

Decision Support Unit (DSU)

Short-term research support: Lessons from the implementation of the *Entreprenant* in OHADA countries

Laura Watson

Disclaimer

This report has been prepared by the e-Pact consortium for the named client, for services specified in the Terms of Reference and contract of engagement. The information contained in this report shall not be disclosed to any other party, or used or disclosed in whole or in part without agreement from the e-Pact consortium. For reports that are formally put into the public domain, any use of the information in this report should include a citation that acknowledges the e-Pact consortium as the author of the report.

This confidentiality clause applies to all pages and information included in this report.

This material has been funded by UK aid from the UK government; however, the views expressed do not necessarily reflect the UK government's official policies.

About the Decision Support Unit (DSU)

The DSU is a UK Department for International Development (DFID)-financed project implemented by Oxford Policy Management (OPM) in the Democratic Republic of Congo (DRC). It is designed as a support function to DFID's overall management of its Private Sector Development (PSD) programme. The DSU provides evidence and analysis aimed ultimately at improving the programme's overall impact of increasing incomes for the poor in the DRC. In addition, the DSU provides an external learning role targeting improved implementation practices of the broader development community working in the field of economic development.

As part of a broader assessment of the context in which the PSD programme operates in DRC, the annual *problematique* review, the DSU is mandated to provide short-term research support as one of its deliverables. The aim of the research activity is to support the PSD programme by conducting research on issues requiring more detailed investigation as identified through other workstreams, or requested by DFID DRC or the PSD programme component projects (currently ÉLAN, Essor, and the DSU), and agreed with DFID.

This study was developed by Laura Watson (DSU Business Environment Reform Expert), based on an initial research scan carried out in collaboration with Joseph Holden (Foresight Associates) and reviewed by Hamish Colquhoun (DSU team leader), Marcus Jenal (Making Markets Work for the Poor Expert), and Alistair Grattidge (DSU Assistant Project Manager).

Table of contents

List of abbreviations	iii
1 Context, objectives, and methodology	1
1.1 Context	1
1.2 Objectives	1
1.3 Definitions	2
1.4 Methodology	2
2 Findings	3
2.1 Findings: Research question 1	3
2.2 Findings: Research question 2	5
2.3 Findings: Research question 3	7
3 Conclusions	10
Bibliography	12
Annex A Further studies on informality	14
Annex B List of interviewees: World Bank Group	22
Annex C Terms of Reference	23

List of abbreviations

CGA	<i>Centre de Gestion Agréé</i>
DFID	Department for International Development
DRC	Democratic Republic of Congo
DSU	Decision Support Unit
GUCE	One Stop Shop for Enterprise Formalisation
IC	Investment Climate
IEG	Independent Evaluation Group
RCCM	Trade and Personal Property Credit Registry
IFC	International Finance Corporation, World Bank Group
OHADA	Organization for the Harmonization of Business Law in Africa
OPM	Oxford Policy Management
OSS	One Stop Shop
PwC	PriceWaterhouseCoopers
PSD	Private Sector Development
TPU	<i>Tax Professionnelle Unique</i>

1 Context, objectives, and methodology

1.1 Context

DFID has commissioned DSU to undertake this study to support the design and implementation of a new intervention with *Entrepreneurs* in Essor, which aims to migrate businesses in the informal sector to the formal sector through a set of incentives including microfinance, health protection, a new simplified tax rate, and identification. The new intervention will seek to promote formalisation of *Entrepreneurs* via the *Déclaration* in a pilot based in Kinshasa. The pilot will initially focus on Kinshasa's '*mamans malewa*'—street-side restaurants mostly run by women.

This Rapid Research study identifies operational lessons from the implementation of the *Entrepreneur* (as a specific category of business) in different countries that are members of the Organization for the Harmonization of Business Law in Africa (OHADA), a francophone corporate law harmonisation initiative adopted by 17 West and Central African nations. OHADA was created with the objective of fostering economic development by creating a better business climate. OHADA devises innovative, ambitious initiatives for francophone Africa, supplying uniform legal and regulatory frameworks encompassing accounting standards, arbitration, commercial law, collaterals, company law, and insolvency law.

A revised General Commercial Law, immediately applicable to all OHADA members, introduced the *Entrepreneur* status in 2011, a simplified legal regime specifically designed for small entrepreneurs, with the intended objective of facilitating the migration of businesses operating in the informal sector into the formal sector. However, the law did not make explicit how the *Entrepreneur* status practically functioned, nor did it explain the specific combination of incentives it would include, instead allowing each country to fill the vacuum through *ad hoc* secondary legislation and institutional changes. Regarding DRC business activities, 90% are estimated to take place in the informal sector, and most of the business are assumed to fall into this category. A high level of informality is often considered costly for governments (who lose out on tax revenues and information on the firm sector), formal firms (who may suffer from unfair competition), and the informal firms themselves (who may not be able to access bank financing, public contracts, or government programmes, and may face corruption or intimidation from tax inspectors, resulting in low productivity) (World Bank Group, 2016).

Essor is an up-to-£35 million, five-year business environment reform project launched in May 2015 and managed by PriceWaterhouseCoopers (PwC). It is a significant component of DFID DRC's £100 million PSD programme, which also includes ÉLAN RDC, a market development project, and the DSU. One of the major components of the Essor project is a business environment reform intervention designed around assisting the DRC government to implement OHADA.

1.2 Objectives

The purpose of the study is to identify operational lessons from the implementation of the *Entrepreneur* in similar contexts, for the purpose of informing decisions about the adoption and design of an *Entrepreneur* intervention under the Essor programme in DRC.

The research study will look for shared operational lessons from different OHADA countries that have implemented the *Entrepreneur* intervention, answering the following research questions.

- What factors influenced the success (or otherwise) of the roll-out of the *Entreprenant* intervention in OHADA countries, particularly Benin, Senegal, and Côte D'Ivoire? What challenges or practical barriers to registration have inhibited success?
- Looking more broadly at formalisation, what methods have been successful at encouraging informal traders to formalise, particularly marginalised groups?
- What methods have been used to assess the impact of formalisation efforts?

A detailed Terms of Reference is appended as Annex C.

1.3 Definitions

Informal entrepreneurs are defined as those starting a business or who are the owner/manager of a business engaged in monetary transactions not declared to the state for tax, benefit, and/or labour law purposes when they should be declared, but which are otherwise legal transactions (Williams/OECD, 2014).

A firm can also be partially formal or partially informal, for example possessing a licence but not complying with social insurance rules (Galal, 2005). A firm can also be considered informal when it trades outside government monitoring mechanisms (Zohir and Choudhury, 2012).

Informality is considered undesirable for three reasons. First, informal status perpetuates a low-productivity trap (Galal, 2005). Formal status will likely improve access to financing, facilitate investment, and promote higher productivity and business growth. Informal firms build up low-cost supply chains which are hard to break. Second, the informal economy is viewed as an unfair burden to the formal sector. It is unfair competition because the informal sector evades taxes and regulations— keeping costs low and undermining the ability of the formal sector firms to survive. Third, the informal sector lowers the tax base for business (Independent Evaluation Group (IEG), 2012).

1.4 Methodology

The study is based on experiences found through a scan of the available literature and interviews with practitioners, listed in Annex B.

A literature search found that there has been little evidence of *Entreprenant* success in OHADA countries to date. A detailed study was undertaken into the *Entreprenant* pilot in Benin, and a broader OHADA wide evaluation was completed across OHADA countries. There are thus limited experiences of success from which to learn. While the literature is useful in detailing lessons regarding what has not worked and why, it is deficient in outlining what could lead to success.

By looking at a broader geographical palate (in Latin America, Asia, and Anglophone Africa), it is nevertheless possible to distil some examples of 'best practice' that might be relevant for DRC.

