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Role of Finance in Driving Formalization of Informal Enterprises

Thematic Policy Brief - Enterprise Formalization

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1. Introduction

The role of finance in driving formalization is a subject that has not received much attention from governments and financial institutions, despite the fact that access to financial services remains the main obstacle for growth of informal enterprises and could be a possible incentive for informal enterprises to formalize. There is scarce empirical evidence on the use and impact of policy instruments for financial institutions on formalization of enterprises. However, experiments supported by the International Labour Organization demonstrate positive results among those financial institutions that train and support their clients in the informal enterprise sector. An organization called Evangelical Social Action Forum Microfinance and Investments (P) Ltd (EMFIL) in India generated a 70% increase in registrations among their target clients after these clients were provided with business development services[1]. A microfinance institution called Réseaux des Caisses Populaires du Burkina Faso's (RCPB) provided business development services interventions to its clients, and this initiative resulted in a 10% increase in informal registrations[2]. Furthermore, the number of RCPB clients in the target group maintaining a specific cashbook to record expenses and earnings doubled to 60% after 12 months from 32% at the baseline.

Based on an analysis of the above-mentioned and other studies, this paper proposes coordination and recommends policy options for the governments. The proposed coordination is between policy-makers such as central banks, enterprise registration authorities and ministries of finance and labour. The main tasks of the government departments and ministries would be to formulate a common definition of formalization and develop incentives for financial institutions to support informal enterprises to formalize and remain formal, thereby enhancing decent work for all. The policy options proposed in this paper attempt to provide a sustainable path for financial institutions to drive formalization. The policy options include a reduction of risk capital provisions for loans to formal enterprises, credit assessment of micro and small enterprises based on their actual bank account cash flow turnover and books of accounts, and a one-stop shop for information on financial services and enterprise formalization. The recommended policy options are situated at points of convergence of interests of financial institutions, regulators, government ministries and informal enterprises. However, the recommended policy options would require testing and validation in different country contexts followed by assessment of their impacts on formalization.

1 Business Development Services – BDS in the broader definition includes a wide range of non-financial support services concentrated in the following categories: market access, infrastructure, policy advocacy, book-keeping/accounting, legal advice, consulting, input supply, training and technical assistance, technology and product development, and alternative financing mechanisms as well as business incubation (ILO, 2003b)

2 The Maison d'Entreprise in Burkina Faso allows enterprises to be registered as 'informal enterprises'. These enterprises pay taxes on profits and patent but do not pay VAT or BIC.

2. Informal Economy

The informal economy refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. The informal economy comprises informal enterprises and informal employment. Informal enterprises are those firms that are not registered with the required authorities including tax, labour and social security, have weak management practices, do not operate separate bank accounts for enterprise and personal use and are by and large excluded from the formal markets including public procurement, and business networks and associations. Informal employment is a job-based concept and refers to employees without formal arrangements working in the informal or the formal sectors. Informal enterprises include own-account workers and enterprises with paid or un-paid employees. These enterprises could be set-up as a source of subsistence or to capture a market opportunity.

Although larger firms could exhibit some degree of informality by not complying with certain regulations, informality is more prevalent among the lower scale enterprises. In Sri Lanka, only 39% of firms with one worker is registered for taxes compared with 68% of those with five workers and 78% of those with 10 workers as reported by de Mel et al. (2013)[3]. A study undertaken using data from the World Bank Informal Enterprise Surveys shows that 89% of the firms in the data set were micro enterprises, defined as employing less than 5 people and 11% were small firms, defined as employing with 6-20 people[4].

3 World Bank, Entry Regulations and Formalization of Microenterprises in Developing Countries, June 2013

3. Why Should Governments Formalize Informal Enterprises?

Governments' efforts to improve the social and economic indicators of their countries could be driven in a large part by developing effective and well-coordinated policy interventions for the informal economy. In Southern Asia, the informal economy accounts for 82 per cent of total employment in the non-agricultural sector, in sub-Saharan Africa it is 66 per cent, in East and South-East Asia (excluding China) it is 65 per cent, and in Latin America it is 51 per cent[5]. It is estimated that informal enterprises with employees account for 60% of the labour force in the lower middle-income countries[6] and 48% of the labour force in developing countries[7].

