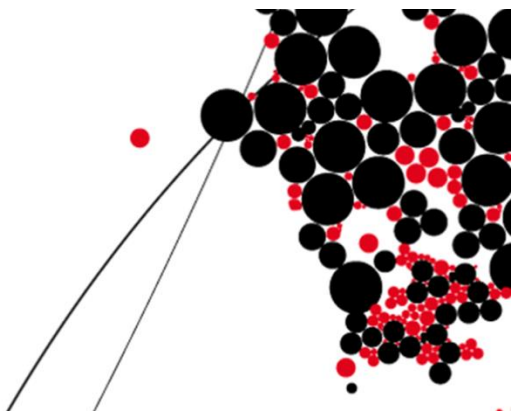


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School of Behavioral, Management and Social Sciences

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## Abstract

This study explores the exclusion of informal Micro enterprises from the policies on Micro, Small and Medium Enterprises (MSMEs) in Rwanda and Senegal and the factors that contribute to this exclusion. *“What are the factors that contribute to the exclusion of the iSMEs, particularly informal Micro Enterprises (iME), from the Small and Medium Enterprises policies in Rwanda and Senegal?”* is the fundamental question of this research in the broader area of informality, business enterprises and policy regulations in these two countries. The study is using the model framework of the Contextual Interaction Theory to explain how factors interact between each other and in specific given contexts. To answer the question adequately methods of quantitative and qualitative research were combined in analyzing the primary and secondary data, such as interviews and data on rental and permit payments. It has been discovered that iSMEs are not excluded completely and that there are certain levels of awareness. Moreover, the findings from the research put forward the key factors that add to the exclusion, namely: *survival, lack of financial resources and informality as a manner of living for all involved in the informal businesses*. Theoretical and policy implications of the study outcomes have been discussed and due to the room for exploration it appears desirable to expand the knowledge with a new generation of research that can address the area of this study more deeply.



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## List of abbreviations:

AfDB	African Development Bank
ADEPME	Agency for Development and Supervision of SMEs
EDPRS	Ministry of Finance and Economic Planning and The Economic Development and Poverty Reduction Strategy



iMEs	Informal Micro Enterprises
ILO	International Labor Organization
IMF	International Monetary Fund
iSMEs	Informal Small and Medium Enterprises
NINEA	National Identification Number of Business Associations
OECD	Organization for Economic Cooperation and Development
RCA	Rwanda Cooperative Agency
SMEs	Small and Medium Enterprises
MSMEs	Micro, Small and Medium Enterprises
UNESCO	United Nations Educational, Scientific, and Cultural Organization



## Chapter 1: Introduction

This study explores the exclusion of informal Micro enterprises from the policies on Micro, Small and Medium Enterprises (MSMEs) in Rwanda and Senegal. It is not a new phenomenon that regulatory framework overlooks some categories of informal economy. Notably, lack of regulation has been manifested around the world, and it especially concerns street businesses. There are two types of answers to informality in policies, the ones that encourage broad-based economic development aiming to support informal employment and improve earnings and working conditions, and the ones with long-run objectives to transfer people out of informal engagement into formal employment (Haintz, 2012). The second type is characterized by transformation aims without exploring the phenomenon of informality and its roots in the economy and the society. The introduction is giving an outline starting with some background information, then continuing with the problem statement and the main question of the research, finishing with the research strategy and methods of investigation.

### 1.1. Background information

According to OECD's Center for Entrepreneurship, SMEs and local development Small and Medium sized Enterprises are growingly dominant forms of business organization in all countries. Without regulation, it is difficult or nearly impossible to reach the goal of welfare and economic growth. Informal SMEs have an important role in the economies of Rwanda and Senegal, but there has been insufficient research done about the policies concerning SMEs. For that reason, there is urgent need to take action and find out the factors that make the situation as it is now.

Also it is important to acknowledge the differentiation between Micro, Small and Medium Enterprises (MSMEs) and Small and Medium Enterprises (SMEs) since some of the literature lumps Micro enterprises together with SMEs and uses the abbreviation of SMEs for all enterprises while some authors are using MSMEs. Hence, to avoid any further confusion with the terms, in this study the term MSMEs is used for Micro, Small and Medium Enterprises, but making the clear distinction and stating that amongst SMEs Micro Enterprises are in the focus of the research.

### 1.3. Research question

The study will be guided by the following research question:

*What are the factors that contribute to the exclusion of the iSMEs, particularly informal Micro Enterprises (iME), from the SMEs policies in Rwanda and Senegal?*

The general research question is cross-cutting by nature and can include various areas of research, since factors can come from different fields of study, such as economy, society or politics. Nonetheless, their combination can be useful in explaining causes of the phenomenon.

## 1.2. Problem statement

After thorough observation of the policies on SMEs in Rwanda and Senegal, the problem that has been noted is that in the policies only formal enterprises are represented with little or nothing being devoted to the informal enterprises. Thus, the policies lack information on iSMEs. According to the SMEs development policy in Rwanda in 2008 out of 72,000 SMEs only 25,000 of them were formally registered, which is illustrating that two thirds of the SMEs were in the informal sector. According to the Direction on SMEs in 2003 National Identification Number of Business Associations (NINEA) Senegal had 85,000 registered SMEs, while in informal sector there were 281,600 excluding the agriculture sector. Moreover, 93% of all informal enterprises are working in the sector of commerce and services, which includes enterprises trading on the street (NINEA). From the below comparison it can be seen that there is imbalance between the amount of formal and informal enterprises, which makes it arguable and open to question regarding their representation in SMEs policies.

	Total number of SMEs	Informal SMEs
Rwanda	72.000	47.000
Senegal	366.600	281.600

*Table 1: Number of total and informal SMEs in Rwanda and Senegal in 2008, excluding agriculture sectors*

*Source: NINEA (2003) and SMEs development policy (2008)*

## 1.4. Research objectives

Research objectives are:

- a) To identify the factors of informal Micro Enterprises exclusion among the iSMEs,
- b) Bring new knowledge in explaining the phenomenon of the exclusion from the policy perspective,
- c) Make policy recommendations,
- d) Expand the existing perspective on iMEs' exclusion from the policies.

## 1.5. Purpose of the study

As stated in the OECD report on Regulatory policy and road to sustainable growth, regulation, fiscal and monetary policy are the three key levers of state power which is of critical importance in shaping the welfare of economies and society. That said this research attempts to enlarge scientific and social relevance on SME policies, as they constitute the foundation for building a stable regulatory framework. Furthermore, academic information about those factors is missing in the existing body of knowledge and this study will try to provide the missing information and fill the gap in knowledge. The research done until now did not adequately address the research question of this study. Thus, the research conducted would help in understanding the issue and provide fresh insight for the topics of informality, enterprises and SMEs policies in Rwanda and Senegal.