2 Findings

2.1 Findings: Research question 1

Research question: What factors influenced the success (or otherwise) of the roll-out of the Entrepreneur intervention in OHADA countries, particularly Benin, Senegal, and Côte d'Ivoire? What challenges or practical barriers to registration have inhibited success?

Summary findings

The roll-out of the *Entrepreneur* has been slow as it is outside the core competence of OHADA, which is concerned with the implementation of business law. It requires a set of different skills and competencies to design a package of incentives to encourage traders to register requiring collaboration between tax authorities, social security funds, and possibly banks. There is little evidence that it is useful in the OHADA context. The only example of modest success (Benin) showed that the cost of the intervention still far outweighed the benefits.

Detailed findings

The World Bank Group OHADA Impact Evaluation (2018) reports that implementation of the *Entrepreneur* has been slow. Mali was the first country to introduce the status in 2011, followed by Cameroon, which adopted relevant legislation in 2012 and 2015. Neither country, however, adopted a full package of fiscal and social incentives targeting *Entrepreneurs*. Benin introduced the status in 2015 (piloted from 2013). In 2017, Côte d'Ivoire adopted provisions for establishing the regime's legal existence. Chad, DRC, and Niger currently plan to implement *Entrepreneur* regimes. By April 2017, out of the nine countries visited for the report, seven had no registrations and DRC had just a small number (12). Only Benin had made significant progress registering 341 *Entrepreneurs* (2016), rising to 4,000 in December 2017.

There are a number of reasons why implementation of the reform has been slow.

- The World Bank Group evaluation concludes that this reform requires skills/experience that are outside OHADA's core competence of business law.
- Successful implementation of the *Entrepreneur* status requires the support and skills of different ministries to develop the package of incentives and initiatives required to encourage the *Entrepreneur* to register, e.g. tax (Finance Ministry); social security; commercial law and registration (Ministry of Justice); or support to micro-, small-, and medium-sized enterprises (Ministry of Industry). Interministerial coordination can add another layer of complexity to the reform. In Senegal, there was conflict between the Ministries of Justice and Industry regarding who should drive the pilot, and this slowed down implementation.¹
- The initiative is based on the French experience with the *Entrepreneur* status. In France, this status enabled the *Entrepreneur* to access social security benefits as a powerful incentive for formalisation not available in OHADA countries (World Bank Group OHADA Impact Evaluation, 2018). Benin explored linking with private insurance companies to provide insurance (Life and Fire), but in the end they could not implement this enhancement because of lack of time—the

¹ Feedback from expert interviews.

team leader for the World Bank Group-supported *Entreprenant* pilot felt this would have enhanced its success.²

- The status overlapped with other formalisation initiatives. For example, Cameroon and Côte d'Ivoire already have existing legal forms for micro-enterprises, i.e. the *établissement* (Cameroon) and *entreprise individuelle* (Côte d'Ivoire). In Niger, which has the largest informal sector of the three case study countries, the *Entreprenant* regulation has not resulted in increased registrations. This was because the additional improvements in business registration costs offered by *Entreprenant* status were marginal, as a result of the Nigerien government's considerable streamlining of the business registration process (three working days for registration; dedicated free advice by One Stop Shop (OSS) staff; and reduction of registration costs). Financial incentives are already provided to all businesses (Benhassine *et al.*, 2016).

Only Benin has made an effort to develop a package of incentives to support the implementation of the *Entreprenant*, and they have achieved notable registration numbers, rising from 341 in 2016 to 4,000 in 2017 (see the Benin write-up in Annex A).³ Success factors include:

- developing a package of incentives, including cheaper bank accounts, tax mediation, training, and information, using a team with skills in investment climate (IC), tax, social security, and communication to develop the pilot; and
- an effective system for recruiting *Entreprenants*.⁴ They addressed two major obstacles to formalisation: harassment and uncertainty in tax payment, reducing the tax from six regimes to one and linking the entrepreneur with a mentoring/training agency who trained the *Entreprenant*. The agency physically recruited them from their marketplace and mediated between the *Entreprenant* and government if they were approached for additional taxes. In fact, the study showed 9.6 percentage points more registrations when the *Entreprenant* was visited in person and the benefits were explained.

The Benin study (World Bank Group, 2016) also explored the impact of formalisation on the firms, finding that formalising leads to increased participation in business training, more formal accounting, lower tax harassment, and less taxes paid (due to a tax exemption in the year after formalising).

On the other hand, the Benin study found that formalisation did not lead to a significant impact on business growth, indicating formal firms are not significantly more likely to obtain business bank accounts or loan financing, do not gain more customers, and have no significant gains in sales, profits, or standard of living.

While the benefits of formalising are thus modest, the cost of the intervention was not. The study calculated an average cost of US \$1,200–US \$2,200⁵ per firm formalised without targeting, and at least US \$600 per firm formalised even if targeting was used.⁶ This cost is large relative to the average US \$79 monthly profits of these firms and the tax collection the government can expect to receive from such firms (Benhassine *et al.*, 2016, which is described in more detail in Annex A). In

² Feedback from expert interviews.

³ The *Entreprenant* regime was introduced in law in Benin through the OHADA-wide general commercial law. The government removed the costs of formalisation and introduced an *Entreprenant* card through an interministerial decree (Benhassine *et al.*, 2015). The Beninese parliament adopted a simplified tax regime for micro-entrepreneurs in December 2014 through the adoption of a new MSE tax regime (Pouliquen World Bank Group, 2014).

⁵ Depending on the incentive package used.

⁶ The Benin Evaluation bases this average cost on the cost to register the status through the OSS (US \$84,000) and the follow up interventions including visits and training (US \$537,000) (Benhassine *et al.*, 2016).

short, the cost–benefit analysis of the one OHADA country that has been successful is seriously deficient in terms of clear benefits.

Sustainability is also a factor. It was hard to demonstrate to government the need to continue to fund the *Entreprenant* without evidence of success or future return from tax revenues. Without investment in training and incentives, the status cannot be successful and is unlikely to be further developed or sustained.⁷

2.2 Findings: Research question 2

Research question: Looking more broadly at formalisation, what methods have been successful at encouraging informal traders to formalise, particularly marginalised groups?

Summary findings

The evidence shows that reducing time and costs of business registration can encourage firms to formalise, either at start-up, or if the firms are slightly larger and have more to gain from formalisation. There is also evidence that decoupling registration from tax registration will increase registration, but all these studies relate to firms that are more significant than street traders or micro-enterprises. Smaller firms are more impacted by financial incentives and protection from tax harassment. Providing information and training can also improve outcomes across all groups but is not normally by itself impactful. Increasing inspections also has an impact on registrations.

Detailed findings

Considering the issue of formalisation more broadly, many studies indicate that significant improvements to business registration processes (50%–60% improvement in time/cost of compliance) can lead to increased business registration (Klapper and Love, 2010; Bruhn, 2011). Kaplan, Piedra, and Seira (2011) use administrative data and find that the same reform (also analysed by Bruhn, 2011) increased the number of new firm registrations with the Mexican Social Security Institute by 5%. The Colombian government implemented an OSS that reduced the time required to register a business from 55 to less than nine days and lowered registration fees by 30%. Cardenas and Roza (2007) use administrative data from Chambers of Commerce in six major cities to show that the reform led to a 5% increase in business registrations. However, the evidence is not clear: Bruhn and McKenzie (2013a) compare the impact of registration on the roll-out of OSS in remote areas of Brazil. They find this programme actually led to a reduction in the number of firms registering during the first two months of implementation, which they speculate was due to officials learning to use the new system, with no subsequent positive impact on registration. An extensive series of evaluations of a municipal licence reform programme in Peru (IEG, 2012) targeting micro-enterprises found that, while registration numbers increased significantly after the first year, their numbers were much more modest thereafter (rising from 1,711 in the year following the reform before settling down to 1,978) despite a significant reduction in the time and cost to register.

