



The Business Environment in Africa

Innovative approaches to foster the formalisation of enterprises in Africa

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Table of contents

Summary	2
The three high-level messages	2
Summary of the discussion and conclusions	2
Annex 1 – About the organisers	8
Annex 2 – Agenda	9

Summary

Since March 2020, the International Organization of Employers (IOE) and Konrad-Adenauer-Stiftung (KAS) have organised several high-level digital conferences with UN leaders, CEOs and renowned experts on all aspects linked to the role of the private sector in achieving the 2030 and the additional challenges posed by the pandemic. These conferences aim to inform and mobilise global networks, facilitate peer learning, and exchange experiences and ideas as a catalyst for defining the way forward.

The conference purpose was to discuss innovative approaches to tackle informality in Africa and to make recommendations to governments and the private sector on how to smoothen the transition from the informal to the formal sector. The meeting highlighted ongoing initiatives, measures and best practices across the African continent; discussions were held on where and how to achieve the greatest impact going forward.

The three high-level messages

- **The corona pandemic took a heavy toll on economies that have large informal sectors.** Informal workers and firms, not registered with the government, often lack access to government support or benefits. Challenges of growing informal economies were already seen before the pandemic; however, the social-economic impact of the pandemic highlighted again the vulnerabilities of the informal sector. For example, informal traders were restricted when countries closed national borders cutting them off from supplies, and day labourers lost their jobs due to large-scale lockdowns.
- **Low productivity has been a key issue within informal economies.** Productivity covers everything such as having funds for business expansion, employment of people, means to invest in people and offering them a decent salary. Low productivity (both at enterprise and worker level) was seen as an underlying constraint for informality, and it was recommended that policies and businesses should focus most on boosting productivity. Once businesses are thriving and growing, they are more likely to transit into the formal sector because the benefits of formalisation may then outweigh the burden.
- **Digitalisation has proven to be a solution for both governments and entrepreneurs in the transition from informal to the formal market.** Mechanisms such as e-governance, e-business registration, and card payments not only simplify administration but also include people more formally while allowing the government to better track entrepreneurs for tax collection. Despite progress made by financial institutions and governments in this area, tailored apps to the poor and illiterate people would be beneficial to further both productivity and inclusion in more formal markets.

The section below offers a more detailed summary of the discussions and conclusions. The annexes provide additional information on the organisers (annex 1) and the agenda (annex 2).

Summary of the discussion and conclusions

Introductory and welcoming remarks

Welcoming remarks were given by Mr Matthias Thorns, Deputy Secretary-General of IOE, and Ms Andrea Ostheimer, Executive Director of KAS New York Office; the following issues were raised:

- According to the ILO, 2 billion people (i.e., more than 61% of the world's employed population) make a living in the informal economy, which is defined as the *economic activities of workers and economic units that are not covered –in law or practice– or insufficiently covered by formal arrangements*. In Africa, 85.8% of jobs are currently in the informal sector (according to ILO). The challenge for policymakers is to create an environment where the formal sector can thrive while creating opportunities for people working in the informal sector, improving low productivity, and providing social protection.
- **Informality has different meanings for different stakeholders.** For **workers**, it often translates into a lack of access to social protection systems and social security; for **businesses**, it means no access to capital, support, and training; for **governments**, it leads to loss of revenues due to missing tax income. Despite governments having tool-boxes available (such as financial subsidies, tax system modification and incentives) – progress in formalising the informal sector remains weak. Centre to this is the vicious cycle whereby government misses out on tax-revenue collection and thus cannot provide and improve their public services needed to combat informality.

Panel discussion

The panel consisted of speakers from employer associations, government, donors and financial institutions. Panelists have shown best practices and progress made across Africa in the last years. For example, great results were achieved in Ghana thanks to a strong collaboration between the government and businesses.

Speaker 1: Mr Wale-Smatt Oyerinde, Deputy Director of the Nigeria Employers Consultative Association (NECA)

What type of support could employer federations offer to facilitate the transition of informal enterprises to the formal sector?