## 1.6. Methodology

### 1.6.1. Research strategy

Two qualitative research techniques for gathering data were used: interviews and desk research. Interviews were conducted via skype or in a written type via Email, while desk research consists of exploration of the existing literature. The primary research method is concerning conducting the interviews and collecting new data for analysis while secondary desk research considers analysis of the data already collected from other research project and government policies on SMEs.

The methodology that was used for this study and that helped in the investigation for the study was combining the qualitative and quantitative methods of research in order to obtain data that were needed. The collected data were studied with the theoretical lens of the Contextual Interaction Theory. The Qualitative method considers methodology consisting of desk research and interviews that give a complete picture of the identified imbalance. In assessing the situation, constant comparisons between the empirical data and theoretical concept were used as a method for getting an overall picture for responding to the research question. Desk research allows exploring the existing sets of data by following a secondary research strategy. In that way existing data that were collected by other researchers are used and interpreted from the perspective developed for this study's purposes.

### 1.6.2. Interviews

When it comes to interviews, subjects were contacted from various sources. At first, researchers of the project Productive Uses of Energy: The Informal Food Sector in South Africa, Rwanda and Senegal<sup>1</sup> were contacted in order to share contacts of potential informants. However, that was not sufficient and is the reason why the researcher of this study contacted other people, for instance professors and teaching staff from Universities in Dakar and Kigali city, then people from different kinds of business associations, such as Union des femmes chefs d'entreprise from Senegal and the Agency for Development and Supervision of SMEs, as well as start-up businesses that had contacts available online. Approximately fifty e-mails were sent and the response rate was 15%, due to the failures to send e-mails or not receiving any reply back. Informants were selected by the criterion of the sector where they work, to be precise micro enterprises or start-ups. Also, gender balance was one of the standards applied when choosing interviewees. In total four people, two men and two women were interviewed via Skype or they filled the questionnaire in written form. Before the interviews were conducted, interviewees got the information about the interviewer, study purposes, consent form and interview questions (Bryman, 2012). Both persons that were interviewed from Rwanda were working in the sector of micro business enterprises; out of which one is involved in the food sector business and the other in communication and technology. Interviews were conducted in English, one via Skype and the other in written form. One person from Senegal that was interviewed is working for the non-governmental sector while the other is in the street food sector. Both interviews were conducted in French by interviewees filling in the written form of the interview. The attitude of the interviewees was positive in general and their willingness to answer was expressed, even though interviewees from Senegal were slightly reserved when answering the questions. Transcripts of the interviews were made by using the software for transcription InqScribe and then analyzed in the QDA Minor Lite programme, Transcripts were coded and codes were categorized by the researcher of this study. The categorization was made after the interviews were conducted and transcribed, thus there were no previously set categories.

### 1.6.3. Use of the research data

Additionally, data from the survey from the project Productive uses of energy was used, to be exact two questions that have been already analyzed in the report for the Scoping phase and two additional ones that have been studied using the SPSS programme with the method of descriptive analysis of cross-tabulation. This data has not been published yet and it belongs to the project as it belongs to the ongoing project.

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<sup>1</sup> The project is led by the University of Twente with consortium partners from South Africa, Senegal and Rwanda. It is part of the ENERGIA Gender and Energy Research Programme funded by DFID.

Analysis of this data is significant due to fact that the material has been collected recently from the field of research which has supplemented this study immensely. Finally, the main qualitative methods used in the study were semi-structured interviews and desk research, while it also incorporated the quantitative method of survey analysis.

#### 1.6.4. Validity and reliability

Qualitative methods of interviewing should have a certain level of reliability and validity. One of the possible threats from using this method is reliability, since the answers given depend on the informants and their intention to provide sound answers as well as their knowledge about the research topic (Babbie, 2004). Additional jeopardy to reliability could be the fact that interviews were conducted only once without sending the results to interviewees and re-interviewing them again.

Possible risk to validity could be the interpretation of the wording from questions due to the cultural differences and fuzziness. Another possible threat that can occur is linguistic validation. Two interviews were conducted in French thus it can be questioned how accurately terms were translated without losing the meaning they had in the original language. One of the ways to avoid this was to make the interview questions as clear as possible (Babbie, 2004). On the other hand, the level of validity can be determined by assessing to what extent the methodology methods were followed through the process of collecting the data. Moreover, an internal validity check for this study would be to assess whether the research fits into the overall aim of the thesis project.

In addition, there are certain factors that can limit the scope of the research such as time, as the project is supposed to last until the end of the academic year therefore that needed to be taken into account when designing the plan of accomplishing the project. There are limited resources which was the reason for conducting skype interviews and not having the field research.

#### 1.6.5. Operationalization

This study was done using the method of semi-structured interviews, which represents a qualitative type of research and allows interviewees to have more room and flexibility in answering questions. Interviews were done with a loose interview schedule and an interview guide in order to keep some control of the interview. The unit of analysis is individual, thus four experts from organizations based in Senegal and Rwanda that are currently part of the business sector were interviewed as key informants. The interviews consisted of open type questions in order to offer informants more room to answer the questions

befittingly. The questions are from two topic areas, the informal economy and the policies on SMEs.<sup>2</sup> The interview was initially written in English and then translated to French. Interviewees were informed about the study and its goals in the email, consent letter form and directly before the interview.

## 1.7. Description of the following chapters

Firstly, chapter 2 starts with presenting the Contextual Interaction Theory (CIT) as the essential part of the Theoretical Framework and it follows with application of the model framework of the CIT on the study. Lastly, it gives a definition of concepts used in the study.

Secondly, chapter 3 introduces the reader to the topic by exploration of the literature starting from the broad perspective of the informal sector and informality globally and then narrowing it to the developing countries. The chapter ends with the description of the informal sector in Rwanda and Senegal.

Thirdly, chapter 4 brings the output arena and characteristics of regulatory systems in Rwanda and Senegal, consequences of the regulatory framework structure and it gives an analysis of the SMEs policies and the exclusion.

Then, chapter 5 introduces data and the analysis of the data. It brings results from the interviews, desk research and analysis of the data collected for the Productive uses of energy, the findings and results from the conducted research. It brings the operational explanation of the actor's characteristics and states the possible level of exclusion.

Lastly, chapter 6 starts deductions with the restatement of the research question and revelation of the main factors for policy exclusion followed by a discussion. This is the crucial part of the thesis as it explains how everything fits together. Then, evaluations and limitations of the study are given, followed by theoretical implications and policy recommendations for improvements. The chapter closes with the reconsideration of the contribution of the study to the general body of knowledge and for the area of the research together with suggestions for further investigations.

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<sup>2</sup> All questions are listed in the Appendix A.

