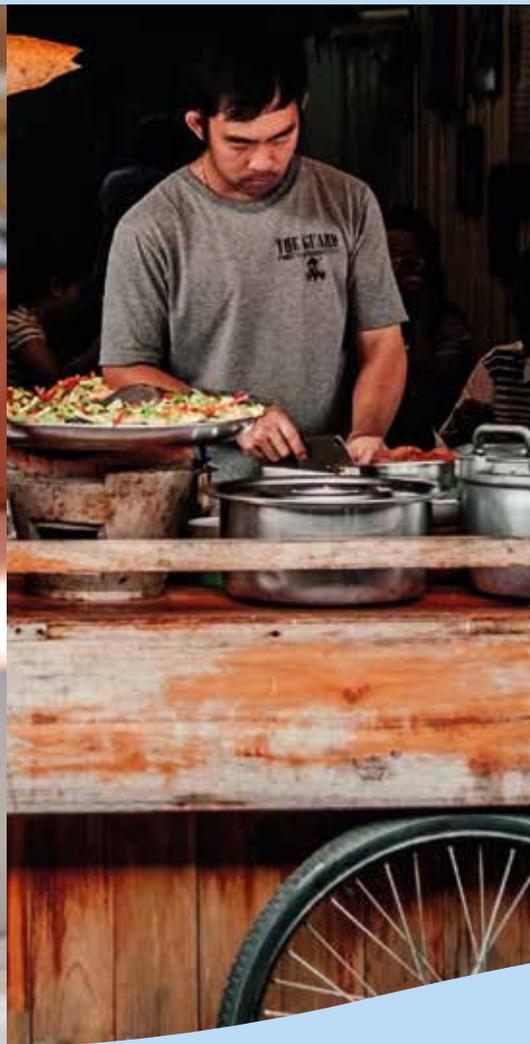




Formalisation of Micro Enterprises in ASEAN



Policy Insight

FORMALISATION OF MICRO ENTERPRISES IN ASEAN

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ABBREVIATIONS

ACCMSME	: ASEAN Coordinating Committee on Micro, Small and Medium Enterprises
ACRA	: Accounting and Corporate Regulatory Authority
ADB	: Asian Development Bank
AMS	: ASEAN Member States
APSME	: Accounting Procedures for Small- and Medium-Sized Enterprises
ASEAN	: Association of Southeast Asian Nations
BDS	: Business Development Services
CIFRS	: Cambodian International Financial Reporting Standards
COPAS	: Canada-OECD Project for ASEAN SMEs
COMTRAC	: Companies Commission of Malaysia Training Academy
DIE	: Deutsches Institut für Entwicklungspolitik
DOSM	: Department of Statistics, Malaysia
DTI	: Department of Trade and Industry
EODB	: Ease of Doing Business
ERC	: Enterprise Registration Certificate
FASMEC	: Federation of Association for Small and Medium Enterprises of Cambodia
FRT	: Financial Reporting Template
GASME	: Guidelines for Accounting for Small- and Medium-Sized Enterprises
GSO	: General Statistics Office
HHB	: Household Business
IDP	: Industrial Development Policy
IFC	: International Finance Corporation
ILO	: International Labour Organisation
INSKEN	: Institut Keusahawanan Negara
KONEPS	: Korea On-line E-Procurement System
KUR	: Kredit Usaha Rakyat
LA	: Local Authority
LEs	: Large Enterprises
MAS	: Multiple Award Schedule
MEs	: Micro Enterprises
MEF	: Ministry of Economy and Finance

MIH	: Ministry of Industry and Handicraft
MoC	: Ministry of Commerce
MoF	: Ministry of Finance
MPI	: Ministry of Planning and Investment
MSMEDP	: Micro Small and Medium Enterprise Development Plan
MSMEs	: Micro, Small, and Medium Enterprises
NEP	: New Economic Policy
NPWP	: Nomor Pokok Wajib Pajak
NSO	: National Statistics Office
OECD	: Organisation for Economic Co-operation and Development
OSMEP	: Office of SMEs Promotion
PCI	: Provincial Competitiveness Index
PPS	: Korean Public Procurement Service Authority
ROCBN	: Registry of Companies and Business Names
SEs	: Small Enterprises
SIUP	: Surat Izin Usaha Perdagangan
SMEs	: Small and Medium Enterprises
SSM	: Companies Commission of Malaysia
TDI	: Tanda Daftar Industri
TDP	: Tanda Daftar Perusahaan
TEKUN	: Tabung Ekonomi Kumpulan Usaha Niaga
TNSO	: Thai National Statistics Office
UMFCCI	: Union of Myanmar Federation of Chambers of Commerce and Industry
UNDP	: United Nation Development Program
VAT	: Value Added Tax

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INTRODUCTION

1.1. Context

Micro, small, and medium enterprises (MSMEs) are important contributors to a nation's economic development. Countries worldwide have acknowledged their crucial presence to the health of a vibrant economy. The Southeast Asian countries are no exception to this. However, there is a wide perception that informality is high among micro and small enterprises in Southeast Asia. Although there are a few data sources available, one of the major reasons for high levels of informality in most of the ASEAN Member States (AMS) is due to the difficulties related to the formalisation of enterprises (Khrystyna Kushnir, 2010).

In light of the major economic crisis generated recently by the coronavirus pandemic MSMEs are especially vulnerable. Lower resilience and flexibility related to their small size makes it more challenging to cover costs for prevention, underutilised labour and capital, to adjust work processes as well as to access necessary technologies and supplies. Furthermore, a drastic decrease of demand and revenue caused by consumers' loss of income, fear of contagion and heightened uncertainty leads to severe liquidity shortages. MSMEs are also strongly represented in sectors such as tourism, hospitality and transportation, which are significantly affected by the virus outbreak.

In light of the COVID-19 outbreak formalisation of businesses is becoming increasingly important. Informality might deprive MSMEs of crucial assistance in a time of crisis like governmental business support schemes, access to finance, legal protection and social safety nets for the enterprise and its employees. Therefore, the current situation increases the need to address the difficulties related to the formalisation of enterprises in ASEAN economies.

In November 2018, at the 6th Meeting of the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME) in Myanmar, delegates from Thailand requested the support of the Organisation for Economic Co-operation and Development (OECD) to analyse the size and trends of the informal enterprise sector in the ASEAN region. This was a special request to review the policies currently in place within AMS regarding the level of informality and to assist them in developing regional guidelines to improve the registration of informal enterprises and to reduce the size of the informal enterprise sector. As part of this endeavour, the OECD was invited to organise a Policy Dialogue on the *Formalisation of Micro Enterprises*. In keeping with Thailand's ASEAN Chairmanship, the Office of SMEs Promotion (OSMEP) Thailand was a collaborating partner for the Policy Dialogue. This policy dialogue would provide input to the deliberations of the 4th Meeting of the ASEAN Task Force on "Starting a Business," (held in Bangkok on 26th June 2019), as well as for the implementation of the ASEAN Work Programme on Starting a Business (2016-2025) in general.

In ASEAN, AMS are tackling informality and informal businesses from different perspectives. Of the eight AMS ranked in the ASEAN SME Policy Index 2018's sub-dimension of "measures to tackle the informal economy," five countries have attempted to assess the size and characteristics of the informal sector (Brunei Darussalam, Indonesia, the Philippines, Thailand and Viet Nam). In three countries (Cambodia, Lao PDR and Myanmar), where the level of informality is believed to be particularly high among micro enterprises, the Government is considering policy options to tackle informality (OECD/ERIA, ASEAN SME Policy Index 2018, 2018) . Among AMS, there is a strong consensus about the need to reduce informality and promote formalisation of businesses.

This report builds on the 2018 Policy Dialogue (PD) on *Registration of Micro Enterprises and Family Businesses – What, Why and How in the ASEAN Region*, which was held on 2nd April 2018 in Lao PDR. The Policy Dialogue produced a set of concrete recommendations, presented in *Box 1*, which has subsequently informed the work of the Task Force, as well as AMS. It also builds on the 2019 Policy Dialogue on *Formalisation of Micro Enterprises in ASEAN*, held on 25 June 2019 in Bangkok, Thailand. The dialogue in Bangkok focused on developing a "comprehensive policy and actionable approach" – namely through the careful selection of incentives, the strengthening of law enforcement and improving the general business environment, and thereby removing "grey areas" in policy and/or regulatory frameworks. It also supported the development of the *Policy Guideline on Digitalisation of ASEAN Micro Enterprises: Harnessing Digital Transformation to Promote the Formalisation of Micro Enterprises* (ASEAN, 2020), which was endorsed by the 51st ASEAN Economic Ministers Meeting and noted at the 35th Leaders' Summit.

Box 1. Recommended Guidelines on Micro Enterprises from the 2018 Policy Dialogue on Formalisation of Micro Enterprises and Home-based Business

1. Comprehensive policy and actionable approach: incentives, strengthening law enforcement, and improve general business environment, removing “grey areas” in the policy-regulatory framework.
2. Policy measures should be based on evidence and full understanding of micro enterprise (clear definition of who they are) characteristics, the diversity, the heterogeneity of informal and micro enterprises and thus their motivation and incentives, and identification of the target group of micro enterprises.
3. Let the market forces work and market-principles prevail. Policy measures should encourage rather than coerce micro-enterprise and home-based businesses to register. Governments to ensure fair business environment and address market failures (e.g. large home-based businesses avoiding to register to avoid tax payment and labour regulations) when and protect social interests (hygiene standards, food security standards, social security for workers, environment protection...).
4. Balance between the wish of the Government to formalisation and the affordability of micro-enterprises. Clear understanding of the WHY to reduce formality? Mutual understanding between Government and Private Sector should be the cornerstone (e.g. increasing tax base is not only good for the Government but also for micro-enterprises and the economy).
5. Dual approach of reduction of formality cost (entry cost, formal operating cost, compliance cost, removal of “oppressive” and unnecessary requirements...) and increasing formality benefits (easier and cheaper to register, better access to finance, better access to market, reduced risks of fines, and of legal risks...)
6. Making benefits of formalizing visible, tangible to micro-entrepreneurs through public education, awareness raising campaigns: key for voluntary registration and well-informed decision making by micro-enterprises on formalisation.
7. Regulatory reforms should be focused on the prioritized areas and in sector other than only business registration (requirements on capital requirements, bookkeeping and financial reporting, social contributions, inspection, specific permits beyond business registration)
8. Tax policy, tax incentives (lowering the tax rates, simplification of paying tax procedures) are important but non-tax incentive measures and support programs are equally important.
9. Eco-system (training, legal service, incubator...) in support of micro business formalisation highly important to facilitate micro-businesses to register.
10. Business associations playing a critical role in encouraging home-based business to register.

This publication aims to provide a better understanding of the current situation within ASEAN, and to share some policy insights on *Formalisation of Micro Enterprises in ASEAN*. The methodology used to prepare this report includes secondary literature review, studies, data and analysis available on micro

enterprises in AMS as well as interviews with the experts and policy makers in the region. The report benefited from the contributions from the AMS, the ACCMSME members and feedback from the ASEAN Secretariat, whose valuable contributions have breathed life into this report. The report was drafted by Mr. Le Duy Binh of Economica Viet Nam and Mr. Antonio Fanelli, senior SME expert as well as with written contributions by the OECD team (Mr. Max Bulakovskiy and Ms. Kashmira Pavri). It benefited from the review of Mr. Jose Antonio Ardavin, Acting Head of Division and Ms. Anna Wiersma, Policy Analyst at the Latin America and the Caribbean Division at the OECD. The report benefited from the financial support of the Government of Canada, within the framework of the Canada-OECD Project on ASEAN SMEs (COPAS).

This report will also be complemented by the forthcoming report on “*Strengthening the evidence base for policymaking: Steps to upgrade enterprise statistics and evaluation frameworks in ASEAN*” currently under development by the OECD in partnership with the ASEAN Secretariat. The report will provide a preliminary picture of how business statistics are currently compiled and disseminated in each AMS and will provide policy options for the policy makers in ASEAN.

1.2. Micro, Small, and Medium Enterprises in ASEAN

Definitions for micro enterprises vary from one country to another. For the purpose of this document, we define micro and small businesses as those enterprises that are owned by one person or a family or that fall under a formal definition of micro enterprises that is applied in that AMS¹. A significant share of those enterprises, particularly in low and middle to low income AMS are either not registered or licensed or do not fully comply with standard registration and licensing requirements and other laws and regulations. Such enterprises often do not have a defined legal status and are classified either as entirely informal (not registered and unknown to public authorities) or partially informal (licensed or registered, but not fully compliant with labour, tax or environmental/health laws and regulations).

Evidence collected by different sources (International Labour Organisation (ILO), country labour and other types of surveys and economic census) shows that most of these enterprises are very small, with less than 10 and most often, less than 5 employees in it and are usually run by a family. As the degree of informality is determined by the level of non-compliance to the country laws and regulations, it is not possible to apply a single definition of informality that can be applied across all the AMS. However, it is possible to define common criteria enabling ASEAN policy makers to classify enterprises as fully or partially informal, or fully formal.

Micro and small businesses play an important role across all ASEAN economies. They are essential for providing jobs and social stability, providing livelihoods for hundreds of millions of people across the region. A large share of micro and small businesses is not complying with business registration requirements and other laws and regulations, thus contributing to high levels of informality in many AMS. The presence of a large informal sector contributes to job creation. Despite offering

¹ Definition of Micro-enterprises in AMS is available at <https://asean.org/storage/2012/05/Definition-of-MSME-in-each-AMS-updated-ao-25-July-2019.pdf>

poorly paid jobs and the insecurity that comes with working in this sector, these informal opportunities contribute to the subsistence of many families. At the same time, these informal businesses are distorting intra-firm competition and therefore hinder the expansion of the formal enterprise sector. Therefore, there is a general trend of encouraging micro enterprises to register, to promote business formalisation and to reduce the size and the influence of the informal economy. This aims to facilitate the organic growth of micro enterprises and promote an equal business environment and a level playing field. However, there are also arguments that policy instruments to encourage micro enterprises to register should take into account the nature of micro enterprises, their own advantages and their reasons for remaining micro and informal, as well as the special characteristics of each economy.

This report defines micro and small businesses as those enterprises that are owned by one person or a family or that fall under a formal definition of micro enterprises, that is applied in that AMS. Typically, they are not registered (or loosely registered) and lack a clear legal status, particularly in countries where registration coincides with corporatisation, and thus are considered informal (or quasi-formal). They often employ less than 10 employees, and rely heavily on family members.

As demonstrated by the *ASEAN SME Policy Index 2018*, AMS tackle informality from different perspectives. Some of the concrete initiatives to assess the size and characteristics of the informal sector have already been described under the sub-dimension of “measures to tackle the informal economy”. Among AMS there is a strong belief that digitalisation can play a role in reducing informality. Worldwide, various Governments also take into account digitalisation as an important aspect in their overall efforts to reduce informality and improve the formalisation of informal and semi-formal businesses (OECD, G20 Policy Guide on Digitalisation and Informality, 2018).

1.3. Objective of the study

This report benefited from support of policy makers and their feedback received during the Policy Dialogue on the *Formalisation of Micro Enterprises in ASEAN* that took place in Bangkok in June 2019. During the policy dialogue, the current state of affairs in the region and a set of good practices from AMS and OECD countries were presented and discussed followed by presentation of concrete measures to stimulate the introduction of more effective policy measures.

The document is structured around three main sections;

- (i) **Understanding the concept of Informality.** This section refers to the relevant recent literature and explains the understanding of the informality and relevant definitions;
- (ii) **Situation in Southeast Asia.** This section provides an overview of the number of informal and unregistered micro enterprises in each AMS, looking at the overall level of informality in each country, based on several national and international sources;

(iii) Presentation of the key policy issues and selected relevant policy instruments.

This section explores incentives and enforcement measures, with an emphasis on those supported through digitalisation. The possible applications of digitalisation, by both the governments and micro enterprises to support formalisation will be one of the main pillars of this paper.

