

## Progress Report

### Working Group 4: Legal Mechanisms to Empower Informal Businesses

#### 1. Introduction

At the outset I wish to thank the Commission for giving me this opportunity of Chairing a very enterprising and highly motivated Working Group which has both passion and commitment to make a difference to the people who matter the most – the poor.

I may also take this opportunity to thank the Working Group members, the Secretariat staff, authors of various working papers and the rapporteur for providing the necessary support and assistance as well as the technical knowledge and sharing of practical experiences on how to empower informal businesses.

#### 2. Summary of Accomplishments – Results and Issues

Since we, the Commissioners, met last, I wish to provide an update on significant activities that have been undertaken by Working Group 4 (WG 4). These include:

*a. WG membership (Membership details provided in Annex 1)*

With the help of the Commission's Secretariat, the WG 4 membership is now comprised of a broad representation of academics, practitioners and institutions directly involved in the empowerment of poor. WG 4 in its pursuit to seek expertise on local realities that reflect diverse cultural, socio-economic and political environments is in the process of expanding its membership base. *Details of potential new membership are provided in Annex 2.*

*b. First WG Meeting of WG4 was held in Cairo on October 28 and 29 October 2006. The key topics discussed by the attendees include:*

*i Defining the core theme and focus of the WG*

The core theme of this WG has been revised to “**Legal mechanisms to empower informal businesses**” and will focus on establishing the means and methods that would enable the informal businesses to benefit from full participation in the formal economy and/or enhance their transition to the formal economy.

*ii Objective of Working Group*

The main objective of WG 4 is:

- To examine ways to provide broad access to legal tools, instruments and organisational forms suited to the informal businesses and enhance their opportunities for growth so that

poor people can combine labor, technology and investment in order to raise their own productivity, limit risk exposure, and use their assets to access credit and capital.

*iii Designing the Work Programme to address the core issues*

- How the poor can be legally empowered and poverty reduced by allowing informal businesses to have easy access to legal tools and organisational forms
- How the entrepreneurial innovation and creativity found in the informal economy can be channelled, so that the poor face fewer barriers to a sustained involvement in the formal economic system
- Examine local financial capacity and incentives for lenders and equity providers to expand access to credit and capital for individuals and enterprises owned or operated by the informal businesses to help their transition to the formal economy

*iv Implementation Plan*

- To achieve the desired goals that are practical and achievable within the given timelines, WG has set out clearly defined objectives, outputs, activities and outcomes.
- Among the various activities the WG has agreed to undertake, it is of importance to point out to the Commissioners that the WG 4 members have voluntarily and spontaneously agreed to prepare the following documents / papers.

*(Note: As most of the papers are currently being prepared, synopsis of the papers that have been completed will be submitted to the Commission)*

<b>Title of Papers/Documents</b>	<b>Prepared by</b>	<b>Timeline</b>
1. Develop a new framework of legal set of indicators for informal businesses	Institute for Liberty and Democracy (ILD), Peru & WIEGO	<b>December 1, 2006</b>
2. Paper on “a new approach to formalization – legal empowerment of informal businesses	Employment Globalizing and Organizing (WIEGO), Harvard University, USA.	<b>December 15, 2006</b>
3. Paper on a list of legal tools, explaining and illustrating the efficacy of tools to informal businesses		
4. Concept paper on non-tariff trade barriers to informal businesses	CARE Canada	<b>March 15, 2007</b>
5. Report on Capital Markets available to informal businesses		
6. Compendium of case studies on global assessment of successful and failures in legal empowerment of informal businesses	ILD, CARE Canada, WIEGO, Egypt and Rapporteur	<b>January 31, 2007</b>

7. Paper on impacts of informal sector on the environment	Social Fund, Egypt	<b>December 1, 2006</b>
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### 3. Key Issues to be addressed

#### General Issues

- Key challenges that prevent the informal businesses from establishing legal businesses include the lack of access to finance, corruption and complicated/lengthy procedures and regulations, among others. Existence and transparency of procedures, accountability of the executive branch and public faith in the economic system are pre-requisites to achieving a reasonable level of empowering informal businesses.

#### Specific Issues

##### a) Definition:

- Working Group 4, in its first meeting in October 2006, discussed the issue of definition on what constitutes “Informal Businesses” but did not come to any firm conclusion with any specific definition as it believes that any definition finalized has to be compatible with the definitions of other Working Groups.
- However, WG also believes that significant research has been done in this area and hence the Commission should adopt a broad generic definition which encompasses inclusiveness with cross cutting themes and agenda.

