

OECD DEVELOPMENT CENTRE

POLICY BRIEF No. 10

WHAT INSTITUTIONAL FRAMEWORK FOR THE INFORMAL SECTOR?

by

Christian Morrisson

- Many micro-enterprises are known to the authorities, in particular because they pay taxes.
- Intermediate-revenue countries impose certain standards to protect consumers.
- Wages regulations are only rarely respected.
- The creation and development of micro-enterprises could be assisted by institutional reforms.

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DEVELOPMENT CENTRE POLICY BRIEFS

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The object of this *Policy Brief* is to examine the soundness of a theory which has had a great deal of success during the 1980s: that the administrative laws imposed by developing-country states are inadapted to the informal sector and inhibit its development. Consequently, it suffices to remove these administrative obstacles for the sector to prosper. In order to understand the real situation better, seven surveys were conducted of a representative sample of micro-enterprises and independent traders in the same three activities in seven countries. The results show that, counter to what is often thought, these enterprises do not operate totally outside the legal framework. In addition, while some rules tend to restrict their activities, there are other more important obstacles to their creation and growth.

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The idea that the institutional framework can be a determining factor in stimulating or slowing informal activities arose relatively recently. Previously, the economic environment was the primary concern. For example, governments tried to promote micro-enterprises by granting them easier access to capital; for several decades, the financing problems of these enterprises have been analysed and aid programmes undertaken in that domain. Economists only began to pay more attention to the role of institutions in development and study the impact of the institutional framework on informal activities in the 1980s. Studies of this type are of obvious practical interest. It is hoped that they will give rise to recommendations for improving the institutional framework, and that is the intent of the Development Centre's project: to deepen our knowledge of the impact of the institutional framework so as to improve it. It is not self-evident that the state could intervene effectively along these lines. Indeed for 30 years advocates of state control and then liberals, for opposing reasons, believed that the state could do nothing for the informal sector. During the 1960s and 1970s, partisans of state control promoted rapid development of the modern sector through state intervention, or even state control over the entire sector. In their eyes, the informal sector was a marginal, residual activity that would disappear thanks to job creation in the modern sector. They preferred to ignore the informal sector because it was a reminder of the country's economic backwardness, especially in the newly independent states which had taken the path of modernity and wanted to forget certain traditional aspects of their economies. At the same time, however, a regulatory framework modelled on those of the developed countries and completely inappropriate for traditional activities, was retained and even extended.

This programme failed for several reasons. Medium-sized and large modern sector enterprises were unable to resolve the employment problem in cities where growth of the working-age population was extremely rapid (more than 4 or 5 per cent annually). Then the financial crisis of the early 1980s hit most of the countries that had chosen this strategy, ending their investments in large modern sector enterprises, investments mostly financed by foreign borrowing. The result was a radical change of attitude: the formerly ignored informal sector became the last hope of governments in the struggle against unemployment. At a time when adjustment programmes were sometimes leading to massive losses of employment in the large state-controlled enterprises, the informal sector was somehow expected to meet the heavy responsibility of creating more jobs to compensate for these effects of adjustment. As the financial crisis coincided with the success of neo-liberal theory in the United States and Britain, it was believed that the state should adopt a "laissez faire" attitude. In the context of the time, the state's excessive weight (too many regulations, inappropriate regulations and administrative practices) seemed the only obstacle to expansion of the informal sector, and thus to job creation. It was thought that by eliminating

this obstacle, the state would only have to suppress the regulations, that is, refrain from any intervention. This explains the success of the argument advanced by the Peruvian Hernando de Soto. Starting from a small sample of enterprises and well-chosen examples of regulations or practices that were completely inappropriate for Peru, de Soto skillfully defended this neo-liberal argument, which concluded with the following recommendation: abolition of regulatory obstacles will suffice to let the informal sector develop.

In view of the stakes (this sector employs between one-third and one-half of the labour force in many cities, and represents the only means of reducing unemployment levels that often attain 20 or 30 per cent), it seemed indispensable that the Development Centre carry out a set of thorough surveys among representative samples of urban micro-enterprises or self-employed persons in several sectors (Morrisson, Solignac Lecomte and Oudin, 1994). This was the only way to build a database large enough to answer a few essential questions:

- Do certain regulations hamper informal enterprises and prevent the sector from developing?
- Are these institutional obstacles decisive, or do others play a more important role?

We shall answer these questions in the first part, after reviewing the problem of defining the informal sector and presenting our database. Part 2 will be devoted to recommendations concerning the measures to be taken.

Part One

The institutional framework and micro-enterprises

Beyond theoretical controversies, an extensive database

The concept of the informal sector has provoked controversy for some 20 years, but there is no point in pursuing that debate here. Rather, we must review this problem in the simplest terms to explain just what our database is.

Three criteria are commonly used to define the informal sector:

- size: the sector includes only the self-employed and micro-enterprises having no more than 20 (or ten) workers;
- legal informality: this includes only those enterprises which are not registered and which do not comply with legal obligations concerning safety, taxes, labour law and so on;
- limited capital: physical capital *and* human capital per worker are always low or even insignificant).

Some authors use only one criterion, especially the second, to define the informal sector, while others use the three criteria in combination. We shall not address this problem of definition — to which our seven surveys provide some partial answers — but will explain how our database was constructed (for a more detailed presentation, see Annex 1). To avoid any ambiguity, we prefer the term “micro-enterprises” to “informal sector”.

To make up our seven samples, we used two “objective” criteria: size and limited capital. As for size, we included only self-employed persons and all micro-enterprises with no more than 20 workers. To exclude capital-intensive micro-enterprises, we chose the following sectors in all seven countries: textiles, metalworking, woodworking, mechanical repairs and small restaurants. As a rule, these trades require little physical capital per worker and do not require a high level of training (and thus of human capital), in contrast with other activities such as health services and haulage, which require one or both. Except for mechanical repairs, the trades chosen can be exercised using more or less traditional techniques.

On the other hand, we did not use the criterion of legal informality. Apart from the fact that it would have been difficult to define one or more similar criteria for seven countries that have appreciably different regulatory requirements, these criteria would have introduced a bias in the samples, while one of the study's main objectives was to evaluate to what extent micro-enterprises respected their legal obligations. Thus, with a few exceptions, the samples were selected randomly from an exhaustive census of independent workers and micro-enterprises in a given geographical zone (for example, a city or an urban neighbourhood), irrespective of the status of the enterprises, that is, whether they were registered or complied with other legal obligations such as taxes. Thus each sample was representative of all enterprises of the required size in the zone in the sectors surveyed.