The informal economy is a significant source of employment for women accounting for 74% of *women employment* in sub-Saharan Africa (men: 61%), 54% in Latin America and the Caribbean (men: 48%) and 83% in southern Asia (men: 82%). The informal economy mostly employs the *poor and vulnerable* with evidence from India showing that 43 percent of informal sector participants are poor

4 World Bank, Informal Firms and Financial Inclusion, Status and Determinants, February 2014

5 ILC: Transitioning from the Informal to the Formal Economy : 103rd Session : Geneva 2014

6 The World Bank, Informal Firms and Financial Inclusion: Status and Determinants, February 2014 (ILC 2012)

7 IFC, Financial Inclusion Expert Group 'Scaling up S ME Access to Financial Services in the Developing World, October 2010

compared to only 6 percent in the formal sector (Pradhan et al 1999). In Latin American urban centres the working poor (Sethuraman, 1997) account for 66.2 percent in Bolivia, 66.4 percent in Brazil, 87.1 percent in Panama, 57.4 percent in Venezuela. Evidence from this research also shows that the incidence of extreme poverty is higher in the informal sector[8].

The informal economy contributes 40-50% of the GDP in the developing countries (Schneider et al. 2010)[9]. Furthermore, informal enterprises have low productivity levels since they operate at below optimal efficiency scale to avoid detection and tend to use less advanced production technologies (Dabl-Norris et al. 2007)[10]. The McKinsey Global Institute concluded that the informal economy accounts for 50% of the productivity gap between Portugal and Turkey and the United States (Farrel, 2004)[11]. Only a small proportion of the MSEs are tax compliant with less than 2% in Rwanda. Only 0.32% enterprises of the total businesses registered in Philippines are VAT registered, 1.23% in Mexico, 4.2% in Turkey and 1.02% in South Africa. Formalization of the informal enterprises would therefore allow governments to improve measurement of their GDP, increase tax collections, and enhance national productivity and economic growth.

Policy makers would be able to develop effective and targeted policy measures only if they are cognizant of the main causes of informality. Enterprises may opt to remain informal for different reasons which could include seasonal work, subsistence work, low growth opportunities, lack of information and costs of entry registrations, or lack of significant perceived benefits of formalization. However, the overarching decision-making factor for informal firms is the cost- benefit analysis of formalization. These costs include entry costs such as registration fees and financial implications of time and efforts required to complete the multi-layered registration process, and maintaining the formal status costs such as, taxes, social security payments and maintaining health and safety standards and books of accounts.

Effective policy measures would therefore not only address the barriers to entry a formal status but also develop suitable and sustainable incentives for enterprises that enable them to remain formal. The governments could perhaps intervene through intermediary institutions that are formal yet that engage with the informal sector, such as trade unions, business associations and financial institutions (particularly those focused on MSEs). The governments' formalization initiatives could leverage the much-needed resources provided by these formal intermediary institutions. One such resource that is one of the main obstacles affecting operations of the informal enterprises is access to financial services. However, enhancing formalization efforts through access to finance has its limitations since it would not address all the causes of informality and it would only have an impact on firms that require financial services.