##### b) Policy Framework

Working Group 4 needs to advocate suitable policy recommendations that will reduce barriers to sustained involvement of the poor in the formal economic system, with special reference to women and indigenous peoples. The policy framework should focus on:

- Legal tools for empowerment
- Set of indicators on the application of legal mechanisms
- Access to credit, equity, and capitalisation
- Social security deficits (micro insurance, etc.)

##### c) Institutional reforms to outline on:

- Entry and exit regulations
- Operation and expansion procedures
- Secure and enforceable contracts
- Conflict resolution mechanisms

**d) Gender Issues:**

- i. Has the existence of discriminatory practices in the formal sector led to rise of women in the informal sector?
- ii. Are there other factors that make the informal sector preferable for women, such as the lack of child care or identity cards?

**e) Sustainability**

- i. The issues that normally affect sustainability should be given special consideration (e.g. political will, continuity of policies due to change in administrations, socio-economic situations, financial resources, education, high labour turnover and bureaucratic transfers, etc. among others)
- ii. Need to build a culture of compliance rather than enforcement ( which means that those to be regulated/ assisted should be first consulted and agree that the law is fair)
- iii. Ensuring the protection of social and economic capital of poor involved in informal businesses.

**f) Environment Issues**

- i. Businesses in the informal sector and their impact on the environment will be examined. Will policy recommendations support environmental protection and sustainability?
- ii. Occupational and health factors will be also given due consideration. Can minimum health and safety standards be applied to businesses in the informal economy during the transitional period?

**g) Benchmarking good practices in the informal sector**

- i. Mapping across the globe on lessons learned on legal empowerment in informal businesses

**4. What added value WG4 brings to the Commission**

- By revising the theme of WG4 to “**Legal mechanisms to empower informal businesses,**” the working group has not only realigned to the broad framework of the Commission but it has also identified the following key objectives and outputs that will add value to the Commissions work in a meaningful way:

Objectives	Outputs
<b>1. Promoting a new approach to formalization that addresses common legal deficits and barriers faced by the informal businesses.</b>	Framework of analysis with a set of indicators and examples.
<b>2. Providing legal tools to empower informal businesses.</b>	A priority set of concrete legal tools explaining and illustrating the efficacy of tools.
<b>3. Fostering member-based organizations and the representative voice of informal businesses</b>	<p>a) Report documenting successful practices in the organization and representation of informal businesses</p> <p>b) Identification of new opportunities for legal and institutional reforms in support of the organization and representation of informal businesses.</p>
<b>4. Fostering innovative financial instruments and institutions for the transition from informal to formal businesses</b>	<p>a) A study of capital markets available to informal businesses</p> <p>b) Recommendations for policies to fill in gaps that exist in the informal businesses.</p>
<b>5. Providing a global assessment of successes and failures in legal empowerment of informal businesses.</b>	A comprehensive report documenting across the globe on lessons learned on legal empowerment in the informal businesses
<b>6. Galvanizing national and international support for the legal empowerment of informal businesses</b>	<p>a) Identify an international institution to host informal businesses in order to sustain initiatives</p> <p>b) Guidelines for a set of national and international consultations to disseminate the outcomes of WG4.</p>

## 5. Linkages with Other Working Groups

- WG4 strongly believes that there need to be cohesive and coordinated inter linkages between all the WGs in order to achieve the broad Commission's agenda.
- Following are the possible areas of cooperation with other WGs though it is open for any further areas of linkage:

Working Group	Areas of Linkages with WG4
<b>WG 1: Access to Justice and Rule of Law</b>	<p>a) Designing and developing of legal tools for empowering informal businesses.</p> <p>b) Examine the efficacy of above tools.</p>

<b>WG 2: Property Rights</b>	<ul style="list-style-type: none"> <li>a) Land security and business security</li> <li>b) Stable address helps informal businesses in its business identity, and access to finance and clients.</li> </ul>
<b>WG 3: Labor Rights</b>	<ul style="list-style-type: none"> <li>a) Strong links identified between right to employment and business opportunities.</li> <li>b) Capacity for informal businesses to provide better protections and provisions for their workers.</li> <li>c) Labor productivity, Occupational health and safety, Social security, etc.</li> </ul>
<b>WG 5: Road Maps For Implementation Of Reforms: Implementation Strategies, Including Toolkits And Indices</b>	<ul style="list-style-type: none"> <li>a) Coordinate in developing a reform “toolkit” for policy makers focusing on legal, institutional, regulatory, operational and financial reforms.</li> </ul>

## 6. National /Regional Consultations

As an ongoing outreach programme of the Commission to compare lessons learned around the world and different institutions and organisations and to use these lessons to influence real outcomes for the poor, national and regional consultations are hosted in different regions of the world.