Annex 1 provides the technical details concerning the surveys, so here only the essential points are noted. These surveys concerned seven countries: Algeria, Ecuador, Jamaica, Niger, Swaziland, Thailand and Tunisia. Each covered 300 units, divided into three categories: the self-employed, micro-enterprises having two to five workers and micro-enterprises having six to 20 workers. Only in the third category were a majority of workers paid a wage. As all persons surveyed had fixed premises, they were probably more subject to regulations than street vendors.

The problem of status

As indicated when mentioning conceptual problems, some economists define the informal sector by a failure to register and comply with regulations. For them, this sector exists at the margin of the legal institutional framework, extralegally (if it does not comply with regulations and the state accepts the situation), even illegally (if the state tries in vain to enforce the laws).

The results of the seven surveys show that this view often does not conform to reality. In the majority of cases, these micro-enterprises were known to the authorities, either because they registered or because they paid one or more taxes. Payment of taxes may be similar to registration, as it too implies an official enrolment (in the tax registers). Moreover, it is more frequent than formal registration. The registration requirement is always complied with in Algeria, often (over two-thirds of cases) in Ecuador and Niger, but more rarely in Jamaica and Thailand (one enterprise in five). In contrast, the tax authorities often have more micro-enterprises on their books: two-thirds of micro-enterprises and self-employed persons paid the turnover tax in Thailand, 40 per cent paid the sales tax in Swaziland, and three-quarters paid the rental tax in Tunisia. The same people may be known to several government services: in Ecuador and Algeria, the percentage of enterprises and self-employed persons who paid taxes was about the same as that of registered enterprises. In most countries,

therefore, the majority of the persons surveyed were known to at least one service, which is at variance with the usual image of a sector operating outside the legal framework.

However, this conclusion should be qualified by the size of the enterprise. For the self-employed, that impression is sometimes fairly close to reality. The majority of self-employed persons, or almost all of them, often were not registered and paid no taxes whatsoever. In Swaziland, for example, 6 per cent of the self-employed were registered, as against 24 per cent for micro-enterprises having six to ten workers; 3 per cent of the self-employed paid the tax on profits and 30 per cent paid sales tax, whereas in the second group 60 per cent of enterprises paid both of these taxes. In Jamaica, 4 per cent of the self-employed were registered, as against 60 per cent of micro-enterprises with six to ten workers. In Ecuador, where most micro-enterprises were registered and paid taxes, only half of the self-employed were registered and a quarter paid taxes. Clearly, the self-employed are in a special situation, even when they have premises, as did all the enterprises in our seven samples. *A fortiori*, the activities of those who have no premises probably escape regulation completely.

The picture changes as soon as one considers micro-enterprises, even very small ones (two to five workers, most of them not wage-earners). With few exceptions, the majority or almost all of these are registered and/or listed on tax rolls.

This conclusion is confirmed by econometric analysis of registration in four countries (Ecuador, Jamaica, Niger and Swaziland): the size and location of the enterprise are the determining variables in explaining the registration rate. The role of the geographic variable is not surprising: the probability that the authorities will enforce an obligation decreases with the size of the town.

The fact that the majority of micro-enterprises (two to 20 workers) are known to the authorities does not mean that they are integrated into the institutional framework as well as the small and medium-sized enterprises (21 to 500 workers). The latter are *always* registered and listed in the tax registers, while a minority (of 10 to 40 per cent) of micro-enterprises function outside the legal framework. Thus between the self-employed and small to medium-sized enterprises there is an intermediate zone of partial integration, which is nearly total for micro-enterprises having 11 to 20 workers.

When persons who had not registered their businesses were asked the reasons, most said that they had not been informed (which may not have always been true) or that this formality did not seem necessary to them. The reasons which Hernando de Soto emphasized (cost and complexity) were rather rarely cited. This result is interesting because it places the Peruvian example in perspective. Depending on the country, the cost of a given formality in time and money varies widely, which explains the very different reactions from one country to another.

Protection of consumers and of the environment

Environmental and consumer standards in the industrialised countries are now so high that direct application to a poor country seems difficult, but this no reason for ignoring all hygienic and safety standards. Even in a poor country, for example, the climate can make it indispensable for public health to have a refrigerator even in the most modest restaurants.

The seven surveys provided detailed information on compliance with these standards, reasons for non-compliance and the reactions of those concerned. Overall, the situation in poor countries proved very different from that in middle-income countries. These standards play no role at all in Niger and Swaziland, except for regulations that restrict authorised business sites in Swaziland. The authorities enforce bans on certain locations, provoking very hostile reactions: the persons surveyed lost sales because of these restrictions and hence view them as obstacles to the development of their businesses.

In all of the other countries, the government has imposed many regulations and enforces compliance with some of them through inspection and sanctions. The fact that some regulations are respected and not others is significant: the authorities have the means of enforcing regulations, but for practical reasons governments use constraint only in certain cases. For example, hygienic and quality standards for small restaurants are often rigorously checked. In Tunisia, restaurants are inspected once a month; in Thailand, at least once every three months. Sanctions are generally moderate (a warning, then a fine), but in Tunisia they can go as far as closing the restaurant. As a result, these standards are generally complied with: in Tunisia, all restaurants complied with them (half complied completely, half complied in part). In Jamaica, there are sanitary standards for restaurants and food preparation; they are respected in the cities owing to regular inspections, but rarely in other places because there are no inspections. In Ecuador, two-thirds of the restaurants complied with these standards. On the whole, therefore, small restaurants, modest though they may be, are a sector under surveillance where hygiene and quality standards are respected. The attitude of the authorities is explained by two factors: concern for public safety, and in countries such as Tunisia or Thailand, concern for avoiding any incident — such as serious food poisoning — which might harm the tourist industry.

The metalworking and mechanical repairs sectors are subject to two types of regulations: safety standards, because some of the equipment used is dangerous, and environmental standards, because of noise and other nuisances for the neighbourhood (for example, some locations are forbidden, or a minimum size for the workshop is imposed, based on the number of machines). This type of regulation was more or less complied with in 20 to 50 per cent of the cases, depending on the country. Textiles were the least regulated sector: technical and quality standards exist, but they were fairly rarely complied with, except for the stamp that guarantees the quality of rugs

in Tunisia. This ranking of sectors by their degree of compliance with regulations is linked to inspections, which are less frequent for metalworking than for restaurants, and even less frequent for textiles. In Tunisia, for example, 55 per cent of micro-enterprises in mechanical repairs and 33 per cent in textiles were inspected at least once a year, while restaurants were inspected monthly.