2 SUMMARY OF CONCLUSIONS

A large majority of micro, small, and medium-sized firms throughout the developing world operate in the informal sector, and Southeast Asia is not an exception. Many micro enterprises are characterised by low levels of productivity and limited growth ambitions – particularly in emerging economies, where they are often necessity-driven. They therefore often compete on price, and see limited advantages to formalising. Formalisation of companies could enable firms to access the formal economy and spur their growth, get access to finance and markets and benefit from a variety of business support services available. When companies become formal, Governments might get better access to information and data of the companies, and can broaden their tax base, which could help increase the sense of rule of law and level playing field across the economy.

However, while Governments may desire firms to become formal, firms may find these reasons much less compelling. Registering for taxes will impose additional costs on businesses, lowering profits, and firms may believe they receive few public goods in return. Small firms may not be likely to need some of the purported benefits of formal status (such as bidding for Government contracts or exporting). Micro enterprises and SMEs are unlikely to appreciate the societal benefits of their compliance with the rule of law and of their data informing Government policy. Businesses often find formalisation complex and expensive, are not informed about the incentives which formalisation can give them and generally lack of trust in the public sector.

The situation in ASEAN is no different, and although the region has some countries where formalisation is not an issue, overall informality still represents a significant part of the economy. As seen from the country cases from OECD member countries and some AMS like Singapore, there are certain successful measures to enable formalisation of micro enterprises. The Governments should continue learning from each other and from other good practice experiences around the world. The Governments should consider:

- **Creating favourable enabling environment for business registration, by applying simplified procedures, digital solutions to facilitate access to information.** The standard Government response to this firm comparison of the costs and benefits of formalisation has been to lower the costs of formalizing, by making it easier for firms to register. One of the most popular types of reforms has been to set up “one-stop shop” service points as is the case in AMS like Thailand and the Philippines, in which a single registration covers registration of both the company name, as well as for tax purposes and other licenses required. Further promoting such practices across countries could help facilitate business formalisation. Looking at the implementation models of such instruments, one crucial element is to create trust with the community of micro enterprises. The several programs demonstrated that learning from role models, case studies and peer learning seem to one of the most powerful activities and should be integrated into the instruments whenever possible.

- **Sharing information about the benefits of formalisation for the enterprises and consequences of not being formal.** Governments should promote formalisation of micro enterprises, supporting efforts with a clear explanation on the benefits that business registration could give access to including access to financial services as per the cases presented for Indonesia, Thailand, and Viet Nam; business development support, access to public procurement as practiced already in Singapore and Thailand, as well as ability to apply for standards and licenses.
- **Creating incentives to help companies formalise.** Developing dedicated financing schemes and capacity building programmes especially for targeted groups of micro enterprises could bring about not only a higher number of registrations, but also can translate into higher GDP levels and growth rates. However, policy makers should be careful distributing incentives and tax breaks as is done with the Tax Amnesty for SMEs in Thailand. These offers are costly and often takes a long time for the Government to benefit from the registration of companies.
- **Consider enforcement of regulations requiring informal business to register.** ASEAN Member States are generally reluctant to apply enforcement measures on regular basis and currently, only few countries have strict enforcement mechanisms in place. These mechanisms enhancing compliance with the law and regulations however should only be enforced combined with the overall facilitation of business registration process and creation of relevant incentives and matching the obligation of formalisation with benefits and punish informality. They should not discourage entrepreneurship and seen as an obstacle for formalisation. It is advised to consider integration of warning mechanisms to entrepreneurs prior to the enforcement being applied.
- **Strengthen data collection and centralising business registration of enterprises in ASEAN.** The understanding of what one means by “informal enterprise” varies greatly among AMS. There is a need better understand what is actually meant when referring to this concept. Gathering additional data could help streamline this understanding. Policies and regulations to support the formalisation of the business sector should be based on evidence, data, statistics and a good understanding of the sector, which is still lacking in many AMS. Business registers could be a valuable source of information and are key enablers of the business environment and bear important economic relevance.

3

UNDERSTANDING THE INFORMAL MICRO ENTERPRISE SECTOR IN ASEAN

This section aims to provide an overview of the concept of the informal business sector, including informally registered micro businesses. This overview is informed by studies and research carried out by non- or inter-governmental organisations and research institutions.

3.1. What do we mean by informality?

Informality can be defined as “the collection of firms, workers and activities that operate outside the legal and regulatory framework” (Loayza, Serven, & Sugawara, 2009). At the firm level, informality includes all those enterprises, but also auto-entrepreneurs that produce legal goods and services but are not compliant with the country’s labour, fiscal and/or other administrative laws and regulations (Feige, 2016).

Labour informality has attracted the most international attention from public opinion, economists and policy makers. It consists of the non-compliance with labour regulations, the non-payment or partial payment of social security and pension contributions, and/or the exclusion from labour rights. This is a symptom and a cause of inequality and social injustice, as it disproportionately affects weaker groups of workers.

The recent OECD report on Tackling Vulnerability in the Informal Economy (OECD/ILO, 2019) suggests that a majority of workers in the world are employed informally. They contribute to economic and social development through market and non-market activities that are not protected, regulated, well recognised or valued. These informal job opportunities might be supporting them in the short run to make a living, but in the long run, the lack of social protection pushes them further into vulnerability and poverty. Thus, Governments should take measures in an efficient way to break the vicious circle of exploitation and informality, and provide strong incentives to these micro enterprises to register formally and then, gradually extend the security systems of social protection and labour laws to encompass all workers.

The implications of the presence of a large informal sector on Government fiscal revenues and budgets have been widely analysed. The impact that enterprise informality has, has been relatively less studied, mostly due to the extreme difficulty of data collection for empirical analysis. Labour market and household surveys (Ministry of Labour, Invalids and Social Affairs of Viet Nam (MOLISA) and ILO, 2011) have contributed to collect a wide range of statistics on labour informality, with the ILO playing a major role in data collection, harmonization and analysis. Data on enterprise informality, for instance comparing the performance of similar enterprises operating at different levels of informality, are largely unavailable and depend on access to highly confidential data collected through tax inspection, tax returns or loan applications to micro-finance institutions. “*Hussmann’s Matrix*” (see Box 2) is a method that was developed to

clarify and estimate the concept of informality that allows to estimate the informal sector independently from informal employment.

There are different degrees of informality among enterprises and auto-entrepreneurs, ranging from those who are not registered and escape detection by the public administration (total informality), to those who are registered and are acknowledged by the public administration, but are not fully compliant (partial informality).

There is a variety of definitions of micro enterprises and different understandings of the level of formality, informality and semi-formality across AMS. *Informal micro enterprises* targeted and captured in this report are those economic establishments that are owned by one person or a family or fall under a formal definition of micro enterprises for each of the AMS. They are not registered (or loosely registered), not in the form of a formal legal institution, without a well-defined legal status and thus, are being considered as informal (or quasi-formal). They often employ less than 10 employees and rely mostly on family members as workers. They also include non-farm self-employed people who operate as sole proprietorship or sole traders, but are unregistered or loosely registered (those enterprises that are not fully registered. For example, micro enterprises register with the provincial office, but not with the social security office).

In the OECD publication, “*Is Informal Normal?*” (Laiglesia, 2009)” it is argued that informal enterprises not only provide a source of income to vulnerable populations, but also act as a buffer within an economy lacking formal social security systems. However, for developing nations, which is the case of most of the ASEAN Member States, a high level of informality translates as a narrow tax base as well as yawning gaps for a Government that tries to stretch itself bare to provide a minimum health and social security system from the low level of taxes generated from informality.

The above definition could thus apply to a wide range of cases, such as an entirely unregistered enterprise, an enterprise that does not register all its employees (labour informality), or an enterprise that is not fully registered or fully compliant in relation to main business laws and regulations. For example, one that is only registered with local authorities, but not with the central Government or tax authorities, or an enterprise that systematically avoids paying pension and social security contributions for its employees.

3.2. Why does informality matter?

Policy makers are interested in informality because it creates a number of asymmetries and undesirable outcomes in the economy, such as:

- *Lack of a level playing field*: Registered enterprises may face a higher cost of doing business than non-registered enterprises, creating an unfair environment for compliant enterprises.
- *Lower level of productivity and competitiveness*: Research has found that overall productivity in informal businesses tends to be lower than that in the formal sector. However, in some cases digitalisation might help to improve productivity among selected micro enterprises.

- *Lack of access to Government support schemes:* Government support schemes are typically only offered to registered businesses.
- *Difficulty to access finance:* It is more difficult for informal business to get access to finance and rates may be much higher.
- *Difficulty to access local and international markets:* Their lack of technical knowledge of the markets and their low compliance to national and international standards hinder these informal enterprises from participating in global value chains.
- *Lack of legal protection for the enterprise, its employees, its customers and suppliers:* Products and/or services business relations and contract obligations informal enterprises are seldom formalised and therefore cannot be used in court.
- *Lower Government gains:* The Government will not be able to tax unregistered enterprises, which may be needed to develop infrastructure, pay for education and ensure basic services.

These are the main reasons why policy makers should aim to lower the level of informality in their countries, as in a medium and long run it would make their economy more competitive and fair and it would be easier to develop measures that could reach out to the entire population of enterprises, especially micro enterprises.

3.3. Key policy issues related to informality

Issues such as absence of a clear understanding of what is an informal enterprise (totally or partially informal) combined with the lack of statistics and business surveys and good understanding of the informal and semi-formal business sector is a major hindrance to evidence-based and good regulation to encourage business formalisation. A recent OECD/EU Publication (Marchese, 2015) highlights the policy issues related to the informal entrepreneurship in the European Union. This document presents a number of data available in the EU and focuses on informal self-employed and informal new entrepreneurs. It can guide policy makers in ASEAN on the data available in developed economies and analysis provided.

The lack of statistical information on micro enterprises and informal enterprises, make it difficult to grasp a full and accurate understanding of the sector in most of the region. Absence of statistics, data on informal micro enterprises weakens the evidence base for policy development and makes regional and international comparisons difficult. Although National Statistical Offices (NSOs) can only get estimates of the number of informal enterprises from economic census and surveys, even these estimates are often not available.

The issue of business informality is critical to the development of the business sector and of the economies in many countries, especially those with a high level of informality. Despite its importance, policy makers and development partners have to-date relied largely on piecemeal, anecdotal and outdated evidence to understand the nature, extent, and underlying drivers of informality.

Generally, across ASEAN, the informal sector is mostly made of micro enterprises with very low productivity and low contribution to GDP. Further work and studies

are needed to understand why so many micro enterprises in ASEAN choose to remain informal, and the consequences of doing so. Understanding the root cause of informality, and in particular, whether it reflects the difficulty of formalising, or the perception that the costs of operating formally outweigh the benefits, will help the Government and its development partners focus their reforms and interventions on the most critical issues. The literature suggests the following reasons which might explain the behaviour of the companies:

- ***Business registration procedures are complex and costly.*** In many cases, small businesses remain informal simply because the regulation and procedures for registration and licensing are overwhelming or burdensome. Although over the last several years, AMS have achieved substantial progress in simplification of business registration procedures (Business registration pillars: Good regulatory practice for ASEAN), (ASEAN regional principles for good business registration practices, 2017), further efforts are still needed. For example, despite tremendous efforts in recent years, starting a business in Viet Nam takes eight procedures and 16 days, and costs 5.6% of income per capita—one of the most cumbersome processes in ASEAN. Similarly, in the Philippines, it takes 13 procedures and 33 days, costing 23.3% of per capita income (Doing Business 2020).
- Enforcement of regulations related to business formalisation is not effective and not evenly applied, thus altering the cost/benefit balance between formality and informality and resulting in resistance from unregistered businesses. In many AMS, it is widely believed that the presence of informal firms has a distorting effect on macro-economic growth. For example, the World Bank’s Enterprise Surveys for the Lao PDR in 2012 found that 77% of firms face competition from informal firms, while 27% of firms cited the “practices of competitors in the informal sector” as their single biggest obstacle, making it the most commonly cited top constraint. In Cambodia, 32% of registered businesses report that competition from the informal sector is a constraint. Since, informal enterprises do not pay taxes nor registration fees, there is an unfair burden created on micro enterprises that want to register and on micro enterprises that are already registered. Thus, besides simplifying procedures and cutting down time and costs for registration of micro enterprises to make business registration more attractive, individual Governments should also focus on law enforcement to ensure formalisation. For example, the Government should declare a window period of six months to a year (depending on industry and sector type) for micro enterprises to proceed with registration at a no tax or very nominal tax rate. If enterprises still fail to register within this period, the policy (law) could be enforced in the form of a monetary penalty on micro enterprises that do not register. Such a move would make micro enterprises re-consider registering, not only to benefit from formalisation, but also to not suffer monetarily due to its informal status.
- ***Informal businesses are not adequately informed and fully aware of the costs and benefits of formalisation.*** Entrepreneurs are assumed to make a rational decision about the optimal level of formality based on the projected costs-benefits weighted by the risk of being fined if found non-compliant. In practice, entrepreneurs may have only limited information on actual costs and benefits, while the source of information are often their peers running informal enterprises. They may take a wrong decision and remain stuck in informality. It

is very important to provide the full set of information to entrepreneurs in the pre-start-up phase.

- ***The general business environment is not favourable, resulting in high and unaffordable compliance costs for businesses after becoming formal.*** Business registration is the first regulatory barrier when a small business decides to become formal. After registration, a formalised business has to face many other regulations like dealing with construction permits, getting electricity, registering property, getting credit, paying taxes, accessing land, labour, etc. All of these dimensions are factored in the World Bank Ease of Doing Business Indicator. However, except for a few countries, most of the AMS are ranked low in the Doing Business Indicator by the WB, reflecting high cost of doing business in most of AMS for formalised enterprises.
- ***Financial, fiscal and regulatory burden on registered companies is too heavy, making unregistered businesses balk at decisions to become formal.*** Compliance requires the use of resources (time and money) that, at least in the short term, may diminish productivity of businesses, as it would mean an additional financial burden on micro enterprises. Registration with the state entails obligations such as taxes, social contributions, health and safety controls, and labour requirements, which are often set high and strict. The rates for corporate income tax or other duties or level of social contribution are in some cases beyond the affordability of small business when they become formalised.
- ***Lack of well-designed incentives and Government support programs offered to businesses if formalised.*** In some AMS, there is a lack of well-designed programs by the Government to support small businesses when they decide to go formal. Incentive schemes in access to finance, business development services, and access to public procurement opportunities, among others are absent.
- ***Lack of a vision to benefit from digitalisation to facilitate formalisation of micro enterprises.*** Digitalisation has brought about tremendous opportunities and challenges and rapid internet penetration across populations could be a low-hanging fruit. Digitalisation has important implication to policies and efforts to formalise businesses, in particular and to improve the formality of the entire economy as a whole. Some AMS are yet to have a strategy in promoting formalisation by taking advantage of digitalisation, especially by facilitating dialogue with businesses, gathering their data and facilitating submission of information. With this in mind, however, the Government should ensure that this data is stored in a secure manner and is only accessible to the relevant services.

3.4. Informal enterprises in ASEAN

Even with limited data available, one can state that across ASEAN, the level of informality of the economy varies widely. Overall, from the estimates compiled in Table 1b, substantial non-agricultural employment in AMS is generated by the informal economy. In several countries, such as Cambodia, Indonesia (Nurhalim, 2014), Malaysia, the Philippines, and Viet Nam, there is relatively more data and information available about informal micro enterprises, although mostly provided by independent sources (SMRJ, 2008). In some other countries, such as Lao PDR

and Myanmar, there are indications that the informal sector is particularly large, but there is very limited data on them. Finally, in countries such as Singapore and Brunei Darussalam, the incidence of enterprise informality is marginal and therefore data are not systematically collected.

Another key issue is the availability of recent data. In some cases, data available on informal micro enterprises dates back to five or ten years ago. Absence of data is therefore a major hindrance to the evidence-based policy making to encourage the formalisation and development of micro enterprises in many of the AMS, given the rapid developments and structural changes experienced by most AMS over the last decade.

Table 1a: Table of number of formally registered enterprises/employment in ASEAN per AMS

AMS	Formally Registered Enterprises	
	Number of Enterprises	Employment (million)
Brunei Darussalam	6,047	n/a
Cambodia	17,981	1.4
Indonesia	5,930,000	37.7
Laos	100,000	n/a
Malaysia	907,065	6.9
Myanmar	59,300	n/a
Philippines	998,342	5.7
Singapore	517,158	3.77
Thailand	3,084,291	16.3
Viet Nam	1,290,000	8.57
Total	12,910,184	80.34

Source: Compiled from different official sources and national statistics. Kindly refer to the Annex 1 for the complete list.