Evidence suggests that formalisation efforts influence firms' decisions at start up rather than to encourage informal firms to formalise (La Porta and Shleifer, 2008). This finding is supported by Bruhn (2011), who reviewed the effect of business registration reform in Mexico in 2002—there was a reduction in the number of days needed to start a business from 30.1 to 1.4. Bruhn shows

⁷ Feedback from expert interviews.

that the increase of registrations of 5% came mainly from wage earners establishing a business rather than existing firms formalising.

Formalisation efforts are more successful when associated initiatives provide tax benefits and information dissemination on formalisation, combined with business registration improvements (Campos *et al.*, 2015; Alcázar *et al.*, 2010). By itself, information dissemination on the benefits of formalisation does not have a positive impact (de Mel *et al.*, 2012; Andrade *et al.*, 2013; Bruhn, 2013).

Formalisation efforts seem to be more successful when they are not linked to the taxation system. Campos *et al.* (2015) provide results from an experiment in Malawi that randomly allocated 3,600 larger firms⁸ into a control group and three treatment groups: the first group was offered assistance for costless business registration; the second group was offered assistance with costless business registration and (separate) optional tax registration; and the third group was offered assistance for costless business registration along with an information session at a bank that ended with the offer of opening business bank accounts. The study finds that all three treatments had extremely large impacts on business registration: 75% of Group A, 69% of Group B, and 86% of Group C received a business registration certificate. In contrast, only 4% of those who were also offered tax registration assistance obtained a Tax Payer Identification Number (see also Alzácar *et al.*, 2010).

Financial incentives have been found to have a somewhat positive impact on registration, particularly on smaller firms. For example, in Peru, Alcázar *et al.* (2010) found that, when an incentive of between 27% and 35% of the cost of a municipal licence was offered to 300 informal firms to formalise, 10%–12% of them were induced to obtain a municipal licence. A study in Sri Lanka (de Mel, 2012) also reviewed the impact of providing financial incentives on formalisation. A sample of 520 informal firms was divided into a control group and four treatment groups. Treatment Group A was given information on the benefits of formalisation and reimbursement of registration fees. In addition to what was offered to Group A, three other treatment groups were offered financial incentives of 10,000, 20,000, and 40,000 Sri Lankan rupees (where 40,000 equated to one month's profit of the median firm). For Group A, there was no impact on registration; the results for Groups B and C were roughly the same (De Mel gives a range of 17%–22%), and for Group C the figures rose to 48%. De Mel concludes that there were other legal issues that impacted on most of the 52% in Group C who did not register (lack of a land title paper) (see also study from S IEG, 2013).

A randomised experiment by Andrade *et al.* (2013) shows that more enforcement by inspectors can induce some informal firms to formalise. They randomly allocated 577 firms to receive inspection visits from municipal inspectors. Their results point both to the difficulties in inspecting informal firms (the inspectors were unable to locate some of these firms or talk to their owners) and to the potential impact on formalisation: the authors estimate that between 22% and 27% of firms that received an inspection as part of the intervention subsequently registered with the municipality.

However, there is little evidence that formalisation has a positive impact (measured by profit and job creation) on most firms that formalise (de Mel *et al.*, 2013). Formalisation benefits firms that are similar to formal firms in terms of their size and market, but not micro-firms: a series of evaluations of an extensive business licensing reform programme in Peru targeting micro-enterprises found no evidence that formalisation increased either employment or wages for the period. While profits did increase, this was because of significant impacts for a very small number of larger firms, which skewed the results (World Bank Group IEG, 2012). Firms which are informal due to an absence of

⁸ The criteria for the firms was as follows: (i) had at least one worker outside of family and owners; (ii) were operating in a fixed location; and (iii) were at the 25th percentile of revenues or above.

other economic opportunities (survivalists) are less likely to respond to efforts to formalise (Bruhn, 2013).

The design of formalisation reforms must be therefore tailored to the local context (the definition and characteristics of the informal sector, and why firms are informal). Are survivalists less likely to benefit from formalisation (indicating efforts to include productivity, or growth)? Are 'opportunity entrepreneurs' informal because of high costs (indicating policies related to regulatory streamlining or tax incentives)? Or are they firms who lack understanding of the benefits of formalisation (information/advice)?

2.3 Findings: Research question 3

What methods have been used to assess the impact of formalisation efforts?

There are two main targets to assess the impact of formalisation efforts:

1. assessment of impact on business registration; and,
2. assessment of impact on firm welfare.

Annex A includes a table by Bruhn and McKenzie (2014) summarising a range of formalisation studies and their methodologies.

Both areas were the subject of a World Bank Group IEG Study (World Bank Group, 2012), which used eight surveys conducted in Peru over a period of more than five years to determine the impact of a business licensing reform programme in a municipality. Before the reform, 64% of businesses were estimated to be without a municipal licence, and most of these were micro-enterprises. The first survey, conducted in 2007, reviewed and assessed whether an International Finance Corporation (IFC) licensing reform project in Peru had led to reduced time and cost to register and increased number of licences and found it did. The second study (carried out from 2008 to 2011) used an experimental methodology with treatment and control groups to assess whether they had led to improvement in firm outcomes, and found they did not. A third set of enterprise surveys was conducted by IEG and the findings were used to reconfirm whether the reform had led to improved business outcomes (May 2008, Nov 2008, Nov 2009, Nov 2010). A fifth round (2012) of the survey was carried out to confirm the results.

Assessment of impact on business registration

Assessments of impact on business registration generally take two approaches: impact on firm registration (using country wide or municipal data), and impact on the formalisation of a sample of informal firms.

Impact on firm registration (using country wide or municipal data)

Klapper and Love (2010) used panel data to study how the ease of registering a business and the magnitude of registration reforms affect new firm registrations. They used a measure called entry density (calculated as the ratio of newly registered limited liability firms per 1,000 working age population, i.e. aged 15–64) compared to performance on the sub-indicators in the Starting a Business indicator in the World Bank Doing Business report (calculating impact on costs, time, procedures and pain in capital required to start a business). They use a regression model

(controlled for other IC reforms) to review the impact of starting a business reforms on numbers of businesses registering.

Bruhn and McKenzie (2013a) described a difference-in-difference method to examine the roll-out of OSS to remote districts, comparing business registration in target districts with the control.

Impact on formalisation of a sample of informal firms

Andrade et al. (2013) used a difference-in-difference method to compare the impact of different formalisation methods on registration of informal business in a Brazilian municipality. In early 2012, they conducted a survey of 10,000 business using a census method, and the results were cross-checked against the municipality business register, identifying a sample of 7,852 potentially informal firms. These firms were then randomised into five different groups:

1. *control firms*: 201 census blocks containing 2,810 firms received no intervention;
2. *communication treatment*: 331 firms were given information about how to register and a helpline to call;
3. *free cost and accountant treatment*: 328 firms were given information about how to register, had approximately US \$200 in registration fees waived, and were offered one year of free (mandatory) accounting services;
4. *inspection treatment*: 577 firms were assigned to receive a visit from a municipal inspector, who would check proof of a municipal licence, and follow up if one did not exist; and
5. *indirect inspector treatment*: 593 firms in the same census blocks as the inspection treatment firms were used to test whether having a neighbouring firm inspected had a spill-over impact.

A follow-up survey was undertaken in 2012 targeting firms with fixed premises rather than the very small traders without work premises (e.g. street traders), reaching 56% of the target group. Cross-checking of the sample after the reforms allowed the study to compare the impact of different formalisation methods on registration rates.