The reactions of those surveyed to these regulations are interesting because of their variety. Certain obligations are accepted fairly well, even if they entail extra costs. This is the case for hygiene and quality standards in small restaurants, or for safety standards in the metalworking sector in Thailand. In contrast, all regulations that are more or less related to the environment — whether restrictions on sales or production in certain sites, or laws concerning workshop size — provoke open hostility. The survey respondents reject any legislation that “informalises” or marginalises micro-enterprises by banning them from selling at sites that are accessible to larger enterprises, while environmental concerns make no sense to relatively poor people who have fought for years to create and develop their micro-enterprises.

This review shows that the situation of the informal sector is not simple. Depending on the case, the state may enforce certain standards more or less strictly by inspections and the threat of sanctions, or may not enforce them at all. For example, the state tends to be much more strict in a sector such as small restaurants than in the textile sector. As compliance with regulations varies widely, depending on the sector, location or country, micro-enterprises find themselves once again in an intermediate situation between the self-employed and larger enterprises. This conclusion must nonetheless be qualified by certain exceptions: in Thailand, even the self-employed in small restaurants comply with hygienic standards, while very serious accidents occurred in 1993 in large enterprises that had neglected safety norms.

Governmental inspection practices and the reactions of those concerned help suggest better regulations. Clearly, some standards are justified by public interest or by the self-interest of the enterprises, and the state can enforce compliance with these because they do not provoke strong opposition. This is the case of hygienic standards in small restaurants and safety standards for activities that may be dangerous. Quality standards can help micro-enterprises sell their products. Moreover, some standards may stimulate industrial production: production of refrigerators will increase if refrigerators are made obligatory in all restaurants.

A special topic still needs to be addressed, that of the state as a customer of micro-enterprises. The surveys showed that in Niger and Swaziland these enterprises have practically no access to the market for public procurement orders, while in the five middle-income countries only 10 to 20 per cent had access to this market. Both the enterprises and the state are responsible for this handicap. Certain enterprises

cannot participate in this market because they are not registered or keep no accounts. Others decided not to participate because delays in payment are too long or procedures are too complex. Another reason often cited was “lack of contacts”, which reveals the chasm between the micro-enterprises and the government, or perhaps reveals the constraints of being at the limit of legality, or outside it. Indeed, the problem of public procurement in both industrialised and developing countries shows that micro-enterprises have no monopoly on illegal practices. They may even comply best with laws against corruption, given their lack of means and contacts.

In view of the scale of procurement by governments and local communities, it is essential to pay more attention to this problem of public contracts. Obviously, the state could easily and immediately remove some obstacles by requiring all its services to pay on delivery, or by simplifying bidding procedures. Moreover, a declaration of registration should suffice for submission of bids. It would be easy to segment certain markets, notably the orders placed by local communities. To go further, however, and to overcome the force of habit or furtive interests, political will is needed, which could take the form of a policy decision to reserve, say, 10 and then 20 per cent of public purchasing for micro-enterprises. This measure alone can guarantee a worthwhile volume of orders having durable positive effects (strong sales growth for the beneficiaries and learning the government’s technical standards).

The fiscal constraint

According to our surveys, taxation is the principal reason for the state’s negative image, the leading constraint that comes to the minds of the survey respondents. It is often the regulation most strictly enforced by the state, and it is the most costly for enterprises. This explains the attitude of enterprise owners: the first regulation that they would like to see disappear is taxation. This reaction proves that, contrary to what is sometimes written concerning the informal sector, not all micro-enterprises evade taxes. Even in the poorest countries, many must pay a tax: 40 per cent in Swaziland pay sales tax, and more than half in Niger pay for a trading licence. Moreover, 30 to 40 per cent also pay local taxes in these two countries.

Jamaica is a special case among the middle-income countries. It was impossible to ask direct questions about taxes, but according to the qualitative survey of 30 micro-enterprises, it seems that only a minority (about one-fourth) pay taxes. In the other countries, the situation is completely different: 65 to 90 per cent of enterprises pay one or more taxes. Even the self-employed are sometimes subject to taxation; this is the case of one in three in Ecuador, 42 per cent in Thailand and 30 per cent in Swaziland. To be sure, these proportions are much lower than those for micro-enterprises: once again, size is a significant explanatory factor. This is confirmed at

the other end of the scale by the micro-enterprises having 11 to 20 workers, which are almost always taxed. Still, it remains true that even the self-employed can be obliged to pay taxes.

The burden of taxation is by far the heaviest in Algeria. Approximately 90 per cent of enterprises pay at least one tax, many pay two or three, and the total weight of taxes represents a large share of their incomes. In contrast, Tunisia seems to have the lightest tax burden, because the principal tax is a simple, inexpensive rental tax. In Ecuador and Thailand, two-thirds of micro-enterprises must pay a heavier tax on profits. For Ecuador, we have some very interesting information: payment of the value-added tax, broken down by the age of the enterprises. Almost all enterprises founded before 1970 pay this tax, as against only 56 per cent of those created since 1990. This suggests that entrepreneurs are sincere in their frequent responses to the effect that "I do not pay this tax, but I intend to do so in the coming years". As micro-enterprises are very fragile, owing to their lack of capital and variable receipts, they need several years to become integrated into the legal fiscal framework.

When people who paid no taxes were asked the reasons why, contrary to what one might think, they did not complain first about the amount of taxation or its complexity in certain cases (such as that of VAT), as Hernando de Soto affirms. However, there is an exception that agrees with his argument: Algeria, where taxation is often considered to be unbearably heavy. This suggests his theory's validity increases as the degree of state control increases.

The principal reasons mentioned in other countries are lack of information and lack of inspections, in particular for micro-enterprises having two to five workers. For socio-cultural reasons, these enterprises live somewhat on the fringes of modern society, so that an artisan who could pay a small tax does not do so, simply because he is uninformed. The enterprises are reacting rationally to the lack of inspections just as the authorities are in omitting them; the latter would have to make a large expenditure on inspections for a small increase in revenue.

The problem of financing

Micro-enterprises need medium- to long-term financing for investment, because they lack their own and short-term capital since they extend more credit to customers than they get from their suppliers.

All the surveys agree that the banking sector plays an insignificant or, at best, a modest role in the financing of investments, 9 to 10 per cent of the cases in Jamaica and in Tunisia. In the latter country, the larger role of banks is due to the FONAPRAM (Fonds national pour la promotion de l'artisanat et des petits métiers). It was also noted, contrary to expectations, that the informal financial sector counts

for even less than the banks. This result confirms the conclusions of David Turnham (1993) on the financing of micro-enterprises: the great majority receive neither bank credit nor informal credit. Consequently, there are two sources of financing: personal savings, by far the largest source, and loans from family and friends. This type of loan is best suited to micro-enterprises because interest rates are much lower than in the informal financial sector and repayment schedules much more flexible than in the formal financial sector. In addition, banks request documents, notably company accounts, which cannot be supplied, and they require mortgages on family property or guarantees on tools that the borrower will be reluctant to accept.

