016).

External context and environmental characteristics of UPIs

The business environment can be seen as everything that concerns the relationships that exist between enterprises and support structures. According to the work of Valéau (2006), cited by SAWADOGO Halimata (2020)[7], the fact that the UPI promoter has doubts about the external context seems to influence his decision to formalize. To do this, entrepreneurs must always protect themselves, but in practice, most of them go through periods of doubt that can make their commitments to formalization uncertain. However, the modeling exercise showed that the environmental characteristics of the UPI affect the business environment in a fundamental way on the intention to formalize.

a. UPIs that consider that there are difficulties in the processes are more apt/capable of formalization (about 71% more) compared to the UIPs that consider that there are no complications in the processes, for example through registration/tax costs/tax problems, bureaucracy (knowledge or not of administrative formalities, complication in procedures, perception of procedures) etc. In this situation, it is observed that it is possible to reduce costs by simplifying document requirements and streamlining procedures (ILO, 2021).[8]

[7] Déterminants De La Formalisation Des Entreprises Du Secteur Informel A Travers Le Dispositif D'accompagnement Des Centres De Gestion Agréés (Cga) Au Burkina Faso, online: http://labiblio.ensea.ed.ci/opac_css/doc_num.php?ex-plnum_id =248

[8] ILO, 2021 *"Simplifier et faciliter l'enregistrement des entreprises et les formalités de conformité réglementaire"* online https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_772551.pdf

b. **Access to the market** (buying and selling) from the private sector or from relatives/individuals does not seem to be a good determinant of the claim/aspiration to formalize compared to access to buying/sales from the public sector. However, with regard to **access to the financial market, it seems** that **the promoters/entrepreneurs of UPIs** who consider that they have access to the financial market are more likely to formalize (about 3.5 times) compared to the cases in which the promoters/entrepreneurs do not have limited access/access to the financial market. Similarly, external factors such as limited access to financial services or business development services, market narrowness, inadequate provision of economic infrastructure and public services, or the existence of complex and burdensome regulations, as well as interenterprise factors such as limited or exploitative relationships and weak business associations, contribute to the maintenance of informal enterprises (Ishengoma et Kappel, 2006 cited by Traoré Nohoua, 2016). These attributes are characteristic of UPIs in Cape Verde.

▶ Table 3: Multivariate regression result (Logit) on the probability of “formalizing”

A few selected variables	Model 1		Final Model	
	Odds Ratio	P>|z|	Odds Ratio	P>|z|
Sex				
Female (ref)	**1.00**		**1.00**	
Male	1.85	0.00	2.20	0.00
Age1				
15–29 (ref)	**1.00**		**1.00**	
30–44	1.80	0.00	1.82	0.03
45 or more	1.49	0.05	1.77	0.06
Estado Civil				
Single/Out Union(ref)	**1.00**		**1.00**	
Married/*de facto* union	1.60	0.00	1.39	0.07
Educational level				
Up to secondary (ref)	**1.00**		**1.00**	
Secondary	3.31	0.02	3.23	0.09
Occupation at UPI				
Secondary Employment (ref)	**1.00**		**1.00**	
Main Employment Only	1.40	0.08	1.87	0.03
Decision to create UPI				
The promoter himself (ref)	**1.00**		**1.00**	
Promoter and/or other persons	2.16	0.00	1.76	0.03
Decision to sell Space				
No (ref)	**1.00**		**1.00**	
Yes	9.00	0.00	3.44	0.07
UPI Seniority				
0 to 9(ref)	**1.00**		**1.00**	
10 or more	0.89	0.37	0.80	0.29
Residence				
Urban	**1.00**		**1.00**	
Rural	1.30	0.05	1.19	0.40

Areas				
Praia (ref)	**1.00**		**1.00**	
Santo Antão	5.90	0.00	6.77	0.00
Sao Vicente	0.81	0.58	1.01	0.99
São Nicolau	6.00	0.00	8.06	0.00
Sal + Boa Vista	5.67	0.00	7.09	0.00
Maio	4.09	0.00	9.10	0.00
Other in Santiago	2.94	0.00	4.10	0.00
Fogo + Brava	4.08	0.00	5.52	0.00
Workplace				
No professional site (ref)	**1.00**		**1.00**	
With professional location	4.56	0.00	3.51	0.00
Does UPI have capital?				
Yes (ref)	**1.00**		**1.00**	
No	2.03	0.02	1.44	0.37
Industry				
Extraction (ref)	**1.00**		**1.00**	
Agrifood	2.19	0.04	2.88	0.05
Confection/Manufacturing	3.55	0.00	2.89	0.06
Construction (BTP)	3.37	0.01	4.23	0.01
Wholesale/Retail Trade	4.98	0.00	8.22	0.00
Transport	53.03	0.00	49.28	0.00
Accommodation/food service	11.29	0.00	6.16	0.02
Other Services	5.47	0.00	7.61	0.00
Repair/Water/Electricity	5.38	0.00	5.06	0.02
UPI				
1 person (ref)	**1.00**		**1.00**	
2 people	3.67	0.00	3.05	0.00
3 or more	10.06	0.00	12.21	0.00
Complication in the process				
No (ref)	**1.00**		**1.00**	
Yes	1.34	0.09	1.71	0.03
Access_ Purchase/sale market				
Public (ref)	**1.00**		**1.00**	
Private	1.41	0.37	1.64	0.37
Relatives/Individuals	0.88	0.73	0.93	0.90
Access to Financial Market				
No access/threshold (ref)	**1.00**		**1.00**	
With access	5.29	0.00	3.55	0.00
Constant			**0.00**	**0.00**

3.4. Summary of the quantitative profile identifying the main segments to be formalized

This summary will make it possible to identify which segments of economic units could be prioritized. This initial identification of segments is based solely on the quantitative analysis of the determinants, summarized in a "quantitative profile" of the segments of economic units most prone and most susceptible to be formalized if the incentive conditions are created. This profile has been subject to adjustments and additions in order to enrich it and make it more robust, in the end representing a profile that considers the quantitative approach complemented by the qualitative approach, through auscultation, collecting qualitative information on experiences, experiences and perceptions of the different actors and target audience that work closely with the problem of formalization of informal economic units. This follow-up analysis (central element of Part 4) aims to identify, analyze and adapt incentives, strategies and policies for formalization according to each type of prioritized segment of economic units. Thus, it can be said that, in the light of the econometric analysis, the following segments of economic units to be formalized are identified.

Box 4: Summary of the quantitative analysis: what is known?

According to the quantitative analysis, and under the basic hypothesis and premise *"cateris paribus"* ("everything else is constant" or "all other things are kept unchanged"), and according to the structure of the data considered, it can be said that the promoter/head of the informal units in the Cape Verdean economic fabric most prone and most susceptible to formalization, if the necessary and adjusted incentive conditions are guaranteed, has approximately the following quantitative profile:

1. Be led by a man; have an age in the median range of the active population, either 30-44 years; be a developer who has ever thought about/tried to sell or get rid of the space; its economic unit must have been recently established (approximately less than 10 years in the informal sector); preferably located in urban areas (in terms of pilot experience, in the first place, privilege those located, preferably, in municipalities other than Praia and São Vicente); physically carry out activities in a fixed location; have a higher turnover (have a higher equity capital); not be a single-family. In summary, we observe that companies with these characteristics are theoretically likely to formalize themselves if they are given the conditions to do so;

2. In all, these economic units are clearly aware that the process is still slow, bureaucratic, costly, with little flexibility in access to financing markets and to the product market in general; they prefer to carry out their activities in areas/sectors such as Clothing/manufacturing (not in agribusiness); Construction; Wholesale and retail trade; Transport; Accommodation/restaurants; Repair, Water/electricity, leaving for other phases those working in the fields Extraction and Agrifood sectors.

3.5. Diagnosing existing mechanisms and incentives in Cape Verde

3.5.1.Some ongoing strategies

Cape Verde's economy has been severely constrained in recent times. In addition to a prolonged drought since 2017, the country recorded a decline in GDP of almost 15% in 2020 due to the COVID-19 pandemic, reduced tourist flows, increased unemployment and the closure of several national enterprises. Cape Verde has adopted an economic growth strategy based on the promotion of the private sector, for which the formalization of enterprises seems necessary in order to share the benefits throughout the economy, create conditions for sustainability and a business environment conducive to business development. Although the government has invested in improving the business environment to promote the private sector, it is noted that the results are still not satisfactory and many enterprises try to survive in the informal sector, not taking advantage of several public policies implemented as a way to mitigate the effects of the COVID-19 pandemic. In this context, several mechanisms have been created to facilitate the transition to formality by the various enterprises that are still operating in the informal sector and that, in some way, are unable to benefit from the public policies of the State for the development of enterprises.

Among the various strategies for improving the business environment are measures to facilitate the transition **to formality, with the creation of REMPE being a paradigmatic example of incentive for enterprises to be formalized**.

1. Cape Verde approved in 2017 the National Strategy for the Transition from the Informal Economy to the Formal Economy (2017–2021) with the mission of "contributing, in a sustainable way, to the transition from informal to formal economic operation and the generation of decent jobs, through the creation of a collaborative interinstitutional work environment, which integrates the different needs of the actors and the targeted beneficiaries".[9]
2. **In 2020, the National Integrated Program for the Acceleration of the Transition from the Informal to the Formal Economy 2020–2023 was approved**, the purpose of which is to accelerate the transition process from the informal to the formal economy within the framework of the post-pandemic economic recovery. It integrates structural measures for the two years following the approval of the plan and has been implemented by the Interinstitutional Commission for the Strategic Management of the Transition from the Informal to the Formal Economy, called the Interinstitutional Commission for GETIF, approved by Resolution No. 45/2018 of May 21, coordinated by the member of the Government responsible for the area of finance and integrated into the new organization of the Government in the Secretary of State for Business Development. With this program, it is intended to train about 33,200 informal units, initiating pilot projects in the municipalities of Praia and Santa Catarina de Santiago, privileging all informal trade, that is, the *"Rabidantes"* of fairs and markets, both fixed and itinerant; industrial units (grog production); the artisanal fishing sector, auto mechanics, bricklayers, carpenters, plumbers, painters, electricians, craftsmen and others in the construction industry, aggregate production units, car washers, self-employed artists, hairdressers, informal barbershops, land transport units not incorporated as enterprises, tourist guides practicing independently, workers in artistic, sports and recreational activities working on a self-employed basis.[10]

[9] National Strategy for the transition to formality (2017)

[10] DITTO

3. **The Government's Program for the 10th legislature** reinforces the commitment to provide the country with an ecosystem of qualification and financing of youth entrepreneurship, in order to bring into the formal sphere the businesses carried out in the informal sector through migration to micro-enterprises and sole proprietorships or cooperatives. This is expected to contribute to the reduction of informality and precarious employment, with low and insecure income and without social security coverage.[11]

4. **The National Strategy for the Promotion of Decent Employment (2022 to 2026)** establishes as one of its objectives to contribute to the acceleration of reforms for competitiveness and decent employment by aligning efforts for formalization, self-employment and entrepreneurship through an Integrated Skills Development Program (PIDC). The PIDC will be operationalized through education, training and entrepreneurship support systems and implemented in a coordinated manner by stakeholders at the national and community levels. The objective is to maximize the employability of entrepreneurs, increase access to decent employment opportunities for youth, women and vulnerable groups in catalytic sectors, and contribute to reducing youth unemployment. About seven thousand young people are expected to receive vocational training.

5. In the **Strategic Plan for Sustainable Development (PEDS 2021)**, the transition from informality directly integrates three Programs:

   a. The "Business and Private Sector Development Program" which encompasses the Program to accelerate the transition from the informal to the formal economy, in addition to the Economic Recovery Plan and the entire ecosystem of financing the economy (PRÓ EMPRESA, PRÓ-CAPITAL, PRÓ-GARANTE);

   b. The Program for the Promotion of Decent and Qualified Employment, which coordinates the IPCC and manages the entire employment and vocational training system;

   c. The "Social Protection Program", which will encompass all the intervention of the National Institute of Social Security (INPS) and the Safety Network, and which aims to expand social security coverage.

The institutional framework has allowed progress in terms of policies, programs and actions aimed at promoting the transition from informality to formality, with particular emphasis on the Special Regime for Micro and Small Enterprises (REMPE), which introduces a tax and contribution framework aimed at informal production units, favorable to the promotion of their competitiveness, productivity and formalization.[12] The Special Regime for Micro and Small Enterprises (REMPE), approved in 2014, aims to simplify the payment of taxes, reduce entry and operating costs, accompanied by public incentive policies and special programs for the development of micro and small enterprises.[13]

It was intended to cover commercial, service and industrial activities, which are mostly informal units characterized by their small size in terms of turnover and number of employees. Until 2014, they were taxed by the estimation method, through the Supplementary Table of Minimums for the Calculation of Income from Commercial and Industrial Activities Carried out on Own Employment, when the turnover was less than five thousand escudos. Based on the minimum income per activity in it, the head of the Tax Agency establishes the taxable amount for the application of the 15% rate for the calculation of the IUR.[14]

[11] Government Program X legislature (2021)

[12] National Strategy for the Transition from Informal to Formal (ILO, 2015)

[13] Nélida da Conceição Fortes (2019), *O REMPE e a tributação da economia informal*

[14] Nélida da Conceição Fortes (2019), *O REMPE e a tributação da economia informal*

To qualify for REMPE category, micro and small enterprises had to meet two basic criteria: the number of employees (up to 5 for micro enterprises and between 6 and 10 for small enterprises) and the total annual turnover (VN), which may not exceed 10,000,000 CVE (ten million escudos). The regime provides that if the taxpayer exceeds this amount in two consecutive years or three uninterrupted years, he or she is automatically excluded from the regime, and the tax administration may make this change on its own initiative.

The regime provides for a unified special tax (TEU) of 4% on turnover, payable quarterly, which replaces Value Added Tax, Income Tax, Fire Tax and Social Security contributions on the enterprise's liability, thus reducing the tax burden for this type of taxpayer (compared to taxation under the simplified regime in the IUR). For the calculation of the TEU tax, the rate of 4% is applied to the quarterly turnover without deduction of discounts, and the assessment is made by the taxpayer through the model 107 declaration, accompanied by the annexes of purchases and sales, which must be submitted electronically. Microenterprises with a turnover of less than 1,000,000 CVE (one million escudos) are exempt from paying TEU. They are not required to have organized accounting or accountants, but they must have a purchase record book and a sales record book, which can be replaced by computerized records, which are annexes to the declaration.

In 2020, it was introduced that they must have at least one bank account to make payments and receipts from business activity. They also have to provide their customers with an electronic means of payment. From September 2022, all enterprises are required to use electronic invoicing, a measure aimed at preventing tax evasion. The law also requires micro and small enterprises to register their employees with the social security administration (INPS).

Despite the context of institutionalization of REMPE, some gaps that still exist have been mentioned. In fact, the dissemination of the benefits of this system is still insufficient and it has not yet reached the areas it should have covered. There is a clear contradiction between the purpose of REMPE and the bureaucracy of the system, since the filing of taxes is limited to the online system and most people in the informal sector do not even have access to the Internet, much less the digital literacy for this purpose. With regard to institutions with responsibilities in the sector, such as Pró Empresa, it should be noted that information on benefits still does not reach all groups and the bureaucracy for granting benefits can be a dissuasive factor.[15]

With the operationalization of the Government's program, it is expected that the country will have an integrated strategic planning to enhance the informal sector, creating coordination structures and specific measures for the economic sectors. The focus should be on formalization adapted to the particularities of the sector and the people who work in it, making the processes of access to social protection more flexible; increasing and adapting social benefits for informal workers; encouraging systems of organization of informal units, diversifying the modalities (micro-enterprises; cooperatives; and creating systems of registration and identification of workers in the sector[16]. It is therefore important to know the mechanisms that promote formalization, how they work, what are the conditions of access and their limitations.

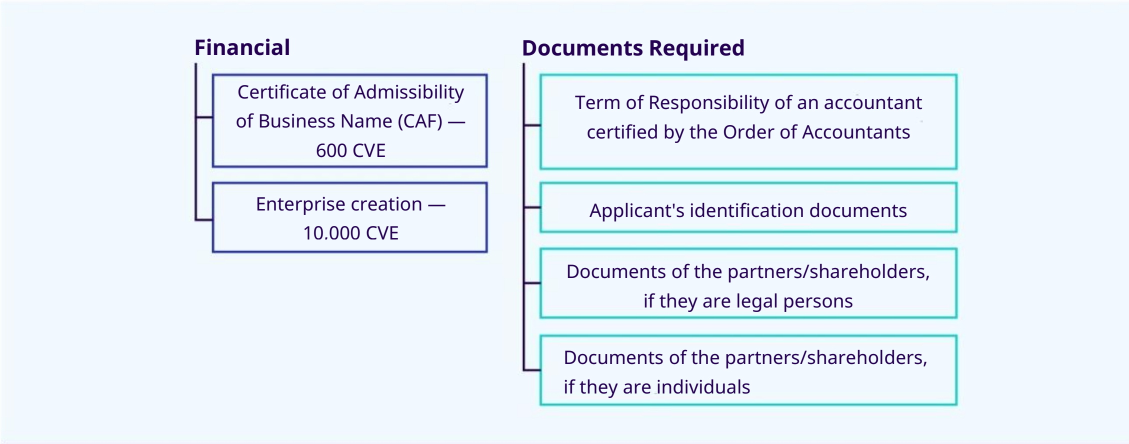
[15] National Human Rights Report (CNDHC 2018)

[16] Training Report (ILO) 2020

3.5.1.1. Registration and Payment for MSEs with organized accounting

Decree-Law No. 9/2008, of March 13, 2008[17], established the special regime for the creation and registration of firms in Cape Verde, with the aim of facilitating this process by establishing the creation of the *Empresa no Dia* (END). In Cape Verde, there are two regimes (taxation) for the creation of enterprises, the Special Regime for Micro and Small Enterprises and the Organized Accounting Firms. The incorporation of enterprises under an organized accounting regime must incur the costs detailed below and meet the following requirements.

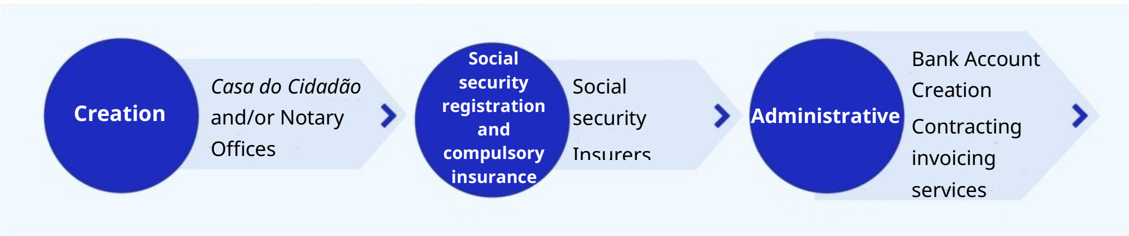
▶ Figure 4: Current mechanisms for setting up enterprises with organized accounting*



Source: authors of this study
The certificate of Admissibility of a Name is subject to the approval of the Registry and Notary services, regardless of where the registration process took place.

In the registration and creation process, the major difference between REMPE and the organized accounting regime is that in the former there is an exemption from the cost of 10,000 CVE (ten thousand escudos) for the incorporation of the enterprise and the exemption from the obligation to present the term of responsibility issued by a certified accountant. The creation of enterprises under the organized accounting system involves the following mandatory procedures.

▶ Figure 5: Enterprise Creation Process



Source: The authors

[17] This diploma has transformed a process that was generally very time-consuming and with different costs for the user, into a process with greater ease and centralization of different actors in the creation of enterprises in a single network.

With the approval of REMPE, the government sought to simplify the procedures for registering enterprises and, in a way, encourage the formalization of business entities operating in the informal sector. The required documents relate to the certificate of admissibility, the tax identification number, the number of partners, the identification of the manager and a minimum capital of 10,000 CVE. In terms of the tax regime, REMPE adopts a Unified Special Tax (TEU) with a rate of 4% on the value of the turnover and, as mentioned above, within this value are also included the expenses with the INPS, that is, the TEU replaces the Corporate income tax, the Value Added Tax and the Fire tax, as well as the contribution to the social security in relation to the employer, for which micro and small enterprises must register their employees with the Social Security Administration (INPS).

A microenterprise with an annual turnover not exceeding 1,000,000 CVE (one million escudos) pays the minimum amount of 30,000 CVE (thirty thousand escudos) per year. For microenterprises that start their activity during the year, the payment must be proportional to the months of activity until the end of the year. No payment will be made if the amount is less than 1,000 CVE (one thousand escudos). Since it is a more recent regime, REMPE enjoys a higher level of knowledge among entrepreneurs and potential entrepreneurs, due to a strong investment in communication campaigns, "overshadowing" the current Corporate Tax Code[18], which is accompanied by the Tax Benefits Code[19], which provides a series of benefits with the following eligibility conditions:

Under the organized accounting system, the conventional taxation is 22% on the enterprises' net profit. In addition to this amount, the enterprise is responsible for withholding 24.5% on the payroll, with **16%** to be borne by the employer (taxpayer) and 8.5% borne by the employee, for later submission to the INPS and to comply with legal requirements regarding social security. Once registered, the enterprise or entrepreneur must continue to pay the taxes and fees necessary to maintain the licenses and services, and thus keep its activities legal.

In the case of collective passenger transport vehicles (taxis or *"hiaces"*), the amount to be paid depends on some technical characteristics of the vehicle, and is made in accordance with the respective booklet. For the purposes of the payment of the Unified Special Tax, the enterprise fills out an appropriate form, of a simplified model, or electronically, with the following reference elements: value of sales and purchases of the previous quarter; name and remuneration of the workers who provided service during that period.

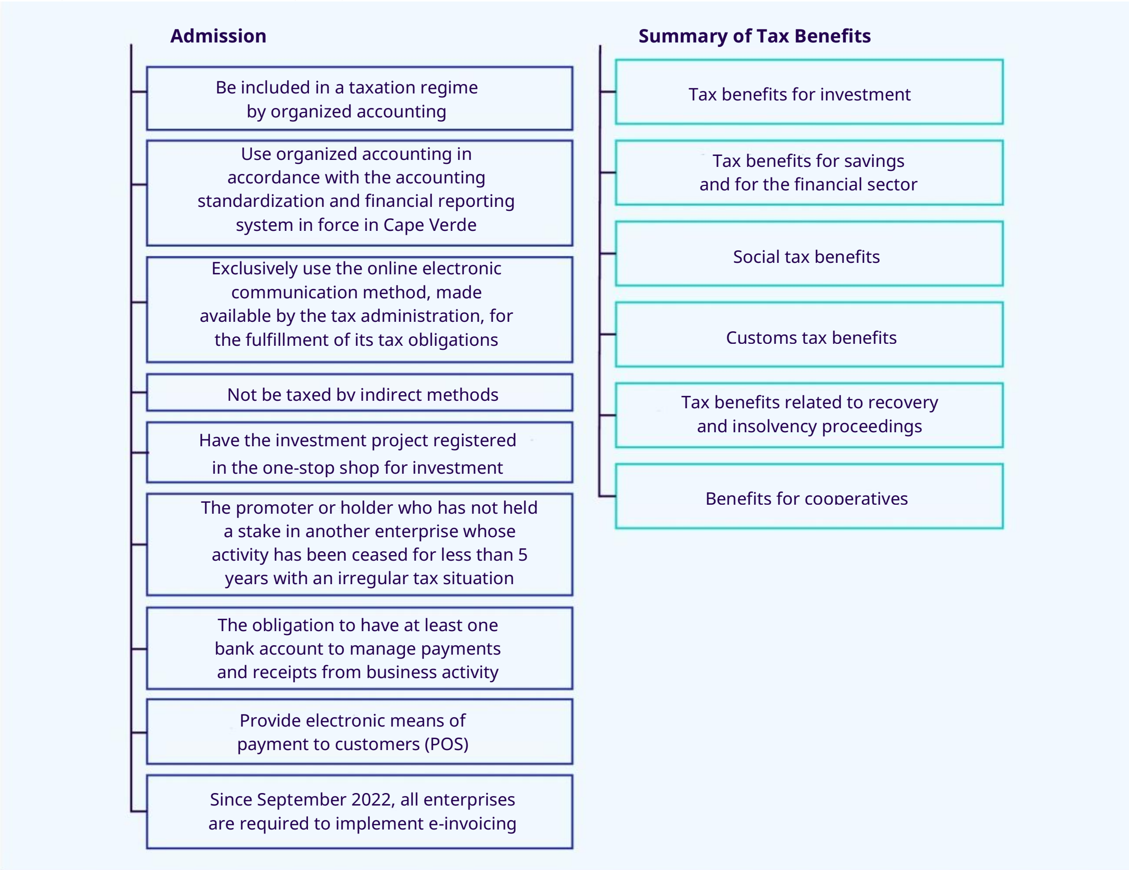
Once the registration is formalized and the activity has begun, with the delivery of the duly completed form 110, the enterprise must submit its tax return monthly, in person, which can also be done online, through the submission of the form 112. Enterprises should seek to be equipped with software approved by the DGT or DNRE to facilitate the process and avoid the need and hassle of going to the premises of the Treasury.