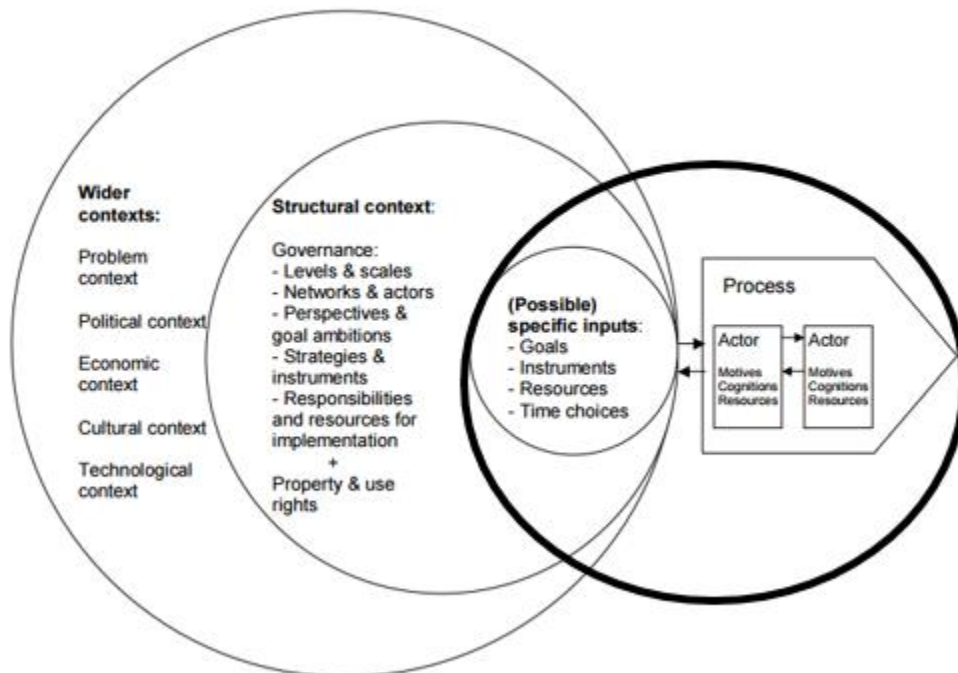


## Chapter 2: Theoretical framework

Chapter two explains Theoretical Framework, serving as the base for the study. First, an introduction and an outline of the CIT are given, declaring application and modification of the theoretical model framework for this study. Lastly, the chapter finishes with definitions of concepts used in this study with the aim of giving clarification of the terms and concepts used.

### 2.1. The Contextual Interaction Theory

In the attempt to find the factors and the level of exclusion that is crucial for answering the research question, it seems that applying the Contextual Interaction Theory (CIT) would be the solution that fits the best. The Contextual Interaction Theory has been developed as a layered explanation of social processes, emphasizing the actor characteristics and their interaction. The theory tends to explain the dynamic relationship between two or more actors, whose actions are influenced by their characteristics in the arena which is located and influenced by the structural and wider contexts (Bressers, 2007). Contexts serve as frameworks which are necessary parts of dynamic processes called inputs, composed of several different factors (Bressers, 2007). There is interaction among factors in the contexts and mutual dependency, as well as interaction between layers of the model. The model itself is amenable to changes depending on a number of reasons, such as type of policy, number of actors, type of network and so on (Bressers, 2007).



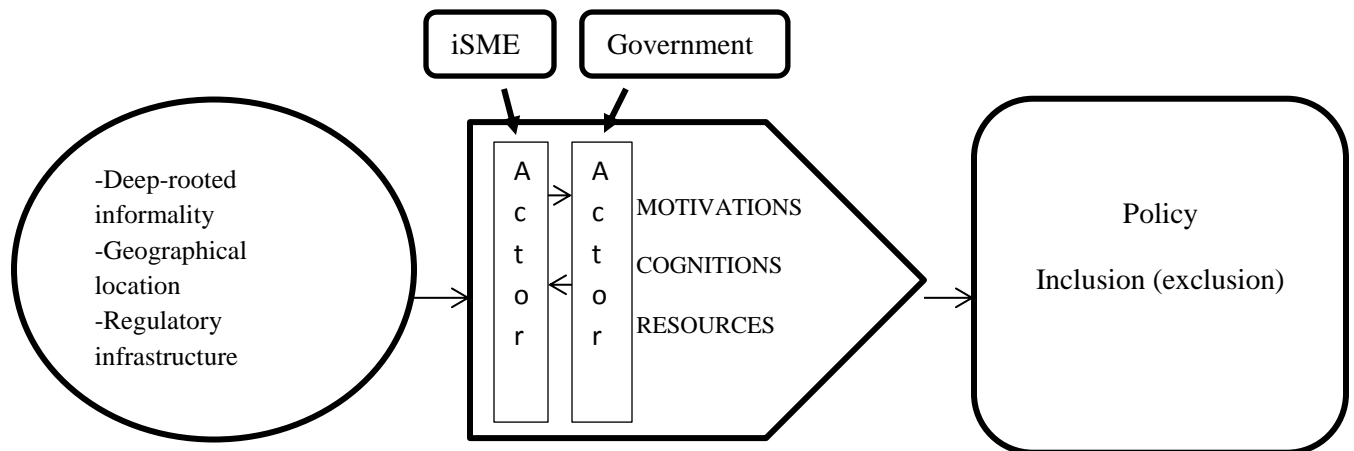
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Figure 1: Layers of contextual factors for actor characteristics

Source: Bressers (2007)

### 2.1.1. Using the CIT framework for this study

As stated in the previous chapter, the nature of the research question as well as the flexibility in adaptation makes this theory most suitable for the further development of the study. The theory will be applied in a modified manner taking into account the importance of the elements under study, scope of the research and type of the project. Theory will be narrowed down and the focus will be on the specific context called inputs, process arena and the output result (Bressers, 2007). In the modified version, output arena is added after the process arena and it comes as the result of the first two arenas. Moreover, specific context framework has an impact on process arena, which has an impact on the result of the policy exclusion. In order to identify the level of exclusion, a look into the input and process arena is needed. If the CIT is applied it can be said that the possible factors of motivation, cognition and resources of actors influenced by deep-rooted informality and regulatory infrastructure of Rwanda and Senegal together with their geographical location lead to policy exclusion. One actor in the arena is government with its agencies and institutions while the other actor is policy target or the iSMEs (Bressers & Lulofs, 2010). Three factors in the action arena influence mutual interaction and determine the outcome. Those are: motivations, cognitions and resources of the government and of iSMEs.



Input

Process

Output

Figure 2: Applied CIT model framework showing the possible factors for iSMEs exclusion

Motivation of the government is expressed through the stand they have towards iSMEs, which for instance, can be seen as apathetic and/or uninterested. The cognitions are articulated through knowledge of the policy makers while the resources are represented with the capacities expressed in money, people, services, support and facilities which they may or may not have. Malunda (2012) speculates that 2010 the informal sector alone contributed 47% of the GDP of Rwanda. Hence, it appears that iSMEs are the main provider and producer of the country's economy. Furthermore, assuming the cognitions governments have towards iSMEs, it is possible that governments do not realize the potential that iSMEs have as their earnings play remarkable part in the overall GDP of the country.

