

# **Shifting Enterprises from informal to formal activities**

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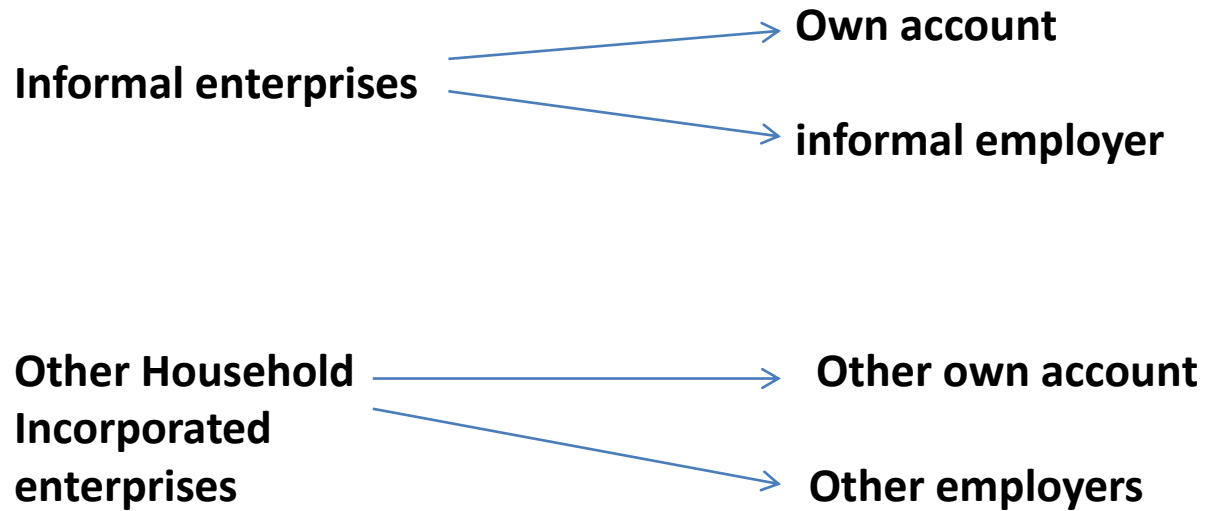
Workshop “Boosting economic dynamics and job  
growth: The potential of industrial policies