The declaration must be made every month regardless of whether the enterprise is a sole proprietorship, anonymous, limited or limited liability. Even if enterprises face difficulties, they should do so, as they can also benefit, circumstantially, from debt forgiveness or negotiation, and may be written off free of charge, if the Treasury finds that there has been no activity or that they have not generated any profit, or have generated losses. By not submitting its declaration, the enterprise, in addition to being listed in the tax records as being in default, may also be criminally liable or subject to investigation, and may suffer severe sanctions, be inhibited from obtaining incentives and even, depending on the facts, be prosecuted for tax evasion.

[18] Law No. 86/IX/2020, which republishes Law No. 82/VIII/2015, of 8 January, which approves the Corporate Income Tax Code (IRPC), as amended by Laws No. 5/IX/2016, of 30 December, No. 20/IX/2017, of 30 December, No. 44/IX/2018, of 31 December and by this amending law.

[19] Law No. 86/IX/2020, republication of Law No. 26/VIII/2013, of 21 January, as amended by Law No. 102/VIII/2016, of 6 January, by Law No. 5/IX/2016, of 31 December, by Law No. 20/IX/2017, of 31 December, by Law No. 44/IX/2018, of 31 December and by this amending Law.

▶ Figure 6: Tax Benefits and Eligibility*



Source: Prepared by the authors from the Law No. 86/IX/2020)
The benefits are presented in the form of chapters, where in each of the chapters the code provides for different types of incentives, such as IPRC exemptions for consumer cooperatives, duty exemptions on the importation of fishing materials and equipment, among other incentives listed in the code.

An enterprise can be legally formalized, but it cannot be considered regulated if it does not comply with fiscal and tax responsibilities to the State, through the Ministry of Finance. Therefore, depending on the field of activity of the enterprise, it may be necessary to obtain licenses to operate. Generally, these licenses are required from City Councils and government agencies such as the Ministry of Industry. The license is granted after inspection and compliance with various bureaucratic procedures, such as: commercial registration; Statutes; site plan; manufacturing plant; matrix certificate; lease agreement (or declaration of use or building permit); descriptive memorandum of the project with information on processes; diagram of manufacturing, installation and safety equipment and devices; sanitary facilities; drinking and industrial water supply system; disposal and treatment of effluents and waste; economic feasibility study or business plan, etc. In the food industry, a declaration of technical advice or qualification of the person in charge is required. A license or permit is required for exploration in the case of enterprises involved in extractive industries.

To formalize the enterprise or professional with the City Council, it is necessary to submit 2 photos; copy of the Identity Card (BI), the NIF and presentation of the Health Bulletin, which must be requested at the Health Department. It should be noted that activities, enterprises or entrepreneurs should only (although they can, if they wish) register and apply for licenses or permits with the councils if their activity is in public places and in the service of the general public, especially if the process involves the occupation, permanent or temporary, of public space. Example: taxi drivers, *"hiace"* drivers, vendors, establishments open to the public, shops, commercial houses, carpenters, locksmiths need a license for professionals and enterprises to place "panels", "signs", "totems", "muppies" and signboards, whether they are illuminated or not, as long as they appear outside the building occupied by the activity or the public space where they are placed.

3.5.1.2. Incentive Program

REMPE establishes a set of special incentives of a fiscal, financial, organizational, skills creation, access to technologies, to be created by government departments in consultation with business associations.

Table 4: Summary of incentives for MSEs

Type	Incentive
Tax exemption	▶ Importation of goods vehicles less than 5 years old; ▶ Special Unified Taxation (IUR and Social Protection); ▶ Exemption from stamp duty; 50% reduction in fees for notarial acts (sale of real estate).
Financial Incentives	▶ Creation of subsidized credit lines with the Banking System; ▶ Creation of the National Credit Guarantee System; ▶ Access to finance in the area of innovation and knowledge transfer.
Skills Building	▶ Subsidy in access to Vocational Training; ▶ Organization of short courses by public entities for MSEs; ▶ Integration of entrepreneurship in Vocational Training Curriculums.
Obtaining environmental permits	▶ Promotion of actions for access to clean production and transfer of healthy technologies to the environment.[20] The measure is regulated in the Budget Implementation Law (2021), which subsidizes up to 50% the interest on loans acquired for the acquisition of micro-production of renewable energy for small, micro and medium-sized enterprises. It also exempts the payment of value added tax on imports of clean technologies. It mainly benefits units in the agrifood processing sector and Industries[21]. The exemption depends on the opinion of the National Directorate of State Revenue.
Market access	▶ Participation of MSEs in at least 25% in the acquisition of goods and services and 10% when the acquisitions are made by public or private enterprises with a contract with the State; ▶ The payment to MSEs by the State must be within a maximum period of 60 days.

[20] Tax and financial incentives granted to promote the massification of renewable micro-production for self-consumption in the productive sectors (industry, commerce and services) reinforcing women's access to formal finance (Government Program 2021)

[21] https://kiosk.incv.cv/V/2021/12/31/1.1.129.4048/p3150

Access to Social Security	▶ Micro and small enterprises must register their workers with the social security management body; ▶ Family members of partners of micro and small enterprises who do not earn a salary may be integrated into the system, through a contribution specified in the terms and conditions to be defined in a specific diploma; ▶ Employees of enterprises covered by REMPE enjoy the same rights as employees; ▶ Monthly contribution, set at 8% to be borne by the employees (insured) ▶ The payment of contributions must be made by the 15th day of the month immediately following the month to which it relates.

3.5.1.3. Enterprise Access Services

As part of its efforts to promote the private sector, the Government has implemented several mechanisms to support enterprises, and important institutional reforms have been made to ensure a healthy ecosystem for enterprises to thrive. Enterprise support services have been structured in entities such as Pró Empresa, City Councils, Chambers of Commerce/Business Associations, Microfinance Institutions and IEFP, which provide support services for business development. However, in most cases, the requirements (including formalization) for enterprises to access services prevent informal enterprises from benefiting from most of the services available. Business associations, such as chambers of commerce, provide various services to their members (legal and tax advice, internationalization support, discounts on services provided by partner organizations, training opportunities, conflict mediation, access to infrastructure, marketing strategy support, etc.). However, the conditions for enterprises to join imply fixed monthly costs, which in turn can be restrictive (from 1,500 CVE to 7,000 CVE per month) and unattractive for micro and small enterprises.

3.5.1.4. Access to financial services

The International Labour Organization recommends that for the transition from the informal to the formal economy, there is a need for an effective reform in the access of people with fewer resources to different financial services.[22] In the same vein, the ILC (2014) is very explicit when it suggests that in order to encourage the transition, there is a need to use an approach that takes into account the needs of the informal operator both in terms of production and its own protection. The need for production is understood as the possibility of accessing loan services designed for microenterprises as a way to increase incomes and create sustainable jobs, and for the protection needs will be services such as savings, emergency credit and risk insurance[23]. The diagnostic study of the financing ecosystem published in 2021, brought some recommendations from business owners and entrepreneurs regarding access to finance[24].

[22] The Informal Economy and Decent Work: Policy Resource Guide to Support the Transition to Formality, ILO, 2012.

[23] International Labour Conference — Transition from the informal to the formal economy, ILO, 2014.

[24] The diagnosis of the financing ecosystem carried out in 2021 brought concerns about financing, with entrepreneurs and businessmen drawing attention to the adequacy of credit conditions to the type of business and also with concerns about the post-incentive periods.

Figure 7: Difficulties in accessing finance for MSMEs

Source: Prepared by the authors

The results continue to show a gap between the supply of products and the needs of micro and small entrepreneurs, highlighting their difficulties in meeting the requirements of the products made available to them. From the point of view of micro and small entrepreneurs, the products are not yet tailored to their needs, which perpetuates the difficulties of access to finance. The sector currently has several initiatives and incentives in the context of the situation created by the COVID-19 pandemic, but micro and small entrepreneurs have shown their concern about possible difficulties after the end of this measure, which is essential in terms of affecting their ability to pay for financing.

Faced with the scenario of uncertainty and due to the need to promote the economic recovery process, the Central Bank of Cape Verde has maintained an accommodative monetary policy, keeping its main control variables at the same level and extending the moratorium on bank credit as measures to protect the liquidity of enterprises and household income.

3.5.1.5. Legal Measures to Encourage Financing

The relationship with a financial institution, when it comes to financing, presupposes the existence of a creditor (holder of the right) and a debtor (obligation to pay). Although loans are guaranteed by mechanisms created by the creditor and/or provided by the debtor, in the event of insolvency or default, the guarantee of maintenance and preservation of the rights and obligations of the parties may be affected, so it was necessary to create additional mechanisms.

Insolvency proceedings are generally a long and stressful process for both the insolvent party and the various parties involved. Law No. 116/VIII/2016 of March 22, 2016 has clarified this process in legal terms.

Article 2 of the Law lists the entities that may be subject to the recovery and insolvency regime, including individuals, in addition to formally incorporated enterprises.

The inclusion of individuals in the law allows formal operators, who are framed in what the law defines as insolvency, to be able to resort to the official benefits and mechanisms made available by the law, allowing them, in a difficult situation, to negotiate the fulfillment of their obligations with all their creditors, thus facilitating their recovery process, also benefiting from incentives provided for in the Tax Incentives Code for enterprises under an organized accounting regime.

The Government of Cape Verde, in order to resolve one of the oldest discussions and limitations on access to finance in Cape Verde, created, through Decree-Law No. 48/2020, the general legal regime for the use of movable property as a guarantee of compliance with obligations and the Registry of Movable Guarantees.[25]

The regime proposes the following objectives: (i) Legal framework for Movable Guarantees to strengthen and promote the confidence of financiers of the economy and change the profile of possible debtors, and consequently facilitate access to financing by enterprises and consumers; (ii) Creation of a WEB Platform for the registration of movable assets. The presentation of real estate as collateral, widely required by banks, makes it impossible for MSMEs to access credit, especially those operating in the informal market, but with this diploma, they will be able to present themselves to the creditor, with the minimum conditions required to apply for financing.

The Banks

The "Doing Business" report, published by the World Bank, for the year 2020, indicates that Cape Verde was ranked in position 144 worldwide[26], regarding the topic of access to credit, showing that the country has a long way to go when it comes to criteria, processes and granting of financing, creating accessible and sustainable alternatives to finance the economy. The Cape Verdean banking sector is recognized and characterized by its stability and conservatism. With nationwide coverage, all islands have at least one bank branch. The Bank of Cape Verde is responsible for supervising financial institutions operating in the Cape Verdean market and, as part of this responsibility, conducts a quarterly survey of the Credit Market[27].

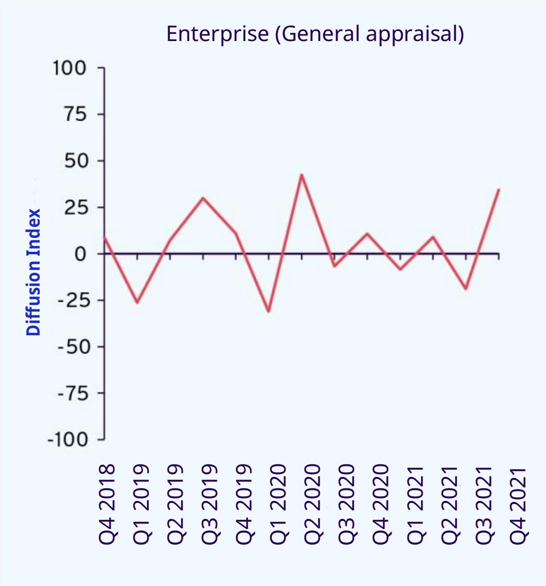
Banks' perception of credit demand reached its lowest level in the first quarter of 2020, justified by restrictive measures to combat the pandemic. But the peak occurred in the very next quarter, to decline again at the end of 2020. The year 2021 ended with the demand for credit on increasing trends. Very different from the fluctuations in the demand for credit, the supply of banks remained almost unchanged, with slight fluctuations between quarters, proving the conservatism that characterizes the banking sector in Cape Verde and the lack of diversification of the products made available to the public and the few changes in the conditions of access to the products available.

[25] Examples of personal property that may be pledged include: Agricultural machinery and implements for cutting firewood and charcoal; Common farm animals; Agricultural products; Animals for processing meat and meat products; Pork products; Vehicles, aircraft, ships and other vessels; Industrial machinery, apparatus, materials, equipment and instruments; Industrial machinery, apparatus, materials, equipment and instruments; Raw materials and industrialized products; Stocks or inventories of a commercial establishment; Vehicles used for any type of transportation or travel.

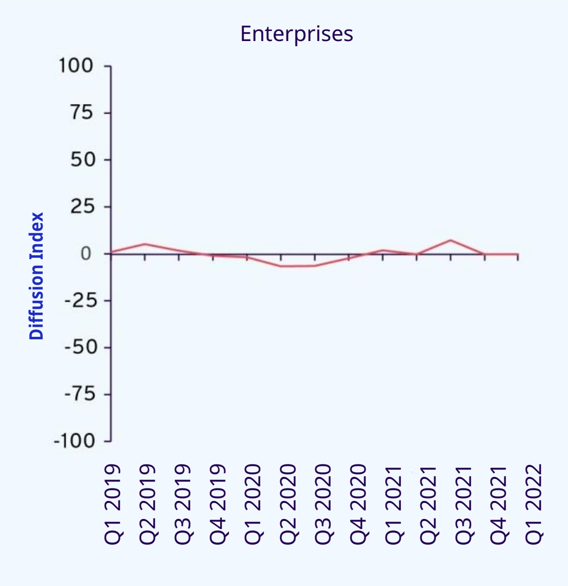
[26] Doing Business in Cape Verde — Doing Business — World Bank Group

[27] https://www.bcv.cv/pt/Estatisticas/Publicacoes%20e%20Intervencoes/Relatorios/Relatorioapolitica/Documents/2022/INQU%C3%89RITO%20AOS%20BANKS%20ABOUT%20O%20MARKET%20DE%20CR%C3%89DITO%201%C2%BAT%202022.pdf

▶ Graph 1: Credit Seeking*



▶ Graph 2: Credit Supply



Source: Credit Market Survey, BCV, 2022
**Ibid*

In terms of fluctuations in interest rates made available to the market, in October 2021 this rate averaged 9.2% for loans with a maturity of between 6 and 12 months, a difference of 1 p.p. compared to 2019 (8.2%), representing an increase of 12.2%, aggravating the cost of access to credit.[28]

Access to credit within the exceptional measures created to mitigate the impacts of the pandemic and promote economic recovery does not reflect the common conditions made available to micro and small entrepreneurs for access to credit in commercial banks. To access products in commercial banks, in general, small entrepreneurs[29] must meet the following basic requirements: (i) an enterprise established in accordance with legislation; (ii) Regularized tax and contributory situation; (iii) Annual report for the last 3 years; (iv) Presentation of warranties in accordance with product policy. The analysis of the credit products made available by the different banks shows: (i) An effort to fit the enterprises REMPE[30] in the credit conditions for enterprises with organized accounting; (ii) Caixa Económica, in its Microcredit program, encourages[31] informal operators to formalize their units through the flexibility of guarantees and interest rates for duly formalized enterprises; (iii) Initiative to open credit conditions for enterprises to be created[32]; (iv) 100% of banks offer credit for UPIs. As part of the financing lines with the Sate guarantees, banks disbursed more than 1,912 million escudos in credit to the enterprises in 2021.[33] The latest diagnosis[34] of the current financing ecosystem (2021) in Cape Verde found that there is still a gap between product offers and the needs of micro and small

[28] Monetary Policy Report, BCV, 10-2021

[29] Micro-entrepreneurs are not included here, because in the credit products available in commercial banks, only two banks had a line that framed this segment.

[30] https://www.bancobai.cv/empresas/produtos-e-servicos/solucoes-de-credito-1/bai-ecossistema-pmes

[31] https://www.caixa.cv/micro-credit

[32] https://www.caixa.cv/enterprises/credits#credito-investimento

[33] Commercial Bank Reports available for consultation

[34] Funding Ecosystem Diagnosis, NSCE, 2021

entrepreneurs, highlighting their difficulties in meeting the requirements of the products made available to them. From the perspective of micro and small entrepreneurs, the products are not yet designed to meet their needs, maintaining their difficulties in accessing financing. The sector currently has several initiatives and incentives in the context of the COVID-19 pandemic situation, but micro and small entrepreneurs have shown their concern about possible difficulties after these measures are over, which may affect their ability to pay financing.

▶ Figure 8: Summary of the funding ecosystem

BCA	Launched the SME credit line in 2014 and carried out in 2018 the campaign '10 Million Escudos for the UPI (interest rate of 8.5), where 35% of new loans that year were made to UPI
BCN	Had the support of the International Finance Corporation to prepare its strategic plan 2018-2022, reaffirming the bank's interest in the SME segment;
BAI	Created the BAI SME Ecosystem (supported by an advertising campaign), which includes a business account, digital services and above all a loan of up to 60 months with a value of between 1.0 and 10 million (CVE)
Caixa ECV	Also has a unit (“cabinet”) “enterprises” (and not specifically for SMEs) within their “North–South Regions” sales department. It also has a “microcredit” unit
Eco bank	Is gradually implementing initiatives across the continent (it promotes itself as the “Pan-African Bank”) especially in the countries it serves: 1) targeting women entrepreneurs (Ellever); 2) Digi-bank (for MSMEs) including checking and savings accounts, digital services, financial advice; 3) The Emerald Club (network of entrepreneurs); and 4) SME Formula including financing, current and savings accounts, investment advice, online access and including the Emerald Club. Ecobank was elected “African SME Bank” of the year in 2021. It has also managed to position itself as a technological leader in the region, thanks to OMNI Banking and now EcobankPay (payment by QR code)

Source: Authors

These interesting initiatives are mostly aimed at formalized enterprises, with organized accountability and meeting the definitions and requirements of the Special Regime for Micro and Small Enterprises (REMPE). The existing limitations mean that a large part of the Cape Verdean business system is unable to access or fully benefit from these initiatives, especially informal operators and/or micro-enterprises, which do not fit into most of the initiatives, as they are aimed at enterprises of higher categories.

The Cape Verde MSME Financing Study[35] carried out by the Central Bank of Cape Verde (2018) observed that 40.57% of MSEs did not keep a record of their businesses, characteristics that exclude them or increase their difficulties in accessing credit in the formal market, more specifically in the commercial banking, but also show the need to strengthen non-financial services to support the organization of business of enterprises in these categories. The structure of the banking sector, the products it offers and the initiatives registered allow an analysis that is detailed in the following table:

▶ Table 5: Banking — Strengths vs. weaknesses

STRENGTHS	WEAKNESSES
Formalization as a requirement for access to finance[36]	Opening hours not adapted to different business sectors

[35] Cape Verde MSME Financing Study, BCV, 2018

[36] It can be understood as both strength and weakness, considering that on the one hand it encourages formalization to access credit services, but also limits those who do not yet have the exact conditions to formalize.

Wide geographical coverage, with all islands in the country having at least one bank branch	Lack of a credit product dedicated to financing, for example, consultancies to professionalize management
Number of banks (7) sizeable for the size of the market	Conditions of access to credit are mainly aimed at established enterprises, excluding informal operators
Strong internet banking presence, with 100% of banks offering this channel, with some free services.[37]	Homogeneous credit products[38]
Access to relatively affordable savings products, with the minimum account opening balance starting at 2,000 CVE at some banks	Requested guarantees hinder access to micro and small entrepreneurs

Despite these constraints, there are some initiatives in the banking sector to include the informal segment in its credit portfolio, as is the case of the BAI, which has made available a financing line of up to one million escudos for individuals (informal sector) who have their small business, encouraging the registration of units in REMPE. The BCN also created an office to monitor and attract customers in the informal segment, aiming at their banking and use of banking services.

Microfinance

Law No. 83/VII/2015, republished by Law No. 12/IX/2017, defines Microfinance as the activity carried out by authorized entities and which consists of the provision of adequate and sustainable financial services in favor of low-income populations, normally excluded from the traditional financial system.

The Microfinance Law (2015) responded to one of the weaknesses cited in the Microfinance Strategic Plan for 2014–2019, aiming at the professionalization of a sector due to its recognized importance in the process of social and economic inclusion of the most vulnerable population. The Law established three categories of Microfinance Institutions (MFIs), as detailed in the following table.

[37] Transfers to the same bank are free of charge on all banks' platforms, facilitating payment services without spending funds on fee payments.

[38] The products in the table in Annex 1.3 are very homogeneous, with slight differences from the products of the different banks.

Table 6: Permitted operations by category of MFIs[39]

			Deposit Capture		Credit Granting	
MICROFINANCE OPERATORS		**MINIMUM CAPITAL (CVE)**	From the public	Members only	To the Public	Members only
SUBJECT TO PRUDENTIAL SUPERVISION						
Category A	Rural Credit Bank	50,000,000	✓	✗	✓	✗
MICRO-BANKS	Savings Bank	60,000,000	✓	✗	✓	✗
	Postal Savings Box	40,000,000	✓	✗	✗	✗
Category B	Savings and Credit Mutual Societies	15,000,000	✗	✓	✓	✗
	Savings and Credit Cooperatives	10,000,000	✗	✓	✓	✗
SUBJECT TO MONITORING						
Category C	Deposit Capture Intermediaries	✗	✓	✗		✗

With the legal framework in place, the Central Bank of Cape Verde, responsible for the supervision of MFIs, granted a 3-year adaptation and transition period for associations and NGOs operating in the Microfinance sector. Of the 12 operators registered with the Professional Association of Microfinance Institutions[40], 7 were able to register with the Central Bank of Cape Verde under the new Law, while the other 5 were unable to continue carrying out their operations. CRESCEBRAVA, the only operator on the island of Brava, ended up closing its activities.

Of the 7 MFIs registered with the Central Bank of Cape Verde, five (5) are cooperatives and two (2) are mutuals. 3 years after the emergence of the first MFIs under the new regulatory framework, no category A or C institution has yet been registered, thus greatly reducing the offer of this type of service by MFIs to the public they serve.