An enterprise's size has a significant impact on access to bank credit. The percentage of enterprises that receive such credit is much higher when there are 11 or more workers. As the capital needs of the self-employed are very limited, the problem essentially concerns micro-enterprises having two to ten workers, especially those having two to five workers, because they need to buy tools or machines to put several people to work without being able to borrow from the banks. This constraint is condemned by the majority of those surveyed as the principal obstacle to the creation and development of the enterprise.

Banks do not contribute to resolving the problem of operating funds either. Excluding Niger and Swaziland, where micro-enterprises had no relationship whatsoever with banks, 50 to 80 per cent of micro-enterprises deposited money in banks, while only 10 per cent received short-term credit. Lacking information on the amount of loans and deposits, we do not know whether these micro-enterprises are net suppliers of short-term capital to banks, but given the gap between the numbers of depositors and of borrowers, we may suspect that they are.

This pessimistic picture should be qualified by recalling that in two countries of our sample, certain institutions have had a favourable effect. This is the case of Ecuador, where many artisans belong to co-operative savings banks and receive loans from them, and in Tunisia, for micro-enterprises aided by the FONAPRAM, which was established in 1981 to finance artisans' projects with low-interest, reimbursable loans. It is financed by the state budget and managed by banks, and its loans are reserved for micro-enterprises as the amount of the investment must be less than \$25 000. These institutions have played a positive role, and owners of micro-enterprises would like them to increase their activities. The case of Ecuador is particularly interesting because it shows how the same savings banks can both collect the savings of artisans and finance their projects. The same kind of institution has succeeded in other countries, as witness the success of the BKK and BRI banks in Indonesia (Patten and Rosengard, 1991) which lend to small farmers and to micro-enterprises.

Labour law: a real or an apparent obstacle?

Let us first recall that many of the persons surveyed employed no wage workers; by definition, this is true of self-employed persons and is fairly often the case of micro-enterprises with two to five workers that employ only family labour or apprentices. Excluding Algeria, where wage-earners predominate, about half of the units in each sample, and as many as three-quarters in Niger and Swaziland, have no salaried workers. Thus many enterprises with one to five workers are not affected by labour laws. In contrast, all enterprises with more than five workers have some wage workers, and labour law could conceivably hamper their operations and prevent them from expanding.

All the surveys showed that in reality this risk is slight. To be sure, there are often regulations that entail more or less major costs for the employer, but in most cases the authorities have been rather lax in this area. They apparently tolerate many irregularities because they give priority to employment. Moreover, wage-earners in these micro-enterprises maintain personal relationships with their employers and are not unionised; their situation does not interest the trade unions, which recruit in large enterprises and in the civil service. Lax governments are therefore not subject to union pressure. Algeria is the only country where the authorities have a different attitude, because of the government's socialist ideology: many regulations favour salaried workers, and in case of conflict with the employer, the courts systematically decide in favour of these workers. The percentage of enterprises that comply with the various regulations, however, is no higher than in countries such as Ecuador and Tunisia. This proves that conditions on the job market count more than these laws. Among the five middle-income countries, Algeria is by far the worst hit by unemployment. Consequently, wage workers prefer not to assert their rights rather than risk losing their jobs.

Laxity can be described in four areas: minimum wages, working hours, hygiene and safety questions and affiliation with a social security organism.

All seven of the countries studied have minimum-wage legislation which applies also to micro-enterprises. In reality, about half of employers comply with these laws. Two exceptions were noted: this percentage reaches three-quarters in Ecuador, where artisans can obtain a legal status that confers numerous advantages, on condition that they comply with regulations, including the minimum wage. In addition, it is easy to comply with the law in Ecuador because the official minimum wage has been fixed at a low level compared to existing wages. In contrast, only one enterprise in three complies with this regulation in Swaziland, and one in ten in Niger. This suggests that the poorer the country, the greater is the spread between the wages paid in micro-enterprises and the legal minimum wage, which is determined as a

function of wages in medium-sized and large enterprises. This legislation does not hamper micro-enterprises, however, because in poor and middle-income countries, it is rare for the state to enforce compliance.

The reasons mentioned for non-compliance are interesting: the legal minimum wage costs too much and also has the drawback of being a fixed cost. Now, the revenues of micro-enterprises fluctuate too much to allow enterprises to pay fairly good wages on a regular basis. This does not mean that the employer systematically refuses to pay such wages: when business is good, he grants bonuses as well as payments in kind, so that the total wage is above the legal minimum, but he refuses to be obliged to pay the legal wage regardless of the economic situation.

All the countries in the sample also had legislation on working hours, which are limited to 40 or 48 hours a week, and on overtime, which must be paid for. However, the same behaviour is observed everywhere: approximately half do not comply with the legal limit on working hours and half do not pay for overtime. In this respect, we may note that the employer who pays the legal minimum wage can circumvent this regulation simply by demanding extra hours of work without paying for them.

All the countries have regulations concerning hygiene and safety of wage-earners in enterprises, except Niger where micro-enterprises are not affected. Most micro-enterprises having two to five workers do not obey the regulations, however. In contrast, larger micro-enterprises (11 to 20 workers) very often comply. Obviously, only these enterprises can stand the extra cost. Their attitude concerning the minimum wage is different: here they do not respect the law any more than other micro-enterprises do. In this case, as the sums involved are much larger, all micro-enterprises, whatever their size, take advantage of conditions on the job market.

In all seven countries except Thailand, where this obligation was extended to micro-enterprises only in 1994, the employer must insure wage-earners against work-related accidents and illness. Once again, size plays a key role: on average, this regulation is respected by 20 to 40 per cent of the enterprises having two to five workers, 50 to 75 per cent of those having six to ten workers, and most enterprises having 11 to 20 workers. Employers who do not comply with social security legislation said that the costs are too high and that they themselves reimburse medical expenses for their employees in case of accident or even illness. Thus the smaller the micro-enterprise, the more difficulty it experiences in paying a fixed complement to wages. This obligation hampers the enterprise very little, however, because the authorities enforce it no more than they enforce the other laws.

Part Two

What can be done to improve the institutional framework?

Several concrete recommendations can be drawn from the findings reported in Part One. We shall try to answer questions such as: should registration be imposed? And, how far should one go in protecting consumers, or wage-earners in micro-enterprises? We shall then broaden the inquiry by asking what the state can do to promote the creation of such enterprises.

Is registration desirable?

Although the formality of registration may seem to be of secondary importance, and our question superfluous, this is not the case. In reality, registration is an important question of principle, for it concerns the state's attitude towards the informal sector.