On the other hand, main factors for motivation of the iSMEs can be seen as low motivation of the workers and owners of the enterprises. Furthermore, the low level of awareness they have about the regulatory system and policies can produce the cognitions they have. The resources are often marked by the lack of possibilities to access existing services and facilitation offered by the government. All segments of figure 2 will be examined in detail through assessment of the literature in the following subchapters, while the model is going to be processed again, in the subchapter 5.3.

### 2.1.2. Definition of concepts

<b>Variables and concepts</b>	<b>Operational definition (with goal of clarification)</b>
<b>Motivations</b>	What are the reasons behind actors' participation in informal sector, more precisely iSMEs. Motivations can be inspired by: -Own aspirations -Other actors' aspirations in what they need others to fulfil their goals
<b>Cognitions</b>	-What actors understand about the informal sector and iSMEs, in other words, how actors' understandings of reality affects interaction -What actors understand about policies on SMEs and position of iSMEs
<b>Resources</b>	-Capacities and capabilities that actors possess in order to obtain their goals as well as access to resources

	-How that affects interaction and power relations
<b>iMEs (informal Micro Enterprises)</b>	-enterprises whose work is not regulated by law; they have no license for operating the activities, no state social protection, they are located on the streets and employ <sup>3</sup> 1-5 people
<b>iSMEs</b>	-Informal Small and Medium Enterprises including Micro Enterprises, -enterprises whose work is not regulated by law; they have no license for operating the activities, no state social protection, they are located on the streets
<b>Government</b>	National authorities of Rwanda and Senegal which are delivering policies on SMEs
<b>Policy on SMEs</b>	-Is considered as official government document which is part of the regulatory framework of the country and contains a variety of principles for regulating (i)SMEs

*Table 2: Operational definitions for variables and concepts used in this thesis and adopted from the CIT framework*

*Sources: Bressers (2009) Mohlakoana (2014)*

## 2.2. Conclusion

This chapter has given the explanation of the Theoretical Framework used in this study and has presented how the framework of the CIT can be applied. The chapter defends the use of the CIT as the best suitable framework for the investigation of iSMEs exclusion. Apart from that, the chapter has given the definition of concepts used in the study and their operational explanations. Besides serving as the theoretical lens for the study, the CIT has given the opportunity to bridge the empirical findings of the research with the statements from the literature.

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<sup>3</sup> According to the current findings from the Scope study report for Productive Uses of Energy: The Informal Food Sector in South Africa, Rwanda and Senegal, employers use different payment methods, such as monetary, goods or not paying at all, often depending on the relation with employee, whether s/he is a family member or relative.

## Chapter 3: Literature review

In this chapter literature is studied and the key theories are being explained. To begin with, in investigating the literature first a large picture is given with description of the informal sector and informal economy on a global level, and then when the area is known, it digs deeper narrowing the focus to developing countries in order to zoom into the situation in Rwanda and Senegal. At the end, the chapter closes with main deductions regarding the informal sectors in both countries which provides a solid setting and groundwork for analyzing the regulatory framework, policies and gathered data in the next chapters.

### 3.1. Status of the informal sector and the informal economy

Informal economy as a phenomenon was revealed in the literature in the 1970's by the British anthropologist Keith Hart (ILO, 2012). In his work he presented the difference between formal and informal earning by stating how the chances for informal income are created as the result of self-employment (Hart, 1973). Then he further explains the categorization of "income opportunities" (Hart, 1973:69) by dividing them on formal, informal legitimate and informal illegitimate (Hart, 1973). Thus, the market operatives, street hawkers and caterers in food and drink are under the sub-category of small-scale distribution of informal legitimate activities (Hart, 1973). Nonetheless, although the term was coined around 1960, the informal activities were occurring before, but there was no adequate phrase for them (WIEGO, 2012). From '70 until now, the informal sector kept growing in size and importance. Then, the academics introduced the expression of informal economy as the new term (ILO, 2012). Informal economy became a new layer of economy separating itself from traditional (formal) economy in many different ways. The status of the informal sector started getting more attention worldwide, resulting in many academics and researchers exploring its parts. As shown in the figure 3 the investigation of the literature begins with the general characteristics of the informal sector globally, after that the scope is narrowed to developing countries and at the end completed with the existing regulation structures in Rwanda and Senegal.

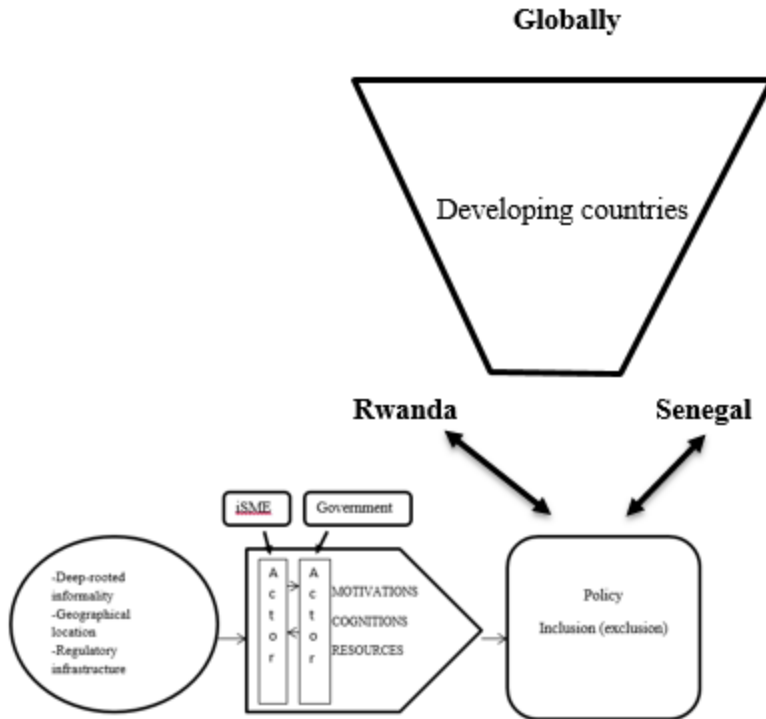
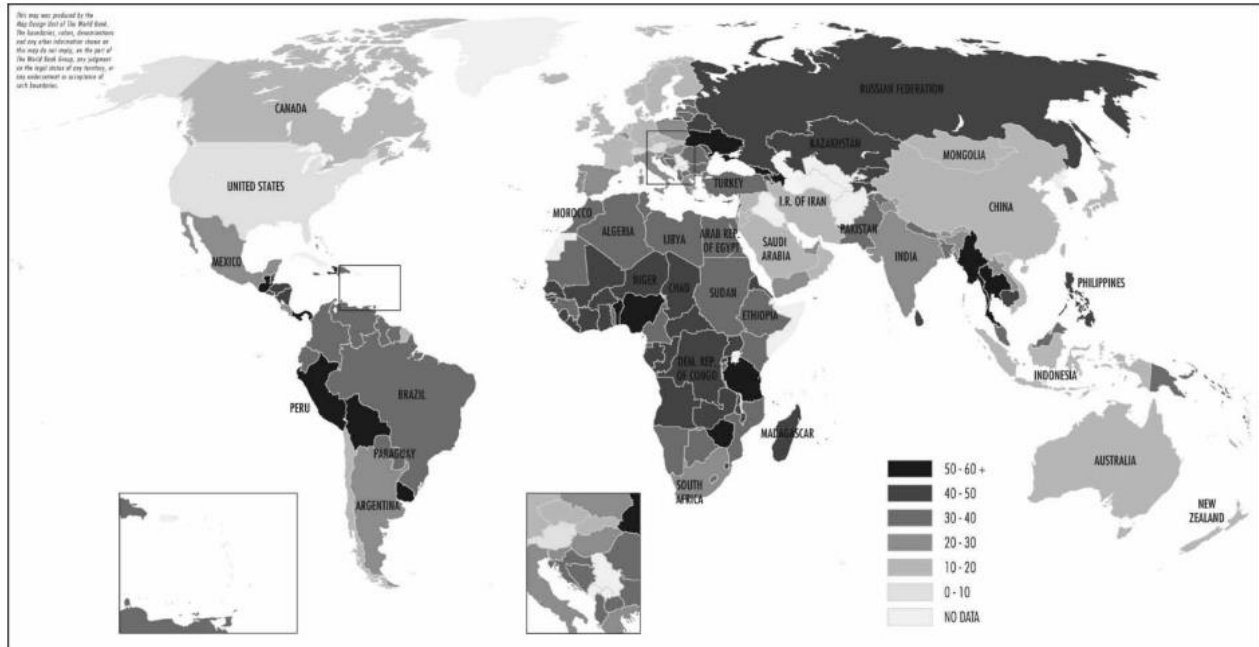