The inability to capture deposits from the general public translates into the unavailability of funds to meet the demand for loan services, continuing to be one of the weaknesses cited in the sector's strategic plan for 2014–2019. Still on the inability to capture deposits[41] with clients, MFIs are generally required to finance themselves through commercial banking, further increasing the cost of access to credit by clients. Acknowledging the importance of the Microfinance sector in the process of financial inclusion, Law No. 83/VIII/2015 of 16 January 2015 stipulates that Savings and Credit Mutual Societies are exempt from all direct or indirect taxes, fees or rights arising from the microcredit operations they grant or from the collection of savings from their members.

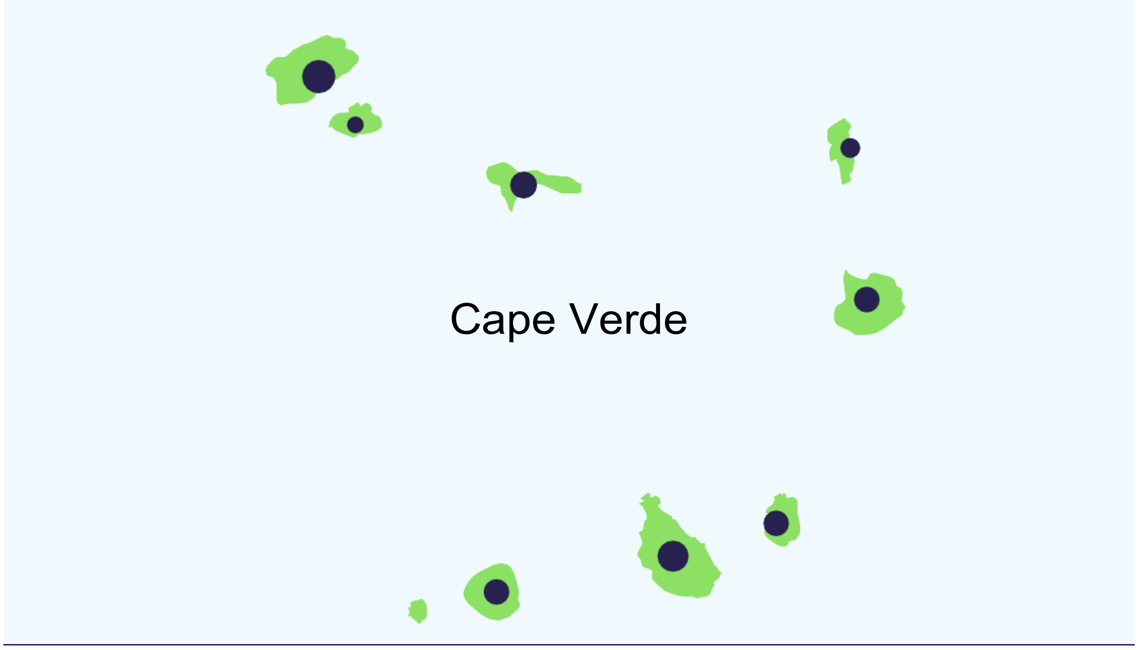
Regarding Savings and Credit Cooperatives and Micro-banks, they may be exempt from taxes and fees by the State Budget. These measures, according to the Law in question, aim to boost the emergence and development of the Macro-financial sector in Cape Verde.

[39] Microfinance Regulation, Notice No. 4 of 2016

[40] APIMF-CV Professional Association of Microfinance Institutions of Cape Verde

[41] Customer savings are funds with a lower cost than conventional funds, generally obtained through bank loans.

▶ Graph 3: Geographic Coverage — Microfinance



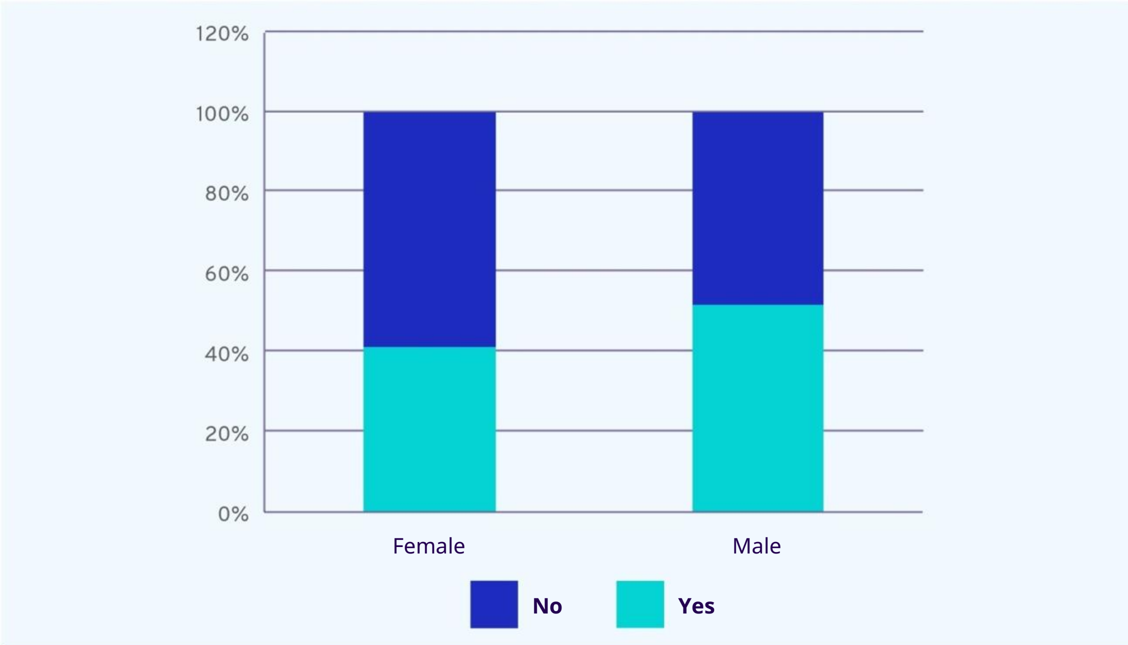
Source: Authors

Currently, MFIs have an island-wide coverage of approximately 89%, with Brava being the only island without a Microfinance agency. This coverage allows for a greater depth of MFIs in Cape Verde. Recognized for their high operating costs, MFIs have great difficulty in opening and maintaining sustainable branches on different islands and municipalities.

3.5.1.6. Microfinance and the formalization of Production Units

The study carried out by ADA (2021) to analyze the impact of the COVID-19 pandemic on Microfinance clients in Cape Verde showed that the level of informality among female clients was 58.8%, while for men it was 48%. With a client informality rate of around 50%, microfinance institutions are closely linked to this sector and their products are positioned as the most accessible to this segment, thus increasing the level of responsibility for creating measures that increase the effective quality of life of this segment.

▶ Graph 4: Business situation (formal vs. informal)*



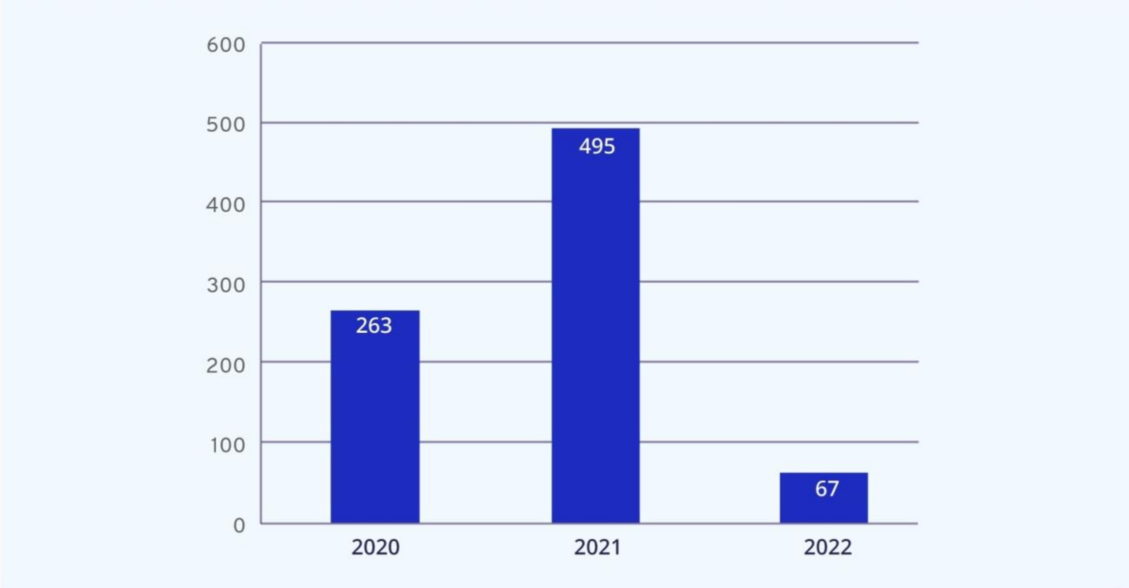
** Study of the impact of COVID-19 on Microfinance clients, ADA, 2021*

In June 2020, still facing the first effects of the pandemic and the need for decentralization of services, and continuing the strategy of modernization of public administration, *Casa do Cidadão* and MORABI COOPERATIVA signed a protocol with the aim of making the one-stop shop service available[42] at MORABI’s headquarters. More than providing the different services of the *Casa do Cidadão*, the project was essentially focused on providing the service of business creation with an entity whose audience is notoriously composed of informal market operators. (Graph 5)

Exactly two years after the start of the branch of MFI MORABI COOPERATIVA, 825 enterprises were registered under the cooperation protocol, which shows the importance of this type of initiative, which takes advantage of synergies with different actors. The empirical characteristics of microfinance institutions, their well-known target group and their social mission make these institutions closely linked to the informal sector. This link makes these institutions actors of enormous potential in the process of transition from informal units to the economy, mainly through the combination of financial services such as credit, savings, micro-insurance and non-financial services such as monitoring, follow-up and training.

[42] Services for the creation and alteration of enterprises, issuance of certificates and other services provided by the citizen's home.

▶ Graph 5: Registered enterprises — Morabi Cooperativa*



** Balcão Único de MORABI Cooperativa de Poupança e Crédito*
(2020) Data for 7 (June–December) months of operation
(2022) Data for the period from January to May

The financial literacy survey conducted by the Central Bank of Cape Verde (2016), in collaboration with the National Institute of Statistics, concludes that of the people surveyed between the ages of 20 and 65, 36% and 7%, respectively, have never had a bank account or do not have one. These data may correspond to a financial exclusion rate of around 43%, which could represent potential clients of microfinance institutions[43].

In the data collected from 5 of the 7 MFIs registered with the Central Bank of Cape Verde, and although there are no statistical data[44], they indicated that more than 95% of the disbursements of contracted loans are made through bank transfers, deposits in client accounts and/or bank checks. Even though they are closely linked to informal operators, the client-institution relationship includes aspects of the formal market. Comparing the data from the literacy survey and the credit policies of MFIs, it is possible to see the potential of these institutions to influence or determine the use of the formal market by informal operators.

MFI credit products are recognized for their simplicity and low level of bureaucracy, but also for their personalized concern for financial inclusion, growth and the exit of clients from situations of vulnerability. For this reason, some MFIs include in the conditions of their products: the obligation for clients to set up a guarantee fund[45] with the institution in order to have access to credit.

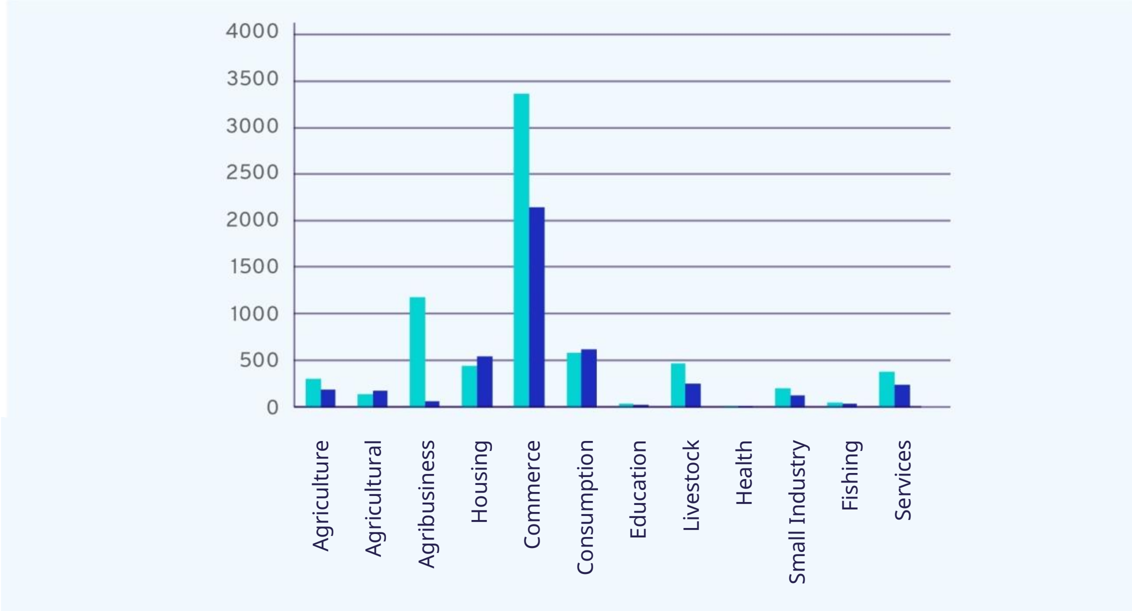
The Microfinance market study carried out by UNDP (2019), estimated that the potential Microfinance market in Cape Verde was estimated at 71,218 clients, representing a portfolio of 12,035,902,202 CVE (twelve billion, thirty-five million, nine hundred and two thousand, two hundred and two escudos).

[43] Data presented with a time difference of 5 years

[44] One of the great weaknesses of the sector is the production of periodic statistics that show its evolution and the impact on the lives of its customers and the national economy.

[45] Often in the Microfinance sector, these funds are known as “Mandatory Savings”

▶ Graph 6: Credits granted*



** APIMF-CV Professional Association of Microfinance Institutions of Cape Verde*

In 2019 (pre-pandemic), the commercial sector and activities with agriculture and livestock and those related to them (agribusiness and agriculture) dominated the credits granted, followed by housing and consumption credits. The pre-pandemic data (2019) show that MFIs granted 701 million escudos in credit, still far below the potential of the corresponding market, both in terms of volume and number of credits granted, which were just over 7 thousand, highlighting the need for greater focus on increasing the responsiveness and penetration of MFIs so that they can develop and reach their market potential.

The development of the microfinance sector can facilitate access to financial services for a large part of the business ecosystem, which currently faces difficulties in accessing finance. As part of the measures for the recovery and protection of family income, CITI COOP joined the program for the promotion of micro-enterprises in 2020, financing 19 duly formalized micro-enterprises for an amount of 10 million Cape Verdean escudos. It should be noted that it was the first experience of an MFI in the program born in 2020.

In March 2022, MORABI COOPERATIVA DE POUPANÇA E CRÉDITO issued its first "SOCIAL BONDS"[46] — the first issue in the world carried out by a microfinance institution. The issuance was made through the Cape Verde Stock Exchange, in accordance with the principles[47] established for this type of issuance and approved by the State of Cape Verde, in line with the Program for the Promotion of Micro Entrepreneurship[48] , with the aim of financing up to 1.5 million escudos to micro and small enterprises, at an interest rate up to 47% lower than the conventional credit lines practiced by the institution. This issue of one hundred million Cape Verdean escudos is part of the economic recovery program and is essentially aimed at financing micro and small enterprises with a regularized situation in terms of licensing, taxes and social security, as well as social and solidarity economy entities, namely cooperatives, economic interest groups and producers' associations.

The issuance allows the institution to grant credit to formalized entities at a cost that is up to 47% lower than the cost of the credit lines practiced[49]. Access to microcredit is relatively easy for informal producers, since the requirements are concentrated: repayment capacity; absence of negative history in credit systems; having an idea or a business that presents itself as viable; accepting visits from credit officers.

Micro-insurance

The urgent need for Microfinance institutions in Cape Verde to start investing more in micro-insurance as a mechanism to increase the social resilience of their clients, but also to protect the income of their businesses in the face of situations that affect their ability to continue generating income, is demonstrated once again in the impact study carried out by ADA (2021), where 3 out of 4 female clients said they did not have any type of insurance, and the percentage of male clients exceeded 62%.

Recognizing the importance of micro-insurance for the protection of informal operators and Microenterprises, and being one of the ILO recommendations for the process of transition from the informal to the formal economy, this service is still incipient in Cape Verde, with poorly developed and homogeneous products, mainly in the Microfinance sector. In a market of 7 MFIs, only two offer this service in the form of micro-life insurance, but still with a low level of reach.[50]

[46] Social Bonds are debt securities whose issuance value is intended for projects (new and/or existing) that address or mitigate a social issue and/or aim to achieve positive social outcomes.

[47] https://www.icmagroup.org/assets/documents/Regulatory/Green- Bonds/June-2020/Social- Bond- PrinciplesJune-2020-090620.pdf

[48] Resolution No. 139/2020

[49] The initial rate for credits in the productive segment is 22.8% per year (see Annex 1.2)

[50] Microinsurance – ASDIS-Cooperativa de Crédito
https://www.facebook.com/photo.php?fbid=265450552276504&set=pb.100064346820307.-2207520000..&type=3

▶ Table 7: Analysis of the Microfinance Sector

STRENGTHS	WEAKNESSES
Strong presence in the field, with customers and potential customers	Poor dissemination of statistical data
No limitation of minimum amounts for funding	Average credit granted below the needs of customers and potential customers[51]
Financing of activities to be started	High cost of financing[52] for projects requiring higher amounts (where the burden of high fees has more repercussions)
Payment methods adapted to the business sector	Low product diversification, with a high concentration on microcredit products
Flexibility of guarantees for access to finance	Absence of non-financial services that encourage formality
Low level of bureaucracy compared to banks	Little requirement for formal business organization to access funding
Proximity to customers through a loan officer	Lack of specific products for formalized enterprises.[53]
High depth, enhancing financial inclusion	Lack of income protection services for entrepreneurs
Presence of non-financial services, such as guidance and training, mainly in Small Business Management and Financial Education	Maximum repayment period is unattractive for small enterprises with an average maximum term of 24 months, making it difficult to finance investments with a longer payback period.

3.5.1.7. Funding Ecosystem

The national financial ecosystem created in 2019 has more famous participants, such as banks and Microfinance institutions, representing the private financial sector and the public actors highlighted here: Pró Empresa, Pró-Capital and Pró-Garante. Currently, the ecosystem has financed more than 3,600 projects and initiatives, representing more than nine billion escudos in loans and six billion in guarantees provided[54].

[51] Microfinance Market Study, UNDP, 2019

[52] Average annual rates range between 24-36% according to the study of the Composition of the Cost of Microcredit in Cape Verde, carried out by ADA in partnership with the Central Bank of Cape Verde, 2019

[53] Except for the product created by MORABI COOPERATIVA within the scope of financing via social bonds (see annex 1.3)

[54] https://www.proempresa.cv/

The results of the previous paragraph show the importance that the ecosystem has had in the country's economy, with the protection of more than 18,800 jobs. The fact that, within the ecosystem, namely within the Pró Empresa programs, there are sub-programs that aim not only to support the financing and legalization of activities, but also aspects related to the formalization of management, with direct support to entrepreneurs, through consulting, accountability and advisory services, facilitates the process of accessing different services in a concentrated way.

▶ Table 8: Objectives of enterprise promotion programs

PARTICIPANTS	OBJECTIVES
Pró-Capital[55]	▶ Participate in the share capital of any company; ▶ Participate in the share capital of viable enterprises, but in financial difficulties, with the aim of transforming them; ▶ Participate in the capital of Start-ups, when they are promoters of projects that are proven to be viable; and, ▶ Participate in investments in the Cape Verdean diaspora.
Pró-Garante[56]	▶ Provide guarantees to eligible credit institutions, regulated and supervised by the Bank of Cape Verde (central bank), in order to facilitate the obtaining of credit by MSMEs; ▶ Provide guarantees for the portfolio of special credit lines to ensure the fulfillment of the obligations contracted by MSMEs with the entities providing the special credit lines concerned; ▶ Provide counter-guarantees for the operations of other eligible financial institutions that offer credit guarantees to MSEs. ▶ Managing, on behalf of third parties, guarantee funds to improve access to finance for MSMEs; ▶ Support the expansion of the supply and dissemination of other financial instruments that contribute to improving MSEs' access to finance.
Pró Empresa[57]	▶ Promote special programs for entrepreneurship, employability and promotion of innovation; ▶ Disseminate and promote opportunities for the private sector in the production of goods and services in the different sectors and islands of the country; ▶ Develop actions to promote investment opportunities at national level; ▶ Collaborate with the competent entities in the coordination of events, allowing the promotion of private investment and networking; ▶ Manage entrepreneurship, employability, innovation promotion and business development programs for micro, small and medium-sized enterprises; and ▶ Promote and coordinate the holding of competitions and other initiatives that generate start-ups.

Created by Decree-Law No. 22/2017, Pró Empresa's mission is to promote, facilitate and monitor national private investment by micro, small and medium-sized enterprises in all sectors of the national economy.

[55] Decree–Law No. 51/2018

[56] Decree-Law No. 32/2018

[57] Decree-Law No. 22/2017

In the fulfillment of its mission, Pró Empresa has several programs that aim to support the assigned mission, highlighting the PROMEB, EXPRESS+, PRÓ-CRÉDITO and START UP JOVEM programs.[58]

Currently, due to its wide area of activity and different programs, Pró Empresa is one of the most notorious participants in the ecosystem and its programs seek the necessary complementarity for a broad service to national entrepreneurs and businessmen.

▶ Table 9: SWOT analysis of the ecosystem[59]

SWOT analysis	
Strengths	▶ Young population with a literacy rate with significant development potential; ▶ Economic and social progress with better living conditions; ▶ Economic, political and social stability facilitating the development of the country; ▶ Good governance (government, central bank, public institutions) and positive image outside the country (Europe, United States, international financial institutions, NGOs) reassuring the business world, investors and donors; ▶ Strong and stable financial system/banking sector. High rate of bankarization of the population; ▶ Ecosystem of business support and financing (Pró Empresa, Pró-Capital, Pró-Garante and various lines of credit) with a solid foundation; ▶ Participation and support of the diaspora (international remittances, networks) with important remittances and deposits for the development of the country and the improvement of living conditions; ▶ Geographic location (mid-Atlantic): transportation, technology, commerce, tourism can benefit; ▶ National and unlocalized organization to support MSMEs; ▶ Some successful entrepreneurs who can serve as role models for developing an entrepreneurial culture.
WEAKNESSES	▶ Weak public finances, debt and deficits, and the impact of the pandemic potentially limiting public capacity to invest; ▶ Weaknesses of MSMEs: weak financial structures, limited market potential, and high costs to serve markets (no or little economies of scale); ▶ Fragmentation: population size/market size, urbanization and concentration in 2–3 major cities, low diversification of the economy limiting business potential and increasing costs of serving markets; ▶ Geography: insularity leading to the dispersion of population and markets affecting the costs of services, transport and infrastructure; weaknesses and costs of infrastructure (transport and communications, telecommunications, etc.) and basic services (high context costs); ▶ A business environment ("Doing business") that is not very conducive, especially in terms of legal, regulatory, information, access to credit, etc.; ▶ Environment and climate change, limited natural resources at risk due to global warming; ▶ Support programs for MSMEs: although present, they lack adequacy to the needs (conditions, amount, granting criteria, and decision-making process), lack synergy/communication/articulation/cooperation between providers; difficulty linking training/support/funding; few statistics and formal evaluation to measure real impact; lack of consultants/experts that can support MSMEs and service providers. Weak or non-existent follow-up; unmet consulting service needs; ▶ Access to finance: low interest from banks for MSMEs; low capacity of MFIs (funds, skills, structure, tools); few financial products for MSMEs; ▶ Entrepreneurial spirit to develop.

