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Summary of Proceedings: Day 2

IV. PLENARY SESSION: POST-CONFLICT AFRICAN COUNTRIES

Richard Stern, Foreign Investment Advisory Service

Initial conditions are somewhat different for post-conflict countries. Will spend the morning examining how best to target problems in post-conflict countries, drawing on yesterday's discussion.

Degree of informality in average African country is estimated at 60-70% of work force. In post-conflict countries, that is closer to 90%. If markets exist at all in post-conflict countries, they are very imperfect. Resource allocation tends to be through mechanisms other than markets. Post-conflict countries are often essentially closed. Capacity is even lower – whatever capacity may have been there has been severely compromised by the conflict. Political and economic fragility make uncertainty high. Rule of law is weak, and re-establishing rule of law involves people/businesses giving up some ability to act independently. Governments have to re-establish credibility. Private sector reluctant to take risks.

While private sector is considered to be the cornerstone of economic growth, PSD reform in post-conflict situation is likely to involve some losers as well as gainers. Many of the foundations for a well-functioning private economy are missing, and many operators were able to establish positions of privilege under the informal arrangements prevailing during the conflict.

Everything needs fixing – where should a new government start? Other priorities may predominate over re-establishing market system and conditions for private firms.

Question: If a firm was succeeding informally during conflict, is there a reason for them to formalize post-conflict? In general, yes: need to re-establish rule of law; achieve efficiency gains from operating in functions. But benefits may not be evident to individual firms. So governments need to provide reason to formalize.

V. WORKING GROUPS

Marc Reichel

Working groups will discuss what is best approach to formalization in post-conflict situation:

- Policies, goals of the program: What trying to achieve? What barriers? Scope of program
- Carrots & sticks: Key elements to tilt cost-benefit analysis toward formalization
- Implementation: How to implement the program:
 - What challenges must be overcome (political, economic, technical)
 - How to re-establish culture of compliance.

Group 1: Re-establishing Business in Post-Conflict Countries

- First, must assess reasons for the conflict so as to address underlying causes; Whether national, or only in certain areas
- Main carrot: opportunities available in re-emerging economy
- Primary policies: re-establish state authority, security
- Initial objectives: Get goods flowing, get people (esp. ex-combatants) into income-earning activities
 - Formality not a concern: Minimize regulation, “sticks”
- Key dilemma: How to encourage quick start-up of economic activities (through minimal regulation) without compromising longer-term formalization and enforcement of regulations
- Have to introduce regulations & formalization gradually:
 - Provide information, education
 - Prioritize subsectors where there are health & safety concerns
 - Regulation most enforceable when directly linked to a benefit
- Main carrot for formalization = growth opportunities

Group 2

- Goals
 - Re-establishing formality to pre-conflict level
 - Creating a wider tax base
 - Creating formal jobs (ex-combatants, youth)
- Key Elements
 - Simplification of business procedures and review of laws
 - Information, public awareness campaigns, civic education programs on benefits
 - Carrots: grace periods, tax holidays, financial and non-financial benefits
 - Training programs
 - Obligations, fair penalties for non-compliance
 - Government show visible benefits, public services and infrastructure
- Implementation
 - Financing and capital (incl grants from international community)
 - Low technical capacity
 - Political risk: new governments establishing credibility

Group 3 Reducing Informality in Post-Conflict Situations

- Goals
 - Revenue in & out through legal channels
 - Secure livelihoods
 - Rebuild urban, then rural
- Priorities
 - Peace & stability—political rebuilding
 - Infrastructure
 - Secure State Corporations
- Problems & opportunities vis-a-vis private sector
 - Informal networks entrenched
 - Clean slate for policy—vision needed
- Program
 - Address priorities incorporating formalization
 - Simplify and speed procedures
 - Get information flowing

– Scale up activities fast, formalize incrementally

Group 4

Goals:

- More informal: Preserve livelihoods, don't tax, educate and sensitize
- More formal: Regularize, market participation

Incentives:

- More informal: More carrots, less stick, provide infrastructure (physical space, security)
- More formal: Simplification, grants not loans

Implementation:

- More informal: Subcontracting for *regional* markets, social funds for infrastructure
- More formal: Linkages with large firms (target), but need need legal commitment
– avoid enclaves; contracts with *government*

Group 5

Contexte

- Insécurité judiciaire et juridique pour les affaires
- Infrastructures de service dégradées (énergie, communication, voies de transport)
- Absence de visibilité à long terme, ce qui restreint les investissements dans l'appareil de production (réseaux d'irrigation, usines...)
- Absence des instruments d'une économie organisée (banques, régulateurs, organisations de marché...)