Assessment of impact on welfare (firm, consumer, and economy)

The Benin study (Benhassine *et al.*, 2016), the IEG review of reform efforts in Peru (World Bank Group IEG, 2013), and the Del Mel (2012) study of formalisation efforts in Sri Lanka all looked at the impact of formalisation on a sample of firms (see the discussion of the methodology of De Mel study and the Peru study in the previous section). The Benin study uses a sample of informal firms to explore the impact of different packages of support to formalisation on the *Entrepreneur* registration; this was written up in the study. The tools from this study are available on the World Bank Group database.⁹

A study of formalisation (Galal, 2005) in Egypt used assumed estimates of the welfare gains from formalisation. The methodology used a partial equilibrium model previously applied to evaluate the welfare impact of privatisation (Galal *et al.*, 1994) through the following set of summarised steps (more detail can be found in the study report).

⁹ <http://microdata.worldbank.org/index.php/catalog/2793>.

- Step 1: estimate the value of the typical firm in the informal sector under the assumption that it will continue to operate outside the law based on in-depth interviews with 100 companies.
- Step 2: estimate another value of the typical firm, under the assumption that it will be formalised into the current legal and regulatory framework. The study explains why the firm is currently operating informally by comparing the value of the firm under continued informality and the value of the firm under formalisation in the context of the current regulatory regime.
- Step 3: estimate a third value of the typical firm, under the assumption that it will be formalised into a reformed regulatory environment, assuming reduction in compliance costs, growth at projected GDP growth rate, 1% productivity increase, static sales revenues, and an increase in wages by 26%.
- Step 4: aggregation of the results across all firms: all values expressed in relation to GDP (adjusted by the value-added of formalised firms).
- Step 5: conduct a sensitivity analysis.

3 Conclusions

Formalisation is a complex issue with apparently contradictory evidence of success or otherwise.

A key factor in the results seems to be the size of the business, with formalisation efforts working better (both in terms of impact on registration numbers and the impact on the welfare of the firm) for an informal business that closely resembles a formal firm. Some of the most positive studies (for example Klapper and Love's review of the relationship between Doing Business reform and registration numbers) reflect the impact of registration improvements on registration of limited companies, which are by their nature relatively large. Other studies, using difference-in-difference-methods to review the impact of formalisation on a broader range of firms (including small micro-firms), show limited success (Bruhn, 2013a; Mullainathan and Schnabl, 2010).

Where some success has occurred in interventions targeting small traders, it is because the interventions have increased the benefits and reduced the risks/costs, for example by providing financial incentives, increasing certainty on tax payments, reducing the likelihood of harassment, or providing access to social security or other insurance benefits (Alcázar *et al.*, 2010; De Mel, 2012; Benhassine *et al.*, 2016).

The findings show that the success of formalisation programmes is unsurprisingly determined by whether or not programmes target the specific reasons for firms staying informal. So, larger formal/like firms often stay informal because of harassment from public officials and the high costs of registration. Programmes that reduce the time and cost for registering a business are likely to make it more attractive for such firms to formalise as the potential benefits (contracts, access to finance) are tangible. On the other hand, smaller micro-firms lack these potential opportunities, and yet the risks and costs of formalisation are significant. Such firms are unlikely to respond to formalisation efforts focusing on business registration; they need the inducement of other benefits (like financial incentives, access to social security, or security from harassment).

Successful formalisation efforts therefore require an understanding of the drivers of formalisation for the target group which are specific to the local and economic context of the firms, and the ability to coordinate a number of government organisations to address the specific barriers and incentives.

In this context, the relative failure to date of the roll-out of the *Entrepreneur* in OHADA countries is unsurprising as it is aimed at the smallest micro-traders who are less likely to benefit from formalisation. In addition, the design of the intervention goes far outside the traditional remit of OHADA, which focuses on the implementation of OHADA laws (World Bank Group OHADA Impact Evaluation, 2016).

There are established reasons for encouraging relatively large informal firms to formalise. For the state, the benefits are widening the tax base (Andrade *et al.*, 2013) and removing unfair competition (see feedback from the enterprise surveys, which frequently cite unfair competition from informal firms as a key challenge). For the firm, the benefits are access to procurements, access to finance, and firm growth. The benefits of formalisation for small micro-traders are less clear; if they exist, they must be clearly understood by any formalisation pilot.

The implementation of improved registration processes for the legal *Entrepreneur* status is therefore not the solution to efforts to formalise micro-enterprises. On its own, it will not be successful. The design of the implementation must address formality's drivers and hurdles, which will be specific to the local context but are likely to include the financial cost of registration, fear of

tax harassment, the opportunity to obtain financial incentives, and more business opportunities and access to protections.

The implications for the *Entreprenant* pilot are clear.

1. For the pilot to be successful, it must overcome significant challenges:
 - the difficulties of coordinating different ministries within the DRC to deliver a package of incentives, and to implement these through appropriate regulation;
 - problems of mitigating and removing harassment; and
 - the challenge of implementing the status post-pilot completion, given the low financial return from tax and other incentives from the *Entreprenants*.
2. The DRC *Entreprenant* pilot has already incorporated some of these considerations into the design of a range of low-cost interventions: an official and high-quality ID; access to discounted health care; a simple declaration process; grassroots outreach; and follow-up business training for *Entreprenants*.

Based on the learnings from the research, finalising the simplified tax regime will be critical, as will demonstrating that *Entreprenant* status can provide protection from tax harassment and that the additional formal taxation costs will be outweighed by the savings from non-payment of unofficial taxes.

3. Sustainability will be difficult unless a champion is found who can lead the Ministry of Justice (Trade and Personal Property Credit Registry (RCCM)), the Ministry of Finance (tax authority), and other key line ministries to continue to drive the programme forward.
4. If the pilot goes ahead, it should provide insights into formalisation in the DRC, and the pilot must be structured to generate these learning outcomes.

Bibliography

- Alcázar, L., Andrade, R., and Jaramillo, M. (2010) 'Panel/tracer study on the impact of business facilitation processes on enterprises and identification of priorities for future business enabling environment projects in Lima, Peru—Report 5: impact evaluation after the third round', Report to the International Finance Corporation, Mimeo.
- Andrade, G.H., Bruhn, M., and McKenzie, D. (2013) 'A helping hand or the long arm of the law? Experimental evidence on what governments can do to formalize firms', *Discussion Paper No. 7402*, World Bank, BREAD, CEPR, and IZA.
- Benhassine, N., McKenzie, D., Pouliquen, V., and Santini, M. (2015) 'Finding a path to formalization in Benin: early results after the introduction of the *Entrepreneur* legal status', *Discussion Paper No. 7510*, World Bank.
- Benhassine, N., McKenzie, D., Pouliquen, V., and Santini, M. (2016) 'Can enhancing the benefits of formalization induce informal firms to become formal? Experimental evidence from Benin', *World Bank Policy Research Working Paper WPS 7900*, World Bank.
- Bruhn, M. (2011) 'License to sell: the effect of business registration reform on entrepreneurial activity in Mexico', *Review of Economics and Statistics* 93(1): pp. 382–86.
- Bruhn, M. (2013) 'A Tale of Two Species: Revisiting the effect of registration reform on informal business owners in Mexico', *Journal of Development Economics* 103: pp. 275–83.
- Bruhn, M., and McKenzie, D. (2013a) 'Using administrative data to evaluate municipal reforms: an evaluation of the impact of *Minas Fácil Expresso*', *World Bank Policy Research Working Paper no. 6358*, World Bank.
- Bruhn, M., and McKenzie, D. (2014) 'Entry regulation and formalization of micro-enterprises in developing countries', *World Bank Policy Research Paper WPS 6507*, World Bank.
- Campos, F., Goldstein, M., and McKenzie, D. (2015) 'Short-term impacts of formalization assistance and a bank information session on business registration and access to finance in Malawi', *World Bank Policy Research Paper WPS7183*, World Bank.
- Dabla-Norris, E., Gradstein, M., and Inchauste, G. (2005) 'What causes firms to hide output? The determinants of informality', *IMF Working Paper 05160*, IMF.
- De Giorgi, G., and Rahman, R. (2013) 'SME's registration: evidence from an RCT in Bangladesh', Mimeographed, Stanford University and World Bank.
- De Mel, S., McKenzie, D., and Woodruff, C. (2012) 'The demand for, and consequences of, formalization among informal firms in Sri Lanka', *World Bank Policy Research Paper WPS 5991*, World Bank.
- De Mel, S., McKenzie, D., and Woodruff, C. (2013) 'The demand for, and consequences of formalization among informal firms in Sri Lanka', *American Economic Journal: Applied Economics*, 2013, 5 (2).
- Donor Committee on Enterprise Development (2011) 'Supporting business environment reforms: practical guidance for development agencies. Annex: how business environment reform can promote formalisation'.
- Foreign Investment Advisory Service (2005) 'The informality problem: diagnosis and solution design', Washington DC.
- Galal, A. (2005) 'Potential winners and losers from business formalization', *Working Paper Series No. 95*, Egyptian Center for Economic Studies.
- Galal, A. (2005) 'The economics of formalization: potential winners and losers from formalization in Egypt', in K.-L. De Gudrun and B. Pleskovi (eds.), *Investment Climate, Growth, and Poverty*, World Bank.