[58] https://www.proempresa.cv/

[59] Funding Ecosystem Diagnostic, NSCE, 2021

OPPORTUNITIES	▶ Potential offered by a young population and by the general improvement of living conditions and the economic situation: better-trained workers (strong investments in skills development), purchasing potential and growth markets; ▶ Geography: privileged location, proximity to markets, commercial agreements (Africa, Europe); technology and transportation; ▶ Willingness of public authorities to advance the country economically and the development of MSMEs: programs, budgets, donor interest and support, political and social stability, and strong achievements of the past; ▶ Unrealized potential in certain value chains (e.g. tourism, fisheries, agriculture, arts and cultures) and development of new value chains (digital, blue economy, renewable energy, circular economy); ▶ Favorable economic environment with significant investments and programs to support the post-pandemic recovery; willingness of various stakeholders to revive the country; low interest rates; abundant liquidity in the financial sector.
THREATS	▶ Autonomous financial capacity of the State and enterprises, after the pandemic (the long-term impact of which has not yet been determined), limiting investments; ▶ Fragmentation, concentration, dispersion of the economy, industries, businesses, populations, and markets increasing the costs of services and limiting economies of scale; ▶ Dependence on foreign countries: markets, customers, supply, diaspora… whereas they should compensate (in part) for the size of the population and the country's markets and needs; ▶ “Doing business” environment and business facilitation in the country: legal and regulatory environment to be strengthened, simplified and streamlined; credit and company information; bureaucracy, etc. to meet the needs and capabilities of the business; ▶ Difficulty in articulating MSME support programs; adequacy to the needs and capacities of MSMEs; exchange and communication between partners; limiting access to programs and the effective delivery of aid; ▶ Climate change: depletion and costs of resources/raw materials impacting various industries/value chains; and ▶ The potential of young people to have an impact on unemployment, crime and declining living standards.

Insurance

In 2021, the data continue to show the high concentration of insurance in the non-life sector, which accounted for 85.5% of insurance contracted in Cape Verde. Despite the 2.3% reduction, the Non-Life Segment continues to dominate the contract of the products of the two insurers (Garantia and Impar) in the country.[60]

Table 10: Contracted insurance — Garantia[61]

	2020	T.S.G.	2021	T.V.H.	T.S.G.
Risk Life	48 620	37%	25 871	-47%	16%
Financial Life	26 814	28%	58 885	120%	51%
Total Life	**75 434**	**33%**	**84 756**	**12%**	**30%**
Accidents and Illness	38 727	20%	43 177	11%	23%
Fire and Other Damage	102 997	36%	-3 190	-103%	-1%
Car	367 404	48%	435 134	18%	51%
Transport	10 781	13%	11 134	3%	9%
General Civil Liability	11 142	13%	8 891	-20%	11%
Other	-10	0%	6 077	59 729%	36%
Total Non-Life	**531 041**	**37%**	**501 222**	**-6%**	**32%**
Grand Total	**606 475**	**37%**	**585 979**	**-3%**	**32%**

(In mCVE)

[60] https://www.garantia.cv/images/Relatoris_Contas/RC2021.pdf; https://www.impar.cv/images/relatorio/contas_2021.pdf

[61] https://www.garantia.cv/images/Relatoris_Contas/RC2021.pdf

Table 11: Contracted insurance — Impar[62]

Direct Insurance	Premiums Issued			
Branch / Groups	**2021**	**%**	**2020**	**%**
Life	147 650	14%	93 274	9%
Total I	**147 650**	**14%**	**93 274**	**9%**
Not Life				
Accidents and illness	184 664	17%	170 519	17%
Fire and other damage	151 660	14%	156 622	15%
Car	437 814	40%	375 943	37%
Maritime, Air & Transportation	106 792	10%	155 078	15%
General civil liability	52 812	5%	52 074	5%
Credit & Collateral	11 110	1%	11 789	1%
Total II	**944 853**	**86%**	**922 026**	**91%**
Total I + II	**1 092 503**	**100%**	**1 015 300**	**100%**

The importance of the social income protection mechanism to protect and promote the transition from informal production units to the informal sector is unquestionable, but its implementation has been a slow process and has several constraints. The insurance sector in Cape Verde, despite a considerable portfolio of insurance products, many of them approaching micro-insurance products due to their level of accessibility and target audience, has not achieved a penetration that provides effective coverage of the most vulnerable.

In 2021, according to the annual report of Garantia, S.A., motor insurance[63] accounted for 74% of insurance contracts. Despite the fact that, in the same period, this type of insurance represented 46% of the contracts, the level of concentration of contracts in mandatory products is still worrying.

The availability of a varied portfolio of products, although with homogeneous characteristics by the two insurers, increases the offer of protection mechanisms. Many of the products available have characteristics that are suitable for actors in the informal sector and for formalized micro and small entrepreneurs. For example, the product ***"Vida Proteção Garantida"***[64] made available by the insurance company Garantia is an initiative to be noted for the inclusion of low-income people. In the same vein, we find the product **Plano Poupança Reforma/Educação**[65] from IMPAR, with conditions that are also flexible and affordable

[62] https:// www.impar.cv/images/relatorio/contas_2021.pdf

[63] It is important to note that this is a mandatory insurance, justifying its contraction volume

[64] Modality 1: Death Coverage (1,000,000 CVE); Annual Premium 4.800 CVE or Monthly Premium 400 CVE. Modality 2: Death Coverage (1,000,000 CVE) + Funeral Expenses (150,000 CVE); •Premiums: Annual 5,160 CVE or Monthly Premium of 430 CVE. Available at: https://www.garantia.cv/index.php/e-produtos

[65] Minimum monthly limit: 1.000 CVE; Minimum quarterly limit: 3.000 CVE; Minimum semester limit: 6.000 CVE; Minimum annual limit: 12,000 CVE. Available at: https://www.impar.cv/poupancareforma.html

3.5.1.8. Access to markets

Although it is mentioned in the various government programs, market access for micro and small enterprises was only made explicit in the legislation approving REMPE, but its effective application has not been satisfactory. In the REMPE legislation, the legislator's intention is to give preference to micro and small enterprises in public procurement and in subcontracting and public works. The intention of the Public Procurement Law is to ensure that State entities should allocate at least 25% of their budget for the purchase of goods and services to micro and small enterprises, as qualified by the diploma that approves REMPE. Large public or private enterprises should reserve at least 10% of the value of contracts for the supply of goods and services to the State, obtained through public procurement procedures, for micro and small enterprises. It was also intended that, with the approval of the REMPE diploma, public or private enterprises awarded public works contracts would be obliged to reserve at least 10% of the value of the contract for subcontracting to micro and small enterprises.

In this regard, although this measure is included annually in the State Finance Law, there is no systematic control of its effective implementation and there are no statistics or other control documents from entities such as ARAP (Public Procurement Regulatory Authority), DNRE (National Directorate of State Revenue) and TC (Court of Auditors) to ensure the implementation of this policy measure to promote microenterprises. It should be noted that, within the framework of the Re-qualification, Rehabilitation and Accessibility Program (PRRA), the awarding of civil works with a value of up to 9,000 escudos to small contractors, whose enterprises are located in the municipalities where the works are carried out, has been established as a tender procedure. The formalization of the companies is a condition[66]. However, without supervision, monitoring and enforcement for the effective application of the law, micro and small enterprises could not fully benefit from this legal provision and must compete for access to markets without discrimination against medium and large enterprises. The tourism market, which has been a major driver of the economy and one of the largest business services enterprises, adopts requirements (volume, contracts, deadlines, guarantees, etc.) that are difficult for micro and small enterprises to meet, which limits their access to the most dynamic markets. Informal economic entities face increased difficulties due to their informality and are therefore excluded from the large market and the more dynamic markets where competition is higher. With the reforms in the field of the digital economy, particularly those undertaken by the Ministry of Finance, access to technology has become a central aspect for the insertion of micro and small enterprises in the markets.

The certification of product quality is an essential condition to ensure access to the market, especially the tourism market. The National Certification Commission (CONCERT), created by Decree-Law No. 4/2020 of January 17[67], 2020, is a national body for the certification of products, processes and services[68]. The certification program for small tourist accommodations has provided support to small establishments that invest in the quality of their services and their entry into the tourism value chain. The program should be extended to other sectors, especially the agrifood sector, taking advantage of the technical capacity recently installed at INIDA, which now has a food certification laboratory.

[66] MIOTH website

[67] https://kiosk.incv.cv/V/2020/1/17/1.1.8.3076/p202

[68] The central body is made up of representatives of national organizations and entities, namely the Institute for Quality Management and Intellectual Property, the General Directorate of Agriculture, Forestry and Livestock (DGASP), the Institute for Agrarian Research and Development (INIDA), the National Directorate of Industry, Commerce and Energy (DNICE), the Barlavento Chamber of Commerce (CCB), the Sotavento Chamber of Commerce (CCISS), Cape Verdean Association for Quality (ACQ), Association for Consumer Protection (ADECO), Independent Health Regulatory Authority (ERIS).

Small businesses in the food processing sector (agricultural products; fruit processing) are organized in cooperatives, many of which have been supported by the *Raízes* project (Local Networks for Sustainable and Inclusive Tourism in Santo Antão), which aims to disseminate, valorize and promote these local products. This is the case of Amupal, located in Água das Caldeiras, in the Planalto Leste, which is developing a project for the transformation of fruits and the production of liqueurs, employing several women heads of households, which have been able to reach the national market thanks to the "Made in Santo Antão" label.

Therefore, it is essential to support enterprises to certify their products and to have access to the most promising and demanding markets, such as the tourism and export markets.

3.5.1.9. Access to technology

The transition to the digital economy has been adopted as a priority by the State of Cape Verde and will undoubtedly be an important ally in reducing informality, facilitating and simplifying processes. With the expansion of digital services by the Public Administration, it is essential to adopt mechanisms for dealing with bureaucracy through digital technologies. There is no systematic monitoring of the effective use of digital services, but the reforms carried out in this area in recent years are gradually being adopted by businesses and are accessible to all entities (citizens and businesses). Most tax relations can be carried out online and several government bureaucratic services are offered through digital counters (e.g. Porton di Nos Ilha), in addition to the services offered by commercial banks. The State has provided several services that require connectivity to access. The gradual implementation of the e-invoicing system[69] will be an important incentive for the formalization of companies, taking into account the requirements for registration and permanence in the system.

Given the government's intention to accelerate the digital transition, micro and small enterprises must promote the necessary reforms to be able to meet the demands and requirements for digital inclusion in the business environment. In this context, the digital transition will be an excellent incentive for the formalization of various enterprises, since most of the issues related to business bureaucracy will be carried out through digital means, whose requirements for adhesion and permanence will require several formalities.[70]

[69] Decree-Law 79/2020, of 28 December

[70] https://www.efatura.cv/

3.5.1.10. Access to skills development programs

Box 5

Skills development can be an essential means to increase productivity and incomes in the informal economy and generate opportunities to engage with the formal economy. It is an important element for capacity building in pro-poor growth frameworks and for supporting strategies to facilitate the transition to formality. In an integrated approach encompassing business training, credit and post-training support, as well as the legal and regulatory framework conducive to the development of the private sector, vocational training can help with medium-term strategies for integration into the structured economy, while offering a set of immediate benefits to entrepreneurs and workers in the informal economy. (Resource Guide on Supportive Policies the transition to formality — ILO)

REMPE provides for a series of support measures through vocational training and skills development as incentives for MSEs[71]. With regard to vocational training, REMPE provides for the provision of a financial support line for vocational training for employees and partners of micro and small enterprises. Skills development includes initial and/or market-oriented vocational training programs; and business management training programs.[72]

The Employment and Vocational Training Fund (FEFP) has been used as the financing mechanism for vocational training, created with the aim of supporting initiatives for the development of employment and socio-professional integration of the unemployed, especially young people looking for their first job, and for continuing training relevant to the needs of the national economy.[73]

In the area of vocational training, the Fund supports young people who wish to participate in relevant vocational training courses or actions, from level 1 to level 5, which makes it possible to integrate young people with different levels of education. Some 8,037 grants have been awarded and 481 million escudos have been invested in financing. The trainings are carried out in certified vocational training centers, public and/or private. The training area should be integrated with strategic development sectors, namely ICT, tourism, green economy and blue economy. It also includes a line of financing to support entrepreneurship, which aims to support micro and small projects and initiatives to promote employment and self-employment, young people aged 18-35 with innovative technology-based ideas, including national start-ups. Some 122 people have already benefited from this measure[74].

The special regime establishes measures to support the creation of skills, encouraging entrepreneurship and integrating it into the curricula of vocational training. The Institute for Employment and Vocational Training (IEFP), in partnership with the Employment, Employability and Insertion program (2018 to 2021), integrated the Entrepreneurship Competence (CODE) methodology into the curricula of the initial and skills-building training[75]. The country has CODE trainers in all Vocational Training Centers; national facilitators and a manual adapted to the country, thus providing the basic resources for the institutionalization of the program and its sustainability.

[71] Session III of Law No. 70/VIII/2014

[72] Online at http://snq.cv/wp-content/uploads/2019/07/AGE004_4-Gesta%CC%83o-de-Pequenas-Empresas.pdf

[73] Online at https://www.fpef.cv/

[74] This measure was created with the purpose of encouraging self-employment and the creation of micro and small projects for young people with vocational training, aged between 18 and35 years, by providing guarantees up to 80% of the total amount financed, with the interest rate being paid by the FPEF.

[75] CODE — Entrepreneurship Competence is an entrepreneurship educational program, with its own methodology, developed by the International Labour Organization (ILO) with the aim of teaching entrepreneurship in vocational training institutions, secondary schools and in technical or higher education.

Training in small business management has been carried out in various sectors, particularly in the area of business support and start-up programs, integrated in projects to support informal units with a view to their formalization. The methodologies used are mainly those certified by the ILO and introduced within the framework of cooperation projects such as the Program of Support to the National Strategy for Employment Creation (PAENCE) and the Program of Employment, Employability and Insertion — Jov@mprego. The country currently has more than 1000 trained and certified staff, through 42 actions in different areas: value chains, employability manual, Get Ahead, GERME, soft skills, rights and duties of youth, financial education, CODE, among others. It was necessary to design or adapt to the Cape Verdean context various pedagogical materials, consisting of brochures, flyers, trainer's and trainee's manuals, among others. In addition, efforts were made to disseminate them. To support the actions and their sustainability, 31,450 copies of pedagogical support were produced[76]. Financial Education and Get Ahead have been used in different programs to support transition, at central and local levels, as they are the methodologies best adapted to the educational level of the target group. This is the case of the Productive Inclusion Project, implemented by the Ministry of the Family, Inclusion and Social Development with the support of the World Bank, which promotes short and medium-term training *in business management based on ILO methodologies (GET Ahead; Financial Education and GERM).[77] The evaluation study of the Sucupira50 Project indicated that financial education training was preferred by beneficiaries as the most useful for their business (73%). The training was complemented by information sessions on registering for social security and enrolling in the REMPE*.

The Government of the 10th Legislature reaffirms its commitment to ensure vocational training for the program to accelerate the transition from the informal to the formal economy, through initiatives articulated with the mechanisms for promoting entrepreneurship (technical assistance, kits and microcredit).[78] In order for vocational training to encourage and promote formalization, it will have to be adapted and adjusted to the profile of the units currently operating in the informal sector, and also integrated into the policy of promoting employment, adapting the offer to the needs of the market. The current training offers are punctual, carried out within the framework of specific projects, and there is no fixed structure that provides training in the management of small businesses, a profile that already exists in the catalogue of qualifications in Cape Verde, thus making use of all the above-mentioned capacities.

[76] Summary of the implementation of the Employment, Employability and Inclusion Program: https://drive.google.com/drive/fol-ders /1Yn5_IR7ut4U56EjVprihWUzUb-WDtYFP?usp=sharing

[77] Productive Inclusion Manual (MFIDS) 2021

[78] Government Program (2022/2026)

3.5.1.11. Expansion of social security[79]

Social security registration (of workers and employers) is both a condition for formalized enterprises and an incentive for formalization. The mere extension of social security coverage to the owners/employers of enterprises and to the workers of these enterprises acts as an incentive mechanism for formalization[80].

Recommendation 202 on Social Protection Floors, adopted by the member States of the International Labour Organization (ILO) in 2012, proposes a two-pronged strategy towards universal social security: (i) the horizontal extension of a social protection floor financed by the national budget, which includes universal access to health and income security for children, people of working age, older persons and persons with disabilities; and (ii) the vertical extension of benefits to ensure higher levels of coverage. It can be seen that most countries have contributory social security regimes that are linked to the formal labor market, as well as regimes for assistance programs that are included in policies to support the poor and people with disabilities who are unable to work. The complementarity of the two systems is seen by many as a way to universalize social protection. The safety net system ensures coverage of basic services, especially for groups that do not have access to other mechanisms. The mandatory or contributory security system ensures a higher level of protection in a sustainable way.[81]

The exclusion of informal workers from social security systems is considered a “major and daunting challenge for economic and social development”, given the weight of the informal sector on economies, especially in developing countries.[82] Data from the Implementation Report of the 2030 Agenda show that in Cape Verde, between 2015 and 2020, the contributory regime of the social security system expanded from a coverage of 39.5% of workers to about 55.5% in 2020, and from a coverage of 38.1% of the resident population in Cape Verde at the beginning of the period to about 45.1% in 2020. It should be noted that the level of coverage in 2020 decreases compared to 2019, which shows a direct impact of COVID-19, with a reduction (-1.6%) in the total number of insured persons.

With regard to the non-contributory system, at the end of 2020 it covered about 22,866 beneficiaries, with an average annual growth of 1.5% since 2015, in which the elderly are the majority.[83] The informal economy has not benefited from most of the State's incentives, especially during the COVID-19 crisis, where a large part of the informal units did not have the profile to benefit from the measures at the level of mandatory social security (unemployment benefit; dismissal and solidarity income for REMPE enterprises); nor from the safety net regime, whose basic criterion was to belong to a household in a situation of poverty (groups 1 and 2 of the Unified Social Register). The informal economy has not benefited from the measures at the level of mandatory social security (unemployment benefit; dismissal and solidarity income for REMPE enterprises); nor from the safety net regime, whose basic criterion was to belong to a household in a situation of poverty (groups 1 and 2 of the Unified Social Register)[84].

[79] Recommendation 202 calls on the current 187 ILO Member States to “establish as soon as possible and maintain their **social protection floors**, which include basic social security guarantees. Such guarantees should at least ensure that, throughout the life cycle, all persons in need have access to essential healthcare and basic income security that, taken together, ensure effective access to the goods and services defined as necessary at national level” (Paragraph 4).

[80] Requirements for formalization of Enterprises (ILO 2021)

[81] ILO Guide: Extending Social Security to Workers of Informal Economy.

[82] ILO Guide: Extending Social Security to Workers of Informal Economy.

[83] VNR Cabo Verde (2021)

[84] Ordinance approving the econometric model for the classification of households registered in the Unified Social Registry: https://kiosk.incv.cv/V/2018/11/6/1.1.71.2597/p1768

In order to achieve the extension of social security coverage to the self-employed and those dependent on the formal sector through the formalization of enterprises, it is necessary to implement less costly and complex procedures for registration and payment of contributions through a variety of facilitating measures, as recommended by the ILO.[85] The integration of these workers and economic units into social security will be expanded to the extent that legal mechanisms are approved that are accessible and adaptable to the self-employed and small enterprises.

The analysis focuses on the existing legal framework and the mechanisms put in place to ensure the extension of social security. The document analysis precedes the interviews and focus groups where it will be possible to understand to what extent these mechanisms are implemented, if they reach the right people, and what are the important moments to understand to what extent what is planned is happening, what are the gaps and what are the recommendations.

Regulatory framework

Cape Verde's Basic Law on Social Protection[86] structures social security at three levels:

- The Security Net Regime, known as the non-contributory regime;
- The Compulsory (Contributory) Social Security Regime, and the;
- Private Complementary Regime.

The management of the regimes is ensured, respectively, by the National Centre for Social Benefits (CNPS); National Institute of Social Security (INPS) and private insurance enterprises and other entities of the social solidarity economy, respectively.

The Security Net Level Regime provides social transfers to poor and vulnerable citizens, financed mainly by the state budget. The main benefits are: Basic and complementary social pension (old age and disability) which covers about 23 thousand people, mainly the elderly; and, recently, a temporary benefit was introduced covering households in extreme poverty with children up to 15 years of age. **The Compulsory Social Security Regime** is responsible for the management of: Pensions in case of old age, disability and permanent or temporary survivorship; Medical, medication, prosthesis and orthopedic assistance; sickness, maternity, paternity, adoption, breastfeeding allowances, family allowances, sickness allowances and allowances for funerals in the event of death, and recently unemployment allowance (2019). Accidents at work are the responsibility of private insurance enterprises.

Within the contributory system there are two different regimes: i) one for employees[87], who have an employment relationship with another party; ii) another for self-employed workers[88], who exercise the trade without subordination. With the approval of the Special Regime for MSEs (REMPE)[89], coverage is extended to enterprises under this regime, being recognized with the same rights as employees.

One of the fundamental objectives of REMPE is to expand the base of mandatory social security

[85] Thematic Summary *Formalização de empresas: Simplificação e facilitação das formalidades para a abertura de empresas & conformidade regulamentar* (No. 2/2021).

[86] Law 131/V/2001, from January 22 https://kiosk.incv.cv/V/2001/1/22/1.1.2.649/p24

[87] Decree-Law No. 5/2004, of 16 February, which approves the bases for the application of the compulsory social protection system for employees.

[88] Decree-Law No. 28_03, of 25.08.03, Series I No. 27 — (Revoked by Decree-Law 48_2009 that creates the Regime of Self-Employed Workers.

[89] Law No. 70/VIII/2014 that defines the special regime for micro and small enterprises; Decree-Law No. 12/2016: Amends Law No. 70/VII/2014.

coverage by formalizing around 70% of the total contributions that are paid to social security. This regime includes:

- Survivor's disability pension (5 consecutive or interpolated years with a record of earnings);
- Old-age pension — 15 consecutive or interpolated calendar years with a record of earnings;
- Sickness benefit is paid for a maximum period of 365 days;
- Benefits: Disability; sickness; motherhood; paternity
- Medical, Hospital and Drug Assistance.

REMPE has acted as an incentive for formalization and, consequently, for the expansion of social security coverage. The number of individuals covered by social security increased from 78,785 in 2015 to 103,192 in 2020, with the number of registrations through REMPE increasing from 330 in 2015 to 15,781 in 2020. Of the 26,407 individuals newly covered by Social Security, 15,451 became covered through REMPE, accounting for the largest single share (58.5%) of the final increase in the number of beneficiaries.[90]

Registration and payment

Employers are responsible for the registration and payment of contributions for their employees and must register their employees with the INPS in order for insured persons and beneficiaries to have access to social benefits. The contribution is mandatory and is set at 23%, of which 15% is paid by the employer and 8.5% by the employee. The self-employed are responsible for their own registration and pay a rate of 19.5%.

In REMPE, taxation is based on a flat rate of 4% on the gross value of sales, or, in the case of businesses with a volume of less than one million escudos (1,000,000 CVE), a flat rate of 30,000 CVE per year. The payment of the benefits is made quarterly and it is the responsibility of the company receiving the payment to distribute it to the beneficiaries. In this case, it is 70% for the Social Security and 30% for the Public Treasury. The registration of beneficiaries can be done through the INPS portal or at the service counters. With the approval of Decree-Law No. 5/2021, the delivery of pay slips is now exclusively electronic.[91] Payment can be made online, at ATMs and commercial bank branches.