Figure 3: Adjusted CIT framework model

### 3.1.1. Globally

The informal sector is one of the complex terms which has numerous characteristics in its essence and the pluralistic nature of the term itself produces difficulties to make general conclusions about the informal sector, especially globally. As a consequence, there can be countless reasons why capturing the vivid status of the informal sector worldwide is a demanding task, though Charmes (2012) in his broad study states two. Firstly, there are no generally accepted terms in informal sector, and secondly, the existence of dissimilar interpretations of the terms of informal sector and informal employment. Most of the research done towards this is concentrated on investigating economic parameters, such as size of the informal sector and its contribution to the GDP, while their appearances are difficult to detect and relate. In general, most of the measurements and intents to capture the size of the informal sector concentrate on measures of the employment. The highest percentage of the people earning a living by operating in informal enterprises or contributing to the informal sector in any of the various ways is found to be 70% in South and South-east Asia, 66% in sub-Saharan Africa and 58% in Latin America (Charmes, 2012).



Picture 2.2.1: Levels of informality worldwide in % of total GDP

Source: Schneider et al (2010)

Region	Percentage of informal employment out of total employment, excluding the agricultural sector in 2005-2010
North-Africa	58.4
Sub-Saharan Africa	65.9
Latin America	57.7
Southern and south-eastern Asia	69.7
Western Asia	43.2
Transitions countries	22.6

Table 3: Employment in the informal economy in 5 year period

Source: Charmes (2012)

Besides employment, another economic measurement for estimating the size of the informal sector is the contribution to the overall GDP of the country. According to the study conducted in 162 countries over the world in the period from 1999-2007, the informal economy comprised a significant percentage of the

total GDP (Schneider et al, 2010). A couple of features can be observed, such as a downturn trend from 34% in 1999 to 31,2% of overall GDP in 2007 and regulation structure: the more regulated the country is, the more difficult it is to participate in the informal sector (Schneider et al, 2010).

Region	Informal economy in the total GDP in %
East Asia and Pacific	17.5
Europe and Central Asia	36.4
Latin America and the Caribbean	34.7
Middle East and North Africa	27.3
OECD High Income	13.4
Other High Income	20.8
South Asia	25.1
Sub-Saharan Africa	37.6
World	17.1

*Table 4: Average informality weighted by total GDP in 2005*

*Source: Schneider et al (2010)*

In order to design the most appropriate policies and measures it is helpful to know and identify diverse behaviors of informal employees and employers during pro and counter-cyclical trends of crises or prosperity in informal sector as demonstrated by Charmes (2012). By observing Table 3 and Table 4 it is found that there are relations between the figures for employment in informal sector and the figures for the informal economy in the total GDP. Higher rates in Table 3 reflect higher rates in Table 4 and vice versa, this can be illustrated with the example of the Latin American region where informal employment is 57,7% while the informal economy in the same region produces 34,7% of the total GDP. Another observation is that if regions with higher percentages in Table 3 have lower percentages in Table 4, it indicates the indigent state of formal economy and that the minority employed in the formal sector is earning around two thirds or three quarters of the total GDP. However, the studies did not specify the amount of earnings in a monetary way, saying exactly or approximately how many people involved in informal businesses earn per enterprise or per person, in the unit of time, such as hour, month or year. Hence, the study simplifies informality as well as the interpretation of the GDP scales and measurement by overlooking a set of criteria that would say more about incomes and wages on a personal level.



### 3.1.2. Developing countries

In line with the information stated above, there are many differences between regions in the world where the informal sector plays important role in the economy, although there are certain similarities as well (Schneider et al, 2010). Similarities occur between the regions among the developing countries, like Latin and Central America, South and south-east Asia and Sub-Saharan Africa, while transition countries show unalike condition as Charmes (2012) investigates. For instance, it is interesting to note that Maloney (2004) postulates how the informal sector in Mexico is large, but there is an easy entrance to the formal economy as well; this paradox leads to the conclusion that most of the people in the informal sector are there on a voluntary basis. He further simplifies how this is especially true for the micro enterprises hiring 1-5 people, which is the second largest source of employment after the formal employment (Maloney, 2004). Furthermore, he attempts to find the main reasons for Latin American countries to choose operating in informal (self) enterprises by claiming that biggest autonomy, better position and fewer burdens are usually main determinants affecting the choice (Maloney, 2004). There it is possible to note the reverse trend of people transferring to the informal sector instead of other way around, because of the higher independence and flexibility of the informal sector, which makes it appealing for workers to perform. That implies that the formal sector should create more benefits for workers to stay by offering slightly more than they can obtain in informal sector. One of the indicators often discussed as positively connected with leaving the informality is education. For instance, in Argentina and Mexico levels of education have been examined as positively related to leaving the informal sector and transferring into the formal sector, Maloney (2004) hypothesizes that the more educated a person is the more likely this creates the possibility for transfer.