Table 1b: Estimations of Informal businesses in ASEAN per AMS

AMS	Informal Businesses		Share of Employment in Informal Economy*
	Number of businesses	Employment (million)	
Brunei Darussalam	n/a	n/a	44.10%
Cambodia	495,777	2.2	74.9%
Indonesia	53,370,000	80	58.4%
Laos	78,500	n/a	80%
Malaysia	1,060,000	1.52	11.2%
Myanmar	620,000	n/a	73%
Philippines	1,490,000	4.2	38%
Singapore	n/a	n/a	n/a
Thailand	n/a	n/a	55.3%
Viet Nam	5,100,000	8.7	57.2% ^[1]
Total	62,214,277	96.62	

Note: [1] This figure is for non-agricultural workers nationwide. If workers engaged in agricultural households were included, the rate of informal workers would stand at 74.7 per cent. * All are estimated figures and do not include the agricultural sector, unless indicated. Date of data are not the same.

Source: Compiled from different sources. Kindly refer to the Annex 1 for the complete list.

The above table provides a snapshot of the number of informal businesses in AMS. The data and figures were collected from multiple sources, based on various studies and research papers. Although by definition these numbers are only estimates that have been compiled from various sources, which sometimes are academic. The authors have included into this data also enterprises which they consider “*loosely registered*”, where the enterprise has not registered with all the bodies for various reasons. The objective of the Table 1b is to give a broad picture of the size of informal business sector in ASEAN, but exact numbers should be analysed with caution. While the numbers of formally registered enterprises are more accurate, those of informal businesses are estimations and are made at different points in time due to the shortage of data available. The Table 1b should be read with this constraint and purpose in mind and should be further updated and revised with more inputs and data from respective AMS.

As such, it is estimated that there are about 61.15 million informal or semi-formal business across ASEAN. They are either not yet registered (fully informal) or loosely registered (semi-formal). The figure (see Figure 3.1) shows that informal and semi-formal businesses significantly outnumber those in the formal sector.

Box 2: Hussmann's' Matrix Method

'Employment in the informal sector' and 'informal employment' are concepts, which refer to different aspects of the 'informalisation' of employment and to different targets for policy making. One of the two concepts cannot replace the other. They are both useful for analytical purposes and, hence, complement each other. However, the two concepts need to be defined and measured in a coherent and consistent manner, so that one can be clearly distinguished from the other.

This matrix was elaborated in 2003 specifying the transcendence of informality in the economic sector. For visualizing this, Hussmann made a matrix that allows dividing the economic sector in such a manner that one can put the occupied personnel in rows while on the columns positioned economic activities by labour status. This matrix allows to estimate informal sector independently from informal employment. Please find below an example of such a matrix applied for Mexico in 2015, as an example.

Hussmanns' Matrix
Second quarter 2015 (million)

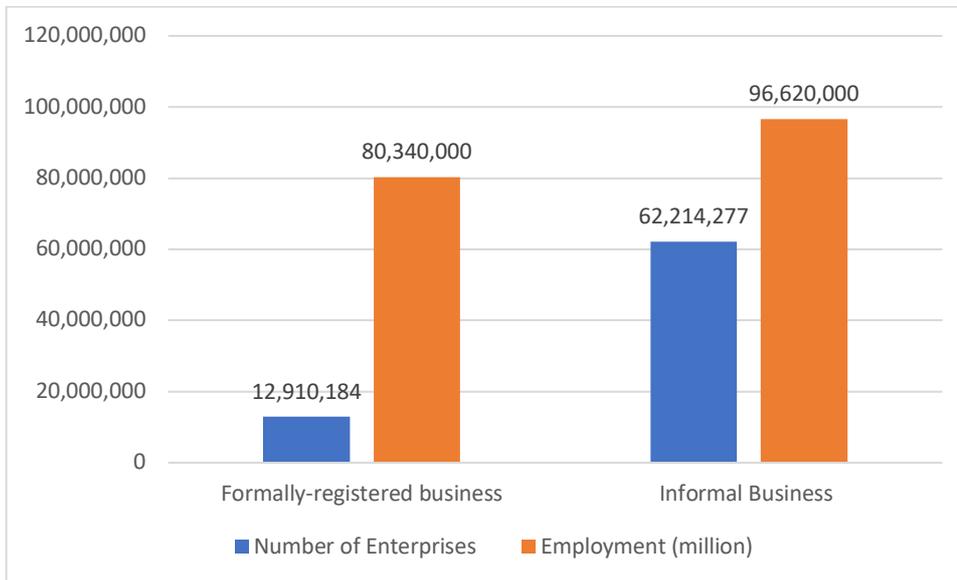
Classification according to type of economic unit	Classification by status in employment										Totals	
	Paid dependent workers				Employers		Own account workers		Auxiliary contributing workers not salary paid			
	Salary workers		Dependent workers not salary paid		Informal	Formal	Informal	Formal	Informal	Formal		
	Informal	Formal	Informal	Formal								
Informal sector	3.72		0.78		0.85		7.27		1.09		13.72	0.00
Paid domestic work	2.29	0.06	0.02	0.00							2.32	0.06
Corporations, Government and Institutions	5.43	17.89	0.88	0.20		0.95		1.46	0.65		6.97	20.50
Agricultural	2.38	0.32	0.16	0.02		0.32	2.57		1.00		6.10	0.67
Subtotal	13.82	18.28	1.85	0.23	0.85	1.28	9.84	1.46	2.74		29.10	21.24
Total	32.09		2.07		2.13		11.30		2.74		50.34	

Note: Totals may not match with their components sum due rounding.

Source: based on National Institute of Statistics and Geography (INEGI), National Survey of Occupation and Employment (ENOE), data for second quarter 2015

These businesses provide employment opportunities for about 96 million people across ASEAN. This figure is substantially higher than the number of jobs created by formal enterprises. Across ASEAN, about 12.9 million companies are formally registered businesses creating over 83.5 million jobs. However, it should be noted that most jobs created by informal and semi-formal businesses do not come with social protection clauses or any kind of social security assurance or labour protection rights.

Figure 3.1. Number of businesses in formal sector versus informal and semi-formal in ASEAN (million)



Note: These numbers are estimations by authors based on the data available and should be seen as “at least” numbers.

Source: Estimate by the authors, based on data compiled and consolidated from various sources. Kindly refer to the Annex 1 for the complete list.

4

INFORMAL BUSINESSES SECTOR PRESENTED PER COUNTRY

This section will provide more detailed information per country in Southeast Asia. The informal business sector differs significantly across AMS. We have detailed below the country specific descriptions of the informal business sector of AMS to have a panoramic view of the current state-of-play in these countries. Sections below provide data available, but the authors were not able to collect all relevant data from all the AMS and in many cases refer to estimates or latest references/data available.

Brunei Darussalam

Informal Business Sector

Results from the Annual Census of Enterprises (ACE) 2017 showed that a total of 6,047 registered enterprises were operating in Brunei Darussalam in 2017. Of these 5,876 (97.2%) were classified as MSMEs, of which micro enterprises were the second most common, accounting for an estimated 40.4% (JPES, 2017). Yet, MSMEs in Brunei Darussalam appear to provide a much lower structural contribution to the broader economy than MSMEs in other ASEAN Member States. A business is considered informal if it is not registered with the Registry of Companies and Business Names (ROCBN).

Informal Employment

According to the Labour Force Survey report, the informal employment (percentage of total non-agricultural employment) in Brunei Darussalam was 44.1% in 2018 (JPES, 2018).

Micro enterprises and self-employed workers

Micro enterprises accounted for 5.1% of employment and 3.4% of gross business revenue in 2017. Bruneian micro enterprises were concentrated in the Wholesale and Retail Trade sector (38.5%), Manufacturing (11.9%) and Professional, Technical, Administrative and Support Services (8.0%) in 2017 (JPES, 2017).

Self-employed or own account workers were reported to account for 4.3% of all those employed in 2018 (JPES, 2018). Self-employed workers are not required to register in Brunei Darussalam but they need to register with the Government if they wish to benefit from the Tabung Amanah Pekerja (TAP) program.

Cambodia

Informal Business Sector

There are 513,759 business establishments in Cambodia (ADB, 2017), most of which are informal. Of the estimated 513,759 enterprises, only 3.5% were registered with the Ministry of Commerce— this corresponds to over 67% of all workers in the private sector (58% of men and 79% of women). This means that the majority of MSMEs in Cambodia operate in the informal sector, preventing them from accessing finance provided by formal financial institutions like banks, which may impede their growth. As a result, MSMEs rely on personal savings and informal sources of finance to start or expand their businesses.

The Law on Commercial Rules and Registration implies that all persons or entities engaged in business must register with the Ministry of Commerce (MoC). However, only 2.1% of business entities in Cambodia are registered with the MoC or its provincial departments (NIS 2015a). However, it does not mean that most companies are operating without any registration, as about 70% of the unregistered companies with MoC, have some other form of registration such as a license, or approval of business operation from other ministries or agencies (most commonly the Ministry of Industry and Handicrafts or Ministry of Tourism). Typically, registration with the MoC creates an obligation to register with the Ministry of Labour (if the business has employees) and the General Department of Taxation. Around 5% of businesses are not registered with the MoC. These are mostly likely to be registered with the Ministry of Education, Youth and Sport; the Ministry of Health; the Ministry of Cults and Religions; the MEF; or the MIH. That is, even businesses that are sometimes deemed “unregistered” in official data do in fact have some form of Government approval for their operations.

Sector-wise, the industry with the lowest proportion of workers in registered businesses is wholesale and retail trade. Manufacturing has more than 70% of workers in registered businesses, significantly more than most other industries. The majority of workers in information and communication, finance, real estate, arts and entertainment are also in registered businesses (these all have at least 75% of their workforce in registered businesses) ((EMC), 2017a).

Informal Employment

The business sector in Cambodia employs around 3.9 million people (ADB, 2017). Of these, an estimated 1.4 million are paid employees working in registered enterprises, and 2.2 million are working on their own or self-employed workers operating in unregistered micro enterprises.

The problems of informality are complex and are related to business regulation and other interconnected issues. Although the country has a significant informal business sector, the Government has taken actions, such as setting targets in its Industrial Development Policy for increasing business formality.

Micro enterprises and self-employed workers

In 2014, micro enterprises employed 57% of all workers. Micro enterprises tend to operate in wholesale and retail trade and motor vehicle/motorcycle repair (61% of

micro establishments), manufacturing (14%), accommodation and food service (11%) and other services (8%).

According to the National Institute of Statistics (NIS), around 72% of Cambodian enterprises are family-run businesses with one to three employees (2009).

Indonesia

Based on data from the Ministry of Co-operatives and SMEs, Indonesia had nearly 59.3 million enterprises in 2014, up from 49 million in 2006, corresponding to an annual average increase of 2.4% over the period 2006-2014. Demographic dynamics partly explain this upsurge– the population in Indonesia increased by around 1.3% per year during this same period – but also by the sustained growth of the Indonesian economy, which expanded at an annual rate of 5.8% over the same period (G20 Indonesia Growth Strategy 2016, n.d.).

Informal Business Sector

As per the SME and Entrepreneurship Policy in Indonesia 2018, more than 90% of total business enterprises are estimated to be informal. Under the law, informal enterprises are those enterprises that have not registered their businesses and have no business license. Semi-formal enterprises are defined as enterprises that either have a license, or have registered. Semi-formal enterprises are those enterprises that have registered as sole proprietor (UP, PD). Most MSMEs do not operate under any form of legal entity, especially micro enterprises (98.6%).

A sizeable number of informal businesses think the registration process is complicated (33%) as well as costly (9%). Another reason for businesses to staying informal is that they do not see the advantage of formalisation (27%), and peers who do not register (16%) influence this decision. In particular, informal medium-sized enterprises do not see the advantage of registering a business because of the opportunity cost of time spent doing it. The main financial support programme for MSMEs (KUR) allows informal enterprises to apply for a loan; the KUR programme thus enables MSMEs to fight poverty and social exclusion. Interestingly, even though most SMEs did not consider the registration process as very burdensome, more than half of the SMEs surveyed (52.2%) opted to stay informal.

Informal Employment

A survey by the IFC found that 71% of the employment generated by small enterprises is in the informal sector, as well as 45% in the case of medium enterprises (IFC, 2016). On that basis, it could be estimated that formal enterprises in Indonesia employ 37.7 million people (approx. 32% of those employed in private sector) and that informal and semi-formal enterprises employ 80 million people (approx. 68% of those employed in private sector).

The proportion of people employed in MSMEs represents around 97% (between 96.7% and 97.3%) over the period 2006-2014, but this aggregate figure obscures important changes that occurred within the MSME sector during this period. In particular, micro enterprises employed 87% of the private sector workforce in 2014, down from nearly 91% in 2006, whereas small enterprises employed 5.7%

in 2014, up from 3.5% in 2006, and medium-sized enterprises employed 4% in 2014, up from 3% in 2006 (OECD, 2018b).

In February 2017, Indonesia's informal sector employed 58.4% of the total working population, expanding from 57.6% in August 2016. Between February 2016 and February 2017, the informal sector added 2.4m jobs, versus 1.6m in the formal sector (Nikkei, 2017). The data shows that the country has a substantial informal business sector and due to geographical spread and difficulty to access some of the areas, it might be a challenge to manage it in a short and medium term.

Micro enterprises and self-employed workers

Micro enterprises represent an overwhelming majority of businesses in Indonesia, accounting for 98.75% of the total in 2014. Small and medium-sized enterprises accounted for 1.15% and 0.10% of the total stock of companies in 2014, respectively 0.2 and 0.3 percentage points more than in 2006. Data from the Indonesian Ministry of Co-operatives and MSMEs show that the private sector, including agriculture, employed nearly 117.6 million people in 2014, i.e. nearly three-quarters of the economically active population of Indonesia (170.5 million). Of this figure, 104,624,466 work in micro business, 5,570,231 in small business, and 3,949,385 in medium business and 3,537,162 in larger companies.

Unsurprisingly, in terms of business permits, the larger the business the more formal the structure of MSMEs. Therefore, there is only a small number of micro enterprises (around 20%) that hold a business permit (TDI/TDP and SIUP) and NPWP, while most medium enterprises (more than 80%) holds necessary business permits. Overall, around 50% of small enterprises hold some sort of business permits. Of the MSMEs that hold a business permit, most do not need an agency to process their permits that take less than one month (for TDI/TDP and SIUP) and less than two weeks (for NPWP). The costs, procedures, and administration requirements have not constrained them to get these business permits. The main reasons for MSMEs to obtain these various business permits are to fulfil Government regulations and to fulfil loan applications (Sanrego, 2007).

Lao PDR

Informal Business Sector

Given the limited available research on the informal sector in the Lao PDR, it is difficult to estimate the share of the private sector or the number of enterprises that operate informally. According to latest available data from the 2013 Economic census, there are 178,557 enterprises and economic establishments in Lao PDR (Philavanh, 2016). Excluding those that are registered with the Ministry of Industry and Commerce, it is estimated that there are about 78,500 unregistered businesses in Lao PDR.

Anecdotal evidence suggests that informal businesses play an important role in many sectors of the economy, including manufacturing, construction, trade and services. In Lao PDR, private sector growth has been largely concentrated in the resource-based industries of mining and hydropower. Large, mostly foreign-owned companies in these industries account for a large share of the country's economic output, exports, foreign direct investment and public revenues, but provide only a small share of total employment and few opportunities for SMEs.

Besides large and mostly foreign-ownership companies, the Lao PDR business sector consists mostly of smallholder agriculture and SMEs in manufacturing, construction, and services. Many of these smaller enterprises operate in the informal economy, and relatively few grow into larger, formal enterprises that would help the country diversify its economic base and ensure that the benefits of economic growth spread more evenly across the whole population. Not only are most registered firms in the Lao PDR small, they tend to stay small. Based on enterprise surveys conducted by GIZ in 2011 and 2013, only 6% of the small enterprises surveyed in 2011 had grown into medium-sized or large enterprises by 2013. Similarly, only 2% of the medium-sized enterprises surveyed in 2011 had grown into large enterprises by 2013, with 46% actually shrinking to small enterprises over the same period. However, these surveys are not based on a solid statistical base and should be read with a pinch of salt.