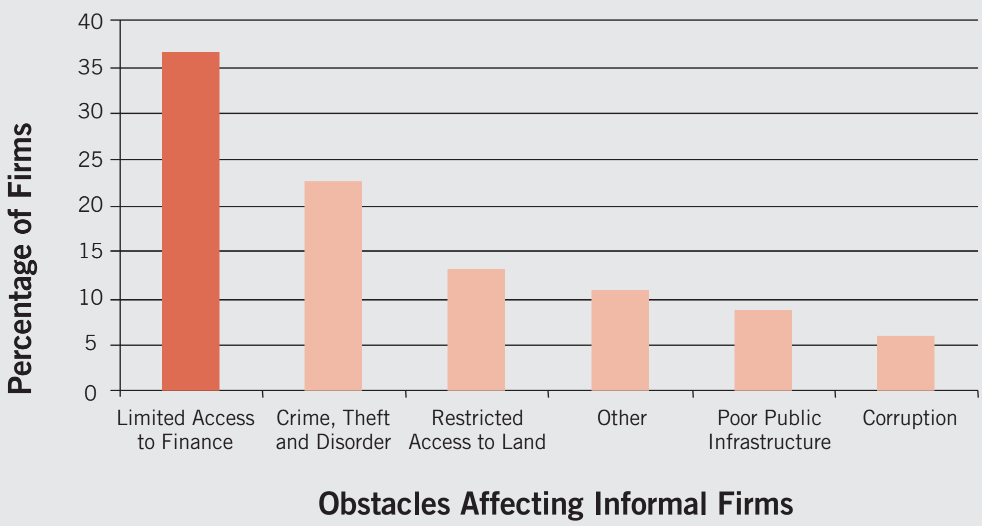
8 See also Mesa-Lago 1992
9 World Bank, Informal Firms and Financial Inclusion, Status and Determinants, February 2014
10 ibid.
11 Does it Pay Firms to Register for Taxes, The Impact of Formality on Firm Profitability, David McKenzie Yaye Seynabou Sakho, The World Bank, Policy Research Working Paper / Entry regulation and formalization of Microenterprises in Developing Countries, The World Bank, June 2013

4. The State of Access to Finance

Although the informal enterprises are heterogeneous in their characteristics, one area that most enterprises require is access to financial services. As provided in the graph below, lack of access to financial services remains the main obstacle of growth for micro and small enterprises. As stated in The World Bank's Informal Enterprise Survey only around 11% of the informal enterprises use loans and 23% have bank accounts. Among the surveyed firms 80% and 84% of the informal firms use internal funds, family and moneylenders for working capital finance and investment finance respectively. The large proportion of informal finance provides a significant opportunity for financial institutions and for policy makers to use formal financial service providers to incentivize informal enterprises to formalize.

Informal micro-small-medium enterprises (MSME) comprise 90% of the MSMEs or 285-345 million in number out of a total of 365-445 million MSMEs in the developing countries. Out of these informal MSMEs 70-78% have no access to credit and need credit, and 12-16% have access to credit but have financing constraints. Another study of IFC estimated that 55% of informal enterprises in developing countries either lack access to credit or do not have enough financing to grow their businesses[12].

Biggest Obstacles Affecting Operations of Informal Firms



12 IFC, Closing the Credit Gap for Formal and Informal Micro, Small, and Medium Enterprises, 2013

The Evangelical Social Action Forum (ESAF), through its Microfinance and Investments (P) Ltd (EMFIL) of India and Réseaux des Caisses Populaires du Burkina Faso, a regulated savings and credit cooperative operating in Burkina Faso since 1972 participated in the ILO's Microfinance for Decent Work (MF4DW) Action Research project from 2008-2012. As part of this experimental research, ESAF launched and tested business development services and awareness raising activities on the benefits of formalisation for their member entrepreneurs, using a target versus control group methodology. The purpose of this initiative was to explore if there was a positive impact of formalization on the economic and social performances of clients and their enterprises. On requests from its members, RCPB provided training on management of members' businesses, focusing on the formalization of the informal sector enterprises. RCPB chose to focus on formalization in a broader sense, i.e. by not only looking at whether the business had been registered, but also looking at the level of professionalization of the business management and the management of human resources (especially with respect to social protection of staff members).

