

Formalization of MSMEs:

Searching for Best Practices

A Chamber's Perspective

- We are not policy-makers – through we lobby & advocate for policies.
- Our members are in the formal sector – but many or most also do business with the informal sector.
- We acknowledge that from a perspective of pragmatism, that many in the informal sector do so out of pragmatic self-interest: if the benefits of formalization do not outweigh the disadvantages, they will NOT formalize.
- As a Chamber, comprised of members who freely CHOOSE to join, our interest is seeing who might be persuaded – out of self interest – to embrace formalization and widen/deepen our membership base.
- If so, who are they? How might we approach them? How might we persuade them?
- Not un-related, is the fact that it is in our economic interest to broaden the tax base and reduce the burden on PAYE contributor who number $\pm 260,000$ out of a total labour force of ≥ 1.3 million.

The utility of “carrots” and “sticks”

- For those who think that a mixture of “carrots” and “sticks” may be the answer, it is likely true that such measures as:
 - Process simplification (e.g. business registration)
 - A package of Incentives & disincentives (e.g. reduction in taxes and precluding non-registered entities from doing business with government)
 - Etc.

may move the needle significantly among those enterprises that are **not opposed to becoming formalized**, or who have no option to becoming formalized, those are nonetheless unlikely to result in much change in others who believe that formalization is not in their best interest.

- Who are the others – and why are they not formal?

Who are they?

- Some in the MSME segment – particularly in the Micro category – who may one month be employers and next month employees... or may be both employer and employee at the same time. It is not at all unusual in our context in Ja for individuals to have a “side business” – with the idea that as and when it grows beyond a certain stage, then they may choose to make that their full-time undertaking – if the benefits outweigh the risks.
- Some who find the formalization process tedious, confusing, pre-digital...
- Some who are unclear what the benefits are and conflate formalization with little more than taxation (that is, inadequate information)... but who may be persuaded if there is greater clarity.
- All of the above and more...

An example of how we are approaching issue

- We have a poor growth record over the nearly 60 years as an independent nation... averaging $\pm 2\%$ GDP growth annually over the period.
- Like many in our region, our economy is overwhelmingly driven by services. We see scope for significant growth in the services sector.
- Certain industries/segments in that sector are characterized by high levels of informality. We are focussed on a few of those and are using a vehicle known as the Jamaica Coalition of Service Industries to enter that milieu.
- Specifically, the initial segments that we are targeting are:
 - The Creative & Cultural Industries (e.g. music, film, dance)
 - Information & Communications Technologies (ICT)
 - Health & Wellness
 - Management Consultancy

An example of how we are approaching issue (ctd...)

- Strengthening constituent associations (e.g. via provision of back-office services) to create greater engagement by those operating in their industries.
- Developing partnerships to improve their offerings (e.g. through engagement of credit unions to provide savings, insurance and annuity packages)...
- Providing targeted training on business basics e.g. Balance Sheet 101, Cash Flow Statements, Costing/Pricing...
- Developing motivational events e.g. Young Entrepreneurs: Own Your Future targeting 16-28 year olds primarily interested in the services industries and featuring young entrepreneurs of the same age or slightly older (formalized)
- Providing training on family business considerations...
- Incorporating the lobbying/advocacy issues of importance to JCSI membership (the associations) into the JCC's agenda of issues
- Etc.

What we are seeing

- Rudimentary M&E exercises indicate are indicating favourable reception of the initiatives
- A number of the Associations are finding it less difficult to secure membership dues.
- Even early on, we saw a number of members of the individual associations opting to join the Chamber membership. Remember, the Association is the member of the Coalition.
- We should not take financial literacy for granted even among the brightest entrepreneurs.
- Creative & Cultural Practitioners in particular – and there are wonderful exceptions - are extremely reluctant to consider their undertakings as businesses.
- We should not assume that because a department or agency posts information on a website or spends on a major campaign, that the communication has taken place.

And Could We Consider...

- *While we focus on making entry easier & less costly, should we also be paying attention to making exit simpler...not solely through, say, facilitating bankruptcy and de-stigmatizing business failure?*
 - *E.g., can we put into the mix the temporary cessation – putting the enterprise on pause - of the filing and reporting requirements and thus make it simpler for persons to navigate between both statuses?*
 - *Cf. Surrendering a license plate?*
- *Acknowledging that the interface between government and enterprise – particularly wrt to Young Entrepreneurs - must go digital sooner rather than later?*

I'm Open to Ideas

THANKS FOR LISTENING!