Informal Employment

The share of vulnerable informal employment in Lao PDR remained high at 84% of the workforce overall. Sectors with particularly high vulnerability levels included agriculture and fisheries (93%) and sales workers (73 per cent). Vulnerable and informal employment was also widespread in other sectors, characterized by low pay, poor working conditions and no social protection (ILO, 2018).

Micro enterprises and self-employed workers

About 100,000 businesses are registered in the Lao PDR, with the precise number depending on the source of data used for reporting. According to the figures provided by the Ministry of Industry and Commerce, the number of businesses registered in the Lao PDR increased from 71,000 in 2012 to about 100,000 in 2016. Of the registered enterprises, small enterprises (1–19 employees) comprise about 99% of all enterprises in the Lao PDR. The country has only about 1,100 medium-sized enterprises (20–99 employees) and 200 large enterprises (100 or more employees).

Malaysia

Informal Business Sector

According to the Economic Census 2016: Profile of SMEs (reference year 2015) there were 907,065 SMEs in Malaysia. Of these, 693,670 are classified as micro, 192,783 as small and 20,612 as medium with over 85% of companies working in the area of services.

In Malaysia, a business is considered informal if it is not registered with the Companies Commission of Malaysia (SSM) or any other professional bodies, including the Local Authority (LA), or if the size in terms of employment is less than 10 persons and is not registered under specific forms of national legislation (Baharuddin, 2011).

In Malaysia, informal traders registered with the local municipal council (i.e., Majlis Perbandaran, Kota Bharu); pay RM20-RM36 per year depending on where they located their business. Informal traders in Malaysia also have to pay RM3-

RM5 daily to LA for cleaning the business premises (Asmy, 2013) (Mediterranean Journal of Social Sciences, 2016). The country has a very limited informal sector compares to the other countries in the region.

Informal Employment

According to the recently released Informal Sector Work Force Survey Report 2017, compiled by the Department of Statistics Malaysia (DOSM), in 2017, 1.36 million people were employed in the informal sector. This comprises 9.4% share of the total employment in Malaysia and 10.6% of employment in the non-agricultural sector. In general, this rate of informal employment as a percentage of total employment in Malaysia is still significant, but much lower than some countries in ASEAN like Viet Nam or Thailand ((DOSM), 2018)

Micro enterprises and self-employed workers

Both informal businesses and micro enterprises are at the bottom of the economic pyramid and likely constitute enterprises, existing and potential, that reside among the bottom 40% of income earners. These segments include the rural population and those who migrate from the rural to the urban environment seeking better livelihoods. Micro businesses make a significant contribution to jobs, accounting for 30.5% of non-Government employment, which represents over 6.5 million people.

Own account worker and unpaid family workers as a percentage of total employment comprised 22.2% in 2015. By type of work place, 42.7% of Malaysian employees work at home, 8.4% work at factories, workshops, offices, shops or kiosks, (independent from home), 15.1% at market or street stalls, and 33.7% with no fixed location (DOSM, 2015).

Myanmar

Informal Business Sector

There are 59,300 formally registered companies in Myanmar (DICA, 2019). The country also has approximately 220,000–250,000 semi-informal businesses registered at the municipal level (and paying taxes) (UNDP, 2013). There are an estimated 620,000 unregistered micro-enterprises in Myanmar (U Thein Sein, 2013).

There is limited availability of company-level data, but according to the UNDP business census of 2013 (UNDP, 2013), 73% of all firms in the formal sector appear to be in one of five main locations: Ayeyarwaddy, Bago, Mandalay, Sagaing, and Yangon. Over 99% of the firms (30,908 firms) in the census had only one establishment, while the remaining 185 firms reported having multiple establishments. Besides this, almost 95% (29,496 firms) produced only one product or had one business line.

Overall, limited and out of date information makes it difficult to have a current picture in Myanmar, but anecdotal evidence presented above suggests that many businesses operating in the country are not registered fully or partially, suggesting and that the informal economy might be of a substantial size.

Informal Employment

The World Bank (The World Bank, 2014a) estimated Myanmar's total labour force to be around 30.2 million in 2014, with the private sector accounting for 77% of all employment, the public sector representing just 8%, and the remaining 15% unemployed. Myanmar has a large informal sector with most informal workers living in poverty (Thomas Bernhardt, 2017). The urban poor, for example, are typically employed in the informal sector, or work as casual, low skilled labour in construction or other service sectors, many with limited education and skills. According to UNDP (2011), own-account workers represented 40 per cent of total employment in 2009–10 while casual labourers (who often come from rural areas (Oo, 2015)) made up 18%. Unpaid family workers represented another 15%. Thus, a rough estimate of the informal sector in 2009–10 would be 73% of the total labour force. (World Bank, 2014a, p. 15).

Micro enterprises and self-employed workers

Most firms in Myanmar are single-ownership firms. Just under 93% of all firms in Myanmar surveyed by the World Bank Enterprise Survey (UNU-WIDER, 2018) were incorporated as sole proprietorships (compared with 56% regionally, and 41% globally).

The Philippines

Informal Business Sector

Based on the 2018 List of Establishment (LE) statistics provided by the Philippine Statistics Authority (PSA), there is a total of 1,003,111 business enterprises operating in the country. Of these, 998,342 (99.52%) are MSMEs and 4,769 (0.48%) are large enterprises. Micro enterprises constitute 88.45% (887,272) of total MSME establishments, followed by small enterprises at 10.58% (106,175) and medium enterprises at 0.49% (4,895). Table 1b: Estimations of Informal businesses in ASEAN per AMS shows that the Philippines has 1.49 million unregistered enterprises. It is one of the highest in the ASEAN region, after Indonesia and Vietnam. These enterprises are not registered, do not keep books of accounts and do not pay taxes. Often, these are the home-based businesses (Chen, 2014), small start-ups, single proprietors, and individual service providers. Among the reasons for relatively high informal economy, businesses, especially micro enterprises, prefer remaining informal rather than to get involved in the complex registration and license processes and costly tax system.

Informal Employment

According to PSA's LE 2018, MSMEs employed 63.2% of formal sector employees, with the rest employed by large enterprises. Thus, in terms of employment, MSMEs dominate employment opportunities for Filipinos. In terms of value added, micro and small enterprises contributed only 35.7% to the economy. However, the latest Labour Force Survey figures put the number of informal sector workers at 15.6 million (Pasion, 2017) or 38% of the total working population of the country. The ILO data for 2017 year suggest that about 22.71 million constituted informal employment (consisting of self-employed salary workers in precarious employment) compared to 17.62 formal employment. This

data is substantially higher compared to the table in the initial part of the document because it also includes total employment numbers.

Micro enterprises and self-employed workers

The Magna Carta for Micro, Small and Medium Enterprises 2008 (Republic Act No. 6977, as amended) provides for the definition of Filipino MSMEs based on total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated. Micro enterprises are those with assets of not more than P3 million, small enterprises from P3,000,001 to P15 million and medium enterprises from P15,000,001 to P100 million. Based on the latest data for 2018 (PSA's LE) there are 887,272 micro enterprise establishments operating in the Philippines (ILO, 2018). The 2008 survey by the PSA highlighted that typically informal sector operators are either self-employed without any paid employee or employer in own-family operated farm or business.

Singapore

Informal Business Sector

As shown in Table Ib, Singapore has a low level of informality in its business sector. Businesses are motivated to register formally with the Accounting and Corporate Regulatory Authority of Singapore (ACRA Singapore). Upon registration, Singaporean enterprises are issued with a Unique Entity Number (UEN) which serves as the standard identification number of the entity. The UEN must be used for transactions with government agencies, e.g. applying for licenses and permits, lodging statutory filings, filing income tax returns, and obtaining support for business development services.

Proof of registration is also required when the businesses make key transactions with the private sector, such as applying for a corporate bank account or to obtain credit.

In Singapore, SMEs are widely referred to as enterprises with annual sale turnover of not more than S\$ 100 million or enterprises with employment of not more than 200 workers. 99% of enterprises are classified as SMEs.

Informal Employment

In 2019, SMEs contributed 44% to nominal value added and 72% to overall employment². Informal employment data is not available, but it is assumed very low.

Micro enterprises and self-employed workers

As of 31st December 2019, Singapore has 517,158 business entities registered with the Accounting and Corporate Regulatory Authority ((ACRA), 2020), of which

² Singstats, Singapore Economy Figures (2019). Retrieved from https://www.singstat.gov.sg/modules/infographics/-/media/Files/visualising_data/infographics/Economy/singapore-economy15072020.pdf

143,788 are in the form of sole proprietorship and partnerships. Beyond this, the country has 355,285 companies, 17,209 limited liability partnerships, 419 limited partnerships and 457 public accounting firms.

Thailand

Informal Business Sector

According to the Thai Office of SME Promotion (OSMEP, 2019), at the end of 2018, Thailand had 3,077,822 small and medium enterprises (up from 3,046,790 in 2017). As high as 99.79% of this entrepreneurial base was composed of small and medium enterprises or SME wherein the small enterprises (SE), comprising 3,063,651 operators, occupy some 99.33% of this base. Almost the entire SME domain was composed of SEs which made up 99.54%, leaving a mere 0.46% to be taken up by 14,171 medium-size enterprises (ME) (OSMEP, 2019). Based on the types of business registration, the SME established during 2018 can be grouped into three categories each with its respective number as follows: *Juristic Entities*, numbering 708,883 or 23.03% of the nation-wide total; *Sole Proprietors & Other Types* numbering 2,285,731, or 74.26% of the same total; and *Community-enterprises*, which made up the smallest portion at 83,208 or a mere 2.70% of the entire SME landscape (OSMEP, 2019).

Although Thailand has been undertaking considerable efforts to tackle its informal economy, it occupies a significant part of the economy. While the Government has not yet put in place a comprehensive strategy for the reduction of informality, the National Economic and Social Development Board has been active in this area and the reduction of informality has recently become one of main objectives of Thailand's national economic and development plans according to the ASEAN SME Policy Index (OECD/ERIA, 2018). There is a likelihood of underestimating the level of informality in Thailand due to a lack of data on micro and small enterprises operating in farming activities in the countryside. Often farming businesses are informal, do not register their enterprise and hence are not represented in official statistics. Thailand only count agriculturists as MSMEs only if they register as entity or at least have any business activity. However, if they are just ordinary farmer that do only planting/farming, does not have any business activity or registered entity, therefore, Thailand do not count them as MSMEs.

Informal Employment

In 2018, the number of people employed by enterprises of all sizes totalled 16,322,746 jobs. MSMEs employed 13,950,241 people, accounting for the greatest proportion of 85.5% (OSMEP, 2019)

The total number of people employed was 38.3 million. The number of employed people not protected or having no social security coverage from their employers or informal employment was about 21.2 million or 55.3%, while formal employment was about 17.1 million or 44.7% (Thailand, National Statistics Office of, 2018).

In Thailand, the National Statistics Office has initiated the Informal Employment Annual Survey, with the first one conducted in 2005. The latest 2018 survey published 2018 survey revealed that about 21.2 million workers, or 55.3% of the

total employment, were engaged in the informal sector, with proportion of male and female workers not much different, i.e., 11.5 million or 55.2% and 9.5 million or 44.8%, (Bank of Thailand, 2019)

Micro enterprises and self-employed workers

Thailand is currently working on a legal framework to enable sole ownership enterprises to register as a juridic entity. Most of the sole ownership companies while have some registration, still remain unregistered with all of the entities they should register, for example social security office once they employ people. Some estimates suggest that if the number of unregistered businesses and micro enterprises were included, Thailand's actual number of enterprises would triple the current official statistics (Srinuan, 2014).

Viet Nam

Informal Business Sector

Prior to 1990, formally registered MSMEs were non-existent, as the laws simply did not allow for the establishment of private sector enterprises. Since the Sole Proprietorship Law and Company Law the number of registered businesses has been increasing reflecting both the formalisation of existing household businesses as well as the creation of new firms. At the end of May 2019, Viet Nam counted more than 1.36 million MSMEs. Of these registered enterprises, 731,155 were active enterprises in 2017. An overwhelming number of Vietnamese enterprises were micro businesses with fewer than 10 employees. In total, the number of MSMEs accounted to 98.7%.

The business sector is characterised by high levels of informality and quasi-formality. Viet Nam has a large number of household businesses³ and this is a unique and peculiar feature when it is compared to other AMS. In Viet Nam, household businesses constitute a peculiar and unique form of enterprise. Household businesses are defined in regulatory documents (Law 68/2014/ QH13 "Law on Enterprises" and its Decree 78/2015/ND-CP "Enterprise Registration"). Household businesses register with district authorities and do fulfil tax obligations such as annual license fee and other taxes (mostly lump sum taxes). Though registered with district authorities, household businesses are seen as informal. About 3.5 million household businesses are not registered and do not pay taxes of any sort.

Informal Employment

Approximately 8.7 million workers are employed by household businesses. Household businesses provide services or products in areas and industries underserved by enterprises.

Household business is one of the main sources of informal employment in Viet Nam. Across the country, the number of workers in informal employment was

³ A household business as owned by one Vietnamese citizen, by one group of persons or one individual household may be registered for business at one location only, may employ only up to ten employees, shall not have a legal status. Any household business which employs regularly more than ten employees has to register business as an enterprise.

found to be quite significant (more than 18 million persons), accounting for 57.2 per cent of non-agricultural workers nationwide. About 60 per cent of informal economy workers were concentrated in rural areas, where numerous traditional handicraft villages, non-agricultural individual business households and cooperative units operate (ILO/GSO, 2017).

Micro enterprises and self-employed workers

According to GSO, the total number of household businesses in Viet Nam reached 5.1 million in 2018 and many of them are unregistered. The number of household businesses that are registered with the tax agency or with local district Government is 1.6 million.

To date, household businesses are still the preferable form for people to start a business. For example, in 2016, there were 110,000 enterprises being registered in the legal form as stipulated under the Enterprise Law. However, 155,000 people chose to start their business in the form of household business (HHB) in the same year (Binh, 2018).

5

KEY POLICY ISSUES AND WAYS FORWARD

This section structured a number of policy instruments under four (4) distinct categories: i) instruments focused on law enforcement, ii) better overall business environment reform, iii) incentive-focused mechanisms, and finally, iv) policy instruments taking advantage of digitalisation. It provides concrete policy measures, which have already been applied by the OECD and the ASEAN Member States.

5.1. Policy instruments focused on law enforcement for formalisation of micro enterprises

There have been good examples and practices that some countries have adopted to address the aforementioned policy issues. OECD countries have been applying law enforcement measures for many years and some countries have adopted the approach of strengthening law enforcement to achieve a higher level of business formality. The OECD has produced Best Practice Principles for Regulatory Enforcement and Inspections (OECD, 2014), which construct an overarching framework make enforcement more effective, efficient and less burdensome for regulated entities and less resource intensive for Governments. This is supplemented with the OECD Regulatory Enforcement and Inspections Toolkit (OECD, 2018), which gives a checklist of 12 criteria that can be used to identify strengths and weaknesses, gauge actual performance and pinpoint areas for improvement. For micro enterprises, the key goal would be to not discourage entrepreneurship and hence measures should not be too strict. Measures to match the obligation of formalisation with benefits and punishment of informality have also been taken into account by some AMS.

The report outlines two policy instruments with relevant examples focused on law enforcement for formalisation of micro enterprises:

- *Effective enforcement of regulations requiring informal business to register*
- *Match the obligations of formalisation with benefits and punish informality*

5.1.1. *Effective enforcement of regulations requiring informal business to register*

All AMS have laws requiring companies to register. In some countries, this only applied to companies of a certain size. For example, in Viet Nam, the Law on Enterprise requires that any household business employing more than 10 workers or having more than one business location need to register under the Enterprise Law. However, there remain a considerable number of household businesses, which meet these criteria and should be registered by law, but they remain hesitant about formalisation. This is a common situation in many AMS, and only few countries have strict enforcement mechanisms in place. Overall, enforcement mechanism in place is important, but it should be accompanied by the other reforms such as facilitation of formalisation. It should not discourage entrepreneurship and

ideally integrate a warning mechanism to entrepreneurs with sufficient time prior to the enforcement being applied. Below we examine the case of Singapore that had a successful experiment with its Hawker Centres as it implemented the policy to formalise them.