In answering the question of whether registration is desirable, one should bear in mind the practical conditions of registration: the candidate may be poor and/or illiterate, and may sometimes be a woman in a society where women are relegated to inferior status. Consequently, any complex or costly formality provokes criticism (this was the case in our sample in Swaziland) and must be ruled out. Registration should take an hour or two, should require the minimum number of documents (identity card and proof of residence, for example) and should cost nothing, or no more than a dollar or two. On the other hand, the card issued should be renewed each year, so that this formality serves to provide up-to-date statistical information. The authorities can simplify the procedures as much as possible; for example, the professional card that attests to registration could be provided on site during a business census, the census agent being empowered to register the enterprise. If that were the case, any person could start up an enterprise whenever he liked, on condition that he register it during the census taker's annual visit.

If this type of operation is to succeed, two conditions must be met. First, the department that registers enterprises should never be part of the finance ministry, as in this case people are instinctively afraid to register, for tax reasons (this is what happens in Jamaica, where the finance ministry is responsible for registration). The independence of the department in charge of registration should be officially proclaimed. To be sure, the population may not believe this, but one can imagine solutions such as the creation of an autonomous statistical agency, or entrusting registration to local communities. Second, benefits should be provided for this obligation, to dissipate the suspicions which were widespread among those surveyed,

who consider that the state does nothing but impose obligations. It would also be necessary in some cases to try to change the behaviour of administrative officials who act condescendingly towards these small artisans and tradesmen, considering them a legacy of the past, or a symbol of economic backwardness. However, they should be considered as economic actors with their own rationality, part of the national economy, despite their lack of money and diplomas. If in the end registration procures advantages, they will sign up spontaneously and without difficulty. It is easy to imagine the advantages: a given percentage of the procurement orders of the government agencies and local communities could be reserved for micro-enterprises, and technical assistance services could be provided. We shall specify these advantages in considering the various obstacles. The example of Ecuador seems to show that such measures can be effective: the special status for artisans confers numerous advantages, and 80 per cent of micro-enterprises (excluding the self-employed) register in order to enjoy the benefits.

Everything should be done to facilitate registration and to motivate the persons concerned to ask to be registered, because this formality is justified for reasons of public safety as well as for economic reasons. Indeed, no development is possible without a legal framework worthy of the name guaranteed by the state. The government cannot allow the establishment of zones, especially in poor urban areas, where extralegality or illegality is the norm, where everything is permitted, including illicit trafficking. In these areas, there is neither rule of law, nor protection by the state. Contrary to what some people claim, the rule of law protects the poor and improves their chances of bettering their living standards more than living extralegally. Furthermore, issuing professional cards protects consumers because they can be refused to those who have no qualifications at all for a trade or who have had serious problems with the law. Maintaining the rule of law in all regions and all urban neighbourhoods is certainly a duty of the state.

Registration is also justified for economic reasons. If the state does not have an annually updated statistical base, it cannot formulate a coherent aid policy for these enterprises or intervene for legitimate reasons of the public interest (to prevent consumption of toxic products, for example). In broader terms, how can the state devise an employment policy without reliable data for a sector that employs 30 to 50 per cent of the urban labour force? One should not forget that statistics concerning the active population and production were one of the foundations of the modern state.

Some will object that by imposing this formality, the government will create a second sector of unregistered persons, this one really informal in the legal sense. As just pointed out, however, this risk can be minimised by a combination of simplified procedures and advantages. Furthermore, initially, especially in low-income countries, exemptions could be granted for the self-employed, who are a group quite distinct in relation to micro-enterprises, although this would involve completing the data periodically, say every five years, through surveys of household activities and

consumption. Experience shows that household surveys with numerous questions concerning the activities of household members produce fairly satisfactory data on the self-employed and micro-enterprises.

Must the consumer and the environment be protected?

This is a sensitive topic. It is well known that the most developed countries are the most concerned with the environment or protecting the consumer, and that they have already passed restrictive legislation in these areas. It might be considered that such legislation is irrelevant to poor countries that have more serious problems to resolve.

Even in these countries, however, the state remains the guarantor of the general interest, and it cannot tolerate practices that are dangerous to the health, or even the lives, of consumers. To be sure, as the means of micro-enterprises are very limited, in some cases they cannot be held to the same standards and extra expenses imposed on larger enterprises. It is thus preferable to define two levels of standards, one resembling that of the industrialised countries (this goes without saying for exporting companies), the other adapted to the particularities of micro-enterprises and of their clientele, attracted by low-priced products or services. It is better to set more modest standards and enforce them than to impose the same regulations on all enterprises and allow many micro-enterprises to comply with none. Moreover, if a piece of equipment (e.g. a refrigerator for food in hot countries) seems indispensable for reasons of public health, state assistance could be justified by the equipment's benefits for the community.

In principle, a double standard for micro-enterprises and large enterprises is not a satisfactory solution, but in a context of structural adjustment when countries are advised to increase their exports of manufactured goods to OECD countries, this necessarily requires exporting enterprises to comply with strict standards. The cost of these standards, however, leads to prices too high for the poor households that constitute the principal clientele of micro-enterprises. Despite its drawbacks, such a regulatory double standard can be justified by the considerable gap between foreign consumers and these poor households.

Regulations concerning the location of enterprises raise two different problems: sales and production. As for the first, the question of why certain points of sale are forbidden to micro-enterprises should be carefully examined. Once micro-enterprises are systematically registered and inspected for compliance with certain standards, it must be asked whether there remain any valid reasons of public interest for banning micro-enterprises from these sites. In any case, the influence of interest groups (e.g. larger competitors) or a concern for decorum on the part of leaders are

not legitimate reasons. Obviously, however, this equal treatment should be applied at all levels, notably at the level of taxation; micro-enterprises cannot take advantage of a profitable location without paying the same taxes as larger enterprises. As for production sites, it is natural for municipalities or the state to be concerned with avoiding serious nuisances for the neighbourhood. This leads to the environment, the last point.

Environmental protection, in its broadest sense, is a very difficult subject because it is a problem of mental attitudes, which no state can rapidly change. To be sure, the state can impose a measure by force, but it will continually provoke hostile reactions and fraud. Should all intervention be avoided for this reason? The state cannot permit abuses such as a continual noise that is intolerable for the neighbourhood. It must arbitrate between the freedom of enterprises and the rights of other inhabitants, and must intervene if the imbalance in favour of micro-enterprises becomes excessive. As these will be individual cases, the municipal authorities are probably better placed than the state to intervene in a flexible and timely way and to find the best settlement of these conflicts.