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# Challenges

- type economic unit
- Sector of economic activity

# type economic units



## Nature of activity:

- operated for earning a living or
- obtaining an additional income

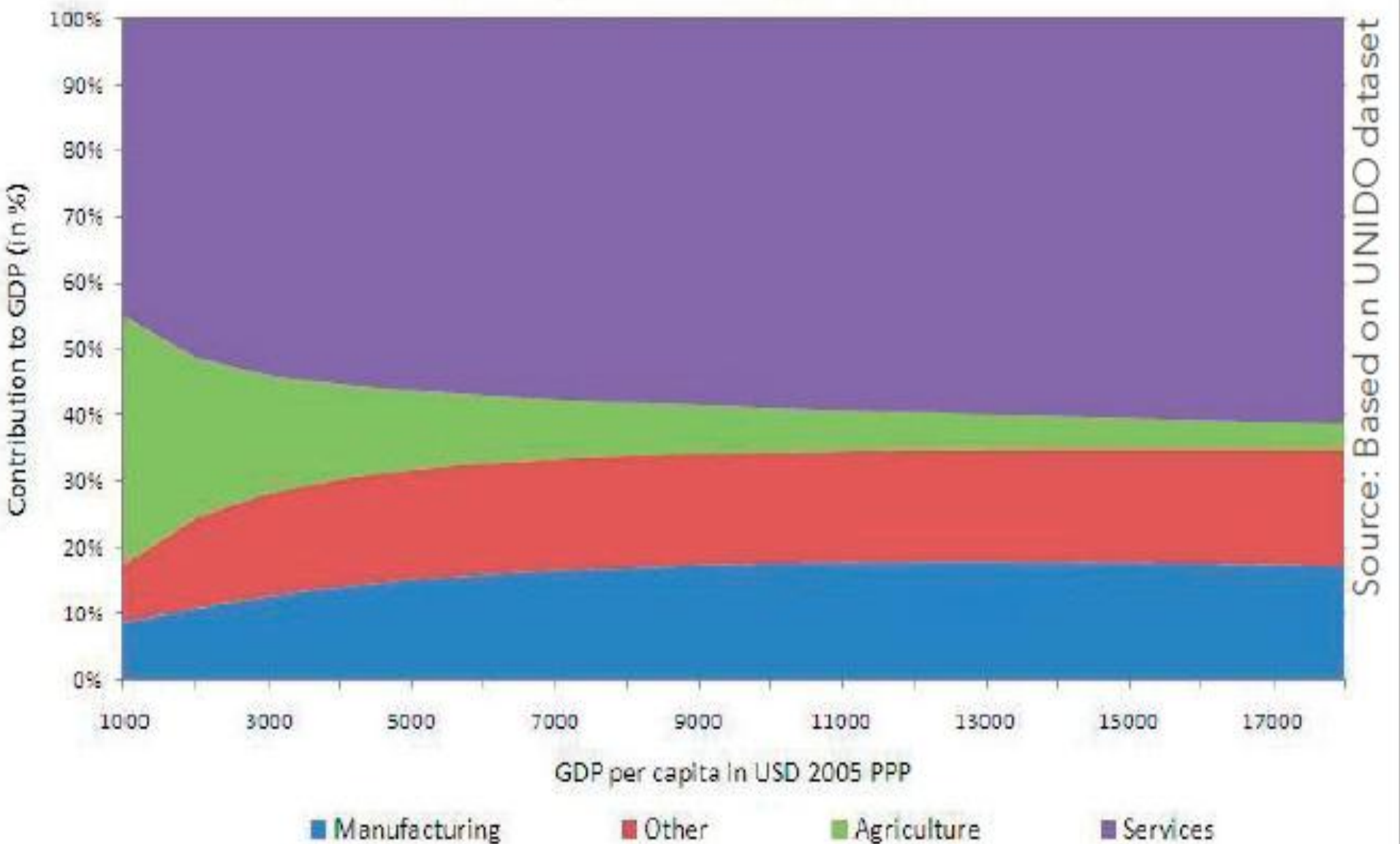
through the production of goods and services for sale to others

# Sector of activity

- General sector trends may also be reflected in informal enterprise activity
- Large concentration in services
- Low levels of productivity
- Promoting sector mobility from low productivity activities is key concern

The global pattern of structural change away from agriculture into industry and services

### Change in GDP composition



# Key problem

- Data availability
- Source of major policy failure

# Tools to collect data

- Enterprise surveys
- household surveys
- mixed household-enterprise surveys
- Labour force surveys
- Enterprise census
- Special purpose surveys
  - Expenditures
  - labour input
  - income
- Opinion surveys/Polls
- Geographical surveys

# key mistakes from policy responses

- Rely too much on
  - Sanctions
  - Awareness raising to enforce existing rules
  - Policy approaches on informal firms: One size fits all