- The Nigerian Employers Consultative Association (NECA) is a business-membership organisation representing over 4000 employers in the organised private sector in Nigeria. In general, the strength of an employer organisation depends, to a large extent, on the *size* and *strength* of its membership – so it is of self-interest for the employer federations to support efforts focused on the transition from informal to the formal sector as these are potential new members, strengthening the organisation and paying membership fees. In Nigeria, 65-70% of GDP is generated by organisations in the informal sector.
- At the core of formalisation is the facilitation of *business registration* to operate in the legal framework. NECA is undertaking the following efforts to facilitate the transition from informal to formal:
 - **Supporting the organisation of sector groups:** For example, NECA supported the organisation of the mining and cocoa sectors where the first step was to register businesses (first at the Corporate Affairs Commission and then at the Ministry of Labour). As a result of this leveraged collaboration, organisations can tap into (inter)national corporations and networks and benefit from technical capacity building programmes.
 - **Providing capacity building:** such as accounting and human resources processes and business plan development and writing.
 - **Advocating and facilitating special concessions from the government:** organising dialogues with the government to facilitate special concessions; for example, for

transitioning businesses to gradually build-up their tax payments during the transition period.

- **Facilitating business linkages:** when the businesses are formalised, they can be exposed to (inter)national networks, multinationals and value chains, allowing them to grow their businesses.
- **Protecting and defending against exploitation:** by advocating and deepening the social dialogue with the government for special protection frameworks.

Speaker 2: Ms Emma Ofori Agyemang, Director of Policy Planning, Monitoring and Evaluation at the Ministry of Employment and Labour Relations of Ghana

Some businesses may place a very high value on income earned today, regardless of the size of the gains that could be realised a month from today. For these businesses, the scale of investment needed to facilitate formalisation may not be reasonable. How can policies be designed to target and adapt to the discounting and immediate needs of businesses?

- The informal economy in Ghana covers employment in the i) informal sector, ii) informal jobs in the formal sector, and iii) informal jobs in households. In addition, the informal sector can be categorised further into those with registration/non-registration and fixed location/non-fixed location (see slide 11 in the attached presentation).
- Currently, 77% of the Ghanaian population works in the informal economy. In 2017 the informal sector accounted for 28.6% of GDP which is US\$18.3 billion and 1.2 million people were registered as taxpayers. Towards 2021, the number of registered taxpayers doubled to 2.4 million people, which was facilitated by the following interventions taken by the government since 2017:
 - **Identification:** the national identification programme contributed to the identification of citizens through the Ghana card, tax ID no., SSNIT no. and SIM registration.
 - **Location tracking:** street naming, addressing system and national digital property addressing system (Ghana Post GPS) enabled the tracking of citizens.
 - **Digitalisation:** through mechanisms such as e-governance, e-business registration, passport services, vehicle and land registration, paperless port systems etc., registration increased.
 - **Financial inclusion:** mobile money payment and e-banking enabled registration from informal sector entrepreneurs.
- **There are barriers and challenges to formalisation. Examples of barriers** are policy and regulatory frameworks, administrative hurdles, fees and financial requirements, corruption in the public sector, socio-cultural hurdles, absence of key business support services and criminality. **Examples of challenges** are decent work, statistics, national identification, digitalisation, financial inclusion, unfair competition and taxation and consumer rights.
- **The following policy interventions should be taken to target and adapt to the discounting and immediate needs of businesses:**
 - **Policy and regulatory environment need to be reformed** to streamline registration, support and compliance procedures of businesses depending on their characteristics.
 - **Administration procedures need to be simplified** to create a business-friendly culture for businesses.
 - **Fee administration and financial requirements need to be simplified.**
 - **Businesses need to be supported and incentives for voluntary formalisation need to be created.**

Speaker 3: Mr Mark Andrew Dutz, Lead economist in the Africa Chief Economist Office at the World Bank

What has the World Bank been doing during the past decade to tackle informality in Africa?