I am pleased to advise that I am coordinating the **MENA (Middle East and North Africa) regional consultation** conference, to be held in Cairo in April 2007. Participating countries are Egypt, Jordan, Morocco and Yemen. The conference is organized by UNDP Cairo office and sponsored by the Government of Egypt’s Ministry of Labor, the Ministry of Social Solidarity, the Social Fund and the Egyptian Center for Economic Studies. The Conference will debate the four thematic areas of the Commission. A report of the findings of the conference will be sent to the secretariat of the Commission and the Five Groups.

## 7. WG4 Second Meeting

The Second Meeting of Working Group 4 is scheduled to be held during the third or fourth weeks of April 2007. The exact date and venue of the meeting will be finalized by the Chair and the Commission’s Secretariat.

The second meeting will take stock take of the outputs and activities as outlined in the work programme and implementation plan as well as finalise the final report that will be submitted to the Commission. A draft outline of the report on “legal mechanisms to empower informal businesses” is attached in Annex 8.

## **8. Conclusions**

In conclusion, I wish to reiterate that WG 4 has taken up the challenge of developing the necessary tools to empower informal businesses which are normally owned and operated by poorer sections of the society.

In order to maintain compatibility with the main focus of the Commission, it is imperative therefore that the following issues are addressed in this august meeting.

### **Issues for further discussions**

#### **a) Need for a Common Definition**

- i Do we need to define informal business (es) generically, or do we have a definition that can be adopted?
- ii Who are the constituents of businesses in the informal sector?

#### **b) Informality to Formality – The Empowerment Process**

- i Towards a new approach to formalization
  - addressing common legal deficits and barriers
  - developing a framework of indicators
- ii Providing legal tools for empowerment
  - identifying and developing a set of concrete legal tools
  - explaining and illustrating the efficacy of tools

#### **c) Institutionalizing the empowerment process**

- i Conceptual framework
- ii Institutional mechanism
  - clear, secure and transferable property rights
  - secure and enforceable contracts
  - conflict resolution

#### **d) Policy framework for inclusiveness**

- i Entry and exit mechanisms
- ii Operation and expansion mechanisms
- iii Extra –national dimensions of business constraints



- e) **Financial Institutions / Financial Instruments**
  - i Banking for the poor with appropriate financial portfolios
  - ii Financial tools that make access to credit, capital and equity easy
  - iii The missing middle of investment –money gaps

## Annex 1

### WORKING GROUP 4

#### **Participants of First Meeting**

Prof. Medhat Hassanein  
Professor of Finance  
Department of Management

Mr. Taher Samir Helmy  
Attorney At Law  
Helmy, Hamza & Partners



The American University in Cairo

Dr. Asif Chida (Rapporteur)  
Private Sector Development Specialist  
Project Services International

Dr. A. John Watson  
President and CEO  
CARE Canada

Dr. Marty Chen  
Coordinator, WIEGO &  
Lecturer in Public Policy  
Kennedy School of Government  
Harvard University

Mr. Enrique Pasquel  
Analista  
Institute for Liberty and Democracy

Mr. Gabriel Daly Turcke  
International Affairs Officer  
Institute for Liberty and Democracy

Eng Ayman Khoudeir  
Manager  
Planning and Development Unit  
Social Fund for Development  
Arab Republic of Egypt

## Annex 2

- 1.0 The attendees of the first WG4 meeting in October 2006 supported the proposal of expanding its membership base of Experts and Associate Experts. The Chair of WG4 in association with the Commission's Secretariat is in the process of identifying new membership.



2.0 The WG's Chair has suggested the following commissioners, experts and associate or core members to provide technical back-up support to the WG as well as to participate in varying degrees in the work of the Commission:

**Commissioners:**

**Fazle Hasan Abed**

Founder and Chairperson, BRAC, Bangladesh

**Prince Hassan bin Talal**

President of the Club of Rome

**Benjamin Mkapa**

former President of the United Republic of Tanzania

**Mike Moore**

former Prime Minister of New Zealand,  
former Director General of WTO.

**Syed Tanwir Naqvi**

former Chairman of the National  
Reconstruction Bureau of Pakistan

**Mary Robinsion**

former President of Ireland and former  
High Commissioner of Human Rights

**Arjun Sengupta**

Chairman of the National Commission for  
Enterprises in the Unorganised Sector of India

The following new participants have been identified:

**David L. Roll**

Managing Director  
LEX MUNDI  
Pro Bono Foundation

**Self Employed Women's Association (SEWA)**

Opp. Victoria Garden, Bhadra,

**Prof. Judith Tendler**

Massachusetts Institute of Technology  
Cambridge, USA

**Professor Rehman Sobhan,**

Centre for Policy Dialogue (CPD)