- Grimm, M., Knorrington, P., and Layc, J. (2012) 'Constrained gazelles: high potentials in West Africa's informal economy', part of the 'Unlocking Potential: tackling economic, institutional and social constraints of informal entrepreneurship in sub-Saharan Africa' project (<http://www.iss.nl/informality>), funded by the Austrian, German, Norwegian, Korean, and Swiss governments through the World Bank's Multi-Donor Trust Fund Project 'Labor Markets, Job Creation, and Economic Growth, Scaling up Research, Capacity Building, and Action on the Ground'.
- Independent Evaluation Group (2013) 'Impact evaluation of business license simplification in Peru', World Bank Group, Washington DC.
- Kenyon, T. (2007) 'A framework for thinking about enterprise formalization policies in developing countries', World Bank Group, Washington DC.
- Klapper, L. and Love, I. (2012) 'The impact of business environment reforms on new firm registration', *Policy Research Working Paper No. 5493*, IEG, Washington DC.
- La Porta, R., and Shleifer, A. (2014) 'Informality and development', *NBER Working Paper No. 20205*, National Bureau of Economic Research, Chicago.
- Mbaye, A. (2014) *The Informal Sector, Employment, and Structural Transformation, International Organization of La Francophonie*, available at: www.francophonie.org/IMG/pdf/secteur_informel_emplois_et_transformation_structurale_english_.pdf.
- Mullainathan, S., and Schnabl, P. (2010) 'Does less market entry regulation generate more entrepreneurs? Evidence from a regulatory reform in Peru', National Bureau of Economic Research, Chicago.
- Oxford Policy Management (2017) 'Literature review for the MTE: making markets work for the poor and business environment reform: a review of the evidence review', OPM, Oxford.
- Pouliquen, V., and Santini, M. (2014) 'Impact evaluation of the "Entreprenant status" in Cotonou', preliminary report, World Bank.
- Speakman, J. and Rysova, A. (2015) 'The small entrepreneur in fragile and conflict-affected situations', World Bank Group, Washington DC.
- Van Elk, K., and Kok, J. de (2014) 'Enterprise formalisation: fact or fiction', ILO and GIZ, Germany.
- World Bank (2018) 'IFC's OHADA Investment Climate Program (2007–2017). An impact assessment of OHADA reforms uniform acts on commercial, company, secured transactions, and insolvency (draft)', IFC, Washington DC .
- Williams, C. (2014) 'Informal Sector Entrepreneurship', OECD Policy Briefing, Paris, available at: SSRN : <https://ssrn.com/abstract=2731781> or <http://dx.doi.org/10.2139/ssrn.2731781>.
- Zohir, S., and Choudhury, A. (2012) 'Economic Research Group analytical study on Companies Act reform and informal businesses in Bangladesh for BICF', Bangladesh.

Annex A #Further studies on informality

La Porta and Shleifer (2014): Characteristics about informality in developing countries

The authors establish five characteristics about the informal economy in developing countries.

- First, it is huge, reaching about half of the total economy in the poorest countries.
- Second, it has extremely low productivity compared to the formal economy: informal firms are typically small, inefficient, and run by poorly educated entrepreneurs.
- Third, although avoidance of taxes and regulations is an important reason for informality, the productivity of informal firms is too low for them to thrive in the formal sector. Lowering registration costs neither brings many informal firms into the formal sector, nor unleashes economic growth.
- Fourth, the informal economy is largely disconnected from the formal economy. Informal firms rarely transition to formality and continue their existence often for years or even decades without much growth or improvement.
- Fifth, as countries grow and develop, the informal economy eventually shrinks, and the formal economy comes to dominate economic life.

Campos *et al.* (2015): Malawi—assistance, costless registration, and bank accounts impact on business registrations, but less so on tax registration

In most of the region, business registration in a national registry is separate from tax registration. Business registration provides the government with information about the existence of a firm, and the firm with a business registration certificate. In Malawi, this business registration certificate is the main form of identification needed to open a business bank account, register land, and apply to government assistance programmes. Tax registration allows the firm to provide tax invoices to customers and access government procurement systems, but also requires them to pay national taxes.

The paper provides initial results from an experiment in Malawi that randomly allocated firms into a control group and three treatment groups: a group offered assistance for costless business registration; a group offered assistance with costless business registration and (separate) tax registration; and a group offered assistance for costless business registration along with an information session at a bank, ending with the offer of opening business bank accounts. The study found that all three treatments had extremely large impacts on business registration, with 75% of those offered assistance receiving a business registration certificate. In contrast, only 4% of those offered tax registration assistance obtained a Tax Payer Identification Number. At an all-in cost of approximately US \$27 per business registration achieved, this intervention is a low-cost way of enabling firms to become more formal.

However, in common with other studies, the study found that information and assistance had a limited impact on tax registration. The paper measured the short-term impacts of formalisation on financial access and usage. Business registration alone had no impact for either men or women on bank account usage, savings, or credit. However, the combination of formalisation assistance and the bank information session resulted in significant impacts on having a business bank account, financial practices, savings, and the use of complementary financial products.

De Mel *et al.* (2012): Sri Lanka—no impact of information, but cash incentives can work

Offering only information about the registration process and reimbursement for direct registration costs had no impact on formalisation. Adding payments equivalent to one-half to one month's profits for the median firm led to registration of around one-fifth of firms. A larger payment equivalent to two months' median profits induced half the firms to register. The main reasons for not formalising when offered incentives included issues related to ownership of land and concerns about facing labour taxes in the future. The degree of bureaucracy in the registration process also seems to matter for those with the incentive to register, with response to the incentives higher in Colombo, where the registration process was easier, than in Kandy.

Three follow-up surveys, at 15 to 31 months after the intervention, measure the impact of formalising on these firms. Although mean profits increased, this appeared to be due largely to the experiences of a few firms that grew rapidly, with most firms experiencing no increase in income as a result of formalising. The authors also found little evidence of most of the channels through which formalisation is hypothesised to benefit firms, although formalised firms did advertise more and were more likely to use receipt books. In qualitative interviews, owners of formalised firms also felt their businesses had more legitimacy. Finally, formalising was found to result in a large increase in trust in the state.