5. Policy Options to Use Financial Services for Formalization of Informal Enterprises

Policy measures introduced by the governments should incentivize the financial institutions to develop profitable initiatives that enhance the level of formalization of their informal clients by offering a favorable benefits-to-cost ratio to them. Access to a broad range of financial services could be a significant incentive for the informal enterprises given the current low level of access. However, post entry into the formal system, the enterprises would incur additional costs such as maintenance of books of accounts, paperwork, and payment of social security benefits for the employer and employees and taxes. Therefore, to incentivize the newly formalized enterprises to remain formal (and not exit the formal system) it is essential that the enterprises – due to their formal status – have access to new market opportunities and additional resources to generate sufficient benefits that outweigh the additional costs related to formalization. The objective then is to develop policy measures that provide such sustainable incentives to the informal enterprises to formalize and remain formal.

Policy measures that use finance as a tool to drive formalization should have as its central elements the following:

- A common definition of formalization should be agreed between all government departments including the central bank, ministries of finance, labour, industries and telecommunications, and the enterprise registration authority. Formalization could be defined as registering and licensing the enterprise, maintaining books of accounts, opening and operating the enterprise, maintaining employer and employees' bank accounts, implementing employment contracts including the ratified ILO Conventions, accessing membership of a professional network or association, and registering the employer and employee/s for social security, pension and health insurance.
- The policies introduced by the governments should converge the interests of financial institutions, informal enterprises and the different government departments. The policy should lead to a profitable business proposition for the financial institutions, favorable benefit-cost ratio for the enterprise, and government subsidies in the short-term should result in economic profits for the country in the long run.
- A multifaceted and coordinated approach of the government departments related to financial institutions' regulation, ministries of labour, finance, industries, and revenue collection and enterprise registration authority is required.

The ILO and the University of Geneva commissioned a study to examine the practices of two MFIs in Egypt, ABA and DBACD. The objective of the study was to highlight the scope and limitations of using access to finance – and in particular to credit – as an incentive to obtain documents that confer a formal status to the client of a microfinance institution. The study investigates the links between the provision of credit and formalization. More specifically, it examines whether an MFI can provide sufficient incentives to induce formalization among its clients. The study also explores the business case for the MFIs that promote formalization among their clients.

- A clear and agreed distinction between the MSE clients and other clients within the credit portfolio of financial institutions should be made, based on the agreed common definition of formalization.
- The tax, enterprise registration and labour authorities may provide a simplified, efficient and low-cost system for MSEs. The MSE system of taxation and registration should minimize cost, time and efforts to remain formal, and avoid the risk of corruption.

6. Proposed Policy Options to Incentivize Financial Institutions to Drive Formalization of Informal Enterprises

The proposed policy options are based on the key causes of informality that would be addressed using access to finance, and the results obtained from different initiatives. These have been summarized in the table below:

Main Causes of Informality	Results from experiments, pilots and research findings	Proposed Policy Intervention *(see below)*
1. Lack of Information	USAID's MicroEnterprise Development Initiative (MEDI) was launched in 2003 in Armenia to support small business growth and development. One of the initiatives taken by MEDI was to create awareness and provide clarity on the process of registration for small businesses. This was implemented through a guide on *Entrepreneur's Roadmap: How to Register Your Business*[13]. The implementation of this initiative resulted in increase of business registrations by 9,500, a 52% increase over the previous year in a location outside the capital Yerevan. Increase of 80% in the share of informed clients while an impact of 40% was generated by RCPB's intervention on the clients' sufficiency of available information on enterprise registration[14]. There was a 70% increase in registrations of EMFIL's target clients after the clients were provided BDS, which included information on formalization and support to register their enterprises. RCPB's BDS generated 10% increase in informal registrations. According to the World Bank's Informal Enterprise Survey 29% of the small firms stated lack of information on registering requirements and procedure as the main reason for not registering their businesses while 59% of the small firms in the sample state that they would like to register. An experiment in Sri Lanka revealed that informal enterprise owners were unaware of the facts related to registration, such as actual costs and time to complete the registration process[15].	Policy Measure 1, 4.

13 Provides clarity on the uncertainty of the business registration process, including the length of time each process would take.