- The World Bank will soon launch a new flagship publication called *Technological Transformation for Jobs in Africa*. The publication aims to emphasise technological upgrading as the key driver of higher productivity, higher sales and more jobs through higher production. The publication shows the following findings on the role of informal enterprises:
 - In central, eastern, and western Africa – over 90% of people are in the informal sector. They tend to be poorer and less skilled. Over 80% of Africa’s poor people live in rural areas and earn their living in informal enterprises in farming and off-farm agriculture-related activities.
 - **Productivity increase is required for many farmers and agriculture related employers, to earn higher incomes.** By focussing more on boosting productivity of informal businesses, incomes automatically rise. As a result, formalisation follows more naturally when the benefits of “being formal” are sufficiently high. Hence, it is proposed that policies start by focusing on boosting productivity. The World Bank Group studied and undertook research on informality over the last few years, and the main conclusions were:
 - *Shallow deterrent interventions* such as providing information or awareness about formalisation processes and reducing the cost of formalisation through tax reduction have not been effective. Only enhanced enforcement has been somewhat effective, but findings have shown that it can harm poor people.
 - Low productivity was the *deeper determinant intervention* that needs to be tackled to address informality more efficiently. Productivity, both at enterprise and worker level, should be a core focus of businesses and government, as increased productivity leads to growing businesses and jobs markets. It is a logical next step for the companies to enter the formal sector.
- Part of the *Technological Transformation for Jobs in Africa* analysis was based on a *Micro-Enterprise Survey* run by the *Research on ICT in Africa* (RIA) think tank located in South Africa. It was found that some informal enterprises could raise their productivity significantly if they have access to technology and capability support. Another interesting finding from the survey is that from 3000 firms across Africa (Ghana, Kenya, Mozambique, Nigeria, Senegal, South Africa and Tanzania), those firms that use more sophisticated apps like accounting software or using the internet for job recruitment, are the larger firms who generally have more access to finance and capacity. Based on this finding, **a recommendation in the *Technological Transformation for Jobs in Africa* report is that there is a big need to make digital technologies and other technologies more accessible and attractive to low-skilled, poor people who are largely in informal enterprises.** The challenge is to create a business environment where digital entrepreneurs will create technologies that are intuitive, easy to use and attractive for low-skilled entrepreneurs (rather than complex apps that do not match with the user). An example from Senegal shows how the combination of technology and skills allow the informal enterprises to create better jobs earnings and expand¹. Only by starting at the productivity level – formalisation will follow.

¹ The project works at three levels of support (i) at the firm level, (ii) value chain level and (iii) national aggregate level in terms of PPP projects for investments in required complementary infrastructure. It allows informal enterprises to receive support while also learning at the value chain level and from larger enterprises

- The World Bank also started to explore different approaches to boost productivity and there are a range of policies that cover *business plan competition*, *business skills training* and *apprenticeships* geared to informal enterprises. There are also programs allowing informal enterprises to *link up and learn from larger formal enterprises*.
- **A question raised by the audience was: Can productivity-boosting apps work for largely illiterate populations?** Answer: the main challenge for software developers is to produce apps that can be used by illiterate people so they can learn along the way from the apps. These apps should be intuitive and attractive so people can become more productive and learn. There is a need for much more of such apps and we need business environments that help digital entrepreneurs create those apps profitably.

Speaker 4: Mr Dagmawi Selassie, Country Manager for Burundi at International Fund for Agricultural Development (IFAD)

Accessing finance is one of the main challenges of businesses in the informal sector. Could you please share with us a success of IFAD in helping informal businesses accessing financial support? How can this success be replicated across Africa?

- IFAD is a specialised organisation of the UN working mostly with governments to subsidize loans and grants for smaller farmers as the target group. Engagement with the private sector and SMEs are among the tools IFAD has developed over the years.
- **The Yield Uganda Investment Fund is a EUR 20 million impact fund based in Uganda and a partnership between IFAD and the EU.** The Fund has invested in twelve agribusiness-focused SMEs with investments ranging from EUR 250.000 – 2 million. The main issue that arose from investee discussions on modernisation is around the **cost of formalisation** which includes, for example, operation costs, taxes, social contributions and fees and compliance costs. Agribusiness companies mainly operate in the informal sector but for IFAD to invest in a company, some sort of formalisation is required. For example, there must be audited records, bank accounts and some sort of company registration. This way, the investment process contributes to some extent to steps towards formalisation.
- **Under the Yield Uganda Investment Fund there are two packages offered: Financing and Business Development Support (BSD) Facility:**
 - Under *Financing*, IFAD offers equity, linking finance to performance through key performance indicators (KPIs) whereby interest rates vary depending on the company's performance on KPIs. Usually, SMEs are left out of formal financing because a bank in Uganda charges on average over 30% a year of interest and SMEs need collaterals at around 120% which they usually do not have.
 - The *BSD* is a cost-sharing facility where professional services are hired in key areas where there are gaps. The main services focus on finance and tax-related issues, but there is also support for health, safety and environmental matters and digitalisation of systems, accounting, supply and corporate governance. As an outcome of the BSD, company risk was reduced and SMEs were able to attract additional finance from other financiers, including banks and government facilities.

Speaker 5: Ms Fatima Coulibaly, Head of Group Product, Receivables at Ecobank

Tax avoidance and evasion is widespread, mainly in the informal sector. Effective tax revenue mobilisation is important for sustained economic growth. How can financial institutions in Africa support governments in mobilising domestic resources, such as taxes?