The fiscal system can be improved

It seems to be obvious that some common-sense reforms are indispensable in light of situations like the excessive tax burden in Algeria, the regressive flat tax in a country like Niger, requiring an artisan to pay the same amount even though his revenues have dropped owing to crisis, or the complexity of some forms for people who hardly know how to read. The first reform would be to combine the various taxes (excluding local taxes) into one. Diversity and complexity can hinder small entrepreneurs, who have little time and often are poorly educated, or even illiterate. Moreover, requiring a micro-enterprise to pay several different taxes makes no sense, because the costs of collection are often higher than the receipts. Second, given the frequent lack of accounts, a presumptive tax assessment is inevitable, although it could be divided into several brackets, according to presumed sales. This taxation should be adapted to the taxpayer's circumstances. For example, *ex post* checks can be carried out following a few indicators (purchases of inputs, number of workers and so on) to verify whether the tax bracket is plausible. During a general or sectoral recession, the flat tax should be abolished. The practice of underdeclaring revenues should be accepted from the beginning; in a sense, this is a policy of encouraging micro-enterprises. What is important is developing the loyalty of the taxpayer, accustoming him little by little to consider regular payment of a tax as being normal. According to this approach, taxation of micro-enterprises corresponds to a process of integrating them into the legal institutional framework, which is desirable on condition that it be done very gradually, with a low tax pressure. This process has psychological

aspects. On one hand, civil servants in the tax service must learn to be more flexible and understanding with micro-enterprises. On the other, people who previously often paid no taxes at all must gradually learn to accept this obligation.

One can still wonder, and with some justice, whether the self-employed or those who create an enterprise should not be granted exemption from taxes. The first question relates to those who have the fewest resources. For sectors other than those chosen for our surveys and where many of the self-employed are street vendors, a positive response goes without saying. Even for the sectors we surveyed, where self-employed persons had fixed premises, it might be desirable to apply two different tax policies, one for the state and the other for local communities. Local taxation could reach any individual who has a business and uses certain infrastructure, while the state would exempt the self-employed from taxation to encourage them to create micro-enterprises, i.e. to create jobs (this is the case for those who hire a salaried worker and even for those who hire an apprentice, as the latter will acquire a skill that will then allow him to earn a wage).

On the other hand, it is not self-evident that temporary or permanent tax exemption should be granted to micro-enterprises. Two policies are possible. The simplest would be to apply a single-rate tax. This can be reconciled with aid to enterprise creation by granting exemption during the first years in all cases. This may have a perverse effect, however, as some people will close their businesses at the end of the exemption period and create new ones. This drawback can be avoided if the exemption is not granted to the same person in the coming years. The second policy would take into account the particularities of micro-enterprises by granting them a lower tax rate. This policy has serious drawbacks: it entails administrative costs and creates distortions, with the following perverse effect: to take advantage of this fiscal benefit, the same person will create several micro-enterprises instead of enlarging the first one.

The importance of local taxation should not be underestimated. Owing to the adjustment policies of the 1980s, many states have transferred some expenditures to local communities. As a result, the latter have rapidly increased their taxes. Furthermore, these taxes more often reach micro-enterprises than do those of the central government, because the micro-enterprises are better known at this level. Local taxation of enterprises sometimes surpasses central government taxation and can hinder their development.

An effective means of winning acceptance for local taxation and improving its functioning would be systematically to transform local taxes into fees, that is, obligatory payments for a services provided by the community (such as a covered market, an equipped industrial plant, or infrastructure that is often lacking in poor urban areas). This reform would be justified by the fact that local taxes finance urban services of this type. Under this scheme, the levies would be better accepted and local

democracy would develop: micro-enterprises would be involved in supervising budgets, which should be transparent from the standpoint of cost and financing. Answers to the survey show that people in several countries would be ready to pay fees for a community service that they need.

Is labour law appropriate for micro-enterprises?

In view of the habitual laxity of the state with respect to labour law, it is difficult to recommend a more flexible attitude, but one can wish for more consistency and more efficiency in certain cases.

With respect to safety and hygiene, for example, more strict controls seem necessary. Whatever the arguments in favour of micro-enterprises, the state cannot tolerate working conditions so dangerous that there would be numerous deaths among employees of micro-enterprises every month. These principles apply just as much to other enterprises, which do not always comply with them, as witness the serious accidents in large enterprises. In this field, total *laissez-faire* seems inadmissible: employers might commit abuses, since a fringe of the urban population lives in conditions so miserable that people will put up with anything to get a job. Our seven surveys show that in certain countries the authorities enforce such regulations without hampering micro-enterprises or preventing their development. In safety matters, the requirements of public health prevail over the interests of micro-enterprises or other enterprises. Child labour can also cause problems: it is not compatible with the objective of compulsory schooling until the age of 14, and in cases where micro-enterprises are subcontracting for export enterprises, favoured access to industrialised-country markets could be called into question because of child labour.

On the other hand, the usual policies concerning the minimum wage seem reasonable. The state cannot impose a minimum wage much higher than the equilibrium wage for unskilled and often inexperienced labour without leading to increased unemployment. In the poor countries, if a government decided to impose a minimum wage — and the validity of such a decision is not obvious — it would be preferable to set two minimum wages, depending on the size of the enterprise, it being understood that the wage for micro-enterprises would not be constraining in the usual sense, but would serve as a reference for setting wages or in case of disputes brought before the courts. Indeed, it seems neither possible nor desirable to enforce a minimum wage for micro-enterprises, but setting a reference wage can be useful to the state in case of negotiation or lawsuits. This reference allows wage-earners to defend their interests in a context that can be unfavourable for them: in a given region or sector, the wage offered for certain categories of workers, such as young people or women, can fall well below the average equilibrium wage at the national level. If

the state wished to raise the minimum wage sharply it could never make micro-enterprises comply, because of the unemployment among the semi-skilled and unskilled urban labour force. In Thailand, rapid growth forces employers to offer more than the minimum wage, while in Algeria, many do not comply with the law despite the high degree of state control. This proves that raising the wages of unskilled workers in micro-enterprises cannot be decreed, but must result from structural measures which will raise the equilibrium wage in the long term. These include such things as a decline in the birth rate, thanks to birth control, and the development of agriculture and non-agricultural economic activities in rural areas. Furthermore, any intentional policy of raising this wage imposed on micro-enterprises might have perverse effects. It should not be forgotten that these enterprises often take in young people rejected by the school system whom no medium-sized or large enterprise would hire. For these young people, such a job represents the last resort for acquiring a skill and escaping unemployment. Under these conditions, it is normal for them to be paid below the legal minimum wage for several years.