14 Evangelical Social Action Forum Microfinance and Investments (P) Ltd (EMFIL) in India and Réseaux des Caisses Populaires du Burkina Faso (RCPB) in Burkina Faso conducted pilots to test the impact of business development services (BDS) on the formalization of their clients. With support from ILO, EMFIL and RCPB provided a sample of their clients with training and information on the process of enterprise registration, maintaining books of accounts, marketing, and networking with industry associations and experts in tax and social security reporting formalities.

15 World Bank, Informal Firms and Financial Inclusion, February 2014

2.	High Costs of Formality	55% of RCPB's clients' did not consider formalization too expensive and 40% changed their attitude that formalization is too complicated after undertaking the process of formalization. The number of RCPB clients in the target group maintaining a specific cashbook to record expenses and earnings doubled to 60% after 12 months from 32% at the baseline. This impact was the result of BDS for calculation of costs, development of a billing system, establishment of separate books for cash and bank, receipts and expenses, and preparation of a cash flow plan. In RCPB's target group, the share of clients with business account increased to 77% after one year from 52% at baseline. EMFIL's BDS had a positive impact on the opening of bank accounts of target group clients increasing to 76% after 18 months from 58% at baseline. BDS to RCPB's target client group caused a significant and positive impact on taxes with 12% increase in share of BIC payments by RCPB's target clients. RCPB's BDS clients also increased registration with Caisse Nationale de Sécurité Sociale (CNSS).	Policy Measures 1, 2a, 2b, 3, 4 and 6
3.	Regulatory requirements for formalization	Columbian government reduced the number of days required for registering a firm from 55 to 9 days and lowered the registration fees by 30%. Results: Increase in registrations by 5%. Mexico reduced the number of days required to start a business from 30.1 to 1.4. Results: increase in number of registered business owners by 5%. Peru introduced a municipal licensing reform. Results: increase in number of registered firm from 1,758 to 8517 in one year with 75% that registered were previously informal[16].	Policy Measure 6. Please note that the policy measure 6 is combined with the policies incentivizing formalization through financial institutions.
4.	Lack of perceived benefits of formality	In an experiment in Sri Lanka as the cash paid out to informal enterprises was increased a larger proportion of firms opted to formalize.[17]	Policy Measures 7 and 8

16 World Bank, Entry Regulation and Formalization of Microenterprises in Developing Countries, June 2013
17 ibid.

Policy Measure 1: Lower Risk Weight and Loan Loss Provisioning for Formal Loans:

This policy measure will incentivize the financial institutions to provide formalization information and support to informal enterprises in the form of business development services. The financial institutions will be incentivized by a potential increase in their earnings from a given capital base and by a reduction of their loan loss expense. In addition, formalization as defined in the section above would provide the financial institutions with more accurate and reliable, and complete information of the enterprise cash flows. Given the high degree of subjectivity in assessing the loan repayment capacity of MSEs[18], the financial institutions using actual enterprise cash flow information will reduce the cost of credit appraisal and monitoring. This would improve the risk profile of the loans extended to the formal enterprises. From the perspective of the central banks, the improved risk profile of the formal enterprises would justify lower risk weight and loan loss provisioning. For the informal enterprises this policy measure provides detailed information on their incomes and expenses, and cash flows, allowing them to undertake a more accurate assessment of their enterprise operations.

18 UNCTAD's report on 'Improving the Competitiveness of SMEs in Developing Countries – The Role of Finance to Enhance Enterprise Development', New York and Geneva 2001 identifies *the banks' inability to evaluate risk because of the lack of reliable financial information as part of the reluctance of banks to lend to SMEs.*

The importance of linking BDS and financial services was emphasized by UNCTAD's Commission on Enterprise, Business Facilitation and Development's Expert Meeting on Sustainable Financial and Non-Financial Services for SME Development: *Acknowledging that the provision of financial services must be closely linked to the delivery of business development services that can improve both the viability of SMEs and their ability to repay loans, as well as reduce the transaction costs of providing such loans;*

Policy 2 a) – Financial Inclusion Policy Measure:

Financial institutions should disburse all loans into the bank accounts of the MSE borrowers. For financial institutions disbursing the loan amount into the borrower's bank account will be a more secure way of transacting rather than disbursing the loan amount in cash. Financial institutions could also increase their float earnings from the cash balances in the enterprises' bank accounts. The enterprise loan appraisal and monitoring conducted by the financial institutions will be based on actual cash turnover of the enterprise, resulting in more accurate assessment of the enterprises' repayment capacity and loan structuring. This will result in an improved risk profile of the formal enterprises' loan portfolio. For informal enterprises this would allow access to bank accounts, which could be used for financial transactions, better financial management, and saving for future investment.