City, Country	Total	Women	Men
Lima, Peru	58.5	63.9	53.8
Dakar, Senegal	79.8	88	73.9
Ho Chi Minh, Vietnam	53.4	55.1	52

*Table 5: Informal employment as percentage of total employment (excluding agriculture)*

*Source: Wiego (2012)*

In cities of Lima, Dakar and Ho Chi Minh informally self-employed people count from 58-78% of the total number of informally employed, and the percentage of informally employed in the informal sector is higher than the percentage of formally employed in the informal sector (Wiego, 2012). Notably, comparing three cities from three different developing countries shows that the countries in the sub-

Saharan region have the highest percentage of informal employment, while there is a remarkable difference with between the regions of Latin America and south-east Asia where informal employment is higher than half but not as high as in sub-Saharan Africa. For example, in Ho Chi Minh more than half of the population works in the informal sector (51.6%). In urban cities of Mongolia, Thailand and Cambodia illegal street vending represents the core part of the informal sector, the number of street vendors particularly increases when there is a crisis and in times of migration. Thailand and Cambodia are showing differences in informal street employment, even though both are from the same region, allegedly in Thailand people who are engaged in informal street vending do not represent ‘‘the poorest of the poor’’(Kusakabe, 2006:27). Whilst in Cambodia it is like that (Kusakabe, 2006). Outstandingly, as speculated by Maloney (2004) and ILO (2012) there is a difference in earnings when comparing the case of Mexico and Latin American countries where earnings in the informal sector are more or less equal or even higher than in formal sector, while in South-East Asia earnings in the informal sector tend to be lower. It can be said that the amount of income is not positively related to the decision of people to work in the informal sector, since people with high and low earnings both stay in the informal sector. More than that, it suggests that earnings as the only factor might not be enough to explain the complex relationship between informality and economic parameters.

Another essential point to mention is the differentiation between the categories of informal enterprises according to earning preferences behind operating in informal enterprises. Berner et al (2012) make clear that there is a distinction in the degree of preference that informal entrepreneurs have towards profit. On one hand, enterprises with low levels or no profit at all that continue to work from day to day are called survival enterprises and those are mainly street based enterprises. On the other hand, informal enterprises that are having profit and intentions to grow into bigger enterprises with more people being employed are not there only to sustain on a daily basis, but to develop with time and progress (Berner et al, 2012).

### 3.2. Informal sector in Rwanda and Senegal

	GDP	Informal employment out of total employment in %
Senegal	43.7	75
Rwanda	40.1	65.4

*Table 6: Informal employment and share of informal economy in GDP*

*Source: Charmes (2012), Schneider et al (2010), AFBD (2014)*

The informal sector in Senegal comprises around 75% of the total employment making it one of the largest informal sectors in the world with making on average 43,7% of total GDP of the country as estimated by Charmes (2012) and Schneider et al (2010). Micro and small size enterprises and heterogeneity of the sector are the main characteristics of informality in Senegal. Nevertheless, there are several particularities of the sector and one of them is dualism. Damien & Murtin (2009) argue how there is a double dualism, on the one hand the informal sector is divided between productive and non-productive firms, and on the other hand between voluntary and non-voluntary employment on the labor market. In terms of voluntarism, individuals and enterprises can be in the informal sector by deliberative choice or as a result of market conditions as proposed by Damien & Murti (2009). In the period of 1995-2004, 97% of all new jobs were in the informal sector, which symbolizes an almost complete dominance of the informal sector in the overall economic development of the country. As observed by Damien & Murtin (2009) the informal sector in Senegal is highly heterogeneous and taking into account its size and characteristics, the largest informal sub-sectors are the ones of trade and services. In the trade sector, street economy comprises most of the sector and can serve as the best indicator of the sector. As discussed by Brown et al (2010) the street economy has many different manifestations and as the informal sector itself, it is heterogeneous, while the most expressed specificity of street and market informal trading in Senegal are brotherhoods. That ancient phenomenon resulted from colonialism and high religious influences, and was in force for a very long time, until the revolution in 2007 (Brown et al, 2010). Brotherhoods served as basic protectors and interest groups, as labeled by Brown et al (2010) while vendors and traders were supposed to be registered in order to enter the market, it was led and organized by men, while women had no influence and they were in prayer circles.

With this in mind, the role of women in the informal sector is influenced by other traditional practices as well. Trends from agriculture replicate in the informal trade sector, hence men control the land, business and the capital, while women are focused on the selling activities and the operation of the micro street enterprises (Benjamin et al, 2012). Although there is discrimination and gender inequality in the formal sector, the informal sector has a stronger appearance of the same phenomenon, with women being paid less than men, facing fewer opportunities and lower educational levels and labor skills as reported by ILO (2012). According to Dejene (2007) for instance, if we compare brick making and beer brewing, the same investment can bring seven times more profit to men than to women, as well as for the reason of reinvestment, where women tend to reinvest the profit, if any, in the household while men in business. This goes in line with Berners' findings (2012) that women tend to be survival entrepreneurs while men are more growth-profit oriented. Thus, women are not treated the same in the informal sector as well as through the sector, since there are inter-sectoral disparities. Hence, ILO (2012) underlines how it seems

that the women are carrying the burden of the house and parental responsibilities and having lower quality jobs at the same time, while men are in power of money and higher positions and with few or none of the household related duties. Moreover, food vending is a specific example of the concentration of women workers in both Rwanda and Senegal and itself represents a significant part of the informal sector.

Informal employment in Rwanda in 2010 was 65, 4% which is contributing to the country's economy with 40,1% while the large part of the private sector is working in the informal SMEs, where most of the people have only primary education (AFDB, 2014). Malunda (2012) alleges that Rwanda's economy is predominately informal and consisting of small, self-managed SMEs, which could be the largest problem and obstacle for the economic transformation. This goes in line with the specific context of the country. Rukundo (2015) observes that remarkable change of the structure is difficult to achieve due to the insufficient capital and capacity of the country to fight the informality. As the informality grows, the formal sector becomes more burdened and difficult to manage. Consequently, instead of the informal sector diminishment and economic transformation, the boom of the informal sector can be recognized. Rukundo (2015) posits that the main reasons for flourishing could be the constrained market and resources, as well as low business support from the formal sector. The formal sector enterprises do not recognize the potential of collaborating with informal structures, since their relation is more competitive than a compliant nature.

### 3.3. Conclusion

Ernst & Young (2009) in their study of the East African Community trace more than twenty issues recognized in the informal sector, such as weak conformity, inadequate public awareness, uncoordinated infrastructure policy and weak support services. Various studies argue that Rwanda and Senegal are similar in terms of informality and the informal sector, even though according to the above mentioned study, Rwanda is showing more initiative to formalize the informal sector, while having additional structural problems from not that long ago of changing the government after the genocide. In both countries the informal sector consists almost only of trade and services.