The problem of affiliation with a social security organism is no less important, or less difficult to resolve. From the social point of view, such affiliation is more important than the minimum wage, for work-related accidents or illnesses can definitively impoverish workers. There is thus a social argument for imposing this affiliation on micro-enterprises. There is also an economic argument: small, medium-sized and large enterprises, all of which are affiliated, have often seen their margins slashed because their environment has become much more competitive as a result of structural adjustment measures. These enterprises will justly complain if micro-enterprises are exempted from social security obligations, because it distorts competition. Nevertheless, the lack of resources of micro-enterprises and the variations in their income can make regular payments to a social security organism unbearable. This explains the laxity of the authorities and the exemptions granted in certain cases (e.g. for employment of young people, or in disadvantaged zones in Tunisia). Under these conditions, it seems reasonable to propose two principles: a “double safety net” and gradual implementation.

Between all and nothing — that is, between protection as satisfactory as that obtained in large enterprises and the absence of all protection — two safety nets can be devised: one would resemble that of industrialised countries, the other, more modest and intended for wage-earners in micro-enterprises, would cover only certain major risks. In addition, the state could provide a complementary payment, which would make it possible to limit employers' contributions to a very low level, for example 5 per cent of wages, an amount that should be tolerable in middle-income countries. This system is feasible, since it has given satisfactory results in Ecuador.

Finally, requiring all micro-enterprises to affiliate simultaneously is neither desirable nor possible. The seven surveys show that there is always a gap between the situation of enterprises with two to five workers and that of enterprises with 11

to 20 workers. One could therefore envisage affiliation for the latter, then extend it gradually and prudently to the former as their ability to pay increases. Some people may criticise these propositions because they entail a social dualism, embodied in the notion of the double safety net, but the problem of social security must be addressed in a dynamic perspective. A micro-enterprise with seven or eight workers may become, ten years later, a small enterprise of 30 people covered by the social security system which is the most favourable to workers. The minimal protection proposed here is not conceived of as permanent, but as transitory and appropriate to the financial capacity of micro-enterprises. It is an intermediate stage between the lack of protection which is usual in micro-enterprises having two to five workers and the normal social system.

These selective recommendations alone will not foster micro-enterprises effectively. However, it is well known that promoting them is essential. In the context of adjustment, where employment by the government and in medium-sized and large enterprises has often contracted, the main hope for short-term job creation clearly lies with micro-enterprises. The authorities should therefore do all they can to favour the creation and development of these enterprises.

We refer here to relatively inexpensive actions concerning information, training or adaptation of regulations, not to the financing of investment. Before devoting large sums to such financing in favour of micro-enterprises, it is necessary to verify whether there are not better uses for this capital, but this vital subject — capital allocation and the efficiency of micro-enterprises — was not addressed by the project.

Public aid for the creation and development of micro-enterprises

To propose these measures, one must first be aware of the real problems of these micro-enterprises. Problems of an institutional nature do exist, but contrary to what some people think, they are not the most important.

In three countries (Jamaica, Niger, Swaziland), we asked which obstacles had made it difficult to create enterprises. Everywhere, the first cited was the lack of capital. In the two African countries, the problem of markets was also cited. To be sure, those surveyed complained about certain regulations that hampered them in the beginning, but these were ranked only third among the obstacles mentioned.

Questions concerning present obstacles to the growth of the enterprise (and consequently to regulation of the work force) elicited the same answers. The problem of finance was always mentioned first (by two-thirds of those surveyed in Tunisia and Thailand). In the two sub-Saharan countries, insufficient demand remains a serious problem. Regulations again came in third. The most irksome regulations concern

taxation, especially in the sub-Saharan countries where it is difficult to pay any tax regularly because revenues are low and irregular. Regulations relating to wage-earners are never mentioned. Those concerning hygiene and safety are perceived as acceptable constraints, even if they entail some costs. In contrast, all restrictions on location or on utilisation of workshops were denounced as bothersome and unacceptable constraints.

No one mentioned the problem of representation (no questions were asked concerning this subject), but it often emerged implicitly in the answers. People frequently answered that they did not know the regulations or aid institutions and measures. They also frequently explained their difficulties in gaining access to public contracts by lack of information, and also by the lack of personal connections with officials. Such contacts would be needed to gain easier access to inputs in an economy with rationing like that of Algeria. These responses show that those surveyed work in the margin of the legal society, that they lack information and have no way of making themselves heard. They constitute a sort of atomised society that lives in ignorance, while the rest of the working population (civil servants, workers in large enterprises, heads of large enterprises or large landowners) are well informed and form organised pressure groups that effectively defend their interests.

We have said nothing about measures to help these enterprises to become better informed, so that they can become integrated and defend their interests. The surveys make it obvious that the state could provide both more information and more training. The information problem is crucial because good measures often have no effect as those concerned are unaware of them. Many steps to inform micro-enterprises could be taken, either directly by the government or in co-operation with municipalities, trade associations or NGOs, using all available means. Next, all persons, whether self-employed or in micro-enterprises, must be helped to acquire minimal training both in the trade concerned and in elementary management (cost control, inventory management and so on). Even if a small artisan knows his trade, he is often handicapped by ignorance of the simplest management techniques. Knowledge of these techniques can transform a worker into the head of a micro-enterprise. Very short training sessions (a few days), adapted to the sector or the person, can be devised. The state could often entrust this task to NGOs, giving them some assistance, because NGOs can perform this training efficiently. Moreover, in training centres where young people learn a trade, it would be good to give them a minimum of management training, which may make it possible for them to set up on their own.

These problems of training and information have long been addressed, and programmes have been implemented in many countries. For example, Bruch and Hiemenz (1983) cite programmes in Indonesia, Malaysia, the Philippines and

Thailand. They point out, however, that the number of persons who benefit remains low, which reveals a diffusion problem to which NGOs sometimes provide the solution.

These training and information activities could sometimes be carried out in zones fitted out for micro-enterprises and endowed with infrastructure adapted to their elementary needs. These zones, whether established in urban centres or in marginal, peripheral neighbourhoods, would make it possible to create (or to restore) normal community life, thanks to infrastructure such as buildings, roads, water, electricity and telephone service.

Finally, the state could help micro-enterprises to form trade associations, which it then could finance. It is essential to provide this aid to people who, often having neither money nor institutions nor free time, are incapable of collective action to defend their interests.

All of these measures may have little effect without a preliminary “cultural” conversion of attitudes in the civil service or other official bodies having contact with micro-enterprises. It is a question of paying more attention to and showing a certain consideration for people whom civil servants regard as inferior because they are less well educated. These people, who with a little help can play an important role in production and above all employment, also suffer from lack of consideration when the authorities regard them as a legacy of the past, a sign of economic backwardness. This necessary change in behaviour should motivate civil servants to reach out to micro-enterprises instead of waiting in their offices for heads of micro-enterprises to come to them, which the small artisan or tradesman, lacking time or information, does not do. Furthermore, any measure that aims to change the attitude of civil servants in favour of micro-enterprises makes sense only if the authorities already have the will to make the administration enforce the laws. Unfortunately, some civil servants engage in corruption to the detriment of the self-employed and micro-enterprises, for example by demanding unwarranted sums for an official document. These practices hit the self-employed and heads of small enterprises in particular, because it is they who have the weakest means of defence.