# Business case for informality

- Simplification
- incentives

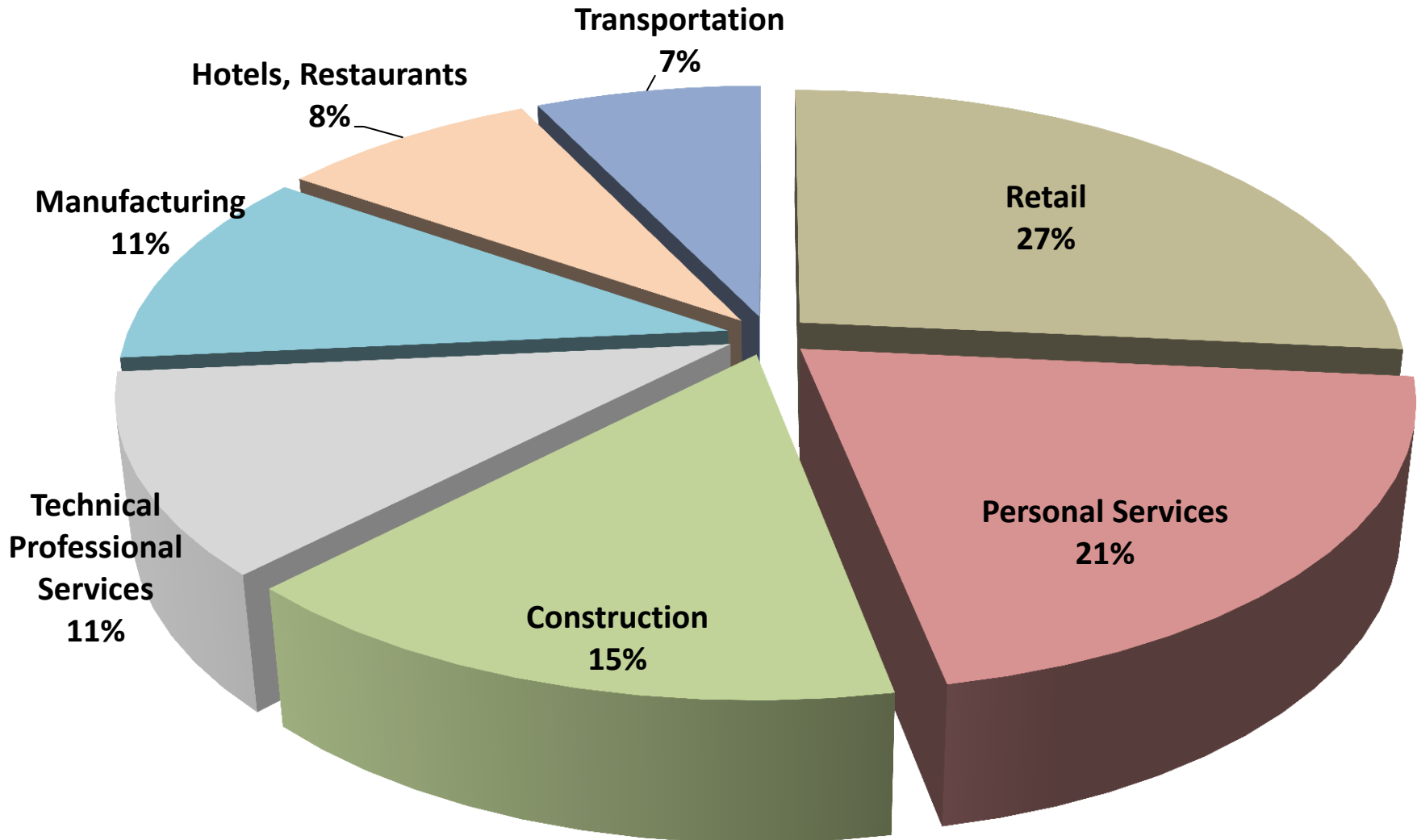
# Example Brazil's simple programme

- Objectives: formalization and social protection

Target: 10.3 million informal entrepreneurs

Results: 1.5 million registered until by 2011

# What survey data revealed



# Most firms are very small

- Revenues (median monthly)  
average \$ 1083 / median & \$ 600 (less 30 per day)
- employment:
  - no paid employees: 87%
  - Paid employees: 13%
    - two thirds are non-registered
    - only 35% pay social security

# Micro entrepreneurs

- low levels of human capital
- 8% no formal instruction
- 60% only primary schooling
- Average age is 40 years old

# Basics of Brazil's Simple Programme

- Economic activities included

Commerce, Industry and Services

- Maximum limit of annual sales:

initial: USD 1.45 million (now 2.2)