[90] VRN- Report Cabo Verde (2021).

[91] Establishes the administrative simplification and modernization measures necessary for the digital interaction between employers; the insured; pensioners and other citizens (national or foreign), and the Managing Entity. Documents issued electronically.

Publicity video of the new INPS payment mechanisms:

- https://www.facebook.com/100064535539201/videos/4741717379189944
- https://www.facebook.com/INPSCaboVerde/videos/999271397460873/
- https://www.facebook.com/INPSCaboVerde/videos/2735435166517530/

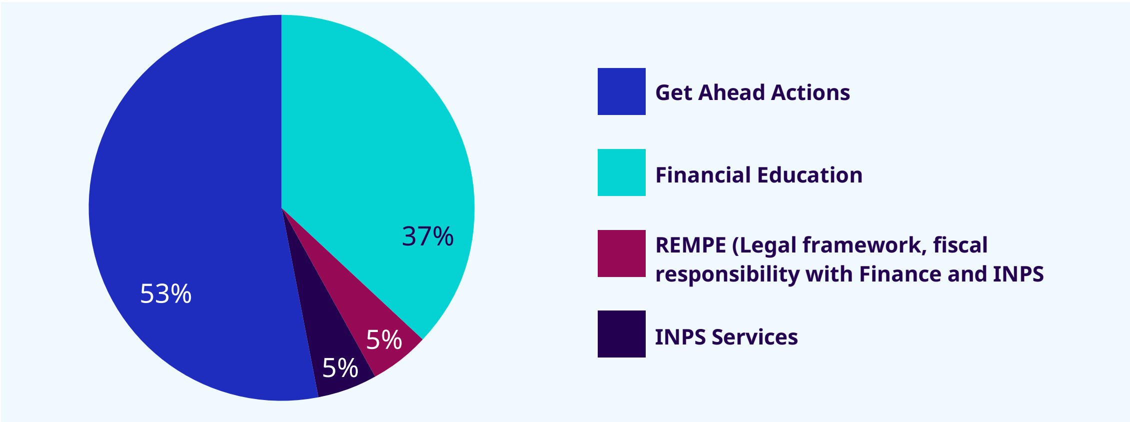
Source: INPS

Several initiatives have been carried out to accelerate the expansion of formal workers and enterprises, as well as other categories, such as domestic workers. Knowledge and information are key to extending social security coverage to workers in the informal market. Accessible disclosure of its importance; of the benefits included in the different regimes, the conditions of access, etc., must be constant both for the workers themselves and for the employers.[92]

The INPS has strengthened its institutional communication plan through publicity campaigns to publicize the importance of registering self-employed workers. In addition to dissemination through the media, the organization participates in various forums and meetings organized by different organizations (chambers; associations; services, training and strengthening formalization) to raise awareness and provide information on the role of social security in protecting workers and improving the productivity of their businesses.[93] This has contributed to raising awareness of the importance of social protection among hard-to-reach groups, a fact reported by local authorities during the consultation process. The participation of the INPS in meetings with the community has contributed to the clarification of people and even services.

The issue of social security registration has been addressed in the programs to strengthen the capacities of informal units implemented by different sectors. This is the case of projects such as Sucupira50, implemented by Jov@mprego in partnership with Pró Empresa, aimed at workers in informal markets, whose process includes awareness-raising, training, formalization (fiscal citizenship and registration with INPS) and, finally, facilitating access to financing (Fomento[94] line). The results of the evaluation of Sucupira50 show that 78% of the participants are registered with the INPS and most of them pay their contributions regularly. The topic of "social security" has been included in the training plans, with a workload of 4 to 6 hours.

▶ Graph 7: Workload of the training sessions of the Sucupira50 project



Source: Sucupira50 project implementation report, Pró Empresa (2020)

[92] ILO Guide: Extension of Social Security to Informal Workers.

[93] https://www.facebook.com/photo/?fbid=363092822518566&set=pcb.363199142507934& cft [0]=AZU9V7OIjOm9H7wXarHIQzDNXd9E9sHUFcyBSmChXukDmJ1iWs4v-GR0mYKtwqsc6cASpCg4GAMt2B10pIolo8Wp-3FGwEWa6Ku3Q9MIOPdpxpJiTDaakNxsf035WbwhL5Q3V-Kl304kGFgIFMIxWHSaiZOHk- VB4Aotwrrrhjvfa A& tn =*bH-R

[94] Report on the Employment, Employability and Integration Program / Jov@mprego, 2021

Social security awareness has also been addressed in programs to promote entrepreneurship, namely Start-ups; in programs run by municipal councils and civil society organizations, which address the importance of social security coverage and the modalities of enrollment, namely REMPE. They were mainly carried out in round tables with the participation of an INPS representative.

Other awareness-raising programs are broadcast in media with a wider reach to workers in the informal market, such as television and radio. However, the dissemination is periodic and not continuous. Participation in awareness-raising activities is sporadic and depends on the dynamics of the partner organizations. There is no direct and constant involvement of the associations representing the informal units. The results of several studies have shown that a large part of the population is unaware of the benefits, even among those already covered. The "Sucupira50" evaluation study points out that many of the women who have signed up do not know the different levels of coverage that exist, nor do they know what benefits they have in relation to the amount they pay.

▶ Figure 9: Promotional video for self-employed enrollment

Source:INPS - Self-employed Registration Promotion Video:
https://www.facebook.com/INPSCaboVerde/videos/1911650389154367/

Extending coverage to informal units

Despite the recognized progress in the social protection system in Cape Verde, there is still a low coverage of workers in some sectors of the economy, namely domestic workers and workers in the informal market, areas occupied mainly by women. This situation has been highlighted by the impact of COVID-19, which has revealed the vulnerability of workers in the informal economy who do not have adequate social protection coverage.[95]

It is important to understand the obstacles that informal enterprises face in accessing social security and to assess the applicability of the current legal framework and administrative mechanisms. The difficulty of extending coverage to these units is linked to the seasonal nature of some activities, particularly in sectors such as fishing, which are subject to climatic factors that cause interruptions in contributions. Sectors with these characteristics need their own mechanisms to consolidate the rights granted, as they are, by their very nature, particularly complex and costly to administer in terms of tax collection and control of contributions[96]. This obstacle has been pointed out in several studies, notably in the National Integrated Program for the Acceleration of the Transition from the Informal to the Formal Economy (2020–2023), which identifies as a problem "the tax base for the calculation of social security and the impact of the application of REMPE in different sectors of activity indicate the need to adapt the tax burden to the reality of micro and small enterprises". The study also proposes a revision of REMPE to promote and encourage the registration and payment of the Unified Special

[95] Extending social protection to informal workers in the COVID-19 crisis: country responses and policy considerations

[96] Concept Note (ILO Formation) — Armandina do Rosário (INPS)

Tax, with the main objective of organizing the productive fabric of the country, integrated in the ongoing institutional reforms.[97]

Since social security is compulsory for workers, it is important to strengthen the control mechanisms, to strengthen labor inspection, but also to establish complaint and appeal mechanisms for cases of non-compliance. The Government considers the expansion of social security as a key policy for social and economic inclusion, and reaffirms its commitment to reach at least 66% of the workforce by 2026 to ensure the sustainability of the social security system and the National Health System. As an axis of intervention, the program for the X legislature proposes accelerating the transition from the informal to the formal economy, with the adaptation of the legal framework to integrate appropriate protection measures for the different categories of workers in the informal economy, making the registration and collection requirements more flexible and adapting the requirements for access to benefits to the specific reality of work, such as precarious work and maritime work.[98]

3.5.1.12. Inspection

The General Inspectorate of Economic Activities (IGAE) is the criminal police body responsible, in accordance with the legislation in force, for promoting preventive and repressive actions in relation to offenses against the economy and public health[99].

Box 6. Main tasks of the General Inspectorate Economic Activities (IGAE)

- To promote preventive and repressive actions in relation to economic and public health offences;
- To carry out preliminary investigations and prosecute administrative offences in economic and public health matters, including those related to practices restricting competition;
- To collect data that allows it to maintain up-to-date knowledge of the economic sectors in which it operates;
- To disseminate, by the means deemed most appropriate, the technical standards and legislation governing the exercise of the various economic activities whose supervision is entrusted to it, collaborating whenever necessary and convenient with other public bodies, consumer or entrepreneurs' associations, chambers of commerce, trade unions and economic agents;
- To coordinate and support the action of all bodies with supervisory functions in the areas of economic activities and public health, without prejudice to the specific competences of each supervisory authority;
- Assist the judicial authorities in accordance with the provisions of the Code of Criminal Procedure;
- To collaborate in the drafting of laws and regulations within the scope of its functions;

[97] National Integrated Program for the Acceleration of the Transition from the Informal to the Formal Economy (2020–2023)

[98] Government Program for the X Legislature (2021–2026)

[99] Legislative Decree No. 2/2009 of 15 June

In 2018, out of a total of 1,792 inspections[100] carried out by the IGAE, approximately 60% resulted in "self-reporting", demonstrating a clear need to strengthen inspections and even more preventive measures with regard to improving the communication and preparation of project promoters regarding compliance with the rules for the exercise of the corresponding activities.

The Government, recognizing that the various changes and adaptations in the legislation did not favor an effective supervision of economic activities, led to the implementation of Legislative Decree No. 2/2009 of June 15, with the purpose of legislating the general principles related to crimes against the economy and public health. The Decree, in addition to defining the infractions and crimes, establishes a series of fines that can be applied to enterprises and individuals, namely: i) failure to comply with the legal requirements or characteristics for the exercise of the activity is punishable by a fine of up to 100,000 CVE (one hundred thousand escudos)[101]; ii) violation of the rules for the exercise of economic activities is punishable by a fine of up to 1,000,000 CVE (one million escudos); iii) violation of the rules for the exercise of economic activities is punishable by a fine of up to 1,000,000 CVE (one million escudos)[102].

3.5.1.13. Social dialogue, organization and representation

Social dialogue, one of the main mechanisms of good governance and democratic decision-making, cannot take place without the creation of strong workers' and employers' organizations with technical capacity and access to relevant information. Social dialogue requires political will and commitment, as well as respect for the fundamental rights of freedom of association, trade unionism and collective bargaining. All areas of informal economy policy-making, from skills policy to social security policy, require that informal economy actors be able to organize themselves, structure their needs and decide on their own future, and build consensus to achieve economic and social goals.

The few existing organizations of informal market workers are registered as non-profit NGO associations (Law No. 78/III/87 and Law No. 25/VII/2003), and their representatives report that they have very little knowledge about their rights, the legal policy framework for promoting and transforming UPIs into formal production units (UPFs), and the process of registering and participating in trade unions, professional organizations, and others as cooperatives. These factors make it impossible for them to participate in the social dialogue process in order to demand or discuss issues related to their interests in the Social Dialogue Council (CCS). This is how the social dialogue takes place within the organizations representing the formal sector of the economy, which are represented in the Social Dialogue Council.

The right of association is already provided for in national legislation, but the mechanisms need to be reviewed. For example, membership of chambers of commerce requires formalization. In addition, the cost-benefit ratio of membership in business associations (value of dues) may not be attractive for UIPs with low annual turnover and often unstable and irregular income.

The lack of data on the organization of UIPs makes it impossible to assess the degree of unionization and representation of workers and informal economic units. Moreover, data from the most recent study of trade unionism in Cape Verde (2004) indicate that only 20% of workers in the formal economy are unionized. The data and information gap in the informal market sector can be minimized by implementing a multi-stakeholder dialogue process and a quantitative analysis, thus strengthening the scenario of the possibility of formalizing UPIs.

[100] https://igae.cv/estatisticas/

[101] Article 56, Legislative Decree No. 2/2009 of 15 June

[102] Article 57, Legislative Decree No. 2/2009 of 15 June

The Sucupira Market Profile Study found that only one percent said they belonged to a business association, while 96 percent said the opposite. The same is true for union membership. Only 2% of vendors said they were union members[103] (currently). Of particular note is the important role that employers' and informal workers' organizations can play in the process of transitional arrangements and their promotion to ensure satisfactory uptake by UPIs. Employers' and workers' organizations can help to improve the institutional design or conception by bringing the whole process closer to the expectations of the target group to be reached. Once the reforms have been implemented, employers' and workers' organizations will also be able to offer support services to UPIs wishing to make the transition to formality through the new system.

Social dialogue mechanisms are spaces for consultation and evaluation of the entire process, identifying good practices to be replicated and aspects that need to be improved to ensure the success of the process. By initiating a participatory process with workers' and employers' organizations and the UPIs themselves, those affected are given an active voice in the design and monitoring of policies, reforms and support measures for formalization, making them feel part of the process and reducing the risks of failure.

In this way, the representative organizations of the UPI class can play an important role in the concertation and dialogue between the set of actors involved in the process of formalizing the UPI.

3.5.1.14. Strategies for local development

Box 7:

When local governments, social partners and civil society organizations support workers and enterprises in the informal economy to emerge from informality, they lay the foundation for the poorest and most vulnerable segment of the population to achieve decent work and sustainable livelihoods. For society at local and national level, the dividends of the transition from informal enterprises to formality translate into a more dynamic, economically and socially inclusive economy, generating income and investments that can be reinvested locally. For enterprises, comprehensive support from local authorities can enable them to grow and encourage them to move out of informality. (Resource Guide on Policies in Support of the Transition to Formality-ILO.

Local authorities, as the level of government closest to the people, play a key role in implementing programs at the territorial level. This proximity allows the municipalities to know exactly the extent of the problems affecting their population and to implement measures adapted to the local context.

In Cape Verde, local government is regulated by Law No. 134/IV/95 of 3 July 1995, which defines the basic responsibilities of the municipality in defending the collective interests of its territory, namely in matters of property management, planning, basic sanitation, rural development, health, housing, road transport, education, social promotion, culture, sport, tourism, the environment, internal trade, civil protection, employment and vocational training, and the police.

[103] Sucupira Market; Profile, trajectory and socio-economic impact of the largest shopping center in Cape Verde — Praia City Council (2022)

The City Councils, by virtue of their powers and responsibilities, are a privileged partner in the implementation of measures to support formalization. It is in the municipal services that applications for registration of locally operating businesses are processed; the issuance of licenses for various activities, namely in the operation of municipal markets, and operating licenses for industrial sectors, restoration, licensing of taxis and passenger transport vehicles, etc. They are also responsible for authorizing the construction of buildings for business purposes. In short, the City Council is the entity that has the most information and knowledge about the informal entities operating in its territory, and it is the power closest to the people, a fact that assumes particular importance in an archipelagic country.

NGOs, local authorities, the private sector, decentralized cooperation, training centers, community organizations operating under the leadership of local councils have been leading examples of innovation and creativity in tackling local development problems in recent years. The catalogue of good practices in the field of local development lists a number of projects and good practices implemented by local authorities and highlights several actions to promote local micro and small enterprises through training, support in organization, financing and follow-up[104].

In the fight against poverty, we highlight the implementation of programs aimed at promoting entrepreneurship and productive inclusion of vulnerable groups. The Productive Inclusion Program is implemented in nine municipalities of the country and is aimed at the beneficiaries of the Social Inclusion Income, ensuring additional resources and actions that strengthen the capacity for labor integration, either through salaried employment or self-employment. Productive Inclusion includes: i) actions to strengthen technical skills, through vocational training; ii) stimulation of entrepreneurship and self-employment.

The activity strengthens small enterprises, helping them to better organize their business and transition to small formal enterprises, which provide income for their operators[105]. Also noteworthy is the “Project for the Socio-Economic Integration and Development of the Ribeira de São Miguel, in the Interior of Santiago”, implemented by the City Council of São Miguel, in the northern region of the Island of Santiago, where the City undertook the construction of water mobilization infrastructures, such as the construction of a large reservoir using solar energy, thus making water from this river available to a group of women farmers. At the same time, an agreement was made with hotels on the islands of Sal and Boa Vista to place production in tourist markets through partnerships with suppliers on the islands. To support financing, the Social Financial Fund of the Municipality of Santa Cruz, an inland region of the island of Santiago, grants subsidized loans to small enterprises in the fishing, agricultural and service sectors. The financing is granted through the participation of the beneficiaries in training activities in financial education, business management and formalization of the company, where registration with the INPS is a criterion for access to the fund.

The Sucupira50 project reached two new municipalities in 2022, at the request of the City Councils (Ribeira Grande ST and Santa Catarina ST), which recognize the importance of formalizing the workers who work in the municipal market. With the closure of markets to cope with the COVD-19 containment measures, the fragility of this segment was notorious, as it was uncovered by support measures because of its informality. This situation has led to an increase in requests for intervention by the City Councils and in the identification/updating of data on the local situation.

[104] https://issuu.com/artpublications/docs/guia_20de_20boas_20praticas_20del_2

[105] Productive Inclusion Manual (Ministry of Family and Social Inclusion- 2021)

Currently, some offices/services of Pró Empresa[106] operate within the structures of the city councils; the Jov@mprego service and the *Balcão Único* of the *Casa do Cidadão* are important support services for the formalization process. The participation of local authorities in the transition process is therefore essential for the success of the intervention. This role is recognized in the Concept Note of the National Integrated Program for the Acceleration of the Transition from the Informal to the Formal Economy 2020–2023, through the constitution of Municipal Transition Boards. These will be composed of the City Councils, which will preside, the Employment and Vocational Training Centers, which will co-preside, or by entities that are better able to ensure the co-presidency, the INPS delegation, the head of the Local Finance Offices, representing PRÓ EMPRESA, the representative of the Association of Microfinance Institutions, the representative of the NGO Platform, and representatives of each sector of the most expressive informal activity in each municipality.

Local authorities need to improve their territorial management mechanisms in order to play a leading role in supporting formalization, create specific plans for informal enterprises; ensure coordination and harmonization of policies between national and local levels. Liaison with central government is an opportunity to strengthen and develop understanding and appropriate strategies to adapt national frameworks to the local level. Local development strategies should include guidance for government and civil society actors to address compliance gaps between national and local actors.[107] The City Councils should invest in simplified enterprises registration procedures and updated registration tools for existing units.

One factor that can hinder local economic development is a confusing and complex system of business registration and licensing for micro and small enterprises. If enterprises licensing procedures are overly bureaucratic and impose excessive financial or documentary requirements, enterprises may feel intimidated and unwilling to register. In addition, overly bureaucratic enterprises registration and licensing procedures can be interpreted as a sign that the local government is unsupportive of enterprises, which keeps them informal (A Policy Resources Guide on supporting transitions to formality — ILO). Finally, at the territorial level, it is important to reach the most remote areas and the most disadvantaged groups and to guarantee access to information and services.

3.5.1.15. Promoting equality and combating discrimination: Gender in the Informal Sector

The various studies carried out on the informal market in Cape Verde show that the majority of operators in this sector are women, who work mainly in the retail sector (vendors), have a basic level of education and earn an average of 10,000 ECV (close to the minimum wage). The representation of women in the informal sector in Cape Verde has doubled in the last 25 years, in relation to the number of men, and has turned out to be a complex phenomenon consisting of several dimensions that affect women and men differently.

[106] Pró Empresa is a public institute whose mission is to promote the development of micro, small and medium-sized Cape Verdean enterprises, through mechanisms that facilitate access to technical assistance, financing and innovation, ensuring competitiveness to the national economy.

[107] Guide: Resources on Policy Support for the Transition to Formality (ILO)

According to the UN Women report, 2018[108], the search for employment of certain vulnerable groups such as women, as a way of combating poverty and the search for sources of income where it is possible to reconcile their multiple family and social responsibilities and ensure the sustenance of the family, are the main causes for the increase of women in the informal market in Cape Verde in recent years.

The situation of inequality in relation to men[109] working in the same area is quite evident in the issue of monthly income, since women have an average of 29.5% less income when compared to men109, making the ICF (Index of the Female Condition) calculated for this indicator to be 0.72, which is considered low and indicates high levels of inequality.

Factors such as the segregation of activities by gender widen the income gap between women and men in the informal sector, causing women to earn lower incomes than men and putting them at greater risk of poverty. The box below shows that women are over-represented in the following sectors: agrifood, retail, other retail, accommodation and food services.

It should be noted that the branches of activity dominated by women are characterized by precariousness, lack of specialization, low investment and high unpredictability in income, which does not allow economic investments to improve the business. The analysis of gender in the informal sector in Cape Verde shows the existence of conditions of multiple vulnerability of women, highlighting their situation of poverty and other forms of discrimination, since information affects women and men differently, with situations of negative discrimination against women, increasing their social and economic vulnerability.

Box 8: Highlights: profile of gender in the informal sector in Cape Verde

- 62.5% of UPI promoters or owners are women;
- 58.5% of women working in the informal economy have a basic level of education;
- 88.9% of women working in the informal economy are self-employed;
- There is a gender segregation of the industry, relegating women to less profitable activities: 43.8% of women are engaged in commerce against 20.1% of men in the same activity.
- The predominantly female branches of activity are: agrifood (16.8%) and trade or retail (26.8%), while for men the predominant activities are linked to industry (40.5%) and services (39.5%), with gaps of 6% and 18% respectively to the detriment of women. UPIs represent the main activity of women 86.7%, compared to 83.3% of men;

Measures for the transition from “informality ↄ formality” from a gender perspective

The World Bank’s “Women Business and the Law” report, which analyzes laws and regulations that affect women's economic opportunities, gave Cape Verde a score of 86.3 on a scale of 100, demonstrating the country’s remarkable progress in improving the policy and legal framework for promoting gender equality and women’s rights[110].

[108] UN Women (2018). Cape Verde: Country Gender Profile. Government of Cape Verde, African Development Bank (AfDB) and UN Women, n.d., 1-40. Available at: https://www.afdb.org/fr/documents/cabo-verde-perfil-de-genero-do-pais-janeiro-2018.

[109] IMC 2015

[110] https://wbl.worldbank.org/en/reports)

Article 7 of the Constitution prohibits discrimination on the basis of sex and requires the State to create the conditions for the elimination of all obstacles to equal opportunities, whether economic, social, cultural or political, especially those that discriminate against women in the family or in society. The current Government continues to assume the country's commitments in terms of investment in the promotion of gender equality in the most diverse areas, highlighting in particular human capital and economic infrastructure, employment and employability, the transformation of the informal economy, the extension of the coverage of the social security system, etc.

The emphasis given in the Government Program for the Tenth Legislature to the strengthening of mechanisms that allow the mainstreaming of the gender approach in the planning system (PEDS), in the budget, in the elaboration of public policies and in the definition of eligibility criteria for social benefits, as central axes for the promotion of the country's sustainable development, reinforces the commitment of decision-makers to closing the gender gap through the principle of positive differentiation in favor of women.

The National Strategy for Growth and Poverty Reduction and for the Eradication of Extreme Poverty defines specific measures both for the creation of investments aimed at the economic empowerment of women, particularly women in agriculture, fishing and trade, and for the development of the social and solidarity economy, particularly aimed at the economic participation of women. However, practice has shown that many women do not have access the programs and projects defined at the level of the above-mentioned strategy, due to excessively bureaucratic procedures, the difficulty in accessing credit, as well as the limitations subtly imposed at the level of the institutions, ranging from their location to communication which is not very accessible or that establishes a vertical relationship *a priori* which is not very conducive to establishing relationships of trust with the target group. The National Plan for Gender Equality (PNIG 2021–2025) identifies, in one of its three priority axes of intervention with a view to promoting gender equality, the economic autonomy of women through the creation of economic opportunities that take into account the right to work and women's rights at work, emphasizing the importance of valuing the care economy and domestic work, essential elements to be taken into account in the process of economic valorization of women.