Singapore: Hawker Centres

The compulsory registration of hawkers in Singapore was phased and accompanied with support programs, resulting in its success. From 1968 to 1969, the Government of Singapore carried out an island-wide census as a first step to legalize hawkers. Some 18,000 hawkers selling cooked food, fresh produce and household items on the streets were issued with temporary hawking licenses. Itinerant hawkers selling ice-cream and newspapers, cobblers and key-makers were excluded in the exercise. The registered hawkers were temporarily relocated to the side streets, back lanes, and some car parks to operate their businesses during designated hours. Patrols and raids were carried out to curb illegal hawkers who were operating their businesses without registration.

Along with enforcement, the Singapore Government started to relocate licensed hawkers from the streets to purpose-built buildings known as "market and hawker centres" (or "hawker centres" (Jui, 2016) for short) in the early 1970s. From 1971 to 1985, it engaged in a programme to construct hawker centres, most of which were in public housing estates, with amenities and infrastructure to enable hawkers to conduct their businesses under clean and hygienic conditions. Unlike food courts located in upscale malls, these hawker centres were not air-conditioned.

Over the years, the Government of Singapore has made significant efforts to enhance hawker centres. For example, it launched the Hawker Centres Upgrading Programme in 2001, which incurred a total of S\$420 million over 13 years on improving the structure of over 100 hawker centres. Upgrading works included retiling and rewiring, replacement of sanitary pipes, ventilation improvement, etc. Some hawker centres were completely reconfigured or rebuilt. Hawker centres have evolved to become part of the social landscape in Singapore. Today, there are 114 hawker centres in the country which house more than 13,000 stalls altogether.

Under the Environmental Public Health Act, hawkers operating in any street, premises or public place, and itinerant hawkers going from place to place to carry out hawking activities are required to be licensed. These hawker licenses are currently issued by the Singapore Food Agency (SFA)⁴, a statutory board that was newly established in 2019 under the then Ministry of the Environment and Water Resources (MEWR) which has recently been renamed as Ministry of Sustainability and the Environment (MSE) in 2020. Individuals who are citizens of Singapore or Permanent Residents are eligible to apply for a hawker license. There was a total of 13,785 licensed hawkers as at September 2020, of which 13,315 or 97% operated in hawker centres. The remaining 3% were street hawkers selling a variety of goods

⁴ On 1 Apr 2019, all food-related functions previously carried out by the Agri-Food and Veterinary Authority (AVA), the Health Sciences Authority (HSA), and the National Environment Agency (NEA) were consolidated under a new statutory board, the Singapore Food Agency (SFA).

such as newspapers, ice cream and other less perishable food items in public spaces.

In Singapore, it is an offence for any person to operate as a hawker without obtaining a license from the Singapore Food Agency. Any person found guilty of the offence will face a fine of up to S\$5,000. Commission of a second or subsequent offence shall be subject to a fine not exceeding S\$10,000 or imprisonment for a term not exceeding three months, or both.

5.1.2. Match the obligation of formalisation with benefits and punish informality

In most of ASEAN Member States, unregistered businesses are not eligible for supplying goods and services to the Government. In many AMS, the Government is the biggest procurer of goods and services, which makes them an attractive client for small and medium scale enterprises (SMEs) seeking to get a leg up in business. Recognizing the important role that the public sector plays as a purchaser of goods and services, as well as the critical role SMEs have for the economy, Governments frequently use public procurement to either penalize or incentivise, support and otherwise sustain local SMEs. Also, as in many countries, where the vast majority of SMEs are informal, and the lure of a significant Government contract can serve as a strong motivator to register and formalise – bringing these companies in from the shadows. This can also be seen as tool to penalise those who resist formalisation and stay informal.

Thailand: Formalisation with benefits in agricultural sector

Thailand has also taken steps to match the obligations of formalisation with benefits. Officials from the Department of Agriculture routinely visit facilities and assist farmers with requirements, including paperwork, to get the certifications necessary for processed agricultural products. District cooperatives also help. Inspectors come several times before granting a certificate, until the processor meets the requirements. Universities—one prominent example being the Far Eastern University in Chiang Mai—also assist new agricultural enterprises in obtaining licenses and permits. One objective of the assistance is to prime Thai producer for participation in the country’s significant agricultural export markets (USAID, 2013).

Singapore: GeBIZ Mall

In Singapore, an online platform called *GeBIZ Mall* (GeBiz) helps connect suppliers who are interested in selling to Government agencies. On *GeBIZ Mall*, suppliers are given electronic “shelf space” to sell goods and services. Each supplier can list ten items on their online shelf free. Government agencies can buy directly from these suppliers if the purchases are priced below S\$6,000 (2017), or otherwise request quotations. Between 2012 and 2017, an average of 5,000 orders per year have been placed through the platform, amounting to approximately S\$3.5 million per year. The Government continues to encourage and promote the use of this platform among SMEs. (*Source*: Enterprise Singapore).

In Singapore, being recognised as a corporate legal entity allows a business to enjoy low corporate income tax⁵. It also offers them the ability to engage in financial activities (e.g. loans and investments with banks and other financial institutions). Registered businesses in Singapore may also enjoy a comprehensive suite of IP solutions to protect, manage and commercialise their IP and intangible assets such as trademarks, patents, data and know-hows.

5.2. Promoting registration through better business environment reform

Registration is only a first step towards formalisation. Throughout the business life cycle, compliance to other regulations is needed to follow up the process of formalisation. An unfavourable, overly complicated and costly business environment might make many micro enterprises reconsider their decision of being registered. The report identified a number of relevant instruments policy makers can apply to promote registration of companies which go from facilitation through digitalisation to decreasing costs of registration. The report describes the following areas:

- *General improvement of business environment;*
- *Reducing the costs of business entry and streamlining business registration;*
- *Reducing burdens of registration through digitalisation of the business registration; and*
- *Development of simplified legal regime specifically designed for starting entrepreneurs.*

5.2.1. General improvement of the business environment

A general improvement of the business environment would provide a strong incentive for businesses to be a part of the formal sector. In general, overregulated, complex and costly business regulations reduce the efficiency of the business environment, as well as provide strong incentives to businesses to remain informal. That is why, in some AMS, interventions are focused on improving the cost–benefit equation for businesses to operate as formal enterprises. On the cost side: businesses have to invest time and money for business registration; make efforts to comply with existing rules and regulations. Besides this, they have to manage administrative burdens associated with regulations on taxation, labour laws, social security, land acquisition, construction permits, etc. On the perceived benefits of formalisation, improved access to financial services (including credit and innovative payments systems) and other business development services for formal enterprises will encourage businesses to consider formalisation. Thus, making reforms in regulations and legal requirements would make the business environment more attractive and affordable to micro enterprises after their registration.

ASEAN: Promoting Doing Business indicators

⁵ Singapore's corporate income tax rate is one of the lowest in the world. For reference, Singapore's individual income tax rate ranges from 0 – 20%.

Some AMS have worked on the action plan to improve the overall business environment. They have done so using the methodology of the *Doing Business* report by the World Bank in order to introduce a range of business environment reforms in the business start-up phase, construction permits, paying tax, facilitating access to electricity, etc. According to *Doing Business 2019*, Malaysia carried out six business reforms in 2018, which enabled it to be ranked among the top 20 economies in the world.

In 2017, Indonesia's President Joko Widodo enacted the "16th Reform Package" aimed at improving the ease of doing business in the country. The new economic policy package contains measures to accelerate the issuance of business licenses and permits at the central and regional levels. The 16th Reform Package deals exclusively with the general licensing process for business activities. Indonesia has set a target for the country to be in the top 40 in the years to come.

In Thailand, sustained focus on business regulatory reform (Thailand Sustains Focus on Business Environment with Four Additional Reforms, 2018) in recent years is helping to narrow the gap between Thailand and global regulatory best performance (ILO/UNDP, 1999). In relative terms, Thailand is now among the top 30 of the 190 economies in the Ease of Doing Business ranking.

In Myanmar, the Government has initiated a wide range of reforms (Ko, 2019) to open up its economy further to trade and investment. Recent measures include efforts to modernize the legal and regulatory framework. Myanmar rose up in the World Bank's ranking for ease of starting a business – moving from 189th out of 189 countries (or last place) in 2014 to 160th as of 2019.

In Viet Nam, the Government has stepped up business environment reforms (Customs News, 2019) through the introduction of Annual Resolution 19 (and now Resolution 02/NQ-CP). The reforms are also supported by the use of its Provincial Competitiveness Index (PCI), which promotes economic governance for private sector enterprises. Viet Nam has made progress in improving its business environment in recent years and is currently ranked 69th in the Ease of Doing Business ranking.

5.2.2. Reducing the costs of business entry and streamlining business registration

Businesses still consider the process of formalisation as costly and a reduction in these costs would be perceived as beneficial. However, whilst considering this, policy makers should also take into account that these costs are necessary to ensure good and stable infrastructure for registration and to enable the financial sustainability of institutions working on business registration.

Some, Member States of ASEAN have taken good measures to reduce the costs of business entry (i.e. direct costs related to their switch to formal enterprises) by streamlining business registration procedures and processes.

Malaysia: MyCoID Portal

In Malaysia, the Companies Commission of Malaysia has eased the online process of registering a business entity. The MyCoID Portal offers an online service for the incorporation of limited liability companies. Once incorporated, the information of

the company is shared with the Inland Revenue Board, the Social Security Organisation, the Employees' Provident Fund, the SME Corp. Malaysia and the Human Resource Development Fund. According to Doing Business Report 2019, the time taken to incorporate a company in Malaysia takes around 13 -14 business days. The registration through the MyCoID Portal however takes less than 1 day and provides a seamless experience by asking for only the essential information for registration.

This simplification has been achieved through the new Companies Act 2016 which introduced a fixed fee of RM1000 for incorporating a limited liability company irrespective of the share capital of the company. At the same time, many reforms have been introduced such as the introduction of single-member/single director company. In addition, it is no longer mandatory for companies to have memorandum and article of association and company secretary for incorporation purposes.

Meanwhile, the registration as sole proprietorships and partnerships can also be done electronically through the ezBiz Portal (registration fee is RM30/RM60) and the MyLLP Portal for the registration of limited liability partnerships (registration fee is RM500). The time taken to register such business entities is less than half a day.

Myanmar: Myanmar Companies Online

In Myanmar, an e-registration platform known as Myanmar Companies Online (MyCo) was introduced and was warmly welcomed by the business community. The Directorate of Investment and Company Registration (DICA) implemented this system. Using MyCO, one can register their company and find information on other companies that are registered in Myanmar. The platform also provides information on the formats for the official company documents and extracts. As of 1st October 2019, the Government has also reduced fees from 250,000 Kyat to 150,000 Kyats for registration or incorporation of a company (OECD, 2017).

Brunei Darussalam: Registry of Companies and Business Names

In 2015, in order to encourage locals to start businesses and to promote micro enterprises to register, the Government of Brunei Darussalam implemented several reforms to improve the business environment such as the launch of a new online business registration system by the Registry of Companies and Business Names (ROCBN). This Registry simplified the process of incorporating a company by making it simpler, faster and cheaper to get registered. With this new online streamlined unique portal for business registration, the average time taken to register a business has been reduced to less than twenty-four hours. The Government also implemented a fixed registration fee of B\$300 for incorporation of a company irrespective of the company's authorized capital. Recently, ROCBN merged name reservation and company incorporation into a single step as well as removed the requirement of share certificates to be stamped upon company incorporation. It also introduced many other reform measures, enabling it to jump 42 places to 16th position in the indicator for starting a business in the Doing Business 2018 Report.

Thus, over the recent years, we see that Brunei Darussalam has made the most progress to improve their ranking in the indicator on starting a business as per the Doing Business report.

Thailand: One-Stop Shops

One-stop shops can simplify the process of post-registration procedures. For instance, Thailand has a Single Point Service Centre where entrepreneurs can register for social security as well as for the Workmen's Compensation Fund. The Department of Business Development also receives the work regulations and then forwards them to the Office of Labour Protection and Welfare of the Ministry of Labour to the district in which the head office of the company is located. Alternatively, an entrepreneur could also register for the work regulations at the Ministry of Labour directly.

Viet Nam: Tax Reforms

To reduce financial and regulatory compliance burden for micro enterprises after formalisation, efforts are being made in Viet Nam to simplify tax-filing procedures and introduce digital Government services (2019). In the Doing Business 2018 report, Viet Nam has made the most progress in the ranking for the paying taxes indicator. Components of the tax indicator include the number of tax payments, time, total tax rate, and post-filing index (VAT refunds and corporate income tax audits). Amongst AMS, Viet Nam was ranked fourth, after Singapore, Thailand, and Malaysia. Paying taxes is now easier with the abolition of the mandatory 12-month carry forward period for Value Added Tax (VAT) credit. In addition, the introduction of an online platform for filing social security contribution boosted the rankings. Currently, nearly 98% of registered MSMEs are filing tax forms and paying taxes online. In 2018, Viet Nam made progress in tax reforms for the fourth consecutive year.

The Philippines: Business One-Stop Shop (BOSS)

The Philippines introduced multiple reforms by setting up a one-stop shop at the city or municipal level in 2010 called the BOSS (Orellana, 2019). This streamlined communications between the Securities and Exchange Commission (SEC) and the Social Security System (SSS). These actions eventually paid off: in 2015, the process of issuing an employer registration number was promptly expedited and in 2018, the tax registration process and business licensing processes were simplified further. This effort was further improved by the establishment of the Negosyo Centers (NCs) nationwide, pursuant to Republic Act No. 10644 or the Go Negosyo Act, offering a one-stop shop business services such as facilitation of business registration, provision of advisory services/consultation, provision of information materials and advocacy and conduct of trainings/seminars, among others that are essential for their growth. Also, the passage of Ease of Doing Business Law or Republic Act No. 11032 mandated the government agencies/offices to adopt a whole-of-government approach in streamlining of current systems and procedures of government services such as issuance of local business licenses, clearances, permits, authorizations, among others. Specifically, Section 11 (b) of the law

supplements the NC services as Local Government Units (LGUs) are directed to establish BOSS within the NC to serve as the city/municipality's business permitting and licensing system to receive and process manual and/or electronic submission of various business applications.

5.2.3. Reducing burdens of registration through digitalisation of the business registration

A number of countries have digitalized their process of registration, allowing companies and individuals to register on-line and facilitating the process. This facilitates data gathering but also can help sharing data among variety of agencies working with the business.

Singapore: BizFile⁺

Singapore makes continuous efforts to streamline registration procedures and incentivizes small businesses to register. In January 2016, the online business registration and filing portal of the Accounting and Corporate Regulatory Authority (ACRA) was enhanced to make business registration even simpler and more convenient. All submissions required under the different legislations administered by ACRA can be done via a one-stop portal, BizFile⁺. These include the updating of a company's information, such as the details of its directors, shareholders, officers, registered office address and changes to a company's issued and paid up share capital. The public can also access a range of services at the portal, from submitting statutory documentation to retrieving and purchasing information about registered business entities. Over 2 million transactions are completed via the portal each year. In addition, BizFile⁺ has over 100 interfaces with 54 other agencies to facilitate registered businesses in their application of licences, Customs account and corporate bank accounts.

Canada: BizPal

With federal funding, the Government of Canada (OECD Member State) launched the online Business Permits and Licences (BizPaL) project in 2003, to create a business case for and a subsequent prototype of, a web-based permits and licences system. Its objective was to help small to medium-sized businesses comply with permit and licence requirements at all three levels of Government, namely federal, provincial / territorial and municipal, by providing information to the user (BizPal, 2018). BizPaL generates a personalized list of the business documents needed from the three levels of Government.

The BizPaL Service has been relatively successful at securing collaboration with other Government agencies. (34 federal departments, 13 provincial and territorial agencies and about 700 municipal Governments (out of 3,647)). It included mapping of 640 sectors as per NAICS (North American Industry Classification System), and it helped businesses to identify their permit and license requirements, reducing the time it takes entrepreneurs to understand their compliance requirements.