- Ecobank is a financial institution with Africa as the main market; it has a vision to support African governments in the transition towards more formal markets and to sustain economic growth. The current informal sector is the part of the economy that is not tracked, monitored or taxed by a government. Ecobank is supporting governments in the transition of companies to more formal markets through their bank operations in the following ways:
 - **Digital transformation:** Revenue collection has mostly been an inefficient and long process (usually manually) for the majority of African markets, both for the government as well as the taxpayer, especially in remote areas. Ecobank has a partnership with *Microsoft* to build a system to automate and digitalise the revenue collection process and improve the identification of people in need by creating databases. This allows small enterprises to pay through phones, the Internet or laptops. All this information is shared with the government, which can track down who has paid, when how and why.
 - **The products, programmes and solutions below are offered by Ecobank:**
 - By offering the entrepreneurs methods that allow consumers to pay with a card, the entrepreneurs are included in the financial services. The financial flows can be tracked by the banks and shared with the government.
 - Ecobank offers *Xpress Points*, which are Ecobank approved locations that allow remote entrepreneurs to use simple banking services (opening an account, withdrawing, and depositing funds, money transfers, etc.) without having to travel to the main office. Today, 150,000 SMEs across Africa are using that service. Financial flows are again tracked.
 - *Elevate Programme*: This programme is designed for woman-focused businesses. By providing training in the financial service areas, women in these training programmes are able to move into the formal financial sector.

Annex 1 – About the organisers

The **International Organisation of Employers (IOE)** is one of the leading voices for business at the global level and on the ground. With more than 150 EBMO members in 148 countries, IOE represents the interests of over 50 million companies. It is the largest global community network of the private sector. For over 100 years, it has been a powerful and balanced voice of business and offers a diverse and unique perspective based on members that include companies ranging from large multinationals to small and medium-sized enterprises (SMEs) and a vast collection of industries. Together with trade unions, IOE plays a vital role in shaping labour markets and providing support to its members.

IOE is integrally involved with the International Labour Organization (ILO) and other UN entities, G20, and other emerging forums, and contributes to the 2030 Agenda. In its Centenary Manifesto, IOE fully supported the 2030 Agenda as the most effective path to sustainable human development. IOE stressed its commitment to particularly work towards the ambitious targets of Sustainable Development Goal (SDG) 8 for “sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all,” together with SDG 17 for a revitalisation of the global partnership.

Konrad-Adenauer-Stiftung (KAS) is one of Germany’s six political foundations and is closely associated with, yet independent from, the Christian Democratic Union (CDU), the party of former German Chancellor Angela Merkel. With more than 100 offices worldwide, KAS acts as a bridge between state and non-state actors in the promotion of democracy, rule of law and the social market economy. KAS has traditionally been a strong advocate for a rules-based international order and the social market economy, where government, employer and employee representatives’ partner to provide systems of social protection, engage in collective bargaining and advocate vocational training. As such, KAS and IOE are natural partners in fostering private sector engagement in the implementation of the 2030 Agenda. For KAS, multilateralism in the 21st century must move beyond intergovernmental relations, with non-state actors becoming stakeholders in their own rights. KAS considers it equally important that private sector engagement towards achieving the 2030 Agenda not be reduced to funding opportunities or corporate social responsibility initiatives, but rather be shaped as a strategic collaboration that addresses key issues such as capacity building and skills development, research and innovation.

Annex 2 – Agenda

14:00-14:05	Moderator: Ms Shea Gopaul , Special Representative to UN NY, IOE
14:05-14:10	Moderator's introductory remarks The business environment, informality, and the AfCFTA in Africa, setting the scene
14:10-14:20	Welcoming remarks: Mr Matthias Thorns , IOE Deputy Secretary-General Opening remarks: Ms Andrea Ostheimer de Sosa , New York Office Executive Director, Konrad-Adenauer-Stiftung (KAS)
14:20-15:10	Mr Wale-Smatt Oyerinde , Deputy Director, Nigeria Employers Consultative Association (NECA) (10 mins) Ms Emma Ofori Agyemang , Director, Policy Planning, Monitoring and Evaluation, Ministry of Employment and Labour Relations of Ghana (10 mins) Mr Mark Andrew Dutz , Lead economist in the Africa Chief Economist Office, The World Bank/ADB (10 mins) Mr Dagmawi Selassie , Country Manager for Burundi, International Fund for Agricultural Development (IFAD) (10 mins) Ms Fatima Coulibaly , Head of Group Product, Receivables at Ecobank (10 mins)
15:10-15:25	Questions & Answers session
15:25-15:30	Closing Remarks: Ms Andrea Ostheimer de Sosa , New York Office Executive Director, Konrad-Adenauer-Stiftung (KAS)



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