The inclusion of the National Care System (SNC — 2017) in the political agenda, as one of the priority areas of intervention to achieve gender equality and women's autonomy, opens up the possibility of equalizing the availability of women's time with that of men, for their personal, socio-professional development and for paid work. It can also serve as a vector for poverty reduction, as it not only promotes the recognition and appreciation of care work, but also opens up a horizon of paid jobs in the care sector. The creation of the Social Inclusion Income (RSI), a direct cash transfer to families identified by the Unified Social Register[111], aimed at families in situations of extreme poverty, gave priority to households with children under 15 years of age in their care and headed by women.

Despite the favorable political and legal framework, Cape Verdean society is still characterized by great inequalities between women and men, especially in the area of access to work and income, and the situation is not different in the informal market. Women-led UPIs work in conditions of greater precariousness and vulnerability than men, reflecting the gender inequality that exists in the sector, and highlighting the following aspects:

[111] Regulatory Decree No. 7/2018, of September 20 — BO No. 60 I Series. The Unified Social Registry, as an instrument to support the social protection system at the level of the security net, institutionalizing it as a tool for identifying and managing the beneficiaries of the social protection sector at the level of the security net, ensuring transparency and coordination in the allocation of social benefits

- The low level of education and specialization of the women in the UPIs, combined with working in fragile areas where the market is saturated, undervalued and economically unstable, usually results in low productivity, where low income increases the risk of failure in their businesses.

- Despite the approval of the Care Policy, its implementation is still incipient, and there is a lack of support and care services, especially for poor families and their dependent members, which always has an impact on the time overload of women's reproductive work, which is further aggravated by the lack of public sanitation, water supply and road infrastructure, thus reducing the time they have to devote to their UPIs and to earning an income.

- The high number of young women in UPIs can be attributed to a number of factors - intergenerational poverty limiting education, child labor, teenage pregnancy, extensive domestic work and lack of training/skills needed for the formal economy, employer discrimination in hiring and segregation in the workplace. These factors combine to limit the options and expectations of many young women, creating a new generation unable to escape poverty and enter the formal labor market. The valorization of reproductive work (domestic, community and informal care work) and its inclusion in the national GDP as a wealth-generating factor, and the balance in the use of time between women and men in the performance of productive and reproductive work will be an important factor in promoting the formalization of the UPI.

- The extension of social protection is particularly important because of the women’s role that as caregivers and paid workers, and their greater vulnerability to risks and chance events. The ILO pays particular attention to the “progressive extension of social security systems”: To this end, the country needs to consolidate special mechanisms for workers in the informal economy, the provision of non-contributory social pensions, the development of programs combining cash transfers and access to education and health, and employment guarantee regimes, as these can be motivating aspects for the formalization of UPIs.

- The under-representation of women from UPIs in social dialogue institutions is one of the fundamental barriers that condition their ability to influence matters that affect them, as well as the exercise of their rights at work. In Cape Verde, women from different marginalized sectors, such as domestic work and self-employment, have organized themselves at the local level in associations and work in defense of people who work in the informal market and not in their UPIs, and few are members of trade unions, which reduces the capacity to negotiate and create a common agenda of demands. Strengthening organizations that represent women working in the informal market will not only contribute to improving their functioning and bringing greater benefits to their members, but can also be an excellent vehicle for mobilizing and raising awareness of the UPI for the formalization process. Therefore, it can be said that the gender approach in the process of formalizing the UPI makes perfect sense, not only from a legal point of view, but also from an economic point of view. Women’s work represents an enormous potential that is not always adequately exploited by the Cape Verdean economy. The great challenge that lies ahead is to translate the gains made in promoting gender equality into the structuring of a set of policy instruments and measures and their effective mainstreaming in the process of formalizing informal production units, so as to leave no one behind.

3.6. Summary of the quantitative approach: formalization path, profile and diagnosis

In this report, a **theoretical path has been outlined** that will become an operational proposal for the formalization of UPIs in Cape Verde. For this purpose, it was based on the ILO references for formalization, and data from the 2015 Informal Sector Survey conducted by INE were used. Three groups of variables were considered: 1) promoter's individual profile, 2) characteristics of the UPI itself, and 3) characteristics of the business context in a **quantitative analysis** with econometric approach and analysis. This analysis made it possible to identify the main determinants of the willingness of managers/promoters to formalize UPIs in Cape Verde and provides inputs for the design of a quantitative profile for the identification **of the priority segments of UPIs most prone to formalization**. However, the information obtained from the quantitative econometric analysis will not be sufficient for a better assessment of the profile and for the prioritization of the segments and business units most likely to be formalized. In fact, since the dependent variable "sensitivity to formalization" is, from a methodological point of view, dichotomous, it can, in practice, hide the degree of susceptibility/sensitivity of entrepreneurs to formalization. Therefore, qualitative information is essential, for example, to test and validate the operational path of the path diagram. Part 4 will explore the information and qualitative aspects that will serve to complement and enrich the quantitative profile. To this end, the analysis and systematization of auscultations and interviews with personalities and entities with relevant role in the formalization path will be carried out, as well as the exploration and systematization of qualitative information collected from the target audience, through discussion in focus groups of interest in relation to the formalization of informal economic units.

The second point addressed in Part 3 is the research of **existing and potential mechanisms in Cape Verde**, in order to adapt / improve the theoretical model designed, transforming it into an operational model. Some social protection, financing and training mechanisms were addressed to ensure greater sustainability of the enterprises. It was observed that the government has approached business development through a comprehensive concept of the ecosystem, investing in different public policies and intervening in different dimensions to promote businesses, in order to stimulate the private sector to become an engine of economic growth. Among the incentive measures, we highlight the differential treatment of micro and small enterprises by the public authorities, with the adoption of concrete measures, at the legal and regulatory level, in the various sectors of public administration; the promotion of a favorable environment for the creation, formalization, development and competitiveness of micro and small enterprises; the establishment of a legal framework and incentive for private investment, creating or promoting a range of business services aimed at facilitating the organization, administration, technicality and productive and commercial articulation of micro and small enterprises. In this context, market access seems to be a necessary condition for business creation, formalization and sustainability.

Box 9: Summary of the econometric analysis

The econometric analysis showed that most of the characteristics identified in the literature as potential factors influencing the propensity to formalization were confirmed at the 5% level. From these explanatory factors of the formalization of enterprises, the following recommendations arise: firstly, the importance of training and capacity building for informal operators, namely in the constitution of a business plan, then the interest in establishing a synthetic tax incentive for formalization for the informal sector, and the need to ensure better access to financing for UPIs that are formalized, creating a bank of UPI's to guarantee the financing of those that are formalized. It is also necessary to facilitate the access of enterprises that formalize public contracts (because the problem of markets leads informal operators to declare their enterprises in order to access public contracts), to simplify and popularize the procedures for formalizing informal business and to reduce registration costs.

Part 4:

Qualitative analysis – systematization of key findings from auscultation and analysis of the interviews and focus group discussions using the theory of change

4

4. Qualitative analysis and systematization of key findings

The materialization of this part is a complement to the quantitative approach and analysis of documentation, allowing the adjustment and completion of the preliminary report *on segments of informal economic units, on incentives and support services to facilitate the formalization of business, based on a qualitative and participatory analysis. This part is also dedicated to an analysis of the opportunities to support women entrepreneurs according to the sector of activity*. Here, the emphasis is specifically placed on a **qualitative approach** that analyzes and seeks to systematize the main evidence based on **consultations/auscultation** through specific guided meetings and interviews and discussion in specific focus groups. The Theory of Change approach in the systematization of results was also privileged, and the Behavioral Economics Theory technique allowed filtering and prioritizing public policies adjusted to the segments of informal units identified (discussed in Part 5). This analysis and systematization will serve as a complement and adjustments to the formalization path proposed for the economic units, built from the quantitative analysis, allowing strengthening and aligning the quantitative profile realized. These qualitative complements are presented according to each of the (7) stations of the Path with regard to, fundamentally, four points, namely:

Segments of Economic Units of Informal Production to Be Prioritized

- *Global profile of informal production economic units (IPU): what are the business characteristics to be prioritized for formalization?* This will be done by identifying the **main segments of the informal production economic units (UPIs) to be formalized**. This point will be developed under the qualitative approach in order to complement the quantitative analysis/approach previously used in econometric modeling to assist in the identification of the **main characteristics and segments of informal economic units of production (UPI) more prone to formalization**. To this end, the contributions, perceptions and suggestions arising from the auscultation and interviews with people and entities were explored, **as well as from the analysis of interviews and discussion in focus groups** with a target audience of interest in the implementation and operationalization of the formalization path.

- **Governance** and **Legal Framework**: what are the existing and potential incentives and mechanisms, coordination and leadership between the different actors of the formalization path (entities/services and their responsibilities for registrations, (in)formation, synergies and coordination)

  - *Incentives and the necessary eligibility criteria:* using the interviews with key people and the discussion in Focus Groups, it was possible to systematize and summarize some aspects regarding the incentives and eligibility criteria necessary for formalization. The main **incentives needed** and the eligibility conditions and criteria needed to "attract" the **informal production economic units** to formalization were identified.

  - *Main services/entity and financing structures and networks:* The systematization of interviews and discussion in groups will allow to adjust the main actors with relevant interventions to facilitate formalization.

Box 10: Summary of the Theory of Change

Based on the "theory of change" methodology, the main categories of workers and informal units identified in the profile analysis were analyzed, as well as the factors underlying the coverage gaps in the Cape Verdean context and the extent to which current policies are adapted to protect vulnerable categories of workers and informal units, and facilitate their transition to the formal economy, in the light of the factors identified by the ILO. Semi-structured interviews were conducted with key sectors. 3 focus groups were also conducted, two with informal units and one with small formalized units.

Specifically, the following were analyzed:

- Groups/categories excluded from the legal framework;
- Access to information and confidence in the System;
- The alignment of benefits with the employee's priorities and economic units;
- Costs and payment methods;
- Administrative procedures and mechanisms for the registering and paying benefits;
- Control and enforcement of the law;
- Representativeness and organization of workers and economic units;
- Integration with other public policies.

- **The gender approach** with positive discrimination across all (7) stations of the Path
  - *Gender approach:* these analyses should have a positive discrimination for women entrepreneurs, especially when taking into account that they are less likely to have entrepreneurial intention and to formalize themselves, trying to understand the main constraints/ barriers and limitations to be overcome.

4.1. Prioritization of UPI segments for formalization

General profile for formalization: Which segments should be prioritized? What are the main segments of informal production units that should be prioritized for formalization, adapted to the reality of Cape Verde?

The answer to this question is always complex because it depends on several other factors. However, in the light of this work, we have tried to combine the quantitative and qualitative approaches in order to have an answer closer to the complexity of our economic fabric in terms of informality. Identifying which segments of informal units should be prioritized is the first phase on the path to formalization, allowing, adapting and adjusting incentives and; reconstruct eligibility criteria to proceed with the other phases on the path to formalization, allowing, adapting and adjusting incentives and; reconstruct eligibility criteria to proceed with the other phases on the path to formalization. Complementing the quantitative profile analyzed in part 3 with the qualitative profile suggested in part 4, and based on the systematization of the interviews and the discussion in focus groups, the **following general profile of the segments of informal economic units adjusted to our reality of the informal fabric and in strict respect for the ILO guidelines for this work is proposed, focusing on positive discrimination** *in terms of opportunities to support women entrepreneurs in each sector*.

Box 11: Contribution of qualitative analysis

The qualitative research carried out in order to improve and adjust the quantitative profile confirmed the complexity of identifying the main segments to be prioritized for formalization. Therefore, even with a first approach, there will be room to continue to make efforts to improve the mechanisms for selecting segments susceptible to formalization. The result of the systematization of the qualitative analysis focused more on the inherent characteristics of the units themselves, with the turnover, the number of people employed, and the location of the business, preferably in a fixed location, and complemented transversally by the influence of the gender of the promoter and nature/sector of activity. In relation to gender, the systematization is aligned with the general guidelines of the ILO, paying special attention to vulnerable groups, including businesses managed/led by women. In relation to the nature/sector of activity, the systematization of the qualitative analysis points to the first phases, preferably for activities in the 3 groups/business domain, which are: i) Trade/sales and fishing sector excluding street vending; (ii) the service sector; (iii) the transport sector. In summary, and as justifications for the choice, the following considerations stand out :

1. It is unlikely that street vendors will be formalized as a business because they do not have a specific activity, i.e. they sell different products each time and are located in different points or places, in addition to having relatively low incomes. For this category, it is more likely and relevant to organize through associations or other social and solidarity economy organizations and to reduce the labor gaps in the informal sector.
2. The main criterion to consider is the turnover for UPI's of any segment. UPI's that are part of street vendors, street trays and sales of clothing *"mo na tchon"*, are more inappropriate for formalization.
3. "Street vendors do not yet have a turnover that justifies this formalization of possible tax contributions. It is considered that they are not in a position to formalize themselves as a business, but that they must have a social protection mechanism and can organize themselves through social and solidarity economy organizations. On the other hand, once they are registered, they lose their social rights because they do not receive poverty certificates" (a document used to prove a person's inability to pay for legal services; exemption from notary fees; marriage certificate; divorce; exemption from registration fees and manuals for public competitions; debt renegotiation).
4. Those working in the fields of Extraction and agrifood should be left for other phases.
5. Subsequently, you should start thinking about the economic units that work online and the deliveries.
6. Commerce is the largest employment sector in the country and is where there is greater informality, making it worth investing in
7. For market traders, create a specific formalization package.

Box 12: Main groups of informal unit segments to be prioritized

Group 1: Trade/Sales and Fishing Sector

- Grocery stores; Vegetable vendors
- Commerce in establishment
- Fishmongers / Fishermen (for the money they move)
- Immigrant Merchants / Clothing Merchants (because of their large number)

Group 2: Service sector

- Aesthetics / Hairdressers / Salons and Barbershops
- Carpentry Workshop
- Mechanic Workshop

Group 3: Transportation

4.2. Governance and legal framework

4.2.1. Incentives, coordination and inter-institutional dialog

The qualitative analysis through stakeholder listening and discussion in focus groups allowed, among other considerations, to systematize the following evidences:

The **National Transition Strategy (2017–2021)**, which aimed, among other things, to address the weak coordination and leadership among the institutions involved in the formalization process and the lack of a national program to address and reduce informality showed that most of the planned actions had not yet been implemented. In 2018, the Interinstitutional Commission for the Strategic Management of the Transition from the Informal to the Formal Economy was created, called the Interinstitutional Commission for GETIF, whose mission was the general coordination of the strategy, but with a representative character. The operational body has not yet been set up and, according to the Secretary of State for Economic Development, the team that will coordinate the implementation of the National Integrated Program for the Acceleration of the Transition from the Informal to the Formal Economy is currently being recruited.

The National Integrated Program to accelerate the Transition from the Informal to the Formal Economy was scheduled to start in 2020, under the coordination of the Ministry of Finance, with the aim of gradually formalizing about 30 thousand informal units in a phased manner in 3 years. The program has not yet started its activity and is two years behind schedule. The Government's Program for the VIII legislature has assigned the responsibility for its implementation to the Secretary of State for Business Development, which is currently carrying out the procedures for the recruitment of the team for the Technical Units or enterprises/consultancy office and Local Facilitators.

There is a consensus that in the absence of an umbrella program, actions have been implemented by different sectors in a disjointed manner. Pró Empresa is the governmental body in charge of supporting the business sector in terms of awareness, orientation, technical assistance; support for formalization and facilitating access to finance.

The experience of Sucupira50 is referred to by the entity as a practice that allowed an integrated intervention between different actors and whose result proves the relevance of a network. The beneficiaries went through a process of awareness, orientation and follow-up that started with training, followed by support in the formalization process; support in accessing financing and monitoring the business through incubation. The opening of a service desk in the Sucupira market is highlighted, which facilitated contact with the target group and significantly increased the number of people looking for the entity. However, the entity is little known and recognized by the participants of the focus groups, both informal and formal. There is a general opinion that the entity has not focused on informal units and shows a certain distrust in their ability to lead the transition process.

At the local level, city councils implement projects to support entrepreneurship and it is the entity that knows the business structure best, both formal and informal. However, there is a general perception among the people/entities interviewed that the entity is not very involved in the transition process and there is a disarticulation between local and central policies. The role of the city councils is limited to licensing acts and without articulation with the formalization process.

The consultation with partners reconfirms a weakness identified in the **National Strategy Diagnosis for the Transition from Informal to Formal (2017–2021)**, the lack of a department (formal or *ad-hoc*) that promotes the coordination of actions for the transition from informality, both in terms of promoting social dialogue and in the review of policies and measures to facilitate the transition to the formal economy.

In addition, the partners interviewed also mentioned the lack of institutional articulation and effective coordination. As a result, several constraints persist, such as:

- Lack of an integrated management system with all the actors and mechanisms foreseen by REMPE law, which has not yet been implemented. An integrated system would result in more efficient decision-making, shorter waiting times, easier monitoring and greater availability of information. This platform has not yet been developed, and each entity uses its own and exclusive platforms, which makes coordination between institutions difficult. There is a certain lack of procedural coordination between the departments involved in the creation and management of enterprises, such as the lack of complete and integrated information procedures in all the services involved. There is some lack of coordination between Pró Empresa (formerly ADEI), which certifies micro and small enterprises, the *Casa do Cidadão* and the DGCI.[112]
- Lack of active involvement of the municipalities in the formalization process, i.e., a process concentrated in the central government;
- Little involvement of Microfinance Institutions that work mostly with informal units;
- Inappropriate and inefficient communication with informal operators;
- Inconsistent information across public services;
- Technicians ill-prepared to deal with informal units.

However, the groups also emphasized that the institutional context and the capacity of the institutions are crucial: well-designed laws and regulations are useless without strong and effective institutions to implement them. It is therefore crucial to clarify the current institutional set-up and to identify the reasons why some economic activities or categories of workers are not covered by formal agreements, and what reforms or changes could reverse this situation.[113]

4.2.2. Prioritizing and implementing policies

The results of the stakeholder consultation and focus group discussions have allowed, among other things, to systematize the following evidence:

Pro-formalization interventions have allowed significant progress in increasing the number of formal units registered both in the contribution system and in terms of social security. However, challenges remain, especially for certain informal units, and there is a need to replicate experiences of articulated interventions to facilitate enrollment in the regime, as in the case of the Sucupira50 Project.

There is a need to identify more effective, feasible and necessary approaches for sustainable transition. From the collection of data from the different stakeholders, it was possible to verify that the current process of registration of MSEs in REMPE, which was initially designed to be a simplified regime, has placed significant constraints on the formalization process. In addition, the registration process has proven to be very complex, laborious, time-consuming and costly. It involves different entities, which in turn have conflicting information about the formalization procedures, allowing the following to be systematized:

- Lack of a one-stop shop where they can be informed about the entire process of setting up and

[112] O REMPE e a tributação da economia informal. Nélida da Conceição Fortes (2019)

[113] Transition from the informal to the formal economy - Report V (1) ILO

maintaining a business;

- Many operators who requested information for the formalization process demonstrate low business and legal literacy about the State bureaucracy;

- Having to address several services: the *Casa do Cidadão* for registration, the Treasury to request REMPE, Pró Empresa for certification and INPS for registration, wasting a lot of time in bureaucratic procedures;

- Withdrawal because the process takes more than 15 days to be completed;

- The entities involved do not have access to centralized/convergent information to better manage the registration process;

- The incentives of the REMPE program are poorly implemented;

- Lack of technical assistance and training needed to improve the tax, financial and digital literacy of entrepreneurs;

- Failure to establish a minimum transition period to allow enterprises to adapt to bureaucratic procedures and formalization requirements. This fact has been pointed out by several entities, which recognize a certain tendency of enterprises to remain in REMPE and not to make the transition intended by the regime. In fact, there was a tendency for certain enterprises to move from organized accounting to REMPE, especially in the area of imports. In addition, the qualitative analysis also showed that formal and informal operators consider access to financial resources as one of the main constraints they face, despite the existing incentive programs. In banks, due to its nature and services, the informal sector brings more advantages in raising funds and using services that enhance less risk for the entity, making the granting of credit unattractive, considering the risk and the need for medium capital in this sector, which is relatively low for its commercial interests.

During the interviews, it was possible to verify the weak involvement and commitment of microfinance institutions in the process of formalization of their clients. Considering the proximity of these institutions to the target group, especially to the informal units, they must play a crucial role in the transition process, but for this to be possible, it is necessary to involve this sector, and this must also be done with incentives and regulations.

The lack of time and digital literacy expressed by operators in the focus groups, and acknowledged by businesses in the interviews, is a reason for the reluctance to register units and comply with the legal and fiscal obligations that this entails. Informal operators have a strong relationship with the municipal authorities, as they understand how they work and it is easier for them to carry out inspections and follow up. In the context of formalizing informal units, it is of paramount importance to capitalize of the positive experiences that have emerged and that are valued and respected by operators.

4.3. Gender mainstreaming in the process of formalization

The importance of paying special attention to women business leaders

In general, quantitative and qualitative studies already conducted in Cape Verde show that women working in the informal market in Cape Verde generally have lower incomes, less capital and skills, and less access to technology than men. They also tend to be concentrated in certain vulnerable activities, including home-based work or street vending. According to the qualitative research conducted as part of this work, it has been emphasized that the preponderance of women in the informal economy is due to the fact that they take on an unequal share of unpaid family responsibilities, as the fact that women spend more hours in unpaid work than men limits their choices regarding participation in the labor market, duration and location of work. Given the lack of accessible public and private care services that allow women to leave their dependents (children, the elderly and people with disabilities) safely, the informal economy is often the only paid work that offers sufficient flexibility, autonomy and geographical proximity to allow women to combine paid work with family responsibilities.

In addition, the qualitative approach has also made it possible to systematize that informal work is often the only source of work and income for many women as an alternative to occupational segregation, unemployment and underemployment, so that improving the availability, accessibility and quality of care services, combined with other measures such as strengthening positive discrimination for women in access to finance, technology, property and increased information/training, will certainly be important preconditions for promoting the transition of women-led UPIs from the informal to the formal market. In India, for example, mobile pre-school services and social and childcare cooperatives, including family cooperatives, have been developed to meet the needs of working parents in the informal economy.

The qualitative research shows that although women who work in the informal market live in more vulnerable areas, earn less and are less likely to formalize, the implementation of specific measures of positive discrimination, developed by ICIEG, WTO, MORABI, SOLMI, microfinance organizations, the Sucupira50 program, etc., can accelerate the transition process of women workers or UPIs to the formal market, such as:

1. Census of the informal units operating in the 22 municipalities of the country and projection of behavioral insights with these mental models to drive the desired changes.

2. Adapting awareness-raising strategies to the dynamics of women's lives, taking into account their family and social responsibilities and their lack of time, giving priority to carrying out activities in places and at times that coincide with their professional practice, using peer education whenever possible.

3. The adaptation of the schedules of training/capacity building actions to the dynamics of women's lives, preferably carried out in the place where they carry out their professional activity, avoiding sessions of long hours and on consecutive days, so that women can continue to have time to have their income and assume social and family responsibilities. The training in business management has been implemented with a workload of 4 hours a day, carried out in the afternoon, as in the case of the training actions carried out within the scope of the MFIDS productive inclusion project and other initiatives carried out by the Councils. The Sucupira50 project is also another example, especially for the availability of a service desk within the market. Focus group participants recognized that this close service facilitated articulation with the institution.