The issues related with the programme were the lack of awareness of the project among the business community. Thus, BizPal undertook a national marketing and

awareness campaign with the objective to improve client awareness and usage of BizPal services. The project failed to find a sustainable business model, hence, the Government committed to supporting it financially (OECD, 2016).

Chile: Tu Empresa en Un Día

In Chile, the *Tu Empresa en Un Día* (Your Company in One Day) programme allows limited liability companies to register for free on an online platform hosted by the Ministry of Economy. Companies only need to fill out an electronic form with information on the company and its shareholders. This online platform is linked to the tax agency, so that a taxpayer's identification is automatically provided when a business registers through this platform. This has resulted in an almost immediate impact on the formalisation of businesses in the country. Now, a majority of companies in Chile use this platform and the number of companies participating in the *Tu Empresa* programme continues to rise. According to the programme's latest activity report, 73.6% of businesses created in May 2017 went through the programme. This is an increase of 12.4% compared to May 2016 (OECD, 2018).

Brunei Darussalam: Online Registry of Companies and Business Names (ROCBN)

The online registration system was introduced in 2017 with the aim of providing you with convenient online services for registering and maintaining business. Once the business ventures decides on the type of business entity to register (each type bears different implications and carries different requirements) they can visit the web portal www.roc.gov.bn. After creating an account, filling out an application, uploading the relevant documents it is possible to register online. Once the payment is made and the registration is approved, an email is sent to the applicant confirming the registration, attached with a digital certificate of your business' registration. (www.roc.gov.bn.)

Malaysia: MalaysiaBiz Portal

The High Impact Programme 1 under the SME Masterplan (2012 – 2020) on integration of business registration and licensing aims to create a single gateway for business registration and licensing. The Programme is being rolled out in stages. Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) has successfully developed the MalaysiaBiz Portal (<https://malaysiabiz.gov.my/>) that provides information on registration and licensing to facilitate the business community in starting a business. To date, a total of 17 system registrants and licensing authorities are involved in the Programme with information on 2,919 licenses from 508 licensing authorities were made available.

5.2.4. Development of simplified legal regime specifically designed for starting entrepreneurs.

Most informal business are micro enterprises and some Governments have put dedicated simplified legal status for starting entrepreneurs and micro enterprises.

By simplifying the business registration process and making it cheaper or free, the Governments encourage companies to formalise and benefit from various advantages. This simplified status allows the possibility to apply for bank services, or to access new markets like Government and large companies' contracts.

Governments can also give this legal status some limits ensuring that larger companies do not take advantage of it. For example, such status could give a business access to all advantages except the rights to export and to access large public contracts. An example below showcases how a new simplified regime combined with some incentives such as trainings and business support provision assists the transition from an informal to a formal economy.

OHADA / Benin: “Entrepreneur” Status

The OHADA Treaty is a system of corporate law and implementing institutions adopted by seventeen West and Central African nations. OHADA is the acronym for the French "Organisation pour l'harmonisation en Afrique du droit des affaires", which translates into English as "Organisation for the Harmonisation of Corporate Law in Africa". In May 2011, the seventeen Member Countries adopted a revised General Commercial Law in December 2010, which came into effect in May 2011. The new law, introduced the ‘*entrepreneur status*’ (World Bank, 2015), a simplified legal regime specifically designed for small entrepreneurs, whose intended objective is to facilitate the migration of businesses operating in the informal sector to the formal sector. Benin, as a member of OHADA, was the first OHADA country to implement the entrepreneur legal status. The entrepreneur status can apply to a physical person running a micro or small business involved in any type of activity. Formalisation with this new status is easy, free of charge and takes only one business day. The introduction of the entrepreneur status is part of a broader effort from the Government of Benin to simplify and reduce the costs of formalisation. The support provided by the Government of Benin includes:

- Package A – information on the entrepreneur status and assistance in registering
- Package B – provision of business services and trainings, and assistance in opening a bank account
- Package C – provision of tax preparation support and tax mediation services

The implementation of support and incentives to encourage formalisation in Benin provided valuable feedback. In general, the interventions were successful in getting more informal firms to become formal, but the cost of these interventions was high and Government revenues received through newly formalized businesses was comparably low. Moreover, following the calculation of additional tax revenue, the Government is expected to collect from these firms over their lifetime is unlikely to cover the cost of inducing them to formalise. The example from Benin emphasizes the crucial importance of targeting. The rate of formalisation can be doubled by focusing interventions on firms with characteristics that place them closer to the margin of formalizing on their own.

In 2015 a randomized impact evaluation has been conducted by the World Bank researchers (Benhassine N., March 2015). The evaluation tested three different

versions of the entrepreneur status on business registration decisions, each version including incremental incentives to registration: (i) information on the new legal status and its benefits, (ii) business training, counseling services, and support to open a bank account, (iii) tax mediation services. The impact was 9.1 percentage points in the first treatment group; 13 percentage points in the second group; and 15.8 percentage points in the last group. The study included 3,600 informal businesses operating with a fixed location in Cotonou, Benin, which were randomly allocated between three treatment groups and one control group. One year after the program launch, all versions of the program had significant impact on formalisation rates.

5.3. Policy instruments on incentive-focused formalisation mechanism

Governments can provide a wide range of incentive mechanisms such as offering better access to finance, public procurement or business development services. Some Governments also provide tax breaks for newly registered entities. Pro-formalisation-related incentives have proven to be successful in a number of countries around the world (USAID, 2007).

The report have identified the following five areas for incentive-focused mechanisms:

- *Reducing the financial, fiscal and regulatory burden on registered companies*
- *Offering better access to finance to registered enterprises when they go formal*
- *Offering access to business development services (BDS) and Government support services*
- *Business opportunities especially accessibility to public procurement after becoming formal*
- *Public awareness raising and information campaign on costs and benefits of business formalisation*

However, policy makers should be careful distributing incentives and tax breaks. These offers are costly and often it takes a long time for the Government to benefit from the registration of companies. Some of the studies based on the randomized control trials have found that the additional tax revenue the Government will collect from these firms over their lifetime is unlikely to cover the cost of inducing them to formalise (Naiv Benhassine) (2018).

Not all businesses that access more business training and pay lower taxes due to a tax exemption, would be have business bank accounts, gain new customers, have higher profits or sales, or hire additional staff. That is why it is important for policy makers to target specific groups of businesses for the incentives and tax benefits. The rate of formalisation can be doubled by focusing interventions on firms with characteristics compared to focusing an intervention on the entire business population. This can also save money to the Governments.

5.3.1. Reducing the financial, fiscal and regulatory burden on registered companies

The level of informality has not reduced nor has it become less appealing as Governments keep increasing the fiscal and regulatory burden on registered businesses. It is important to make these procedures burdensome for a company especially once it becomes formalised. This will further incentivise unregistered enterprises to become formal.

Thailand: Tax Amnesty for SMEs

A relatively large number of MSMEs in Thailand keep more than one accounting book to evade taxes. This negatively affects revenue-generation activities through tax collection. Thus, in 2016, Thailand introduced SME tax amnesty to encourage more MSMEs to enter formalisation process as well as the tax system. Under the amnesty, the MSMEs formalising with immediate effect would enjoy a tax exemption on income earned for the first year and would be subjected to a reduced rate of 10 per cent income tax rate for the second year, on the condition that they commit to paying taxes from the third year onward.

Indonesia: Revenue-based tax system for SMEs

In Indonesia, a special tax regime has been introduced to reduce informality in small businesses. Since 2013, Indonesia has operated a revenue-based tax regime (investments) for small businesses with annual revenues below IDR 4.8 billion, whereby small business owners are only requested to pay taxes corresponding to 0.5% of their monthly revenues. The aim of this special tax regime is to attract informal businesses into the formal sector and to expand the national tax base. As of 2018, 1.5 million small enterprises had joined this regime, of which 1.2 million were individual companies.

Brunei Darussalam: TAP Scheme

In Brunei Darussalam, if a person is self-employed i.e. people who run their own businesses and generates his/her own income – without any employees; and is not an employee of the Government, company or other organisation can benefit from the Tabung Amanah Perkerja's (TAP) through the Supplementary Contributory Pension (SCP) as the retirement fund. The self-employed can contribute a minimum of \$17.50 from his/her self-generated income on a voluntary basis and the Brunei Government will match an amount \$17.50 into the SCP account each month. The scheme ensures that registered self-employed individuals received a monthly pay out for 20 years after the age of 60. The SCP scheme also carries a survivorship benefit in the event that the entrepreneur passes away before the age of 60, his/her dependents (widow and children below 21 years) will receive support through a monthly benefit of \$400 a month for up to 15 years.

Cambodia: FRT for SMEs

In Cambodia, accounting procedures for SMEs are being simplified to reduce the compliance cost burden. To do this, in 2006, the Financial Reporting Template for SMEs (FRT for SMEs or a handbook on commercial registration) was created. This template provided a framework for accounting standards, especially for SMEs. In 2008, another five International Accounting Standards (IAS) were adopted. In 2009, the Cambodian version of the International Financial Reporting Standards (IFRS), the Cambodia IFRS (CIFRS), and the Cambodian IFRS for SMEs, (CIFRS for SMEs), were introduced (ERIA , 2015).

Japan: Transition from GASME to APSME

In Japan, a member of OECD, accounting has also been recognised as an important issue for reducing the cost burden for SMEs and to improve SMEs' financing environment. In 2005, Japan issued Guidelines for Accounting for Small- and Medium-Sized Enterprises (GASME). The guidelines presented a simplified version of the Corporate Accounting Standards, which are the accounting standards for large corporations. However, the standards were still too advanced for SMEs. In fact, as a result of the convergence of IFRS and Corporate Accounting Standards, GASME has undergone annual revisions since 2000. Consequently, the management of SMEs pointed out that the guidelines were too advanced and complicated; hard to understand; the choices for the accounting treatment were limited; and did not necessarily match the business practices or accounting practices of SMEs. As a response to those challenges, in 2012, the Accounting Procedures for Small- and Medium-Sized Enterprises (APSME) was issued as the new 'guidelines to show how SMEs' accounting should be done,' as more appropriate procedure to their actual conditions (ERIA , 2015). This shows that, SMEs may not comply easily with IFRS and IFRS for SMEs, since they are still in the process of developing and it requires constant efforts to make accounting regulations appropriate for SMEs.

Viet Nam: E-tax procedures reform

In June 2019, Viet Nam's National Assembly approved a new Law on Tax Administration 38/2019/QH14. Under the new law, tax authorities have been granted additional enforcement powers. At the same time, the new law has made it a little bit easier for both individuals and entities to file taxes. E-tax procedures are promoting and creating favourable conditions for MSMEs, including household business. By using its own tax code, enterprises and the household business can access to the tax organization website and implement E-tax procedure. This reform is implemented with the objective to help business to reduce barriers created by the administrative system in order to improve their business and production capacities. It offers some advantages, for example lower expenditure, saving time, and more flexible, adaptable, and user-friendly hardware. (<http://www.gdt.gov.vn/wps/portal>)

5.3.2. Offering better access to finance to registered enterprises when they go formal

While all firms seem to benefit from well-functioning financial markets, studies show that this is particularly critical for small to medium-sized enterprises. Studies indicate that financing obstacles do indeed impede growth in small firms, often to a greater extent than in large firms. Moreover, SMEs often find it harder to access external financing. Financial institutions are often reluctant to lend to this segment – even though it can be perceived as attractive – given the higher risk profile associated with it. This is systems play an important role in the facilitation of transaction-based lending. All but one AMS have a largely due to the high failure rate among small firms combined with three challenges implicit in SME lending: information asymmetry, principal/agent problems and transaction costs.

Of the five countries with a public or public/private credit guarantee scheme, Malaysia and the Philippines have multiple schemes running alongside each other, while Indonesia and the Philippines have funded a network of schemes that are run at the provincial level. These approaches are generally intended to increase outreach, but may lack coordination and thus risk duplication of effort. In terms of performance, the CGS in Malaysia and the Philippines seem to demonstrate a low net loss rate, but in Indonesia, Thailand and Viet Nam the net loss rate is higher than commonly advised (OECD/ERIA, 2018). Governments in Lao PDR, Cambodia and Myanmar also encouraged credit institutions to establish SME lending portfolios.

Many Government agencies and development partners are engaged in efforts to improve access to financial services, especially for SMEs which are registered (i.e. after being formalised). In most of the countries micro enterprises could only get access to formal lending mechanisms once they are registered and can provide official documents. However, in order to be eligible for financing options from these funds or banks, generally businesses must be registered. This can be an additional incentive for micro enterprises to register their businesses and be eligible to access funding through these credit guarantee funds or small business lending programs offered by the Government, but the government should be promoting these option and provide dedicated schemes focused on micro enterprises. However, one important piece of information for the banks is to be able to rate the risks of the new borrowers (MSMEs). Credit reporting system in place. In most countries this service is provided by private credit bureaus or a mix of private credit bureau and public credit registries. Example below provides an interesting example from India.

India: SME Rating Agency of India (SMERA)

India has arguably one of the most dynamic MSME scenes in the world. There are substantial demands of MSMEs in relation to access to finance. To deal with it, an SME Rating Agency of India (SMERA) was incorporated in 2005 as an initiative of the Ministry of Finance, Government of India and the Reserve Bank of India. It is a ratings and research agency exclusively set up for micro, small and medium enterprises (MSME) in India and it provides ratings which enable MSMEs, SMEs, to raise bank loans at competitive rates of interest. It has also launched New Enterprise Credibility Score (NESC) specially developed for start-ups, helping

them access early stage finance. The companies need to be registered in order to get support from SMERA. At the time of preparation of this report, SMERA has completed over 50,000 ratings across sectors and geographies in India. The International Finance Corporation recognised SMERA as a novel and sustainable initiative of the Government of India, to improve the credit flow to the MSME sector.

Recently, the spread of COVID-19 outbreak has pushed Governments to consider additional matters also because often only registered ventures can benefit from the registration. In the time of a crisis another policy measure that Governments could apply might be the facilitation mechanism for the registration of companies or self-employed during the COVID-19 outbreak. Especially since most of the businesses have at least partial registration, the provision of social benefits combined with registration with the necessary authorities might be a way to decrease informality. However, it is advised not to condition distribution of benefits with the registration, but rather commit beneficiaries to registered with the necessary authorities over the period of some period of time, for example the current fiscal year otherwise the Government could reclaim some of the social benefits received. This process should also be coupled with the facilitation and streamlining of the process of registration, which could be done on-line or via postal service. For example, in Cambodia stimulus package is only given to registered companies with the objective to attract the non-registered companies to go through formalisation process.

Malaysia: Special Prihatin Grant

The Malaysia Inland Revenue Board has announced that applications for the Special Prihatin Grant will be open to all micro enterprises as from May 2020. The grant was developed as a way to promote company formalisation. The initiative provides a special grant of RM3,000 has been prepared under the Prihatin Rakyat Economic Stimulus Package for each qualified microcompany. Nearly 700,000 micro SMEs nationwide are expected to benefit from this special grant. The micro enterprise must be registered with the Inland Revenue Board of Malaysia in order to be able to benefit from the grant.

5.3.3. Offering access to business development services (BDS) and Government support services

The ability of firms to increase their productivity while upgrading their technological and innovation capacity is regarded as an important determinant of competitiveness. Unfortunately, generally micro enterprises have a very low levels of productivity and have very few ways to improve it. Without being formally registered, businesses are typically not in a position to take advantage of services that might be on offer from the Government, including business development support, standards compliance assistance and marketing help. Neither can they provide goods and services to the Government for procurement nor access regional or international markets, given the quality and traceability requirements to do so. Thus, Governments should promote the advantages of formalisation to businesses. SMEs often have limited knowledge of the availability, effectiveness and potential benefits of BDS. Micro enterprises are often not able to develop their own internal services due to the high cost and complexity associated with such services

(Auguste, Harmon, & Pandit, 2006). The support services required by an SME vary depending on its type of activity and stage of development. Often this causes small firms to underinvest in such services (Carter & Jones-Evans, 2006).