## Chapter 4: Output arena

Hereafter the dependent variable of policy exclusion will be explained and this is mentioned as the output arena in the CIT. It starts with explanation of the main characteristics of regulatory systems and consequences of the regulatory framework structure. Then, two SMEs policies are studied and finally, the chapter ends with government standpoints that evolve from the analysis of the policies.

### 4.1. Main characteristics of regulatory systems

In terms of policy, in the region of Sub-Saharan Africa companies larger than micro enterprises have been disregarded in general, forming something that business economists call the “missing middle” which represents one of the biggest obstacles to iSMEs development (Fjose et al, 2010). What’s more, Fjose et al (2010) found that lack of incentive in the business environment together with unstable electricity supply and insufficient finance sources are contributing and following factors that can hamper the decision making. It can be noted that a large number of iMEs are difficult to track since it can happen that an individual decides to set up a business on the street only for a short period of time or only during the specific hours and not on a regular basis. Therefore it seems that regulating should include the option of time units.

Rwanda is a democratic parliamentary republic where representatives are chosen in elections and as simplified by Malunda (2012) it has the historical problem of low skilled civil service workers which affects all government positions and actions. The overall goal of the government is economic transformation, which can be done through a number of actions, such as promoting export and investment and reducing bureaucratic procedures, and the Rwanda Development Board was established especially for these purposes (Malunda, 2012). Policy development with various strategies is the main remedy that the formal sector is focusing on in order to diminish activities of the informal sector. In the financial domain, Malunda (2012) labels a Policy support instrument as the most important tool to improve business environment. Vision 2020 is the programme created by Ministry of Finance and Economic Planning. The Economic Development and Poverty Reduction Strategy (EDPRS) as a part of the Vision serve as the mid-term framework to implement the Government’s long-term development agenda. Main goals were listed as sustainable jobs, soft business infrastructure and social protection programmes. Regardless of programmes such as Vision 2020 and the rich policy infrastructure, Rwanda’s informal sector is constantly staying in the shadow due to the low enforcement capacity. Ernst & Young’s (2009) study is exploring one of the main characteristics of the informal sector in Rwanda- corruption, which is pulling back formalization since people in the informal sector often persist in the sector due to bribing formal inspectors and representatives. Though bribing exists in the formal sector as well, it can be said that there

is a differentiation between business sectors according to the amount of bribe they are supposed to pay to the government representatives. Ernst & Young' (2009) study draws the conclusion that the informal sector has no boundaries or prerequisites for joining making it appealing and being the only sector where the poor can fulfil their capacity. However, Webb et al (2014) showed that informal entrepreneurs in developing countries often take advantage of avoiding rules and that is considered as socially tolerable, for not willing to invest time and money in regulation procedures, calling into question findings about informal entrepreneurs being doomed to informality without having an alternative to opt for.

The regulatory system in Senegal among all, is characterized by corruption and bureaucracy which is clearly shown in numbers in the indicators of the World Bank, indicating that business freedom, fiscal freedom, labor freedom and freedom from corruption are having weak levels while monopoly is highly present (Granström, 2009). The government usually ignores large informal enterprises and tolerates their existence, making a clear distinction between small and micro on one side and large informal enterprises on the other. Benjamin et al (2012) hypothesize that if government tries to shut down the enterprise, it can result in either imprisonment or fines. Given that services account for 45% of the country's GDP, while trade comprises a majority of that percentage, trade operations are controlled by the informal sector and are mostly operated by the street vendors (Benjamin et al, 2012). Thus, it is likely that the government is trying to control micro and small enterprises since they represent the majority of the profit producers. It should be well noted that Senegal is a member of various regional institutions such as Waemu and Ohada that are creating rules to protect against smuggling or to provide extra legal help. The tax system is rich with many types of taxes that informal enterprises are not obliged to pay, such as the regular business tax regime and the lump-sum tax regime. Although government has designed programmes to reduce taxes, they were not efficient enough (Benjamin et al, 2012). Another phenomenon that arises from the regulation gaps is smuggling. Smuggling is happening in the region of West Africa due to policy restrictions, which costs the country a significant amount of money as examined by Benjamin et al (2012). In 1997 the government started with policy reforms in almost all sectors. Public and private sector organizations were reformed as well. SONATEL and SENELEC were rearranged and reorganized companies in the field of electricity, petroleum products, and telecommunications, while in 1998 the Arbitration Centre was created for judicial control. All policy reforms taken had the indirect goal of monitoring and diminishing the informal sector. However, the first step towards that was Tax system reform (IMF, 1998).

## 4.2. Consequences of the regulatory framework structure

There are numerous consequences of the regulatory framework for iSMEs in Senegal and Rwanda and many of them exist in both countries. As reported above, this section has the narrowest scope and its explanation is focused on the consequences based on the interpretation and the analysis of the literature, such as the observations stated hereafter:

- Firstly, studies done in developing countries show that operating freely in informality can bring the same benefits as being formally employed, which creates unfair competition and malicious market conditions (Benjamin et al, 2012).
- The informal sector comprises a large part of economies in developing countries, while in Rwanda and Senegal represents the major source of opportunities to earn money.
- According to the growing numbers of informal enterprises in Rwanda and Senegal, it appears that the deficit on the output side of the regulatory framework and more precisely low enforcement in applying the policies can be seen as advantageous for informal enterprises.
- Governments in both countries are applying strict fines on the one hand, while on the other hand they are slow at implementing policies.
- Rigid structures, discrimination and inferior services as main components of regulatory contexts in both countries affect decisions of informal enterprises to begin operating in informality. To put it another way, inflexible institutional environments produce unacceptable and inappropriate measures, which informal enterprises see as burdensome or unpromising.
- The regulation infrastructure and history of informality created the opinion that not paying taxes is generally acceptable.
- According to the levels of corruption indicators it seems that both formal and informal sectors have the common need to use bribes as a method to avoid certain measures implied by the government in both countries.

Existing regulation structure and policies are markedly idealistic and ambitious and together with poor implementation can serve as reasons for informal employees and firms disobeying them. Regarding the regulatory institutions, there are two main reasons for the existence of informal enterprises, one of them is gaps in the regulatory framework that are allowing enterprises to choose to operate in the informal economy, and the other is unsuccessful copying of Western policies to African regulatory framework. Regulations on informal businesses are growing by number and size, even though their implementation can be lacking and reality has shown repeatedly that legislation is different than practice as analyzed by

AfDB (2014). As Benjamin et al (2012) prove that structure of Rwanda's economy allows the informal sector to exist; it seems difficult to find adequate treatment for the informal sector enterprises.