4. Include modules and topics related to women's empowerment and entrepreneurship, use of

new technologies, use of time, etc. in training curricula for women in the informal market.

5. Extend the hours of registration and licensing (*Casa do Cidadão*; *Balcão Único*) in the municipal councils to times and days when women have fewer work and family responsibilities. Moving these services to places where women feel more familiar and welcome, and where they waste less time, can be an aggregating factor for women in the transition process.

6. Encourage the creation of associations and cooperatives of women in the informal market, giving voice to their representatives in political spaces and social dialogue, and highlighting the problems that affect them in their specificity.

7. Creation and implementation of technical assistance services that respond to the specific needs of women, taking into account their needs in the formalization process.

Part 5:
Proposed “operational path” of formalization & proposed policies, incentives adapted to segments of informal units: application of Behavioral Theory

5

5. Pathway Operating Model Proposal & Policy Measures

After the establishment of the theoretical path, the analysis of the quantitative profile and an exhaustive diagnosis of the incentives, mechanisms and process of governance existing in Cape Verde, complemented with the best international practices in terms of formalization, supported by the standards and recommendations of the ILO, the operationalization of the formalization path was subjected to the adaptations and assessments of the stakeholders and discussions in focus groups and subjected to a qualitative analysis.

Considering that informality is often linked to the context that surrounds the individual, behavioral economics was used as a methodology to complement the path to formalization of informal units. In this way, the proposal narrates different incentive regimes for different categories of enterprises, the integrated package of incentives, as well as public policy proposals that encourage informality. Behavioral economics suggests that people make decisions based on habits, personal experience and simplified rules of thumb. They accept only satisfactory solutions, seek speed in the decision-making process, have difficulty balancing short- and long-term interests, and are strongly influenced by emotional factors and the behavior of others. After listening to operators and different stakeholders, it is possible to use behavioral insights used by informal enterprises, which include recognizing the beliefs, concepts, and ideas that people use to interpret the world around them (Mind, Behavior, and Development 2019).

Complementing the approaches, it was possible to formalize a proposal for the operational model/path with 7 fundamental steps for the formalization of economic units in Cape Verde, on which a set of policy measures is also proposed with an emphasis on incentives adjusted to each segment of economic units prioritized for formalization. For prioritization, the behavioral theory approach was used to focus on the segments.

5.1. Proposed operational model for the formalization path

5.1.1. A path with 7 basic steps

The analysis of the existing mechanisms makes it possible to design a path towards formalization, including the actions of the central government, based on the different coordination structures, in articulation with the local government and civil society organizations.

The proposed path includes several complementary steps that accompany the entire process of formation. Exceptions to this framework are informal survival activities (street vendors; fishermen) whose path should prioritize their integration into social security. At the same time, they must be integrated into social policies for productive inclusion, in order to ensure the reinforcement or reconversion of the activity carried out.

The proposal of the operating model aims to bring a new paradigm, emphasizing: i) the formalization of businesses/economic units, which must be adapted to the particularities of the sector and the people who operate in it; ii) flexibility of the processes of access to Social Protection; (iii) increase and adaptation of social benefits for informal workers; iv) encouragement of systems for the organization of informal units; v) diversification of the modalities of organization of micro-enterprises, cooperatives; and (vi) the establishment of systems for the registration and identification of workers in the sector. Another key aspect it necessarily involves a strategy of communication, information and proximity training with the informal workers who make up the informal production unit, with the perspective of direct gains (for the beneficiaries) and indirect gains (for the State, the collective and for the inter-relational elements) as a central element.

At each stage in the "informality ➲ formality" path, there is a set of incentives that must be framed and adjusted to different identified segments. The complexity of the informal economy and its multiple influences and dynamics require a holistic approach to institutional reforms, as well as the establishment of incentives (both positive and negative) to shape entrepreneurial behavior in order to facilitate the transition to formality and maintenance of formal status. Different policies may suit different types of enterprises, and in some cases policies need to recognize that formalization by acquiring the status of a corporation (other than a social and solidarity economic organization) may not be an appropriate end state for all, and that informal enterprises may be classified according to their willingness or capacity to formalize.

▶ Figure 10: Dimensions of the proposed path for the formalization of informal SMEs in Cape Verde

Source: Authors

The transition to formality requires reforms in the business environment, and these reforms must be complemented by the use of behavioral information (nudges) to help recognize the mental patterns of entrepreneurs and managers, and then project behavioral insights with these mental models to bring about the desired changes. The emergence of digital technology in developed and developing economies around the world provides new opportunities for reformers, policymakers, and entrepreneurs, managers, and informal workers. Other measures to ensure greater sustainability of the transition to formality are associated with increased entrepreneurial capacity, human capital development, innovation, and social protection (Nielsen and White, 2021)[114].

A large informal economy limits the tax base and makes it difficult for governments to support the most vulnerable workers, limiting the availability of legal protections, access to markets and access to credit, which in turn restricts productivity and business growth, forming a self-reinforcing vicious circle and prevents the transition to formalization. In this context, the transition to formality is a priority. The proposal to support the formalization of enterprises and their sustainability should establish a new approach to integrated support for business formalization.

5.1.2. Governance model and dialogue between the different entities

The Government established, through Resolution No. 45/2018 of 21 May, the Interinstitutional Commission for the Strategic Management of the Transition from the Informal to the Formal Economy called the Interinstitutional Commission for GETIF, coordinated by the Member of the Government Responsible for the area of Finance.[115] This structure aims to respond to the lack of coordination of the action of the main actors, identified in the diagnostic of the Strategy for the Transition from Informal to Formal (2018). The Conceptual note for the elaboration of the Program and Acceleration recognizes the role of local government and establishes the Municipal Transitional Councils that will be composed of the Municipal Councils, which preside, the Employment and Vocational Training Centers, which co-chair, or entities that are in a better position to ensure the co-presidency, INPS Delegation, of the Tax Offices, PRÓ EMPRESA, representative of the Association of Microfinance Institutions, representative of the NGO Platform, representative of CCISS (Praia), representative of ACAISA (Santa Catarina) and representatives of each sector of informal activity most expressive in each Municipality. This is intended to shorten the chain of decision-making, and the model will be tested in the pilot program.

Based on the consultations, it was possible to redesign/adjust or propose an implementation structure. Figure 11 elucidates a proposal of the interactions between the different entities and key institutions in the process and formalization of the Economic Units. In this network, the process of dialogue and commitment is fundamental to success in the different phases of formalization.

[114] Will Nielsen and Simon White (2021) Dealing with Firm Informality; Research Report, Donor Committee for Enterprise Development, Cambridge, UK

[115] — Head of the Government through the Deputy Minister for Regional Integration; — National Directorate of State Revenue; -—National Directorate of Industry, Commerce and Energy; — Directorate-General for Employment, Vocational Training and Professional Traineeships; — Directorate-General for Labor; — Directorate-General for Planning, Budget and Management of the Ministry of Family and Social Inclusion; — Microfinance Promotion and Development Unit; — National Institute of Social Security; — National Institute of Statistics; -Institute for Gender Equality and Equity; — National Association of Cape Verdean Municipalities; — Trade Union Federations; — Platform of NGOs of Cape Verde.

▶ Figure 11: National integrated program for the acceleration ➲ informal to the formal economy

Source: Prepared by the team of consultants based on the Integrated Program for the Acceleration of the Informal to the Formal

5.1.3. The integrated package for formalization

Figure 12 focuses on an integrated proposal of the different types of incentives and strategies that can be operationalized to instigate informal units to formalize.

▶ Figure 12: Proposal for a package of incentives to formalize informal MSEs in Cape Verde

Registration and Payment	✓ Access to training and capacity building actions in business management and preparation of the Business plan. ✓ Technical assistance in the process of registration and registration with the INP; ✓ Priority in licensing (industry; catering; taxis and passenger transport vehicles); ✓ Provision of training to improve performance after formalization; ✓ Assistance in registering for online payment and invoicing systems.
Financial, tax and Social protection Incentives	**Tax Benefits** ✓ Tax exemption: Importation of goods vehicles less than 5 years old; Special Unified Taxation (IUR and Social Protection); Exemption from stamp duty; 50% reduction in fees for notarial acts (sale of real estate). **Financial Benefits** ✓ Market access; ✓ Access to the Recapitalization Fund for MSMEs affected by the crisis, through the financing ecosystem programs; ✓ Access to Micro-Credit with reduced rates; **Social Protection** ✓ Access to Social Security; ✓ Access to the subsidy for attendance at daycare centers and kindergartens Access to Productive Inclusion programs ✓ Access to insurance and micro-insurance products;
Surveillance/ compliance	✓ Support in the transition period to increase the compliance of certain enterprises; ✓ Intensification of inspection actions of Economic Units in accordance with Legislative Decree No. 2/2009 of June 15 (IGAE); ✓ Intensification of the supervision of public passenger transport by the City Councils.

Source: Authors

5.1.4. Proposal of policy measures by typology of segments identified and prioritized

5.1.4.1. Identification of formalization opportunities

Enterprises can be grouped together on the basis of their willingness and/or ability to formalize. Many factors influence an enterprise's decision to formalize, including corporate culture, individual business characteristics, institutional structure, market conditions, costs of doing business, labor skills, and others. Table 12 shows the results of the classification of enterprises in terms of their ability to formalize as well as the willingness of entrepreneurs to formalize.

Table 12: Formalization Opportunity Identification Matrix

		Promoter’s Willingness to Formalize	
		Yes	**No**
Capacity of the unit to formalize itself	**Yes**	Regular land passenger transport Construction Hairdressing salon activities Retail sale in non-specialized establishments, with a predominance of foodstuffs, beverages or tobacco	Fisheries Retail sale of clothing, footwear and foodstuffs in markets
	No		Commerce in street spots and street vendors

After identifying the enterprises that, in addition to being able to formalize, also intend to start the formalization process, Table 13 presents proposals for public policy measures that can ensure the transition to formality in a sustainable and viable manner.

5.1.4.2. Identification of policy measures

Informal enterprises are generally associated with “legal informality” when the business is not registered and/or with “fiscal informality” when informal businesses do not pay taxes, do not have bank accounts and do not keep accounting records. That has proven to be a worldwide phenomenon, but with different dimensions among countries.

Several programs that encourage the transition to formality have been implemented, but the results are still not comfortable and many businesses refuse to formalize or return to informality after some time of operation. In this context, new approaches to informality are needed based on a deep understanding of the needs and behaviors of informal businesses and their promoters, and from this the conditions can be created that allow developers to make decisions according to what is considered appropriate.

Table 13: Matrix for the Identification and Allocation of Public Policies for the Transition

		Promoter's Willingness to Formalize	
		Yes	**No**
Capacity of the unit to formalize itself	**Yes**	▶ Reduce the financial and transaction costs of registration, the number of procedures and minimum capital requirements ▶ Increasing the benefits of formalization ▶ Grace period for payment of TEU, while UPIs finalizes the certification process; registration with INPS; initiation of activity; adherence to e-invoice; access to financing. ▶ Awareness-raising campaign for formalization ▶ Disclosure of tax obligations ▶ Dynamization/Creation of Association and Cooperatives ▶ Access to finance ▶ Increased enforcement ▶ Reduction of the tax burden and tax incentives ▶ Managerial skills training ▶ Access to information on business regulation ▶ Access to new markets ▶ Public-private partnerships ▶ Facilitating access to Social Protection	▶ Reduce the financial and transaction costs of registration, the number of procedures and minimum capital requirements ▶ Increasing the benefits of formalization ▶ Awareness-raising campaign for formalization ▶ Disclosure of tax obligations ▶ Dynamization of Association and cooperatives ▶ Access to finance (conditional on credit renewal) ▶ Market access ▶ Increase incentives ▶ Reduction of the tax burden and tax incentives ▶ Access to technical assistance ▶ Managerial skills training ▶ Access to information on business regulation ▶ Institutional reform ▶ Increased enforcement ▶ Intermediate legal status ▶ Facilitating access to social protection
	No	▶ Reduce the financial and transaction costs of registration, the number of procedures and minimum capital requirements ▶ Support in the development of the business ▶ Insertion in the value chain ▶ Access to technology ▶ Managerial skills training ▶ Access to finance ▶ Enterprises Incubation Program and Accelerators ▶ Access to technical assistance ▶ Facilitating access to Social Protection	▶ Access to finance ▶ Facilitating access to Social Protection ▶ Managerial skills training ▶ Access to technical assistance

5.1.4.3. Rationale for Proposing Incentives to Formalize

Innovative approaches link the cost savings of formalization to clear benefits, such as easy access to Social Protection for entrepreneurs and microenterprise workers. Improving business licensing and registration does not seem to work as a formalization strategy on its own. The cost reductions from formalization have limited impact (Nielsen and White, 2021). Tiendrebeogo (2020) also notes that the quality of institutions positively influences financial development and the size of the informal sector. The transition from informal businesses to formalization requires more than simply making the legal and regulatory scope cheaper and easier to comply with. There are a number of factors besides the immediate cost of registration and licensing that influence the decision of contractors to formalize, such as perceived benefits of formalization (e.g. to grow their business, whether in terms of increased sales, profits or employees). Mukorera (2019) indicates that the willingness or reluctance of informal entrepreneurs to formalize is significantly related to institutional imperfections[116] and the asymmetry of bureaucracy associated with the registration process, lack of access to technology, market and financial constraints, and lack of entrepreneurial and management skills.

5.1.4.4. Business registration: a simple and adapted process

In general, informality results from the construction of barriers associated, among other things, with the cost of registration, the complicated structure of regulations, the lack of information on how to register an enterprise, the time required to complete the registration process, the taxes that registered enterprises would be required to pay, and the perceived lack of benefits from formalization. The use of information technology also has great potential to close the information gap for MSEs.

In order to circumvent most of the constraints identified, it is necessary to implement the information desk for formalization, which can exist both in the *Casa do Cidadão* and in the City Halls and other decentralized public or private services. Currently, the *Balcão Único* is integrated in the headquarters of the City Councils and decentralized services of the local government. While the *Balcão Único* can be considered a good practice, additional formats of information exchange are needed to reach entrepreneurs.

The creation of an integrated REMPE platform allows the harmonization of information and timely information on the legal and regulatory requirements (in the form of a checklist) related to each type of business.

> In order to improve the business environment for MSMEs, the Government of India has launched a new process for registering and classifying enterprises. The new Registration Portal is completely paperless and self-declaration-based.

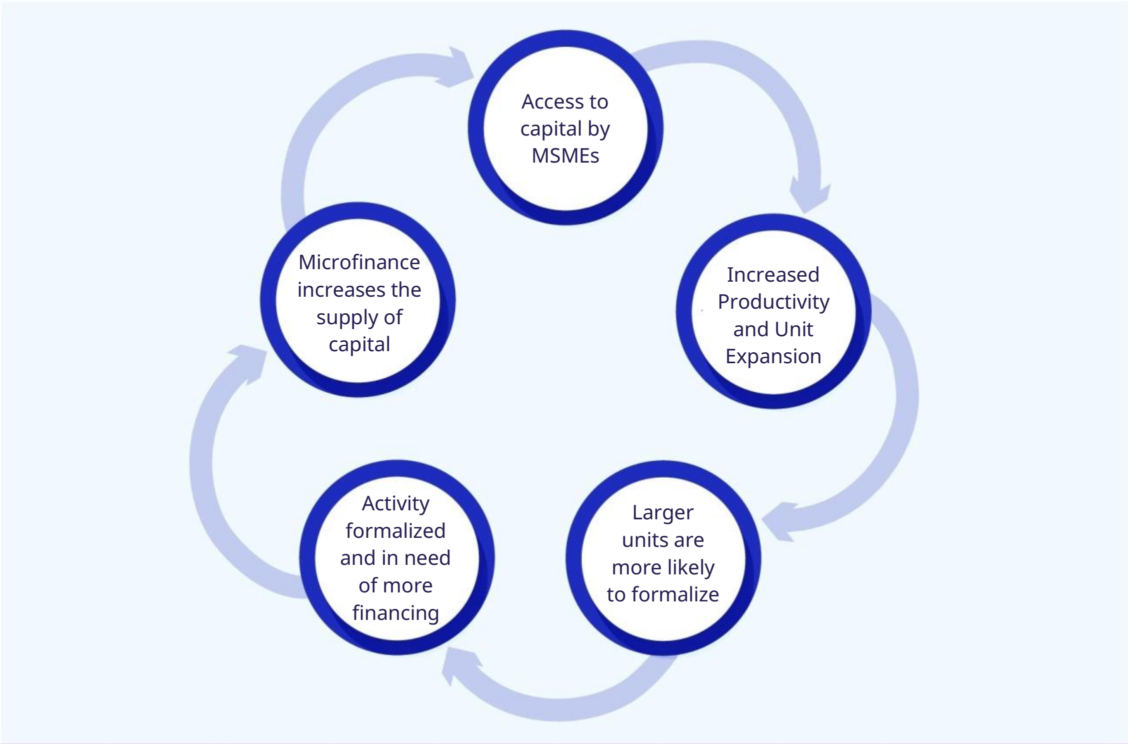
From the documentary analysis and collection of primary data, it can be seen that incentives will only be an effective means of formalization if the problems they are intended to combat are well defined and the incentives are considered significant for informal entrepreneurs. This may require not only reducing formalization costs, but also increasing the perception of the benefits of formalization through financial and operational gains. It is also associated with the entrepreneur's motivation to start a business, that is, whether the entrepreneurial attitude was out of necessity or opportunity (more likely to formalize).

[116] Institutions refer to the rules of society's game. They are the formal or informal norms and rules that shape people's behavior in society. In this case, it refers to the fulfillment of legal, fiscal and labor requirements for the formalization of business.

5.1.4.5. Access to financial services

Access to credit is a major constraint for enterprises in Cape Verde. Taking into account the existence of liquidity in commercial banks, Central Bank of Cape Verde can enable microfinance institutions to access resources at a reduced cost, making it possible to increase the capacity to respond to requests and also finance the final customer at a more affordable cost and, in return, regulate the concentration of the MFI's portfolio in the informal sector, forcing microfinance institutions to increase their interest in enhancing the formalization of productive units.

▶ Figure 13: Funding cycle



Source: Authors

Facilitating access to finance requires measures that simplify access to these services, but also have a counterweight, as the process of formalization brings potential benefits to entrepreneurs and the maintenance of informality is discouraged. For example, in Chile, Banco Estado Microempresas serves informal enterprises but only offers access to a second loan, increased loan, and/or offer of other financial products if the enterprise is making progress in formalization and registering its business.[117]

[117] 94 Will Nielsen and Simon White (2021) Dealing with Firm Informality; Research Report, Donor Committee for Enterprise Development, Cambridge, UK

A complementary strategy is associated with the study on the adequacy of the system of capitalization of interest and repayments to the income flow of enterprises in which the flow of revenues is irregular. Waiving interest on arrears would be an interesting option as well.

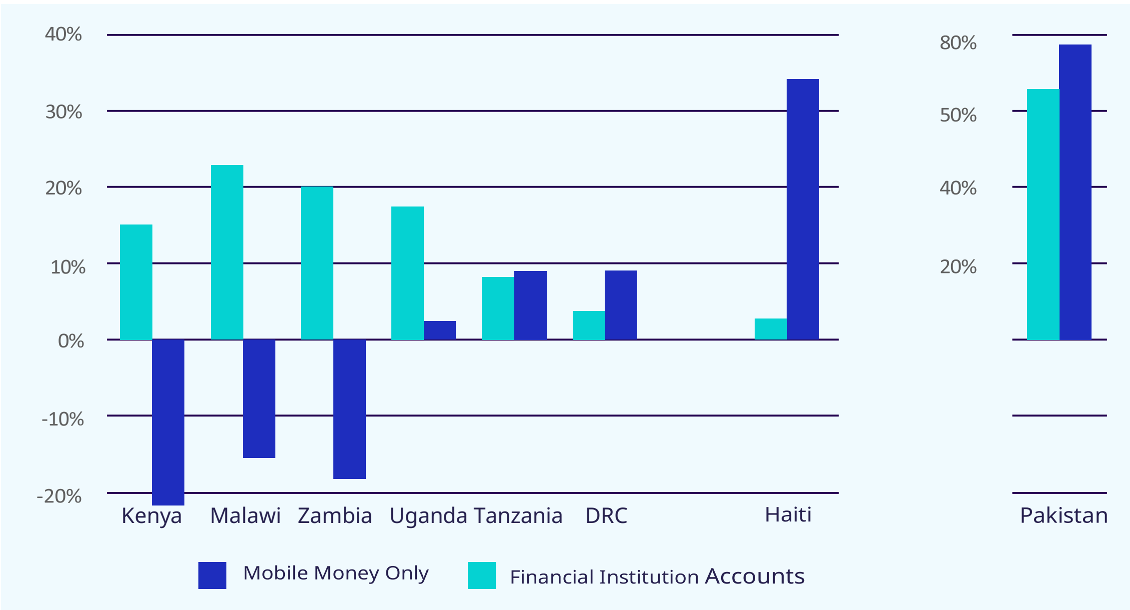
In developing countries, credit to the private sector as a proportion of GDP is well below the average for high-income countries, and the lack of a well-developed financial infrastructure presents challenges for both credit providers and enterprises that use credit.

Women are especially disadvantaged due to the lack of access to traditional forms of security to access credit, so the registration of movable collateral such as machinery, equipment and receivables, in the implementation phase, is a necessary step to secure financing. However, where legal and institutional protections are inadequate, banks are often reluctant to accept movable assets as collateral.

Digital tools can be valuable in supporting access to financial services, as well as other various business support services. The implementation of institutional reforms and incentives to enable the development of mobile money as an instrument for the financial inclusion of enterprises in the country, especially those managed by women, could promote business opportunities for these micro and small enterprises.

Mobile money is positioned to help informal MSEs on their path to formalization, increasing their productivity and profitability, improving access to credit and enabling MSEs to grow already within the formal sector. In Cape Verde[118], the penetration rate of mobile services is over 100%, showing the potential that can exist in promoting financial inclusion through mobile services, especially for women, considering the lower availability they have to travel to centralized services to carry out their financial operations.

Graph 8: The difference between men and women by account type



https://finca.org/blogs/how-mobile-money-is-reshaping-the-gender-gap-in-financial-inclusion/

In countries such as Kenya, Malawi and Zambia, mobile money accounts held by women outnumber those of men by a range of 15% to 22% — a completely reverse trend when compared to the traditional

[118] https://expressodasilhas.cv/pais/2022/04/07/taxa-de-penetracao-e-telemoveis-esta-em-105-em-cabo-verde/79470

system of holding financial accounts. A well-targeted policy of implementing this innovative financial service can reduce the existing differences in the inclusion of women in the traditional financial system.

5.1.4.6. Fees & Taxes

In the fiscal dimension of informality, the tax compliance of private sector enterprises is a function of the perceived level of service provided by the government and the equity of its tax burden (Lee et al., 2019). In many cases, MSEs are simply not aware of their tax obligations or are afraid of the tax system.

The limited knowledge of how the tax system works was cited by the different operators as reasons for abandoning the idea of formalizing their enterprises, especially when it involves fines for tax non-compliance. In this context, investing in training that improves tax literacy as well as raising awareness about tax citizenship, fiscal responsibility and state bureaucracy will be useful tools to support formalization.

The implementation of an initial exemption mechanism for payments due to formal bureaucracy (with mandatory filing of returns from the outset) as well as a strict follow-up protocol by the tax administration can improve compliance with tax formalities.

REMPE is an important reform in the formalization strategy and its results have been noticeable. Thus, its continuity will be essential to consolidate the gains achieved. However, it needs an in-depth assessment to better understand its impacts and needs for remediation. As a way to adapt the tax and contributory system, a single annual payment package can be created, with flexibility of contributions during this period, considering the income irregularity that characterizes micro and small enterprises.