# incentives

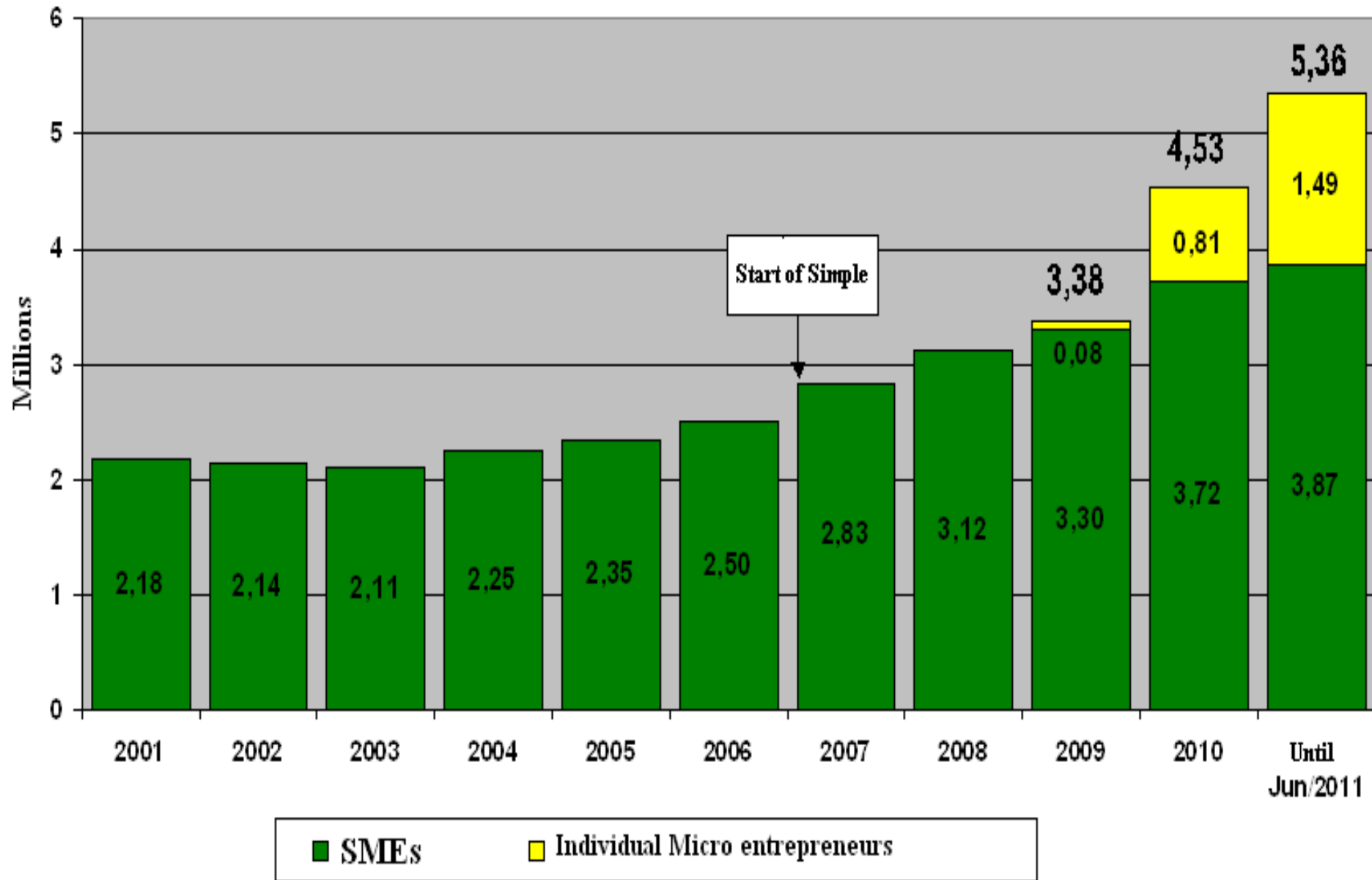
- Reduce:
  - registration costs
  - number of transactions
  - overall level of taxation on labor
- overall reduction (8%) tax burden
- motivation for reductions in direct and indirect taxes: enable small, unskilled labor-intensive firms to compete
- Fixed percentage total revenues for the standard payroll contribution
- led to a substantial reduction in labor costs
- Created a strong incentive to hire new employees and/or legalize already existing labor