What can donor countries do?

Let us recall first that for cultural reasons the so-called informal sector, like that of small farmers, is far removed from aid agencies, which are poorly acquainted with it and have difficulty in communicating with it. Thus it is desirable that these agencies use intermediaries to reach this social group. Local governments can fill this role, but they may sometimes block the process if they take advantage of their intermediary

situation to confiscate part of the aid. This role can also be entrusted to NGOs: experience has shown the efficiency of certain NGOs in this area. Technical aid workers who know the local society well can also provide help.

Aid agencies have already acquired much experience in assisting the informal sector. We shall not review this work here, but only make a few remarks suggested by our seven surveys. According to the survey results, the assistance most desired involves the financing of micro-enterprises. Aid agencies could both help the authorities concerned to create the appropriate institutions and finance these institutions afterwards. The resources needed for success are fairly modest (at the scale of the donor countries, at least), but many skilled personnel are needed, including technical aid workers, to make sure that the credits actually do benefit micro-enterprises, which is not guaranteed, given the socio-political balance of power in certain countries. These realities are well known, and they explain the growing interest in the NGOs.

The second form of help concerns regulations. In the framework of structural adjustment programmes, regulations that hamper micro-enterprises the most should be eased or abolished. Finally, modest grants from donor countries could resolve several problems. For example, a grant can compensate for the budgetary effect of a tax exemption for creating an enterprise, or of public payments to a social security organism (such payments would be necessary if the employer's payments were limited to 5 per cent of wages). By offering free financing for a period of several years, donor countries would make possible the creation of a "lightened" social security system, which would help to reduce poverty by providing at least minimal protection to wage-earners in micro-enterprises.

Finally, if all these actions by donor countries are to be effective, they require thorough knowledge of the so-called informal sector in the countries concerned, which is often lacking. To acquire it, long-term action is needed: financing transversal and longitudinal surveys on micro-enterprises, training technical aid workers with experience in the field, so as to accumulate a capital of expertise. This is a completely different approach from that followed for interventions in industry or infrastructure, where leaders have an educational background similar to that of foreign experts and thus, in theory, collaboration is easy. To be sure, one could call on intermediaries, as we have also proposed, but this capital of expertise is the best means of controlling them and verifying directly the effectiveness of steps taken at the micro-enterprise level. The seven surveys carried out under this project represent only a modest contribution to our knowledge of this sector, but they have revealed the vital importance of fieldwork in going beyond certain controversies by getting to know the obstacles that really hamper the activity of micro-enterprises.

Annex 1

The seven countries chosen are quite diverse: two Maghreb countries, Algeria and Tunisia; two countries of sub-Saharan Africa, Niger (Francophone) and Swaziland (Anglophone); one Southeast Asian country, Thailand; an Andean country, Ecuador; and an Anglophone island in the Caribbean Sea, Jamaica. According to the World Bank's classification, all of these countries except Niger belong to the "lower middle income countries" (\$600 to \$2 500 per inhabitant annually). Swaziland, however, is barely over the lower threshold of \$600, so the two sub-Saharan countries are the poorest in the sample. Among the other five countries, Thailand stands out for the extremely rapid growth (GDP doubled from 1980 to 1990) that has brought it close to the newly industrialising economies. Finally, Algeria is of particular interest for our subject because it is the only socialist country in our sample and therefore is the one where regulations, by far, are the most extensive and strictly enforced.

In each country, a "short" questionnaire that procures 60 to 80 pieces of information was administered to about 300 self-employed person or micro-enterprises (500 in Thailand); in addition, some 30 enterprises in each country, often present in the base sample, answered a more detailed questionnaire, with open-ended questions, which made it possible to collect qualitative information.

In each country, the surveys were carried out in urban areas (except in Niger and Swaziland, where enterprises located in villages made up 4 per cent and 8 per cent, respectively, of the sample); half the enterprises surveyed were located in the capital, the other half in provincial towns.

In principle, a random selection was made based on exhaustive censuses of all self-employed persons and micro-enterprises in the chosen sectors in a given zone. In a few cases (Tunisia and the cities of Alger and Niamey), however, incomplete administrative files had to be used; our sample is biased in these cases, since it does not contain enough self-employed persons. In all the other cases, our samples are representative of all populations targeted by the study.

In all the countries except Swaziland, where self-employed persons predominate, the largest group is that of micro-enterprises having two to five workers. Together, these enterprises and the self-employed account for 75 to 90 per cent of the sample, depending on the country.

In this respect, we should make clear that there are three very different categories of units: the self-employed, micro-enterprises having two to five workers and micro-enterprises having six to 20 (or ten) workers.

The first category of self-employed entrepreneur has no labour costs. The individual who hires a worker does assume such costs (as does the individual who takes on an apprentice whom he will at least have to feed). In view of the nearly complete lack of initial capital and the variability of revenues, this capacity to bear such costs permanently is an essential criterion.

The second category is distinguished from the third for a no less important reason. We have throughout referred to the number of *workers* and not to the number of wage-earners, because the characteristic feature of micro-enterprises is precisely the importance of unsalaried employment. In these enterprises, the following types of workers are found:

- family helpers,
- apprentices,
- pieceworkers,
- wage-earners,
- and the head of the enterprise.

In micro-enterprises having two to five workers, the majority of the workers are not wage-earners. Wage-earners are in the majority only if the enterprise has more than five workers, or even ten in some sectors.

Thus a large majority, up to nine-tenths, of the seven samples are composed of self-employed persons or micro-enterprises where wage-earners are in the minority, which obviously sets them apart from other samples composed of small enterprises in which wages are paid.

Let us recall, finally, that because of the sectors chosen, all of these self-employed persons and micro-enterprises have fixed premises which, incidentally, do not belong to the head of the enterprise in a majority of cases. Having premises is important for our topic, because it is much easier for the government to take a census of persons having fixed premises than of street vendors (e.g. people who shine shoes or sell individual cigarettes).

This brief description of our sample indicates its value: for the first time, we have a database containing approximately 150 000 pieces of information (2 200 units x 70 pieces of information per unit) for seven samples that all represent populations of several thousand enterprises and independents. This database provides a relatively faithful image of the sectors studied in the urban areas of seven countries which differ in their level of development, their cultural traditions, the role of regulations and political attitudes towards micro-enterprises

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