During the focus groups, informal operators showed that **licensing and cards issued by municipal authorities are extremely important and that they value them highly**. The creation of a single contribution system between municipal authorities, the tax system and social security, through a single collection document, integrated in the application and renewal of licenses and/or cards, can boost the formalization and fulfillment of obligations.

> In Brazil, the so-called *Simples Nacional* (shared tax collection, collection and inspection regime applicable to Micro and Small Enterprises) facilitates the presentation of a single and simplified declaration of socioeconomic and tax information.

5.1.4.7. Supply & Value Chains

Access to the public procurement market and integration in value chains seem to be relevant measures to support the success of formalized enterprises.

Formalization support programs should adopt a cluster approach, i.e., they should be implemented in all links of the business value chain as a way to self-reinforce the formalization stimulus.

Supply and value chains can provide market opportunities for informal enterprises. These enterprises can provide services to larger enterprises that require reliable and standardized supply chains for the production and distribution of their products and services that lead to capacity development and market opportunities. These opportunities can serve as an incentive for enterprises to register and become part of corporations' value chains. In the process, they could expand their clientele, secure new contracts, and gain access to new markets.

Encouraging the development of business networks — including the development of strategic alliances and joint ventures — with the aim of increasing the innovative capacity of MSMEs can be an effective strategy. Entrepreneurs who develop and maintain strategic links and alliances with other entrepreneurs tend to outperform those who don't. A network is a group of enterprises that uses combined resources to cooperate on joint projects, allows for accelerated learning, indirect cost sharing, and the exploitation of specific economies of scale present in collective action. Sri Lanka is an example, where it is possible to observe experiences of integration in the transport value chain, with relevant gains for all enterprises[119].

5.1.4.8. Public-Private Partnerships (PPPs)

Access to public contracts and government procurement mechanisms is a process that can contribute to the viability of enterprises in the country. The establishment of an effective incentive mechanism is essential for the successful formalization of enterprises. Although REMPE is an effective tool for formalization and offers a range of positive/negative incentives for enterprises, it is noted that in practice there is no effective application. In this context, an effective application of the incentives provided in REMPE is proposed, highlighting the advantages of formalization and the consequences of not being formalized.

5.1.4.9. Human capital development

Informality is linked to a lack of education (both formal and business) and a lack of skills, which creates a vicious circle of persistent poverty and vulnerability. This has been amply demonstrated through the impact of COVID-19 on micro-enterprises[120]. In addition, strengthening the human capital base through education and skills development is seen as a means of increasing productivity and having the potential to increase the number of decent jobs and thus lift key segments of the population out of poverty.

Low financial, fiscal and legal literacy, as well as the lack of mastery of innovative technologies, has limited business productivity and conditioned many enterprises to informality. Investing in the training of entrepreneurs to improve their entrepreneurial and management skills is a necessary and indispensable step in the business formalization strategy, which, in turn, will allow the effective use of new technologies to facilitate business innovation and sustainable development. Among micro and small enterprises, the shortage of information technology skills and associated costs are the main obstacles to business growth.

[119] United Nations (2021) Best Practices: Formalization of Micro, Small and Medium-sized Enterprises (MSMEs) in Africa.

[120] United Nations (2021), Best Practices: Formalization of Micro, Small and Medium-sized enterprises (MSMEs) in Africa.

5.1.4.10. Social dialogue and strengthening social capital

The formalization of the informal economy in a sustainable way is key to achieving the goals set out in the 2030 Agenda for Sustainable Development by promoting social dialogue.

Cooperatives and associations can support informal enterprises and even their transition to formality, facilitating their access to financial services, serving as a platform for high-level representation, providing training opportunities, securing permanent business locations, among others. They also allow the transfer of information and skills, communicating the benefits of formalization or being part of a technical assistance intervention.

Olomi and Juma (2018) examined evidence in terms of policy outcomes for formalization in Ghana, Kenya, Rwanda, and Tanzania and found that most informal enterprises are unlikely to transition to the formal sector, even when regulations are simplified. Instead, certain categories of informal economic units are likely to realize the benefits of formalization when encouraged or required to join cooperatives or self-regulating associations.

The INPS can work on the idea of creating a contribution system adapted to the units that do not yet have the conditions to formalize, but that is less onerous than the current independent contribution system and that has the possibility of advance payments, considering that the operators have stated that the monthly contribution system is not the most suitable for them, Because, due to the instability and uncertainty of incomes, there is a great risk that all payments made will be sunk costs and without the possibility of recovery.

The lack of social protection is one of the main causes of the vulnerability of informal enterprises and their workers. In this context, expanding access to social protection benefits and helping owners and workers of informal enterprises to see the value of contributing to social protection regimes seems to be an important strategy in combating informality. Good, inclusive regimes are those that have simple and affordable contribution rates that are integrated into a single payment or with a payment schedule that can be adapted.

The State can promote education and health services, housing and infrastructure, implement anti-corruption policies and create social safety nets as complementary measures for the formalization of enterprises. With greater popular participation and engagement, it is possible to reduce the levels of tax delinquency, especially with the adoption of participatory budgeting.

5.1.5. Inputs for the development of policy proposals for the transition

Informality imposes high costs for the whole society and, in this sense, state action is necessary to create more effective mechanisms for the desired transition to formality. When obstacles are identified and recognized, behavioral interventions can be designed and implemented to help increase formalization. The use of behavioral insights includes recognizing the mental models – the beliefs, concepts, and ideas that people use to interpret the world around them (Mind, Behavior, and Development, 2019) — used by informal businesses.

The World Bank's 2015 Report (World Bank, 2015) finds that people, regardless of their social class, at some point make choices that are contrary to their own well-being, especially when they act automatically. They can also act as a result of habit or inertia. There is also a difference between action and intention (intertemporal conflicts) with negative economic consequences for individuals, groups and society as a whole. This opens up a huge space for government action, mainly through libertarian paternalism, that is, the act of supporting people in their decisions, but as long as they maintain their freedom of choice. It can be seen that in relation to the formalization of enterprises, habits, beliefs, values, inertia, lack of information and immediacy drive entrepreneurs to opt for informality.

In this context, the desired behavior change for formalization can be achieved with the correct design and application of nudges. A nudge is an aspect of the architecture of choice that changes people's behavior in a predictable way without creating bans or changing economic incentives. The architects of choices are the people who "have the responsibility to organize the context in which people make decisions."

Table 14: Summary of Behavioral Insights for Transition Policy Implementation[121]

Ventures	Retail sale in non-specialized establishments, with a predominance of foodstuffs, beverages or tobacco	Hairdressing salon activities	Retail sale of clothing, footwear and foodstuffs in markets	Civil Construction	Scheduled land passenger transport	Commerce in street spots and street vendors	Fisheries
Messenger	The information should be submitted by peers. The campaign of awareness should be done by entrepreneurs in the same field.	Ditto	Ditto	Ditto	Ditto	Ditto	Ditto

[121] In designing public policies to support the transition to formality, some topics from behavioral economics should be considered: **Messenger:** Who communicates information and how it is communicated has implications for the strength with which the message is assimilated. **Incentives:** The incentive mechanism should be used by governments as a framework to motivate behavior change. In general, people prefer to avoid losses rather than have equivalent gains, so public policy should focus not on premiums but on the losses that will occur if a certain behavior is not adopted. **Social norms**: People tend to copy what others do. Focus on the positive that many people are formalizing. Consider using social media to spread the word. **Defaults:** Many of the decisions we make in our daily lives have a default option if no choice is made. The design of the forms will be fundamental to the process. **Public commitments:** People tend to postpone actions that are more medium- and long-term. One way to increase the cost of procrastination is to make a public commitment that involves other people or institutions. Ego: We all tend to take actions that make us look better. Working on a public policy in such a way that the outcome is associated with an improvement in the positive image of the citizen will greatly help in achieving the goals.

Incentives	REMPE; give prominence and wide dissemination of incentives and inform of penalties; Access to public services (training, technical assistance). Match payments to the flow of receipts.	REMPE Highlighting and wide dissemination of incentives and inform of penalties; Immediate access to public services (training, technical assistance). Also, it is possible to identify opportunities to adapt payments to the flow of receipts.	REMPE; Highlighting and wide dissemination of incentives and informing of penalties; Immediate access to public services (training, technical assistance) Creation of a single payment package, integrating the municipal taxes, the contribution to Social Security and the Tax. Adjust payments to the flows of receipts.	REMPE; Highlighting and wide dissemination of incentives and inform of penalties; Immediate access to public services (training, technical assistance) Access to public works contracts. Adjust payments to the flows of receipts.	REMPE; Highlighting and wide dissemination of incentives and inform of penalties; Immediate access to public services (training, installation of communication system, etc.).	Social Security; Highlight and widely publicize the risks associated with the activity; Access to public services immediately (training, access to childcare services, etc.). Match payments to the flow of receipts.	REMPE; Highlighting and wide dissemination of incentives and informing of penalties Immediate access to public services (training, free communication and security systems, etc.). Suit payments to the flows of receipts due to the seasonality of catches.
Social norms	Focus on success stories; Peer testimonials; highlight positive aspects and social and economic impact of formalization. Raising awareness of fiscal and social responsibility	Ditto	Ditto	Focus on success stories; Peer testimonials; highlight positive aspects and social and economic impact of formalization. Emphasize the importance of being protected in a risky sector. Raising awareness of fiscal and social responsibility	Focus on success stories; Peer testimonials; highlight positive aspects and impact of formalization on the future of children. Raising awareness of fiscal and social responsibility	Ditto	Ditto

Default	Automatic provisional licensing after first registration formalities; Automatic license renewal (the entrepreneur can make changes if necessary); The INPS registration option is already integrated into the license application form;	Ditto	Automatic provisional licensing after first registration formalities; Automatic license renewal (the entrepreneur can make changes if necessary); The INPS registration option is already integrated into the license application form; Automatic availability at the time of licensing of the formal and normative requirements for the operation of the company	Automatic provisional licensing after first registration formalities; Automatic license renewal (the entrepreneur can make changes if necessary); The INPS registration option is already integrated into the license application form;	Ditto	Ditto	Ditto

Public commitments	Support the emergence of associations and/or cooperatives in which the commitments are collectively assumed. Support the organization and representation of women in the informal sector; Promote voice visibility by creating political space for informal women's organizations in policy forums and dialogue on issues that directly affect them	Support the emergence of associations and/or cooperatives in which commitments are made collectively. Support the organization and representation of women in the informal sector; Promote visibility and voice by creating political space for informal women's organizations in policy forums and dialogue on issues that directly affect them	Support the emergence of associations and/or cooperatives in which commitments are made collectively. Support the process of facilitation of business visas and customs clearance; Support the organization and representation of women in the informal sector; Promote visibility and voice by creating political space for informal women's organizations in policy forums and dialogue on issues that affect them directly	Prioritize applications for public works carried out through consortia.	Support the emergence of associations and/or cooperatives in which commitments are made collectively. Support in the process of canning and transforming markets. Supporting access to the tourism market Support the organization and representation of women in the informal sector; Promote visibility and voice by creating political space for informal women's organizations in policy forums and dialogue on issues that directly affect them	To allow access to social security under special conditions, with a payment of a fixed nominal amount. Support the organization and representation of women in the informal sector; Promote visibility and voice with creation of political space for informal women's organizations in policy forums and dialogue on issues that directly affect them	Support the emergence of associations and/or cooperatives in which commitments are made collectively. Support in the process of canning and transforming markets. Supporting access to the tourism market
Ego	Highlight the importance of the business for the country and how its contribution has helped society	Highlight the importance of the business for the country and how its contribution has helped society	Highlight the importance of the business for the country and how its contribution has helped the society Promote the importance of merchant card ownership	Emphasize that the sector is crucial for the development of the country	Highlight the importance of business in security food and in the lives of Cape Verdeans	Highlight the importance of the business to the fight against unemployment, with prospects of improving business conditions in the medium term	Highlight the importance of business in food security and in the lives of Cape Verdeans

Final Thoughts & Recommendations

The study was based on various classical research approaches, such as **documentary research**, in particular, the study of the **ILO's unavoidable references** in terms of formality, informality and informality.

i. **The recommended conceptual framework** for the appropriation and operationalization of the terms, concepts and definitions related to informality/formality and the transition of economic units from informal to formal, especially the directives of the 15th and 17th International Conference of Labour Statisticians (ICLS) that complements and establishes a coherent link between the concept of employment in the sector firm-based informal employment and broader concept of employment-based informal employment.

ii. The main tools and approaches of the transition to formality, highlighting the **reference tools for a comprehensive approach to formalization, such as:** Recommended approach to business formalization; Pyramid of formalization; Analysis of costs and benefits of formalization; The dimensions of formalization in accordance with all relevant regulations on Registration of MSEs ➲ Licensing ➲ Compliance with taxes ➲ Compliance with social contributions ➲ Formal transactions.

iii. The main recommendations, especially recommendation 204 adopted by the 104th International Labour Conference in 2015, allow to explore the challenges and provide elements to improve the effectiveness of the transition from informality ➲ formalization highlighting good practices and national and international lessons in the implementation of the formalization strategy.

In this study, a **quantitative approach** was adopted in order to design a theoretical path for the formalization of informal economic units in Cape Verde, based on the metrics, the theoretical-conceptual framework of the ILO and international experiences on formalization, reinforced with an exploratory/descriptive analysis followed by an econometric and multivariate analysis to identify the main "determinants of the predisposition to formalization" allowing to categorize the segments and profiles of economic units in relation to formalization. The quantitative analysis also made it possible to make an updated diagnosis on the issue of formalization in Cape Verde, identifying the strategies, the existing and potential incentives, the regulatory and legal framework, the network of entities involved, the governance mechanisms, allowing the proposal of an "operational" path to formalization in Cape Verde.

In a complementary way, a **qualitative approach** was used that allows validating, aligning the evidence and diagnosis made from the quantitative approach through listening to perceptions, suggestions, and interviews and focus groups with the key audience. In this approach, a **systematization** of the main evidence and qualitative perceptions was also elaborated, allowing the **formulation of proposals for public policies adjusted** to each segment of economic units most prone to formalization if they are given the incentives and the right conditions for formalization are created, as well as the formulation of a **set of recommendations**.

The study used a set of good practices to strengthen itself, highlighting the strategies, initiatives, actions and mechanisms to facilitate the transition "informality ➲ formality" as is the case of the Sucupira50[122] project, which articulated intervention from different sectors, operationalizing a program with focus on the informal markets and with a formalization rate of almost 100% among participants. However, despite the Government's constant and significant efforts to accelerate the

[122] video: https://www.ilo.org/empent/areas/ef/WCMS_827536/lang--fr/index.htm (en français); https://www.ilo.org/empent/areas/ef/WCMS_827537/lang--en/index.htm (en portugais)

formalization of informal businesses, the impact has not been as desired; the case of REMPE, since the Government, by approving it, tried to simplify the procedures for registering firms and in a way encourage the formalization of business entities that operated in the informal sector.

The study diagnosed several other good practices, as well as gaps and barriers, highlighting those related to access to finance; market access; access to technology; access to skills-building programs; access to social security; social dialogue, organization and representation; strategies for local development; promotion of equality and fight against discrimination: gender in the informal sector.

Recommendations:

At the level of formalization mechanisms

1. Punctual revision of the provisions on cooperative societies, inserted in the Commercial Enterprises Code, recently amended, reducing from 6 to 3 the minimum number of founding members required for the constitution of cooperative societies, thus being more aligned with REMPE. This action may benefit the integration of Cooperatives in the fisheries and agrifood production sector, offering a formalization mechanism more adapted to their activity.

2. Revision of REMPE, adapting it to encourage formalization, introducing the organizational dimension and assistance to the management of formalized activities and units – micro and small enterprises. Adaptation could improve the management and organization of formalized small enterprises and contribute to increasing their income.

3. The TEU does not have to be paid every month. Due to irregularity in invoicing, seasonality, etc., it may be difficult to make regular payments, so it seems to be more appropriate to allow fractional/irregular payments, provided that in periods of 3 months the debt with the tax authorities is repaid.

4. In each municipality, micro and small enterprises may organize themselves into associations or hire specialized services, or even integrate existing organizations for the common use of advisory services in the areas of tax, accounting and management.

5. The revision of the REMPE legal regime should include the protection of income in the context of job loss or stoppage of activities, especially in periods of crisis. Micro-enterprises are the most susceptible to shocks, but they are part of this category of units engaged in fishing during the period of prohibition of capture.

6. Provide an informative “Guide” of the responsibilities inherent to each CAE, to be delivered at the time of registration, especially for Units that need licensing to start the activity.

7. Integrate company registration services with the City Councils and integrate a technical or incentive service for formalization at the local level;

8. Implement the National Integrated Program for the Acceleration of the Transition from the Informal to the Formal Economy 2020–2023, which has a delay of 2 years in its implementation. The program will improve the governance and coordination framework for transition programs.

9. Install a registration computer application with parameterization of “an econometric model of focusing, classification and prioritization of formalization”. This model will be able to estimate scores and allow classifying MSEs in terms of prioritization and eligibility criteria for formalization;

10. Prepare the Manual of Procedures for the formalization of Informal Production Units, adapted to different production units and with simple and accessible language.

11. Develop a training plan and carry out training for professionals who work in the service and support for formalization, benefiting technicians from the service desks and monitoring services of MSMEs.

12. Identify institutional leadership that can coordinate the institutional dialogue for formalization;

At the level of the Micro Finance sector (regulator)

1. Adapt the current regulation of the sector to the existing categories of MFIs, making prudential ratios more flexible and adapting to the Microfinance sector;

2. The publication by the Central Bank of Cape Verde of the periodic statistical data of the national microfinance industry;

3. Include an obligation to produce statistics on the social impact of microfinance, in particular the transition of clients to the formal economy and the depth of the transition;

4. To define, in the notices of the Central Bank of Cape Verde, the limit of concentration of the portfolio in the informal market, contributing to them to have a reinforced policy to support the transition process of their clients;

5. Define the maximum limit of interest rates to be applied by the sector, reducing the current level of costs of access to customers;

6. Create a line of financing, by the BCV, at reduced costs, allowing the control and reduction of financing costs of MFIs for their clients;

7. Decentralize the INPS and Finance branches for Microfinance agencies, replicating the experience of the *Balcão Único* of the *Casa do Cidadão* at MORABI;

8. The Bank of Cape Verde could define prudential ratios to measure “informality” in MFI loans;

9. MFIs could be endowed with a (state) fund to inform and help enterprises to formalize, and put them in touch with banks/credit and guarantee providers;

10. MFIs can sensitize Economic Units about the processes and benefits of formalization.

Regarding Access to Skills Building Programs

1. Integrate support for vocational training into the incentive package for the transition from informality;

2. Ensure that the vocational training provided is integrated into the national employment policy and adjusted to the labor market;

3. Encourage public and private training schools and civil society organizations to implement specific actions for informal units in the process of formalization, based on ILO methodologies and the professional profile of small business management;

4. Encourage the sustainability of informal economic operators through their training in financial education so that they can build resilience and financial independence;

5. Institutionalize and provide training offers in Business Management (http://snq.cv/wp-con-tent

/uploads/2019/07/AGE004 4-Gesta%CC%83o-de-Pequenas-Empresas.pdf); GET Ahead; GERME and Financial Education) in public vocational training centers;

6. Decentralize vocational training and skills reinforcement actions to spaces closer to the populations and at times adapted to the dynamics of economic activities and care for workers in the informal sector.

Regarding Social Protection

1. Strengthen actions to raise awareness of the importance of social protection among informal workers and representative groups. The weak recognition of the importance of social protection and the weak contribution culture is pointed out as one of the causes of the low coverage of informal units. Decentralized awareness-raising actions should be implemented, indicating the real advantages, the benefits with social security and the importance of being formalized to facilitate the registration process and single taxation.

2. Promote mechanisms for Collective Registration, introducing mechanisms that allow self-employed workers grouped in associations to be able to sign collective agreements with social security. The associations would be in charge of grouping the workers and signing agreements under which they commit to the social security management entity, to register the members, deliver the Remuneration Slips and proceed with the collection of previously negotiated contributions, which will later be transferred to the social security institution.

3. Promote incentives for registration, involving workers' organizations and local authorities, as a licensing entity for various activities where there is a high rate of informality, such as: merchants, grocery stores, bars, barbershops, shoe stores, hairdressing salons, being able to disclose the registration with social security and have incentives. This is the case of the Social Fund implemented by the Municipality of Santa Cruz (northern region of the island of Santiago), in which one of the conditions for access to subsidized credit is to be registered and regularized with social security;

4. Ensure technical assistance to units and workers in the payment procedures regulated by Decree-Law No. 5/2021, which establishes the procedures for payment by electronic means;

5. Ensure access to child care services by public entities (opening of spaces in markets and neighborhoods with a greater number of poor people); subsidizing poor families in access to private facilities as stated in the National Care Plan, ensuring prioritization of children of women who work in the informal sector and in micro and small enterprises;

6. Strengthen training projects and support for formalization, such as the case of Sucupira50, integrating social security enrollment as a fundamental step in formalization. The action should also cover street vendors to encourage their registration with social security.

7. Greater complementarity with the social protection system at the level of the safety net, implementing measures that favor the improvement of income-generating activities and their graduation to the informal unit. This is the example of the Productive Inclusion program, which implements actions to strengthen skills and assist in the improvement of businesses developed by the beneficiaries of the social income of incision.

8. Strengthen the supervision of institutions/enterprises in relation to the payment of mandatory social protection to ensure that people enrolled in the contributory system have up-to-date contributions;

9. Prepare a Study in the area of Micro Insurance in Cape Verde and its regulation.

With regard to access to the Markets

Monitoring compliance with the provisions of the Public Procurement and Public Procurement Code for local enterprises, in particular SMEs, defining mechanisms for preferential access of national enterprises to public procurement, with supervision by ARAP; with the increase in competition and sectoral regulation, it is essential to have government support in meeting the requirements for the certification of products and services, so that market access is effective and sustainable.

With regard to Social Dialogue

1. Integrate representatives of the UPIs (associations of *"Rabidantes"*, association of fishmongers, etc.) into the structures of the consultation so that they have the opportunity to defend the interests and specific needs of the unit and informal workers, independently of the process of strengthening development capacity and formalization.

2. Establish joint technical committees, composed of representatives of workers, informal units, government and social partners (trade unions, chambers of commerce, etc.) to discuss important issues related to the construction of a tripartite solution in extending the process of transition of the UPIs from the informal to the formal economy.

3. Empower associations and organizations of workers and employers in the informal sector to serve as intermediaries between their members and other organizations or institutions on issues related to market opportunities or regulations and access to finance, social security, technological means and other resources and support services in the process of formalizing UPIs.

4. Carry out awareness-raising actions by the unions with the associations representing the UPIs and workers in the informal market about their rights, the advantages and disadvantages of training, the impact of the same on their units on their lives and those of their dependents.

On the mainstreaming of the gender approach

1. Strengthen mechanisms that support and promote positive discrimination against women with a view to promoting greater profitability of their UPIs, access to training and/or information that strengthen their legal awareness skills, access to markets and financing opportunities.

2. Ensure access to business development support services and funders for women managers at UIPs through the implementation of an approach that includes technical assistance specific to them.

3. Promote policies that improve women's access to productive resources, including land (especially rural women), technologies, and skills development, as an essential component of the country's growth and development strategies.

4. Promote investment in public services to support enterprises.

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Integrated package of incentives and formalization support services, aimed at different categories of enterprises/economic units in Cape Verde

Feasibility study

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