Orientations politiques

- Insécurité judiciaire, juridique: Rétablir la normalité politique et sociale, tout en cherchant un accord acceptable avec ceux qui ont profité de la situation économique de conflit
- Infrastructures dégradées (énergie, communication, voies de transport): rétablir les services publics de base, sans exclure les entreprises nées du conflit

Incitations et contraintes

- Réduire l'insécurité judiciaire, juridique: réhabiliter les acteurs économiques de la période de conflit :
 - Intégration des anciens combattants dans la fonction publique ou à des commerces réglementés + formations pour leur reconversion
 - Accès aux marchés publics (exemple: les anciens Cobras pour la réhabilitation des rues à Brazzaville)
- Mettre en place un contexte incitatif à la formalisation: enregistrement qui n'entraîne pas de lourds prélèvements fiscaux, innover (réglementation plus légère) au moins pour une période transitoire (3 ans)
- Infrastructures (énergie, communication, voies de transport): encourager l'investissement privé (licences gratuites pour développer une offre d'eau, d'électricité, accès facilité au foncier, enregistrement des titres miniers...)

Mise en oeuvre

- Favoriser l'émergence d'associations professionnelles et patronales
- Relancer le dialogue public-privé (cadre de concertation permanent), rétablir la confiance entre les deux acteurs (Etat et monde des affaires)
- Mettre en place des sites d'accueil pour informer les opérateurs des opportunités existantes

Richard Stern

Common elements : Need for simplicity, establishing security.

Not much discussion of need for:

- a Champion
- capacity building
- time limit for quick wins

VI. COMMENTARY FROM POST-CONFLICT COUNTRIES

Ibrahim Gindeel, Sudan

Have agreement on program.

But: Not much business entering South as yet.

Soldiers came from bush; no education or business experience;

How to bring them into a civil society is a problem.

Priority #1 is to maintain peace and security;

Otherwise, businesses cannot re-establish.

Business want guarantee of compensation if they suffer losses, to enter south.

In some provinces within Darfur, peace and security sufficient that businesses are thriving.

Priority #2 is infrastructure.

Mohammed Salisu, Sierra Leone

Conflict covered the whole country; ended 2002;

First priority was to establish state authority throughout.

Second priority: re-integrate ex-combatants.

Dilemma: If provide allowances to ex-combatants, it creates tension with victims, who are not compensated.

Have to build up human resource base

Lots of people had left the country.

Need consultancies to build up the laws, human resource base.

Based implementation purely on carrot, not stick.

Not worried about how things came into the country, as long as productive.

Not concerned if businesses licensed, just wanted income generation.

Have gradually started implementing regulatory policies.

2004: started asking motorbike riders to license motorcycles.

Needed electricity – but government not in a position to provide.

Allowed people to bring in generators duty-free to sell.

Now: starting to collect duties.

Peter Norman, Liberia

Market women form bulk of informal sector – no plan to formalize.

Rather, working with umbrella association to empower them financially and economically (e.g., through microcredit)

Working with formal sector through Chamber of Commerce, as well as individual firms:

Concession agreements for private operators

Reviewed previous contracts; revised to include sub-contracting Liberian enterprises.

Suspended business registration for small enterprises for a grace period (ending March 2007).

Lisa Curtis, DFID

Making it Happen, Making it Work in Sierra Leone

Sierra Leone has a thriving informal economy – innovative, opportunistic, peripatetic

Formal sector mainly in larger businesses dominating certain market segments

- Limited competition
- Few domestic business linkages
- Growth constrained by small domestic market

Ministry of Trade and Industries leading a PSD program aimed at growth and employment:

- Create conditions for domestic and foreign investment
- Encourage efficiency, competitiveness and employment in SMEs (expected to be main source of growth)

Being seen to be actively engaged in investment climate reforms has significant short-term impact on investor confidence; Actions that deliver positive impacts:

- Focus on activities that build confidence in government's commitment to reform
- Involve the private sector from the outset: tell them they're important; dialogue
- Mobilise the diaspora (have been propping up families during the conflict; focus more on facilitating business, not just consumption)
 - Diaspora investments tend to come first—more willing to take risk to take advantage of market imbalances, poor information, limited competition
 - But: these businesses may not be competitive in long run
- Start with small things, even if short-term impacts seem limited
 - Improve trade/investment climate
 - Remove administrative barriers to investment and doing business
- Communicate

3 hardest things to do are intangibles:

- Public-private dialogue – getting public and private sectors to listen to each other
- Brokerage: Facilitating process of problem-solving, implementing and adapting to new procedures (government institutions tend to be too optimistic regarding how quickly they can build capacity and how readily new policies/regulations can be enforced)
- Change management (counseling and therapy).

Investor confidence is the key to private sector growth:

- => identify investors, build their confidence
- Demonstrate to them that the environment will keep improving
- Informal sector investors are also important – don't neglect;

Establishing mechanism for registering assets is a first step toward being able to collateralize them.

Possible trade-off between getting economy to grow quickly and getting tax revenues.

General Comments

1. Nigel Twose: Two groups recommended making grants to firms for business investment, and a previous group recommended concessional interest rate. Skeptical that these will be as effective as measures to encourage private investors to take risks. Establishing microfinance institutions is also an important area for technical assistance.

2. Problem with recommendation that starting businesses is more important than revenues may come up against donor insistence on meeting revenue collection targets.

Response: Getting businesses going is not just a revenue collection measure; should recognize larger objectives, not just revenue collection.

3. Neustadt Amartefio: Formalizing is important to create information and conditions that would give financier confidence to be able to lend.

4. Informal enterprises tend to depend on the entrepreneur, and disappear when he/she goes. Need to reform laws/rights of succession.

Response: Laws regarding property ownership, succession, transfer of rights and obligation, etc. are part of overall reform program of laws relevant to commerce and private sector.

5. Skeptical about TA to commercial banks – they’re not a very effective vehicle for reaching SMEs and agriculture. Experience in Sudan not very good, whether individually or as consortium. Commercial banks cannot get the information they need.

Response: One question is the capacity of banks to make business loans (rather than to individual known clients). Few commercial financial institutions anywhere have the skill to evaluate the risk of a new, recently formalized business. Implies need for specialized institutions and methodologies.

VII. SPECIFIC SUBSECTORS

Small-Scale Mining: Why Formalize Artisan Miners?

Lucie Phillips, International Business Initiatives

Miners are important worldwide – contribution to GDP; reducing rural poverty:

- Incomes are about 4-9 times farm incomes;
- Build rural capital for SME investment;
- Help build rural community infrastructure (schools, clinics, roads, electricity, telecoms)

Problems caused by mines (even in peacetime):

- Rushes – people converge on rumors of find;
- Environmental (unprotected holes; mercury; dust; water pollution);
- Child labor;
- Low returns to community.

[Many of above also apply to agriculture.]

Resource curse issues: used to fuel conflict, “Dutch disease”; pirating.

- Government (esp. military) tends to use revenues for arms;
- Should focus on controlling arms trade, rather than resources themselves:
 - UN peacekeepers involved in Sierra Leone, Liberia, CAR, DRC
 - Kimberley process for diamonds
 - Create legal chain of custody

How do governments formalize mining?

- Land-based: Titling through mines claims registry.
- People-based: Register people involved.

CAR: Different tiers of the supply chain pay different licensing fees;
Taxes are paid at the export level (9%).

Liberia: First priority was to get the big mines working.

But: had to first review 50+ mining concessions (Mittal Steel has been renegotiated)

Have 3 classes of licenses:

C: for Liberians only: \$150/year, 25 acres

B: Joint ventures;

A; Big mines (only Mittal operating)

Has not been able to restart diamond industry because it can't comply with Kimberley process (hard to document if not exporting; risk that artisanal diamond mining is being driven underground)

Obstacles to compliance:

- Education, knowledge
- Cost (have to travel to different places to obtain land, license, pay fees; harassment and extortion at each step)
- Risk (experienced geologists are likely to have already bought title for best prospect areas)

Government view of formalization:

- Gives diggers access to claims;
- Gives government control of process, enforce environmental aspects, etc.

Miners and brokers views:

- Benefits ephemeral – claim titles not available; or subject to harassment.
- Willing to buy license, pay royalty – but side costs of compliance are too high.