Policy Measure 2 b) – Employee Financial Inclusion:

Financial institutions lending to MSEs should obtain information of the employees and open their personal bank accounts. Employees' salaries and wages should be paid into their bank accounts.

Financial institutions could cross-sell financial services to the employees and employers of the enterprises by offering savings, personal finance, health insurance and pension products. This will facilitate the central banks' supervision of financial institutions' compliance with the definition of MSEs based on the number of employees. Employees of informal enterprises will have access to financial services based on their wages / salaries reducing the financial strain on the employer to lend to the employees for their financial needs. The informal enterprises would not be required to hold and transport cash for payment of employees' salaries and wages.

Policy Measure 3 – Borrower Eligibility Criteria for Loans:

Financial institutions should use the cash flow turnover of the enterprises' bank account and the enterprises' monthly statement of accounts on a standardized format (provided by the central bank) for credit appraisal and monitoring of the enterprises.

For governments, the routing of the enterprises' cash flows through the formal financial system will provide accurate information on the level of economic activities and it may provide complete information for tax assessment. For financial institutions, the policy measure will provide accurate information and lower the cost of appraisal and monitoring of loans to MSEs. For the informal enterprises, it will enable them to maintain accurate and complete books of accounts and to separate personal and enterprise cash flows.

Policy Measure 4 – Access to Information and Support for Formalization:

Financial institutions may provide their informal borrowers with business development services (BDS) to assist MSE clients to formalize. BDS will include training and support in the form of simple formats to maintain books of accounts, information on formalization from the enterprise registration authority, assistance in completing the documentation required for formalization, and coordinating with the enterprise registration authority on behalf of the informal MSEs. The financial institutions could provide the BDS either by building in-house capacity or out-sourcing to a qualified external institution using an established BDS programme[19].

19 One such BDS programme is EMPRETEC, which is a United Nations programme established by UNCTAD's Division of Investment and Enterprise to promote the creation of sustainable small and medium sized enterprises (SMEs). Empretec works to support entrepreneurs to build innovative and internationally competitive SMEs. Empretec inspires entrepreneurs in developing countries and countries with economies in transition to start, grow and develop their businesses. The main beneficiaries are aspiring entrepreneurs, women entrepreneurs, small businesses, young people and employees of large public or private firms. The Empretec programme has been implemented through its national centres, which are currently in operation in 34 countries. Since its formation in 1988, Empretec has successfully trained over 300,000 people – helping to found or expand businesses, and creating thousands of jobs in the process.

Policy-makers will use the financial institutions as intermediaries for providing a one-stop shop solution for information and support to the informal MSEs to formalize. Financial institutions will benefit from the incentive provided in the Policy Measure 1 by supporting formalization of their informal MSE clients. By providing access to information on formalization, this policy measure endeavours to address lack of information which is one of the causes of informality. Once institutional BDS capacity is established in the market, the financial institutions or external BDS institutions could offer these services to non-borrower informal enterprises.

Policy Measure 5 – Government Financial Support for BDS:

Government departments such as Ministries of Labour, Finance and Industries may provide a certain amount of subsidy to the financial institutions that formalize their informal clients by providing BDS.

For the governments this subsidy will be an investment that would provide returns in the form of increased tax collection, accurate GDP reporting, increased productivity, reduced vulnerability of their poor populations and improved political stability. The financial institutions will use the subsidy to partially recover their cost of providing BDS to their clients. The remaining cost could be recovered from affordable levels of fees charged to the clients, and through a lower loan loss expense and cost of credit appraisal and monitoring (as mentioned above in the *Lower Risk Weight and Loan Loss Provisioning for Formal Loans* policy measure). For the informal enterprises the government subsidy would make BDS available at a price level that would be affordable for them.