Malaysia: Business Advisory Services

An example of incentives used is Malaysia demonstrates well how a Government can encourage formalisation of enterprises by providing business advisory services. For the past generation, the Malaysian Government has used its increasing economic advantages earned through substantial oil revenues and a healthy trade surplus, to promote formal economic activity by providing robust incentives. Through its extensive system of support for small enterprises, the Malaysian Government at both the national and local levels promote the benefits of formalisation. Both national and local Government agencies provide access to practical advice, some working and long-term capital for new businesses, networking opportunities, marketing support and more. The businesses they work with tend to be registered in some way, so that the Government can identify them and included in formal counts of private enterprises. SME Corp. Malaysia is the major national institution in charged with supporting new and smaller businesses. It offers a variety of services like encouragement of technology and innovation; support for human capital needs; advice on market access and access to capital, and others. The Government encourages entrepreneurial activity among small businesses by exempting companies employing five or fewer people from some of the more costly business regulations (USAID, 2013).

The process of registration is streamlined such that once a business is incorporated; it is automatically registered with specific authorities and with the SME Corp. Together, they offer a network of ‘one-stop centres’ for business advisory services, relevant information on Government funds and incentives for MSMEs, including advice on tax incentives. These meetings and services also allow the Government to collect feedback from the businesses on how the services could be improved.

Viet Nam: SME Support Law for formalisation of household businesses

In the SME Support Law released in 2017 (Tien, 2018), Viet Nam offers incentives to household micro enterprises if they choose to formalise by registering their business. According to the law, if a household micro enterprise chooses to register, it is entitled to the following forms of assistance:

- Free consultancy and instruction on applications and procedures for the enterprise establishment;
- Exemption from fees for enterprise registration and the first provision of enterprise information; exemption from fees for assessment and fees and licensing fees for the first license of business lines subject to conditions and exemption from licensing fees within 3 years from the day on which the first ERC is issued;
- Free consultancy and instruction on the tax administrative procedures and the accounting regime within three years from the day on which the first ERC is issued;

- Reduction of and exemption from corporate income tax for a limited period of time in accordance with regulations of law on corporate income tax; and
- Reduction of and exemption from land rental, land levy and the levy on non-farming land for a limited period of time in accordance with regulations of law on land.

5.3.4. Business opportunities especially accessibility to public procurement after becoming formal

Public procurement represents approximately 12% of gross domestic product (GDP) and 29% of total government expenditures in OECD countries. SMEs can play a pivotal role in helping governments ensure that the benefits of globalisation, open markets and digitalisation are broadly shared across societies. The objective of supporting MSMEs and facilitating their access is actually embedded in public procurement policies and strategies in most OECD countries. This strategic dimension principally supports use of the public sector's purchasing power to stimulate MSME participation and competition, thus increasing value for money in carrying out public procurement. Linking this strategic use of public procurement to enabling SMEs could be integrated into broader MSME support policies in order to reinforce the policy linkages by considering possible synergies and trade-offs between them. (OECD , 2018) The recent OECD report *SMEs in Public Procurement Practices and Strategies for Shared Benefits (2018)*, provides a number of findings and good practice policy examples.

Across AMS, opportunities for procurement from Government are only available to registered enterprises. Informal businesses are not eligible for opportunities of public procurement. For example, BizFile+ will send alerts on latest Government procurement opportunities to those businesses that are registered. In the Philippines, pursuant to the Magna Carta for MSMEs and under the General Appropriations Act (annual budget), the Government has a component set-aside for MSMEs that requires procuring at least 10% of its total annual supplies from eligible MSMEs. For its transparency and efficiency, these government opportunities are published in Philippine Government Electronic Procurement System (PhilGEPS), the single, centralized electronic portal that serves as the primary and definitive source of information on government procurement in the country. Other efforts of this type have been introduced or are under consideration in other AMS. Below we have presented a few examples from OECD Member States that have successfully implemented procurement opportunities for formally registered SMEs.

United States of America: Federal Business Opportunities for SMEs

The USA covers small business, small disadvantaged business (i.e. owned by historically disadvantaged individuals), veteran- and women-owned small business and other categories in all Government procurement schemes. The approach essentially targets US-based individuals and enterprises that contribute to the US economy through payment of taxes and use of US materials, labour and services. At the federal level, annual targets are established in terms of percentage value of total contracts awarded to small businesses. Implementation is undertaken through

federal procuring agencies and local and state authorities who collaborate with the US Small Business Administration (SBA). However, the SBA has overall regulatory authority. The scheme includes an exit strategy for SMEs after a specified period, assuming they do not grow sufficiently to encounter automatic exclusion.

Republic of Korea: Korean Public Procurement Service Authority (PPS)

The Republic of Korea provides an example of an integrated approach to promoting SME growth and enterprise formalisation using a procurement platform. Unlike many other countries, it neither uses bid price preferences nor sets aside bids to encourage SME participation in its public procurement market. The Korean Public Procurement Service Authority (PPS) has several initiatives to increase SME participation in Government procurement, which is used mostly within Korea's electronic procurement platform, Korea On-line E-Procurement System (KONEPS). Among other initiatives, PPS provides the following:

- Advance payments to SMEs that qualify for an advance payment program for delivery of goods contracts, as much as 70% of the purchase price.
- An SME network loan program involving selected financial institutions with terms allowing SMEs that qualify for the PPS Surrogate Payment Program to obtain bank loans for up to 80% of the relevant contract price to cover the costs of contract execution.
- An “SME Excellent Government Supply Products” award program to increase SME product visibility among all Government suppliers, contractors and consultants. Each year, under this program, high quality performance and innovative technology products provided by SMEs are included in the KONEPS product catalogue accessed by Government suppliers of goods and consulting services.
- A Multiple Award Schedule (MAS) for SMEs, which is a simplified process for procurement of recurring, high volume purchases at more competitive pricing associated with volume buying using indefinite delivery contracts.

SMEs are given an opportunity to provide continuing orders, assuming satisfaction of MAS bidding requirements overall, and for each specific order, within the duration of the relevant indefinite delivery contract. In addition, it should be noted that the opportunity is offered only to SMEs that are legally registered.

5.3.5. Public awareness raising and information campaign on costs and benefits of business formalisation

Entrepreneurs are assumed to make a rational decision about the optimal level of formality based on the projected costs-benefits weighted by the risk of being fined if found not compliant. The projected profit stream is discounted by a rate related to the actual cost of capital: higher for informal enterprises than for formal ones. Entrepreneurs may have only limited information on actual costs and benefits. Therefore, they may take a wrong decision and remain stuck in informality. It is very important to provide complete information to entrepreneurs prior to the start-up phase.

Becoming formal will bring benefits such as ease of establishment of a permanent address, better access to financial and business development services, access to more and different markets and reduced risks of fines, forced closure or bribes. However, these benefits are not visible to all the entrepreneurs of unregistered micro-enterprises. This is why, individual Governments must make extra efforts to raise awareness of the direct and indirect benefits of formalisation.

Malaysia: Companies Commission of Malaysia Training Academy (COMTRAC)

Companies Commission of Malaysia (SSM) is a strong proponent of the philosophy of “enforcement by education”. With the ‘Balanced Enforcement’ approach, SSM believes that education complements the effectiveness of enforcement initiatives in ensuring voluntary compliance for formalisation of businesses. The Companies Commission of Malaysia Training Academy (COMTRAC) was established in 2007 to educate stakeholders and strengthen public awareness about the need, importance, and benefits of complying with legal corporate provisions. Since implementing this approach, the compliance rate has improved from 40% in the early 2000s to 93% in 2016.

Myanmar: Use of Regional MSMEs Trade Fairs and Contests to promote the importance of formalisation

The government of Myanmar promotes the Regional MSMEs trade fairs and contests and participation of MSMEs from various national regions. These fairs are used to promote the winning companies, but also showcase how they can benefit from the Government support, once registered. All the winners are advertised through the reports, but also through the official portal (www.msme.gov.mm) and through digital marketing campaigns.

5.4. Policy instruments taking advantage of digitalisation to facilitate formalisation of micro enterprises

Digitalisation had a major effect on the way enterprises operate. In Southeast Asia, the use of digital technologies has increased and the rapid diffusion of mobile broadband, in particular, is enabling more and more people to connect to digital networks. At the end of 2016, 353.6 million out of around 640 million people in ASEAN had access to a fixed or mobile broadband subscription, (more than 55% of the population) up from just over 0.6% at the end of 2006.

Digitalisation is an integral and vital part of the new generation of information technologies such as Internet of Things (IoT), cloud computing, artificial intelligence, virtual reality just to name few of the future technologies. These technologies will change the way products will be manufactured, will change the value chains and will allow improving existing services to all companies including MSMEs. The opportunities appear at an increased pace which challenge SMEs, especially in terms of keeping up, and being able to take advantage of the opportunities in the digital transformation.

Digitalisation offers an unprecedented opportunity to address eligibility and barriers to formalisation faced by informal businesses (OECD, 2007). The

increasing use of digital infrastructures in ASEAN facilitates new services, products and applications, with the potential to transform the way people live and work. This offers many opportunities for MSMEs to benefit from access to global markets and diverse consumers. This has opened up tremendous opportunities for the creation of digital start-ups in the global era. These companies have to be swift and flexible to adapt to changing global needs and so, policy makers should find appropriate ways to support them.

Digitalisation will also transform the financial services. The recent World Bank report explores economic informality and how it relates to digital financial inclusion. It focuses specifically on the potential role that digital financial services—including those accessed through mobile phones and the internet can play in encouraging businesses to formalise their operations (Klapper, 2019).

This section explores three specific ways digitalisation could affect micro enterprises – related policies:

- Digitalisation processes improving the functioning of the public sector institutions serving MSMEs
- Digitalisation services that can improve the ways micro enterprises operate, and
- Improving understanding and knowledge about the informal and semi-formal business sector through better access to data

5.4.1. Digitalisation processes improving the functioning of the public sector institutions serving MSMEs

Policy makers could promote more companies to go digital, to enable them to become more competitive and enter new market segments. Digitalisation can also help companies become more formal. Among AMS there is a strong belief that digitalisation can play a role in reducing informality (World Bank, 2017). The previous section of the document already referred to the advantages of digitalisation of the business registration and its role in formalisation (See section 4.2.3). The section below shares other relevant policy instruments applied by the OECD countries and AMS showcasing how digitalisation leveraged formalisation of their micro enterprises and their development.

New Zealand: Better for Business Initiative

In New Zealand, the Government introduced the Better for Business initiative (Better for Business Initiative, n.d.). Better for Business is a cross-agency programme that is leading New Zealand's response to improving the business experience with Government agencies. It represents 10 Government agencies that collectively make up 83% of the interactions a business would normally have with Government. Its objective is to make it an easier and seamless experience for businesses to deal with Government.

Under the Better for Business initiative (Ministry of Business, 2019), New Zealand uses digital technologies to make significant improvements to the business experience. The technology helps make information and regulation more accessible, and improves the transparency of Government processes and helps businesses to navigate the regulatory and administrative maze. New Zealand also

introduced a specialized digital platform called Business Connect to design and deliver consistent and coordinated services across Government.

Estonia: E-residency model for Business Registration

In order to benefit from digitalisation, Estonia has launched an e-residency model of business registration, allowing a number of companies to register in the European Union. Launched in 2014, this programme is open to location-independent entrepreneurs from all over the world. E-residents receive a Government-issued digital ID card that enables them to access Estonian public and private sector e-services and resources. E-residency enables businesses to take the following actions whilst being remotely located:

- Digitally sign documents and contracts
- Verify the authenticity of signed documents
- Encrypt and transmit documents securely
- Establish an Estonian company on-line
- Administer the company from anywhere in the world
- Apply for third-party services like e-banking and remote money transfers
- Access online payment service providers
- Declare Estonian taxes online.

By 2017, 27,068 applications were submitted from 143 countries. Using digital ID card and e-services, 4273 companies were established in Estonia.

Denmark: Portal for Danish Businesses

In 2009, the Danish Government (OECD, 2017) developed a new Portal for Danish Businesses - Virk.dk. The new one-stop-shop business portal Virk.dk replaced the existing portal. Its new avatar is innovative, not only in design and in technological setup, but also brings a strategic focus for a new organisational setup supported by ambitious political goals.

This portal aims at:

- Being the natural digital entrance to the public sector for all types of companies in Denmark
- Being the frame for common infrastructure component development in the business area
- Providing an overview of public sector information to businesses
- Providing access to all state and local level business forms via Virk.dk
- Using single-sign-on and digital signature (if relevant).

VIRJ is the result of a co-operation between authorities at all levels in Denmark. More than 1300 forms of the government related to businesses were integrated on Virk.dk as intelligent e-forms. This enables companies to report data and retrieve

relevant business information from more than 52 Governmental authorities, access public records, report VAT, report changes in business structure and more. A section of the portal provides an overview of support programmes for business development, start-ups, high growth and free online advisory services. Such information may be particularly relevant for under-represented and disadvantaged groups, some of which may be unfamiliar with the regulatory context. The overall objective of Virk.dk was to relieve Danish companies from administrative burdens and to provide a single channel to the public sector. This is an important incentive for micro-enterprises to be formalised.

Malaysia: Women Netpreneur Programme

The Women Netpreneur programme is organised to ensure women entrepreneurs are continuously kept in the loop regarding the changing business landscapes that emerge from the new world order - key megatrends that will permanently transform businesses around the world. These include Industry 4.0, digitalisation and technological convergence, giving rise to big data analytics, e-commerce and also financial technology (fintech).

In Malaysia, women-owned businesses constitute 20.6% of the total 907,065 SMEs in Malaysia. This is significantly lower than their male counterparts and from this figure, 97.2% of women are in the service sector. This programme, which started in 2013 focused on assisting women entrepreneurs to start and grow their businesses online. Based on the feedback given by the participants, 80% has subscribed to e-commerce platforms such as Facebook, Shopee and Presto Mall and 55% are willing to invest to start an online business.

The programme is conducted by SME Corp Malaysia in collaboration with Malaysia Digital Economy Corporation (MDEC) and Gorgeous Geeks Malaysia; with partners such as Shopee, Presto Mall, Lelong, Facebook, Buy Malaysia (MPay) and Global Halal Data Pool.

5.4.2. Digitalisation services that can improve the ways micro enterprises operate

Digitisation offers an unprecedented opportunity to address a number of barriers faced by informal individuals and micro enterprises such as eligibility and affordability barriers to formal financial inclusion, but it can also be a way to improve their productivity. These advantages could include:

- (i) facilitating their identity verification,
- (ii) promoting digital payments,
- (iii) improving their accounting tools and management systems

However, to fulfill its potential digitisation also requires attention to financial consumer protection and financial literacy. By using on-line tools which could be found for free or for a fee, the companies could benefit from a number of trainings, on-line applications, accounting tools and other ways which can facilitate their doing business and increase their productivity. Over time use of these tools, especially the ones linked to payment systems and payrolls, can accelerate the transition from informal to formal economic activity and venture's formalisation.

Looking at the implementation models of such instruments, one crucial element is to create trust with the community of micro enterprises. The several programs demonstrated that learning from role models, case studies and peer learning seem to one of the most powerful activities and should be integrated into the instruments whenever possible. It is important for the Governments to develop case studies and impact stories of the microenterprises to showcase the impact digitalisation have made on them.

ASEAN: The SME Academy

The ASEAN SME Academy provides an on-line training tool and resources for MSMEs around a set of courses on access to financial products, regional and international markets, information and advisory services, and technology and innovation. Developed with the assistance of the U.S. Agency for International Development (USAID) and the US-ASEAN Business Council (USABC) under the US-ASEAN Business Alliance for Competitive SMEs, and launched in 2016, the ASEAN SME Academy has benefitted about 6,000 MSMEs and MSMEs enablers as of February 2020.

Estonia: Support with digitalisation for companies

Enterprise Estonia promotes business and regional policy in Estonia and is one of the largest institutions within the national support system for entrepreneurship. Enterprise Estonia's new measures include financing "digidiagnostics" for industrial companies to audit their digitisation level and opportunities, and they are working on opening a grant to support product and technology development of manufacturing enterprises. Digitalisation tools are integrated into these targets as one option to support companies by innovating their internal processes. The initiatives include training and raising awareness about the digitalization gains and sharing information about the possibilities and networks that are necessary for implementation. In addition, there are grants available: both smaller voucher schemes to analyse the necessity of the digitalization and also larger grants to perform the actual implementation of the digitalization within the companies and their production lines. The new digidiagnostics grant was mentioned above. Initiatives that support digitalisation within companies as well as a series of events were initiated with the Tallinn Science Park Technopol. It included: Smart Industry ideation days and hackathons - where industrial companies look for digital solutions for their operational challenges and work on making the first prototype of these. This initiative is also promoting young entrepreneurs to take a path of starting a business.