Solutions

- Special team ready to go to mine rush areas immediately to sort things out (between miners and title holders).
- Education, information to mining community – regulations, markets, etc. (extension services; information centers; web sites).
- Documentation for traceability.
- Availability of secure savings facilities (credit programs don't work well).
- Community-based security (NOT armed forces).

Take a light touch:

- Rule of law is needed, but it often comes in wrong forms
- Government needs to focus on incentives, be convinced to take a light touch.
- Armed forces and mining are an explosive mixture

Policies toward Small-scale Service Providers in Post-conflict Environments

Bernard Collignon, H2O Conseil

Focusing on private providers of public services: water; sanitation; solid waste; power supply

- Coming out of conflict, opportunities are high for small-scale providers of public services (SSPSPs), since government is not in a position to provide widely, quickly

Why formalize private providers of public services?

- Need to rehabilitate public services – priority for coming out of conflict;
- Make services affordable for the poor – need some kind of public action;
- Environmental standards – protect common interests.

Rehabilitating public utilities takes a long time – years.

International investors are unlikely to come quickly into risky post-conflict country.
Hence, local public-private partnership is best way to channel investment to boost service provision.

Requires some level of formalization: contractual agreement

Affordability:

Competition is useful to make SSPSPs more efficient;

But: need some level of subsidization for operating in low-income areas;

Providing subsidies also requires some degree of formalization.

Environment:

Customers not ready to pay for sending waste outside city to suitable site.

Formalization is key to enforcing regulations.

How to formalize small-scale providers?

In many cases, laws are counter-productive, conditions are risky;

Service provision necessary is underground, informal.

- Just enacting laws and regulation is not very effective
- Need to rely mainly on incentives, benefits:
 - Legitimacy (important for water, public services)
 - Protect investment – especially water, power, which require long-term investment
 - Fair taxation (protect against arbitrary collection)

Cotonou: Formalization of waste collectors came from them – formed association to negotiate with government for proper dumping site;

Association managed site, paid government fee (to assure no harassment on the way);

Collectors benefit from speedier passage and dumping.

Lessons:

- Don't put existing providers out of business
- Promote competition, but be practical about political realities;
Be pragmatic, build consensus
- Promote professional associations
Rely on professionals to develop and enforce standards themselves

Discussion

1. Rose Mavoungou, Congo-Brazzaville: After the war, municipalities tried to enter into contracts to remove waste, etc., but had difficulties to regulate the small-scale waste collectors. Of necessity, may have to serve first those people who can afford to pay for services.

2. Keith Hart: Presentations were interesting in that they approached the subject from the point of view of the workers/providers – an important perspective, as top-down approaches often don't work well. Informal sector seems impenetrable to bureaucracy unless it is to

some extent organized (associations). Best case is where informal operators organize in their own self-interest to obtain benefits through negotiation with authorities.

3. Raj Makoond, Mauritius: It appears that small operators can go up to a certain scale of activity, before it is necessary for state to intervene. How can authorities connect into supply chain so that each can perform their respective roles in a complementary way.

4. How does the state gain from organization of miners, apart from licensing fee? Are there other ways for state to realize revenues from organizing the small-scale mining sector?

5. Distinction between enterprises owners and the many people employed. Issue of labor relations within informal economy. Research on small-scale mining in northern Ghana shows that there are a large number of people employed by title holders, with no regulations governing their labor relations, conditions of work, health, etc. Informal labor might be interested in formalization to improve their conditions. Hence labor unions might want to get involved.

6. Ease of formalization may depend on type of mineral. If can be easily turned into cash, likely to find large numbers of small operators. If not easily converted and have to go through legal channels, less likely to find small, informal operators.

7. Looking at it from viewpoint of enhanced benefits to users, how does size and degree of formalization of operations affect the results? What is the role of tax and non-tax elements of formalization?

8. Rudith King: Gender dimension: Water provision is especially critical to women at household level. Water availability benefits entire household. Even within informal economy, men tend to have advantages that women don't.

9. There seems to be a consensus that formalization is the ideal. But need to consider what is the price of formalization, and how clear are the benefits. Immediate consequence of requiring formalization (e.g., of small-scale mining) may be increased unemployment, where enterprises cannot comply. Is there scope for semi-formalization?