Policy Measure 6 – Simplified Employer, Employee and Enterprise Registration and Taxation Procedures:

Enterprise registration authority should provide simplified registration and taxation procedures for MSEs, and the Ministry of Labour should provide a simple format for MSE employer-employee contracts that incorporate the ILO Conventions ratified by the governments. The simplified processes and formats developed by the Enterprise Registration authority and Ministry of Labour should be provided to the central bank for dissemination to the financial institutions to use in their BDS initiative for formalization of the informal MSEs. As part of this package, the enterprise registration authority should outline the selection criteria to be used by financial institutions to outsource the BDS function to external institutions.

This policy measure would make it simpler and less costly for the informal enterprises to formalize. The package will reduce the taxation levels for formal MSEs thereby lowering the cost for the newly formalized enterprises to remain formal. This policy measure will allow the financial institutions to provide a convincing proposition for formalization to their informal enterprises.

The effectiveness of any one of the above policy measures is dependent on the successful implementation of each one of the measures. Therefore, it is proposed that the above policy measures are implemented as a single policy package.

Policy Measure 7 – Formalization of Branchless Banking Agents:

Financial institutions and tele-communication companies should recruit only formal enterprises as branchless banking agents, including the franchisees of super agents.

Governments will leverage on the traction of branchless banking by making the financial institutions and telecommunications companies appoint only formal enterprises as their agents. This will be one of the incentives for newly formalized enterprises to maintain their formal status by making the newly formalized enterprises eligible for a new business opportunity. Once recruited as branchless banking agents, the newly formalized enterprises' barrier to exit from the formal status will be much higher.

Policy Measure 8 – Facilitation in Accessing New Markets:

The enterprise registration agency of the government, the central bank, and the ministries of labour and industries may jointly set up a common electronic portal hosting the names, business addresses and activities, and economic sectors of the formal MSEs. Financial institutions may facilitate access for their formal MSE clients to this portal.

The informal enterprises will have an incentive to access new formal markets to develop business relationships. The enhanced visibility will be available until they remain formal adding to the benefits of formalization. Financial institutions serving the formal MSEs would perhaps have the opportunity to provide additional financing to MSEs that are successful in tapping into markets for new products and services with companies and/or governments. The portal should be accessible to all government departments, companies and telecommunications operators as a potential database to identify new service providers / suppliers, value chain partners and branchless banking agents respectively.

7. Conclusion

The proposed policy options will have to be adopted according to the specific contexts of each country. Integral to the success of the proposed policy measures is effective coordination between the various government departments. A joint strategy and implementation plan will have to be developed by the governments to ensure that the effectiveness of the policy measures is not compromised.

Governments would perhaps require an assessment of the financial impact of the policy measures on the financial institutions and the cost of BDS delivery that would vary depending on each country context. Governments interested in reducing the level of informal enterprises in their economies will have to develop special arrangements for formal MSEs to participate in government tenders to enhance the attractiveness of formalization.

Furthermore, to enhance the effectiveness of financial institutions in driving formalization, the governments will have to make available the required financial infrastructure to support financial institutions in lending to MSEs. The key elements of the required financial infrastructure for MSE lending are Secured Transactions Systems, Collateral Registry and Credit Information Bureau.

However, as mentioned earlier, access to finance is only one tool to address the causes of informality. Formalization initiatives of the financial institutions would have to be coupled with other policy measures and stricter enforcement tools to reduce the barriers for informal enterprises to formalize and remain formal.

End notes

This thematic policy brief was prepared as part of a policy brief package on enterprise formalization which includes a series of regional and thematic briefs and was prepared by Inshan Ali Nawaz Kanji. The findings of this and other similar policy briefs are synthesized in an Introductory Brief, which presents key findings in an easy to digest summary of the main issues and approaches.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