

What Have We Learned?

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The Issues

- Information and communication:
 - firms might not be aware of benefits (or costs) of formalizing, also lack specialist knowledge (e.g. mining)
 - governments might not be aware of informal firms' concerns, or of scale/nature of informal activity
- Trust and reciprocity:
 - firms hide because they are afraid of being extorted by officials (service providers), or made targets for theft (mining)
 - informal operators don't feel they have an interest in participating in social institutions
- Need to persuade people that government can work – show results and build confidence

Understand Incentives and Share Information

- Understand incentives - differ from sector to sector:
 - Legal security (small scale providers), financial services (miners) – can be simple (licenses for power suppliers)
 - Physical security, access to amenities etc (miners and traders)
- Share information:
 - Coordinate across government agencies (Social Security, Planning etc.)
 - Outreach to informal operators – local infrastructure funds; role of ICT in transmitting market information, websites

Work through intermediaries

- Find 'amphibians': people with one foot in informal sector:
 - Large firms: via sub-contracting - international or regional markets (standards differ)
 - Business and other associations: provide BDS, package information for lenders, know standards (service providers)
 - Ex-formal businesses in post-conflict environments: have 'memory'
 - Individuals: recruit people with informal economy experience to revenue services

Caveats

- Better to work with existing private sector actors, but:
 - Many business associations organized horizontally, not vertically
 - Many business associations dominated by donors or large firms – no independent agenda
 - Large firms generate enclaves – need formal commitment to work with suppliers
 - Also need to maintain competitiveness/standards at each segment of value chain (reputational risk)

Things to Remember...

- Formalization is not painless:
 - formal systems involve bankruptcies: when the state doesn't have much to offer, it can't ask for much
 - don't over-emphasize tax: concentrate on building relationship ('getting to know each other')
- But it's worth it in the long run:
 - emphasize carrots early on, especially in post-conflict environments
 - but don't get stuck in informality traps: manage transition and keep an eye on the longer term
- Formality is a public good

Where Do We Go From Here?

(Nigel Twose)

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