Andrade *et al.* (2013): Brazil—sticks outperforming carrots

This study reviews the costs of remaining informal through increasing enforcement of existing regulations. A field experiment was run in Belo Horizonte, Brazil, to test which government actions work in getting informal firms to register. The reforms were carried out in the context of an improved business registration process and simplified tax system. Firms were randomised to a control group or one of four treatment groups. The first received information about how to formalise; the second received this information and free registration costs along with the use of an accountant for a year; the third was assigned to receive an enforcement visit from a municipal inspector; and the fourth was assigned to have a neighbouring firm receive an enforcement visit to see if enforcement had spill-overs.

The study found zero or negative impacts of information and free cost treatments and a significant but an increase in formalisation after inspections of a 21 to 27 percentage point increase in the likelihood of formalising. The results showed most informal firms would not formalise unless forced to do so, suggesting formality offers little private benefit to them, but the tax revenue benefits to the governments of bringing firms of this size into the formal system more than offset the costs of inspections.

Dabla-Norris *et al.* (2005): Causes of informality in the legal system

The quality of the legal system is found to be an important factor in predicting informality. Although other obstacles also play a role, they found that, controlling for the quality of the legal system, there was no significant evidence that a lower regulatory burden or more limited access to bank credit leads to lower informality as measured by the share of hidden sales. These empirical results were consistent with a simple general-equilibrium model in which the strength of the legal system determines the expected punishment for being informal.

Van Elk and de Kok (2014): Six case studies on informality

The paper reviewed six case studies on informality to look for common lessons. The case studies were the monotax in Argentina; social welfare changes in Brazil; municipal registration reform in Brazil (Bruhn and Mackenzie); formalisation and micro-entrepreneur reform in Brazil; the effect of

legal changes on employment in Columbia; and a formalisation case study from Sri Lanka (de Mel). Their conclusions were that, although not all business entry reforms succeed in raising the number of firm registrations, some do. For these reforms, increases in firm registration of 5% are reported. For single reforms that aim to increase firm registrations by reducing the costs of formalisation, the reduction of payments has to be at least 50% to have a significant effect on the number of registered businesses. Single reforms that aim to increase firm registrations by reducing the length of the procedure can have significant effects when the length is reduced by 15%. When several reforms are combined (for instance reducing both the length and payments of registration), less drastic reductions are required because of the synergistic effect. In countries with weaker business environments, the extent of the reform has to be larger to influence business registration.

Kools and Kok's review of the case study on micro-entrepreneur formalisation in Brazil described the impact on formalisation of the introduction of a flat tax system, simple registration procedures, and simplified social welfare benefits for micro-entrepreneurs with a turnover of less than US \$36,000 *per annum*. The formalisation process enables the entrepreneur to open bank accounts and take out loans. While no impacts on the firms were assessed, in the first 18 months of introduction over 1.3 million workers were registered out of an estimated 10.3 million micro-entrepreneurs.

Evaluation summary from Bruhn and McKenzie (2014)

Table 1. Summary of Studies on the Causal Effect of Policies to Promote Firm Formalization

<i>Study</i>	<i>Policy or program studied</i>	<i>Econometric Approach</i>	<i>Main results</i>
Panel A: Effect of business entry reforms on number of firm registrations			
Bruhn (2011), Kaplan, Piedra, and Seira (2011)	One-stop shop (combining municipal, state, and federal business registration procedures) in urban areas in Mexico	Difference-in-Differences	Reform increased business registrations approximately 5 percent and increased employment; Bruhn shows that the increase in registered businesses was mainly due to previous wage earners opening new businesses
Bruhn and McKenzie (2013)	One-stop shop in less populous municipalities in Minas Gerais, Brazil	Difference-in-Differences	Program led to a reduction in number of firms registering during the first two months of implementation, with no subsequent increase
Cárdenas and Rozo (2007)	One-stop shop in six major cities in Colombia	Difference-in-Differences	Reform increased business registrations by 5 percent
Panel B: Effect of business entry reforms on formalization of informal firms			
Bruhn (2013)	One-stop shop in urban areas in Mexico	Difference-in-Differences	Some informal business owners become wage workers due the reform, some register their business, but these effects are small
Mullainathan and Schnabl (2010)	Municipal licensing reform in Lima, Peru	Before-After	Reform increased number of provisional licenses issued to informal firms, but many firms do not renew their license later
Panel C: Effect of information, waived costs, and enforcement on formalization of informal firms			
Alcázar et al. (2010)	Offer a subsidy for the cost of obtaining a municipal license to informal firms in Lima, Peru	Randomized Experiment	Subsidized cost offer led to 10 to 12 percent of informal firms obtaining a municipal license
Andrade et al. (2013)	Three interventions for informal firms in Belo Horizonte, Brazil (a) deliver brochures with information about registration process and potential benefits; (b) waive registration costs; (c) receive municipal inspector	Randomized Experiment	Information and waived registration costs had no effect on formalization rate; municipal inspections increased formalization rate by 22 to 27 percentage points
de Mel et al. (2013)	Provide information and reimburse registration costs for informal firms in Sri Lanka	Randomized Experiment	Information and cost reimbursement had no effect on formalization rate
De Giorgi and Rahman (2013)	Deliver brochures with information to informal firms in Bangladesh	Randomized Experiment	Information had no effect on formalization rate
<i>Source:</i> Authors' summary of the literature			

More details on Benhassine *et al.* (2016)'s study in Benin

Given the flexibility provided by the OHADA framework regarding how the *Entreprenant* status should be implemented, the Government of Benin was interested in knowing the most impactful and efficient way to operationalise the legal status. Benhassine *et al.* worked with the government to design and test a package of incentives. The study then measured the consequences of formalising for these firms.

Three incentive packages were used.

Package A—Information on the *Entreprenant* status and assistance in registering

The *Centres de Gestion Agréés* (CGA), semi-public organisations focusing on providing small- and medium-sized enterprises with business management, accounting, and tax consulting services, provided advisers who would visit selected firms in person. The advisers explained the benefits of becoming an *Entreprenant* and provided one leaflet describing the *Entreprenant* status, its advantages and requirements; one leaflet explaining the registration process at the GUFÉ (*Guichet Unique de Formalisation des Entreprises*); and one leaflet explaining the different tax regimes applicable to *Entreprenants* and how to calculate taxes due within each regime. The informal businesses that decided to formalise needed to submit an application at the GUFÉ to obtain the *Entreprenant* card.

When necessary, CGA advisers helped *Entreprenants* with the formalisation process at the GUFÉ, including filling in the declarations and preparing all the required accompanying documents.

Package B—Provision of business services and trainings, and assistance in opening a bank account

The second package aimed to supplement the basic help in Package A by facilitating access to training services and to commercial banks, which are potential benefits of formalising, but which many firm owners may not otherwise benefit from in practice. Following the first visit to each business, CGA advisers organised a second visit to deliver a personalised training session lasting one to two hours. They then noted a variety of additional training sessions that business owners could access conditional on receiving the *Entreprenant* card. They could sign up for training at CGA, which included four workshops (three mandatory and one optional). The mandatory workshops were basic accounting, an introduction to tax obligations, and financial education. For the optional workshop, businesses were invited to choose between the basics of microenterprise management, an introduction to sales development and access to markets, and the basic of business plan development. Each workshop lasted three consecutive half-days. Once the business owner completed the four workshops with the CGA, he/she received an official diploma and a sticker acknowledging that he/she had received the training.

Firms receiving this package were also offered support from CGA to open a business bank account. The bank partners of the impact evaluation (Orabank and Bank of Africa) designed a specific banking product for the *Entreprenant* with dedicated services and simplified banking access conditions, including a debit card, bank account consultation with mobile phone, cash transfers, SMS banking, internet banking, and mobile money. The *Entreprenant* bank accounts in both banks are cheaper than what businesses can usually get (around CFAF 1,000 per month, or US \$1.7, against CFAF 2,000, or US \$3.4) and do not require any initial deposit, whereas business bank accounts usually do in Benin. CGA advisers assisted the *Entreprenant* to open a bank account and provided instructions on how to use it.