# Differential treatment approach

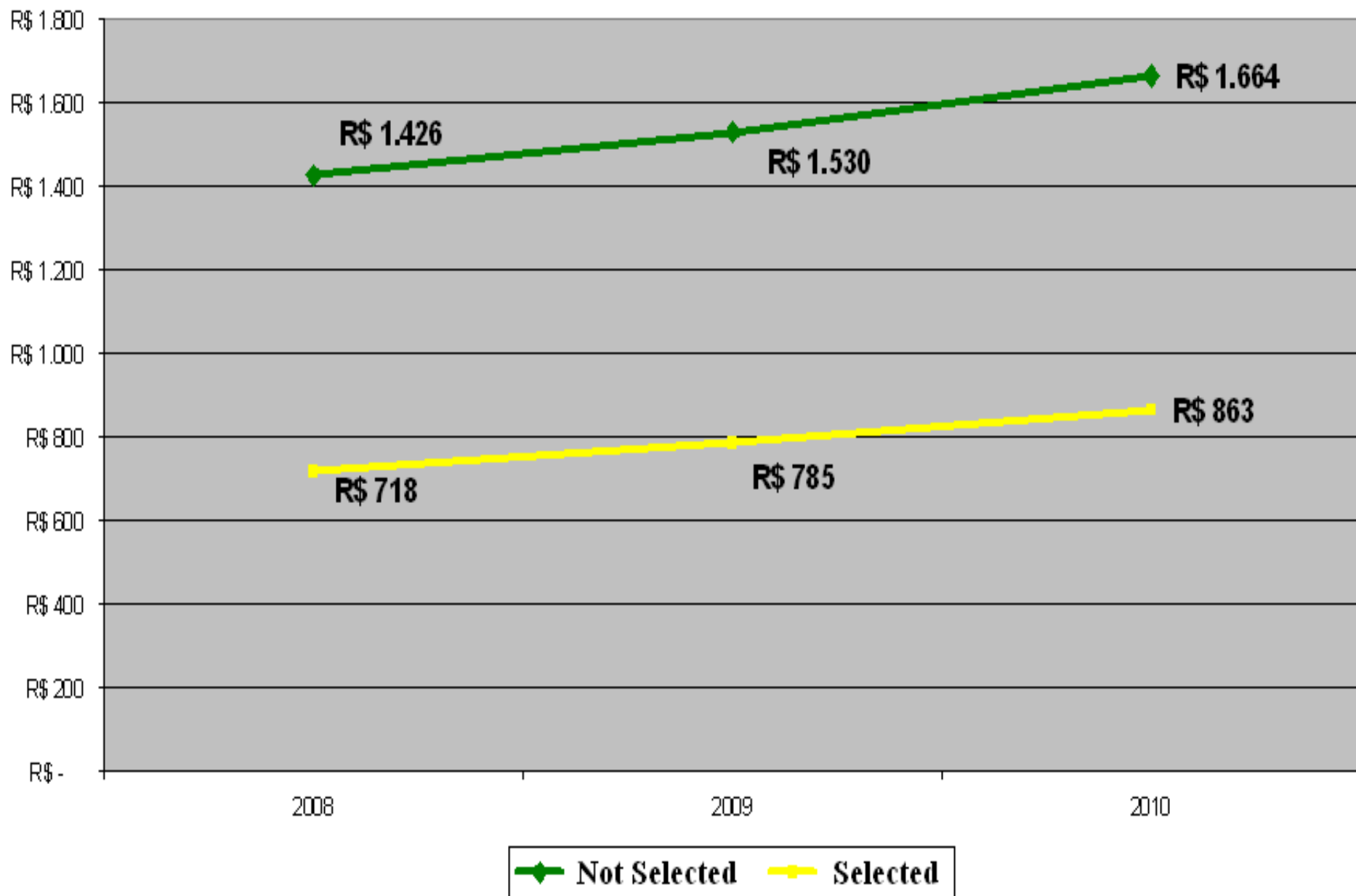
- Simple & low cost - Records and licenses
- Credit, exports and associations
- government procurement
- simplified tax regime



## Number of micro enterprises opting into the Simple program



# Average Salary



# Key results

- Feasible way to increase levels of registration
- Leading to higher revenues, employment and profits among firms which register
- reductions in social security payments for hired labor were central — the lower amounts made firms more willing to register workers
- firms born under SIMPLES adopted production technologies and lines of business that were more permanent, capital intensive, and of a larger scale, as measured by number of employees

# Few lessons

- Good / effective interventions need resources to transform reality of informal sector
- Capacity to deal with informality thus require sufficient:
  - Funding
  - Gathering of information
  - Delivery capacity
  - Links to other policies and strategic direction
  - Intelligent institutions