Lao PDR: Promoting cloud services among MSMEs

The Government of Lao PDR, through the Department of Digital Technology, Ministry of Science and Technology is currently promoting Development of domestic cloud services, including cloud storage, cloud application and cloud computing in order to provide affordable and reliable cloud services for MSMEs. This is supported through development of the Government Cloud Platform to improve government service offerings, but also through the development of the

Software Park to provide IT business opportunities to the public sector. This initiative is supposed to create a new market for would-be entrepreneurs and should be linked with capacity building support around starting a business modules.

Malaysia: eLadang Lab programme: Digital Technology Adoption by Smallholder Farmers

To assist youths in rural areas and to expand the rural digital economy, the Malaysia Digital Economy Corporation (MDEC) launched a number of ambitious programmes such as eUsahawan, eRezeki and eLadang. ELadang is a program that encourages not only existing farmers but also new farmers to adopt affordable digital solutions in farming by undergoing hands-on training in using the new technology together with good agriculture practices. The programme is further complemented with other forms of training and assistance e.g. in business management, financial services, asset management and adoption of digital economy business models. In 2018, MDEC embarked on its first pilot project to introduce smart fertigation system for chili farm. Aside from this, MDEC is currently performing POCs on other IoT solutions for smart hydroponic management, smart aquaculture, smart pesticide management & smart water monitoring for poultry.

MDEC and its agriculture strategic partner, Pertubuhan Peladang Kawasan Kuala Langat (PPKKL) piloted the use of a new digital payment service called DuitNow, in collaboration with Payment Network Malaysia Sdn Bhd (PayNet), a Bank Negara subsidiary. PayNet's latest digital payment service called DuitNow is a digital payment method that enables fund transfers using easily retrieved identifiers such as MyKad (national identification card) or mobile phone numbers. This service is available at 35 participating banks' mobile and internet banking.

Malaysia: Sharing Economy Programme - Promoting creation of Digital Income Entrepreneurship opportunities by creation of microenterprises and sole entrepreneurs.

In 2015, Malaysia Digital Economy Corporation (MDEC) as the country's national ICT custodian has introduced the eRezeki programme, a programme that were designed based on the Crowdsourcing / Sharing Economy models. The programme facilitates matching of individuals with jobs or tasks offered by various crowdsourcing, Sharing Economy and Gig Economy platforms. **The Global Online Workforce (GLOW)** was carved out from eRezeki as a separate program that intend to offer alternative employment solutions to the Malaysian. The main objective of this programme is to address the issue of unemployment amongst graduates due to the various challenges in the traditional employment market by promoting entrepreneurship opportunities and possibilities for students to create their own companies. Collaborations were also forged with University and Colleges, focusing more on promoting the concept of 'service-based entrepreneurship' whereby graduating students can become online, digital freelancer and offer their services to the global market rather than be attached to a single employer.

From 2016 to first quarter of 2020, more than 360,000 B40 has been matched and earning income from the eRezeki Programme, with cumulative earning income worth of RM890.53 million in total. Meanwhile, the Global Online Workforce (GLOW) initiative has successfully trained more than 50,000 participants to become a full-time digital freelancers/ remote worker since 2017. More than 50% (about 30,000 participants) has already earning income worth of RM172.28 million cumulatively.

Singapore: SMEs Go Digital

To support more enterprises in adopting digital solutions, the Government of Singapore launched the SMEs Go Digital programme in April 2017. This programme aims to make going digital simple for SMEs, with a range of initiatives providing digitalisation support to SMEs at different stages of growth. More than 50,000 SMEs have adopted digital solutions with support from the SMEs Go Digital programme.

- **Start Digital:** New SMEs or those yet to digitalise can sign up for Start Digital Packs with foundational and easy-to-deploy digital solutions. These include solutions for accounting, human resource management system & payroll, digital marketing, digital transactions and cybersecurity. SMEs can receive at least 6 months of cost waiver when they sign 18-month contracts for two solutions.
- **Industry Digital Plans (IDPs) and pre-approved solutions:** Sector-specific IDPs provide step-by-step guides on the suitable digital solutions and worker training for SMEs at each stage of their growth. To make it easy for SMEs to adopt the digital solutions recommended in the IDPs, the Government of Singapore also pre-approves solutions assessed to be market-proven, cost-effective and supported by reliable vendors. SMEs that adopt these pre-approved solutions can receive up to 80% funding support from the Productivity Solutions Grant, until 30 Sep 2021.
- **Grow Digital:** SMEs that are ready and willing to expand overseas receive support to participate in e-commerce platforms with regional or global reach. This enables them to sell overseas even if they do not have a physical overseas presence. SMEs also benefit from complementary services such as cross-border e-payment facilities that alleviate currency risks.
- **Digital consultancy:** SMEs that require additional advice can approach Business Advisors in SME Centres for assistance on selecting pre-approved solutions. Those that need specialised digital consultancy are referred to digital consultants from the SME Digital Tech Hub. These business advice and digital consultancy are available cost-free to SMEs. SMEs that require help to implement their projects can also receive subsidised Digital Project Management Services, which includes business process re-engineering and job redesign, so that SMEs can realise the full benefits of going digital.

The Philippines: UPLB FabLab

The Department of Trade and Industry (DTI) CALABARZON in partnership with the University of the Philippines Los Baños (UPLB) opened in 2018 a UPLB Fabrication Laboratory (FabLab) named as Start-Ups Innovations and Business Opportunities Linkages (SIBOL) Labs. As a shared service facility, the UPLB SIBOL Labs caters to stakeholders that require rapid prototyping services, small-volume manufacturing, and computer modelling. This project is envisioned to enable the MSMEs to increase their productivity, accelerate their competitiveness by giving them efficient technologies and sophisticated equipment, and address the gap and bottlenecks in the value chain of priority industry clusters. It offers a small-scale workshop digital fabrication, which is generally equipped with an array of flexible computer controlled tools that cover several different length scales and various materials, with the aim to make "almost anything". This includes technology-enabled products generally perceived as limited to mass production. This facility promotes technology exchanges and provides training sessions for MSMEs and aspiring entrepreneurs. As of December 2019, there are 21 established FabLabs nationwide offering above-mentioned services.

Thailand: Initiatives to promote digital technologies among the MSMEs

Digital Economy Promotion Agency (DEPA) was established in 2017 specifically to help Thai businesses get better access to digital economy technologies and promote and support the investment or business operations in relation to the digital industry and innovation. Since establishment DEPA have developed a number of programmes some of which are focused on micro and small enterprises. Specifically there are two relevant programmes to MSMEs:

- *SME Digital Coupon*, which is provided to an MSME to support application of digital technology solutions to their businesses.
- *Mini Transformation Voucher*, which provides a voucher (up to 10,000 Thai Baht per phase) to apply digital technology to their business. MSMEs in the targeted sectors as well as start-up, community enterprise, juristic persons are allowed to apply for this voucher.

In both cases these vouchers allow MSMEs to buy the relevant digital applications or technologies which could be applied to their businesses, such as accounting system, payroll system or invoicing tools.

Indonesia: "MSME Go Online" Programme

The Ministry of Cooperatives and SMEs together with the Ministry of Communications and Informatics introduced a programme called "MSMEs Go Online" in November 2017 to facilitate MSMEs to be able to compete in broader markets. The programme is aimed to increase awareness and attract micro and small enterprises to sell products via online marketplaces to increase profit and prosperity. The goal of this program is to create 8 million MSMEs as merchants of online market by 2020. Several online marketplaces joining this program, such as Blibli.com, Tokopedia, Bukalapak, Shopee, Lazada, and Blanja.com. This programme aims at increasing MSMEs' digital awareness through activities such

as seminars, workshops, and training on MSMEs digitalization and also by providing one million free .id domains which can be used for MSMEs to expand their business through an online platform. In addition, the government has also launched a collaboration with six of the nation's largest online marketplaces to help promote and sell MSME products to their markets.

To further support transformation of MSMEs into digital-savvy businesses, different government agencies provide other supporting programmes that will better prepare MSMEs to survive the competition once joining the online market, touching on issues such as financial literacy training, product standardization, and also marketing through other means. One example is the Certification, Copy Right, and Trademarks Registration Facilitation programme. This programme aims to ensure that the operational activities and products produced by MSMEs are in compliance with applicable standards, through standardization and certification facilities. (Indonesia , 2020)

5.4.3. Improving understanding and knowledge about the informal and semi-formal business sector through better access to data

Policies and regulations to support the formalisation of the business sector should be based on evidence, data, statistics and a good understanding of the sector, which is still lacking in many AMS. In addition to the lack of data, many questions remain unanswered or partially answered. For example, the reasons why a business may choose not to register, the costs of informality and the benefits of staying “under the radar” of Government officials, particularly with respect to business registration and compliance with regulations and tax. Would it mean that businesses wish to become formal but are discouraged or prevented from doing so by complex and burdensome business registration processes? It is true that often businesses prefer not to formalise because the benefits of doing so (including improved access to finance and global supply chains) are outweighed by the costs of formalising (including the initial costs of registering the business as well as the burden of complying with regulations, dealing with authorities, and paying taxes). That is why it is important to improve overall understanding of what it means to be registered formally and gather data available. Digitalisation offers an opportunity for public sector institutions systematically gather data, which could be analysed and improve the policies development making it more evidence-based.

One of the ways digitalisation can support better data is through feeding data to business registers. Business registers could be a valuable source of information. There are various types of registers, for example, a *company register* is a register of organisations that lists each business operating in its jurisdiction. Each country's company register has different registrar types, contents, purpose, and public availability. One should distinguish it from a *statistical business register*, or a *commercial or trade register*, since they serve different purposes.

Company registries are key enablers of the business environment and bear important economic relevance. For example, incorporating a business creates the corporate veil and allows the business to operate and access the financial and legal sectors. Commercial registries hold information that helps businesses make targeted business decisions based on their sector or geographical location as well

as build the confidence of other parties (suppliers or customers) to contract with the registered businesses.

A forthcoming report “*Strengthening the evidence base for policymaking: Steps to upgrade enterprise statistics and evaluation frameworks in ASEAN*” prepared by the OECD in partnership with ASEAN team will shed more light on the issues of data and registers and the SME registration practices.

Some AMS have recently stepped up efforts to collect data on the informal business sector.

For example, Cambodia conducted the Inter-Censal Economic Survey (CIES) in 2014 with support from JICA. The survey covered all economic establishments like shops, restaurants, coffee shops, factories, offices, hotels, schools, and so on. It classified these economic establishments as per its fixed location, under a single management, and economic activities such as producing or selling goods or providing services. The survey shed more light on the informal business sector in Cambodia and provided important information for Government, ministries and policy makers in Cambodia.

In Viet Nam, the General Statistics Office (GSO) implements the economic census every five years. It covers all business entities, including those that are unregistered. In addition, GSO also implements an annual survey on household businesses (which are considered to be in the informal and semi-informal business sector in Viet Nam). Results from the survey and census are published in the Annual Statistics Year Book or publications of the GSO⁶.

International agencies and research institutes have been making efforts to conduct researches, studies to understand more about the informal business sector in ASEAN.

In Indonesia, the University of Freiburg collected evidence from rural Indonesia on what determines firms’ decisions to formalise (Neil McCulloch, 2010). The German Development Institute (*Deutsches Institut für Entwicklungspolitik-DIE*) conducted a study on Micro and Small Enterprise Upgrading in the Philippines (Hampel-Milagrosa, 2014). The World Bank implemented the Enterprise Survey (The World Bank, 2014a), which provides information on the level of informality and issues related to informal businesses (Amin, 2016) in many economies, including those of ASEAN. International Labour Organisation (ILO) conducts studies on employment in the informal sector. Most recently, the ADB conducted studies on informal businesses and business formalisation in Cambodia, Lao PDR, Myanmar and Viet Nam under its Mekong Business Initiative. (ADB, 2012), (ADB, 2016) (ADB, 2017) These studies and reports, may not be structured in the same way across countries and may sometimes be outdated, but have provided crucial initial information and data on the informal business sector in some ASEAN Member States and provided initial evidence for policy makers in these countries.

⁶ GSO also launched a project on collecting unobserved economy in Viet Nam in early 2019. GSO will begin collecting data on the unobserved economy in which informal businesses a component, and integrate the data in the country’s gross domestic product (GDP) from 2020.

Portugal: Empresa na Hora' initiative

In 2005, it took 11 procedures and 78 days to start a business in Portugal (OECD member state). An entrepreneur would need 20 forms and documents in order to register a company. However, since then, Portugal has introduced a new system under its initiative *Empresa Na Hora* (On the Spot Firm), the Portuguese one-stop shop for creating a company. This new system was developed as a way to facilitate exchange of information between various institutions. Its particularity is that it has received backing of the Prime Minister Jose Socrates, which made it operational in less than six months.

The '*Empresa na Hora*' initiative made it possible to create a company in just one office (one-stop office) in a single day. Interested businesses would no longer have to obtain a certificate of company admissibility from the National Registry of Companies (RNPC) in advance, nor was there a need to sign a public deed prior to establishing a company. Through this *Empresa na Hora* initiative, it is possible to set up a “one-man” company, a private limited company or a PLC, on the spot, at just one desk. During the incorporation procedure, the definitive legal person identification card is assigned, the Social Security number is given, and the company receives its memorandum and articles of association and an extract of the entry in the Commercial Register. This initiative also had an objective to modernize administration and it is a first step on the way to simplifying the relationship between a firm and the public administration throughout its life cycle. Office of Public Services Reform brought together the Ministry of Justice, Ministry of Finance, Ministry of Economy, and the Ministry of Labour and Social Security—all involved in the process of starting a business—to make this change a reality. A new law for starting a business was drafted in less than two months, and in just several months, the reform was operational. A number of trainings were organised for the personnel of the “one –stop shops” operating across the country at 12 locations. Between July 2005 and September 2010, more than 97,000 enterprises were set up at the desks opened for this new service, which is the start of true fast tracking for entrepreneurship.

ANNEX 1 – Sources

Table Sources for Table 1 (a and b)

AMS	Sources Referred
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FORMALISATION OF MICRO ENTERPRISES IN ASEAN

Micro, small and medium enterprises (MSMEs) are important contributors to economic development in Southeast Asia. However, there is a wide perception that informality is high among micro and small enterprises in Southeast Asia. It is widely believed that one of the major reasons for high levels of informality in most of the ASEAN Member States (AMS) is due to the difficulties related to the formalisation of enterprises.

In light of the COVID-19 outbreak, promoting formalisation of businesses is becoming more relevant than ever. Informality might deprive MSMEs of crucial assistance in a time of crisis, such as governmental business support schemes, access to finance, legal protection and social safety nets for the enterprise and its employees. Therefore, the current situation increases the need to address the difficulties related to the formalisation of enterprises in Southeast Asia.

This report was initially prepared as a background document for the Policy Dialogue on the Formalisation of Micro Enterprises, organised as one of the Thailand's ASEAN Chairmanship activities in 2019. The current document incorporates feedback provided during the policy dialogue, consultation with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME), and was enriched by further research. The document is co-published by the OECD and ASEAN and has been endorsed by the ACCMSME.

This publication aims to provide a better understanding of the current situation related to formalisation and is structured around three main parts:

- **Understanding the concept of Informality.** This section refers to the relevant recent literature and explains the understanding of the informality and relevant definitions;
- **Situation in Southeast Asia.** This section provides an overview of the number of informal and unregistered micro enterprises in each AMS, looking at the overall level of informality in each country, based on several national and international sources;
- **Presentation of the key policy issues and selected relevant policy instruments.** This section explores incentives and enforcement measures, with an emphasis on those supported through digitalisation. The possible applications of digitalisation, by both the governments and micro enterprises to support formalisation will be one of the main pillars of this paper.

The document is part of the series of papers contributed by the OECD specifically for policy makers in the Southeast Asia region to support the design and implementation of entrepreneurship and starting a business policies at both the national and the regional level in ASEAN within the framework of the Canada-OECD Project for ASEAN SMEs supported by the Government of Canada.

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