Package C—Provision of tax preparation support and tax mediation services

The third package aimed to address the uncertainty and concerns that entrepreneurs had about taxes. Firms which formalised under the third group were offered help in preparing tax forms (including tax returns and supporting documentation). However, given that most businesses were subject to the Tax Professionnelle Unique (TPU), and that the amount of TPU to be paid by a given business is determined by the tax administration without any form being filled by the business, this ‘offer’ was not technically implemented. The advisers also left their contact information in case the *Entreprenant* had any complaints about future tax payments and inspections and offered mediation services in case of a dispute between the firm and the tax administration.

Figure 2: Evaluation Design

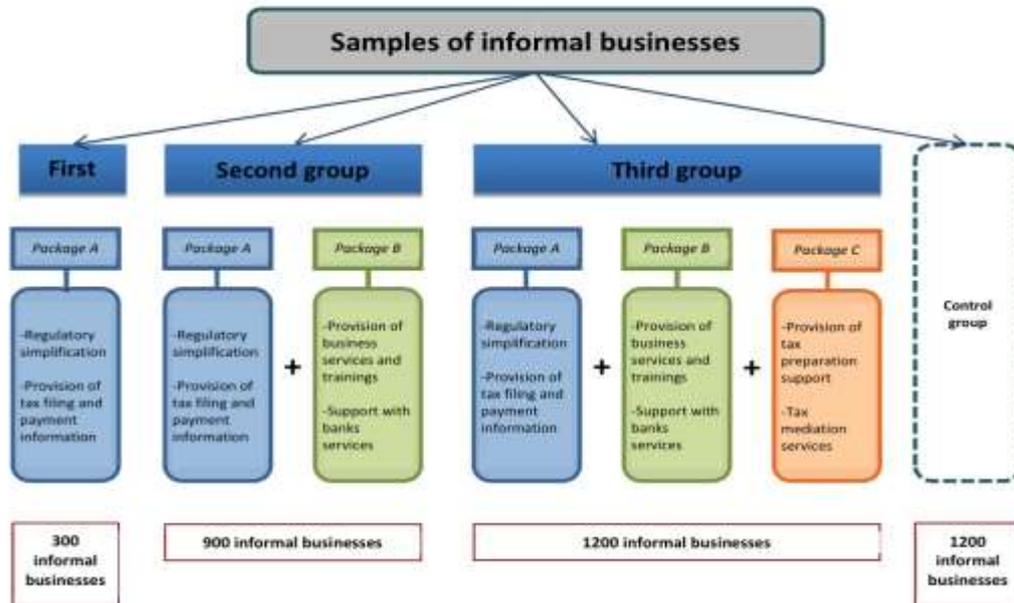


Table 1 : Potential Benefits and Costs of Formalization in Benin

Type of status	Informal (fixed location)	Entrepreneur status	Individual enterprises	Limited liability company	Trader card ¹
Cost of the status	n.a.	Free of charge	XOF 10,000 (USD 46)	XOF 17,000 (USD 78)	Extra XOF 5,000 (USD 23)
Time to register	n.a.	1 day	1 day	1 day	1 day
Maximum Turnover	n.a.	XOF 30 million for traders, XOF 20 million for craftsmen, XOF 10 million for services	No	No	No
Register more than one activity for the firm	n.a.	No	Yes	Yes	Yes
Needs to pay taxes	55% pay taxes	Yes with tax exemptions after formalization ²	Yes with tax exemptions after formalization ²	Yes with tax exemptions after formalization ²	Yes with tax exemptions after formalization ²
Open business bank account	No	Yes	Yes	Yes	Yes
Apply to a bank loan	Requires collateral	Yes	Yes	Yes	Yes
Export license	No	No	No	Yes (need to get an export card)	Yes (need to get an export card)
Can work with large private companies	Possible but complicate	Yes	Yes	Yes	Yes
Access to large public contract	No	No	No	Yes	Yes
Access to small public contract	No	Yes	Yes	Yes	Yes
Registered at the chamber of Commerce	No	Yes	Yes	Yes	Yes
Provide invoices to customers for tax purposes	No	Yes	Yes	Yes	Yes
Register more than one activity for the firm	n.a.	No	Yes	Yes	Yes

¹ For the trader card, businesses also need to get the individual enterprise status. ² Businesses that formalize, registered with CGA, and that had not paid taxes before, have a tax exemption for the first year after formalization, in addition to a reduction of 40% in the amount of taxes due for the following 3 years.

Details of sampling procedure

Sampling protocols for inside and outside the market were different.

For Dantokpa market, the researchers used a precise map of the market made by the public company managing markets in Benin (SOGEMA). This map allowed dividing the market into small geographic areas. They then randomly selected areas in the market in which 50% of the businesses (with fixed location) were sampled for the survey.

For other areas of Cotonou, the researchers were able to obtain detailed maps of each of the 144 neighbourhoods. Those maps allowed the easy identification of *ilots* (blocks), the official administrative unit within a neighbourhood. The researchers used this administrative unit as a reference for the listing survey sampling. They then used information given by the tax administration (and confirmed by the survey company) to characterise neighbourhoods as high or low firm density areas. They randomly sampled 38% *ilots* in high-density neighbourhoods and 10% of the *ilots* in low-density neighbourhoods. In each pilot, 68% of businesses were sampled for the survey on average. Overall, 19,246 businesses were listed. The listing survey allowed them to estimate the total number of businesses operating in Cotonou (with a fixed location, excluding international and nationwide businesses and liberal professions) to approximately 68,500, including around 5,000 in Dantokpa market. Among those 19,246 businesses, 9,938 were randomly selected for survey. Successful surveys were carried out for 7,945 (80%) businesses; 1,000 (10%) businesses refused to be surveyed; and 995 (10%) businesses were dropped because the business owner was not available or could not be reached after four attempts. From the 7,945 businesses surveyed, a population of 3,596 businesses was then selected to participate in the study based on the following criteria:

- businesses that were already formal were dropped;

- businesses that would probably not cooperate in future or which would probably be difficult to find (i.e. businesses that refused to provide information on profits or turnover during the baseline survey) were dropped;
- the database was trimmed of businesses very close to formalisation which would have formalised anyway and businesses very far from formalisation, which would not be interested by the programme;
- businesses that ever got a loan from a commercial bank (which would most probably not be interested in the programme) were removed (less than 3% of informal businesses);
- the standard deviation of the main outcomes (profit and turnover) was reduced; and
- a sufficient number of businesses in Dantokpa market were included.

Survey tools are available on the World Bank website:
<http://microdata.worldbank.org/index.php/catalog/2793>.

Annex B List of interviewees: World Bank Group

Name	Title	Date of interview
Miah Rahmat Ali	Senior PSD Specialist	October 2018
Maiko Miyaki	Lead PSD Specialist	22 October 2018
John Wille	Lead PSD Specialist	23 October 2018
Numa Magalhaes	Senior PSD Specialist	23 October 2018
Matina Dean	Senior PSD Specialist	02 November 2018
Taneem Ahad	Senior PSD Specialist	05 November 2018
Syed Estem Dadul Islam	Senior Results Measurement Specialist	04 November 2018
Alain Traore	Senior PSD Specialist	05 November 2018

Annex C Terms of Reference

Background

Context and rationale

This Rapid Research study will identify operational lessons from the implementation of the *Entreprenant* in different OHADA countries. An *Entreprenant* is a self-employed individual with a specific legal status based on being a sole trader with a very low revenue (the '*vulnerable self-employed*').