10. Sierra Leone wants to revisit policies regarding diamonds post-war, to stop smuggling and comply with Kimberley process. Have chiefdom committees to monitor mining of diamonds. Chiefdom is given back a percentage of the proceeds, as an incentive to regulate.

11. Afua Anyanful: Small-scale energy generation: what policies can help to improve on that service? There are many small-scale water providers; how ensure that they get it from good-quality wholesale supplies.

Responses

Bernard Collignon: Providers who provide a service directly to client have to respond to the demands of the client (not the community). To expand service to community, need to have the government come in with funding and regulation – go hand-in-hand. Morocco example: city provides bulk water to a local operator, who then distributes to the village.

Concerning who defines the rules of the game: it is the user/buyer who determines what is demanded at a certain price. E.g., case where charge for electricity is per bulb rather than per

kwh. Only at a higher level of service provision can the authorities introduce standards for services – but at a later stage, when emerging from conflict.

Authorities often do have difficulty understanding and communicating with informal providers. Common element is the citizen/user.

In general, the bigger the enterprise, the more likely to be regulated. But it's not just a question of turnover; depends on subsectors (especially where sanitation and quality are important, such as water).

It's too simplistic to say that the informal sector doesn't want to pay taxes. People will pay taxes as part of a deal to provide security, protection, services.

Lucie Phillips: Organizations of miners work well at local level. In mine rush, they quickly organize, sort out how to work without conflict. At regional or national level it is more complicated: leaders often are not actively mining; politicized; questions as to who is actually the constituency. Dealers associations have been relatively less successful in self-regulation, keeping undesirables out, providing services to members.

Even without direct taxation, the state gains from having more people employed, ancillary services to the miners. Madagascar experimented with returning a share of fees levied back to the communities, but it generally didn't work.

Ease of regulation is in part related to ease with which the mineral can be converted to cash; but more complex than that. The question is whether there is a buyer – which there may be for many minerals, even for copper. May depend on country – e.g., if government permits buyers to operate.

Many people working under difficult conditions are on their own account, trying to gain a little additional income in off season. Best approach to child labor is to get information out that it is not desirable, shouldn't exist. Heavy-handed intervention not very effective.

VIII. CONCLUDING SESSION

What Have We Learned?

Tom Kenyon

The issues:

- Need for sharing information, communication
 - Firms often not aware of benefits (or costs)
 - May lack specialist knowledge to make formalization profitable
- Trust and reciprocity between firms and governments
 - Firms may hide for fear of being exploited by officials
 - Governments need to set policies and regulations in a realistic, enforceable manner
 - Need dialogue

Understand incentives and share information

- Incentives/benefits may differ from sector to sector
 - Legal security
 - Physical security
 - Access to basic amenities, services
- Share information
 - Coordinate across government agencies
 - Reach out to informal operators –
 - Need to work through intermediaries

Work through intermediaries that have one foot in informal sector, one in formal

- Large firms (sub-contracting)
- Business and other associations (provide information; package services)
- Ex-formal businesses in post-conflict situations
- Individuals – revenue services should recruit people with informal economy experience

Caveat: May be overoptimistic about associations:

- Usually oriented horizontally, among similar firms; rather than vertically up and down supply chains
- May be dominated by donors or large firms

Things to remember

- Formalization is not painless
 - If state can't offer much, it can't demand much
 - Don't over-emphasize tax compliance, especially if public services not being well provided
- Formality is a public good – worthwhile in long run.

Where Do We Go from Here?

Nigel Twose

Have gone a long way toward developing a framework –

Though still have some areas on which we don't have much knowledge.
(e.g., gender)

Survey in Sierra Leone showed that a substantial proportion had tried to register and failed, or would like to register if they knew how.

Have CD and website, to access materials.

Also have a blog on the website – will keep it going for a week or so.

Will apply learning to on-going FIAS advisory work (e.g., Sierra Leone, Liberia, Madagascar)

Will be going to DRC next month.

Would like to structure findings and pilot.

Second conference in South Asia to be held later in year, to carry process forward.

Dzodzi Tsikata, ISSER

Have learned how complicated the informal sector is, the range of operations, organizations; the issues of labor regulations; etc. Important to consider these aspects in our research and policy-making. Keith Hart's contribution was important to give us a sense of history and context, and the question as to whether the (dualistic) concept of "informality" has outlived its usefulness in the current context.

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