The study will be carried out through a scan of the literature augmented by interviews with operational professionals working in this area.

Established in 1993, the Organisation for the Harmonization of Business Law in Africa (OHADA) devises innovative, ambitious initiatives for francophone Africa, supplying uniform legal and regulatory frameworks encompassing accounting standards, arbitration, commercial law, collaterals, company law, and insolvency law.

Essor is a £35-million, five-year project launched in May 2015 and managed by PWC. It is a significant component of DFID DRC's £100 million Private Sector Development programme, which also includes ÉLAN RDC and the DSU. One of the major components of the Essor project is a business environment reform intervention designed around assisting the DRC Government implement OHADA, with a major portion of budget allocated to the support to the rollout of the GUCE (the DRC One Stop Shop) and an integrated RCCM. Streamlining the system of business registration is a centrepiece of the OHADA intervention. Once the seven planned GUCE locations are up and running, they will cover an estimated 80% of companies and total business turnover.

Recently the OHADA workstream has also developed a new, pilot intervention with *Entreprenants*¹⁰ seeking to improve formalisation through a set of incentives including micro-finance, health protection, a new simplified tax rate and identification, lowering the risks of harassment they face. An *Entreprenant* can 'register' via a *Déclaration* at the GUCE 'single window' free of charge. The new intervention will seek to promote formalisation of *entreprenants* via the *Déclaration* in a pilot based in Kinshasa. The pilot will initially focus on Kinshasa's "*mamans malewa*" - street-side restaurants mostly held by women. During the campaign a joint installation by Essor and a financial institution at the GUCE antennae in Gombe and Matete will enable the declaration with the opening of a bank account where the *Entreprenant* will receive on the spot – a QR-code allowing a check of the status of the declaration with a simple smartphone application; and a specific bank card that will give access to a small microcredit fund and a simplified savings account.

Audience and the use of findings

The primary target audience for the research are government stakeholders. The report's secondary audience is Essor and DFID DRC. Additional audiences that may benefit from the research findings include private sector partners and government counterparts, other donors and service providers implementing private sector development initiatives, and the development community more broadly.

¹⁰ The "Entreprenant" status was instituted by the OHADA Uniform Act on General Commercial Law adopted on December 15th, 2010 to encourage a simplified judicial regime for the most vulnerable whose activity (typically civil, commercial, artisanal or agricultural) is not of a sufficient size to access the status of a legal entity. The size of the Entreprenant business will be set by the tax legislation which will probably cap the annual profit at around 5,000 USD for all sectors.

The findings will be used to strengthen support to OHADA, and to strengthen implementation and evaluation of the project. In addition, the study will support the project to build regional links with other countries with relevant experiences, identify countries where peer to peer learning could be useful; and potentially identify other interventions which have enabled improvement of business registration.

Definition of Scope

Objectives

The purpose of the study is to identify operational lessons from the implementation of the *Entreprenant* in different OHADA countries. An *Entreprenant* is a self-employed individual with a specific legal status based on being a sole trader with a very low revenue (the '*vulnerable self-employed*').

Research questions

The research study will look for operational lessons from different OHADA countries who have implemented the *Entreprenant* intervention:

- What factors influenced the success (or otherwise) of the roll out of the *Entreprenant* intervention in OHADA countries, particularly Benin, Senegal and Cote D'Ivoire? What challenges or practical barriers to registration have inhibited success? Looking more broadly at formalisation, what methods have been successful at encouraging informal traders to formalise, and particularly marginalised groups?
- What methods have been used to assess the impact of formalisation efforts?

Limitations

The study will be limited to experience found through a scan of the available literature and a limited number of interviews with operational practitioners.

Approach and Methodology

Suggested methods

The study will summarise some of the existing research on the rollout of the *Entreprenant* status within OHADA countries, particularly from the IFC and World Bank.

These summaries will be augmented with interviews with operational staff/ consultants engaged in these programs.

Key sources and informants to be consulted

Key documents:

World Bank evaluation reports on the impact of their Investment Climate work in OHADA countries, and evaluation of One Stop Shops.

The documentation supporting the Mid Term Evaluation of Essor.

Augmented by interviews:

Interviews with Eссор:

- Frederic Chetcuti, Team Leader of the OHADA workstream of the Eссор project
- Joseph Holden, Eссор Economist (Foresight Development Associates).
- Hannah Casey, Eссор M&E lead.
- Andrea Talbot- West, Eссор Project Director

Interviews with IFC/ World Bank:

- Maiko Miyake, Project Leader for the OHADA Investment Climate program,
- Syed Estem Dadul Islam, IFC Senior Results Measurement Specialist,

Potential other interviewees from the World Bank Group: Syed Akhtar Mahmood, Fred Zake.

Research outputs

The output of the research will be an 8-10 page brief with the following sections:

- Context/ objectives/ methodology (1 page)
- Summary of desk research results (2 pages)
- Summary of results/lessons/ insights (4 pages)
- Bibliography and list of interviewees (1 page)

Following the completion of the research study, a shorter external communications briefing note summarising the study will be produced.

Research management

Timing

The study should commence immediately and be completed by October 2018. The activities are assumed to be carried out with the planned research study of OHADA OSS and RCCM and the additional time is assumed to be the following:

Activities	Effort	Completed by
Desk research	0.5 days	10 th September
Detailed interviews within DRC	0.5 days	17 th September
Interviews with 3-4 implementing professionals	1 day	7 th October
Write up of results	2 days	14 th October
Review/ finetuning	2 days	TBC
QA	Up to 2 days	TBC

Resourcing

The study will be undertaken by one qualified researcher with prior experience and knowledge of OHADA. It is anticipated the same researcher will concurrently undertake the OSS study also commissioned by the DSU. This will significantly reduce the cost of the study.

Breakdown of costs:

- Up to 6 working days of researcher's time;
- Up to 2 working days of reviewer's time;
- Travel expenses for in-country interviews (apportioned to the study and shared between the OHADA OSS study and the DSU Learning Event):
 - Per diems for 2 days
 - Accommodation for 2 days
 - Communication and local travel for 2 days

Total budget for this research study is estimated at £7,000.

Governance and ethics

In the DSU, the research will be overseen by Marcus Jenal (DSU Short-term Research Lead) in regards to the scope and research process and with guidance from Hamish Colquhoun (DSU Team Leader) to ensure that the research is useful and relevant to the implementation of the overall PSD programme. On management and contracting the researcher should liaise with the DSU Project Manager.

Any concerns or disagreements with the deliverables of this study in the first instance should be raised with Hamish Colquhoun, the DSU Team Leader; they can be escalated to Jonathan Mitchell, the DSU Project Director.

As the study will not require any primary data collection or interaction with vulnerable groups there are no additional ethical considerations.

References

- Oxford Policy Management, 2018, Mid Term Review of the Essor Programme in Democratic Republic of Congo, Oxford, March 2018
- Oxford Policy Management, 2017, Literature Review for the MTE: Making Markets Work for the Poor and Business Environment Reform: A Review of the Evidence Review, Oxford, 2017
- Leora Klapper and Inessa Love, World Bank Group, 2012 The Impact of Business Environment Reforms on New Firm Registration, Policy Research Working Paper 5493, IEG Washington D.C.
- Benhassine, Najy; McKenzie, David; Pouliquen, Victor; Santini, Massimiliano. 2015. Finding a Path to Formalization in Benin : Early Results after the Introduction of the Entrepreneur Legal Status. Policy Research Working Paper;No. 7510. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/23472> License: CC BY 3.0 IGO.
- World Bank and Ohada, (in draft) IFC's OHADA Investment Climate Program (2007-2017). An Impact Assessment of OHADA Reforms Uniform Acts on Commercial, Company, Secured Transactions, and Insolvency, Washington, DC: IFC