Chen (2002) in *Supporting Workers in the Informal Economy: A Policy Framework* writes that there are two types of government, the one that is willing to control the informal sector, and the one which thinks that informal sector can be governed itself. In the first case, government, as the substantial stakeholder, can have various policy stances towards the informal economy, from eliminating over ignoring to supporting.

A glimpse into the regulation structures in Rwanda and Senegal and the overall assessment of the regulation framework cannot offer sufficient information about the degree and nature of policy exclusion regarding two policies on SMEs and informal businesses. Thus the phenomenon of exclusion will be examined more in detail in the next subchapter with analysis of two SMEs policies in Rwanda and Senegal.

### 4.3. Analysis of the SMEs policies and policy exclusion

In order to organize the analysis of the output arena, SMEs policies and government position will be examined. While conducting desk research and literature assessment it was evident that none of the explored authors examined why the informal part of the business sector is underrepresented, neither the degree nor the nature of the representation in the policies on SMEs in Senegal and Rwanda. However, the secondary research did bring the evidence about disregarding attitudes of the governments towards the informal enterprises in policies, low potentiality of implementation capabilities and absence of skills for proper decision making as reported by AfDB (2014), Fjose et al (2010), Chen (2012) and Benjamin et al (2012).

In Senegal, the newest law on promotion and development of SMEs has been written in 2008 and it has only one (out of forty six) articles about iSMEs, in which it says that migration of iSMEs to formal sector will be supported by the Agency for Development and Supervision of SMEs (ADEPME). However, it does not state how that migration can be done. However, the Agency has the website where it offers help to iSMEs and SMEs in the meaning of providing advice, solving doubts about formalities and providing information on how to obtain financial help. Nevertheless, accurately defined steps on how to transfer the enterprise from informal to the formal sector are not known and there is no unique procedure being offered. This agency has being active from 2014, even though it was mentioned in the law from 2008 and it had been constituted in 2013. Having said that only one article out of forty six is mentioning iSMEs, the law does not give enough information about the informal sector and about enterprises in it.



On the other hand, in Senegal, Direction des petit et moyennes enterprises (Policy on SMEs) from 2010 is giving a brief definition of the informal sector and its composition with one of the policy objectives being the promotion of sustainable access for SMEs to non-financial services. Under this policy objective there is a specific objective of developing and offering products and facilitation assistance for migration of informal enterprises into formal. The specific objective itself consists of five actions and for each of them there are activities proposed, expected results and foundations for verification inside of the action plan.<sup>4</sup>

Action	Activity
Popularization and propagation of policy on SMEs among employer organizations and consultancies, associations, local and regional organizations, universities, schools etc. in order to increase transparency of advantages that iSMEs formalization can bring	Creating tools for dissemination and campaigns, informing employer organizations and consultancies, associations, local and regional organizations, universities, schools to continue with promotion of formalization of iSMEs
Strengthen the capacities of employer and consultancy organizations for guiding its members to and through formalization	Diminishment of obstacles for iSMEs migration to formality and informing representatives of employer and consultancy organizations of possible benefits that migration can bring to iSMEs
Strengthen the capacities of supporting organizations and local people for helping establishment of help desks and decentralization in all the regions	Develop help desks and enable their cooperation with local people and authorities
Raise awareness among tax officers and tax authorities about the incentives of iSMEs formalization	Develop strategies for raising awareness of tax authorities about introducing formalization to iSMEs and informing them about assistance they can get
Straighten the taxation and accounting organizations/agencies	Making a stimulation plan for taxation services

*Table 7: Specific policy objective of developing and offering products and facilitation assistance for migration of informal enterprises into formal;*

*Source: Policy on SMEs (2010) Senegal*

Thus, Senegalese Policy has four objectives and sixteen specific objectives with fifty one proposed actions in total. However, only one specific objective is dedicated to iSMEs and the goal of the objective is migration from informal to formal sector. It can be said that government tends to control the informal sector by creating policy objectives of moving the enterprises from informality into formality. By promoting their leaving from the informal sector, the government tries to abolish iSMEs. Abolition of the

<sup>4</sup> For entire table see Appendix B.

informal sector is the most radical measure and it does not consider how long the duration of that measure would be. The policy is not dealing with the concerns whether that is doable or not and whether it has the potential to be conducted. All this indicates that the stand that government takes towards iSMEs can be described as complex. The analysis of the policy shows that government wants to control the informal sector, but their attitude appears to point out that they favor transferal and not a supportive approach towards iSMEs. The name of the objective also points out to the position they are taking, stating that facilitation assistance is offered for migration of iSMEs. Overall, iSMEs are not completely excluded from the policy, but the degree in which they are represented is low and not satisfactory, bearing in mind the total number of iSMEs<sup>5</sup> and their contributions to the national economy. The percentage in which they are included is not proportional to the percentage they comprise in reality, in comparison to formal enterprises. In the SMEs policy formal enterprises are represented in fifteen specific policy objectives while one specific objective is dedicated to the informal enterprises.

In the SMEs Development Policy of Rwanda, the informal business sector is only mentioned with the definition of the sector and in numbers comprising the large part of the sector. Policy itself has five objectives and only the objective on ‘Simplifying the fiscal and regulatory framework for SMEs growth’ (SMEs development policy, 2010:29) is stating that the key to growth is formalizing the sector with promotion of the regulatory framework while none of the strategies are being devoted to the above mentioned goal. This policy does not have a plan of action neither a plan of activities; it consists only of a number of strategies per every objective. Thus, according to the policy on SMEs and its defined objectives, it can be said that government disregards iSMEs, not specifying anything about the informal sector neither about iSMEs. Thus, it can be noted that government is insensitive towards the iSMEs, giving little regard and not acknowledging their importance in the overall economy of the country. From the analysis of SMEs policy, my main observation is that not enough attention is given to the iSMEs. Considering the amount they comprise in the national economy, they are underrepresented in the policy, they receive low attention and it can be said that there is a high level of iSMEs exclusion.

### 4.3. Conclusion

Policies on SMEs do recognize the size of the enterprise dividing them into Micro, Small and Medium types, but do not distinguish the nature of informal business enterprises, neither is there a distinction between strategies according to the size of enterprises. Based on the observation of the approach they have it can be said that development is the main goal of SMEs policies without identifying the nature of

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<sup>5</sup> See table 1 in Chapter 1.2.

enterprises (persistence or expansion), neither do they have diverse strategies depending on the size and sector which enterprises operate in.

## Chapter 5: Data and analysis

In this chapter data collected for this studies purposes are being examined. Data consists of interviews and survey analysis using the data for the project Productive uses of energy<sup>6</sup>. Then Process arena is reviewed with new insights and lastly everything is being linked to input arena. The data used is from interviews and data from the Scoping phase for Productive uses of energy project.

### 5.1. Results from the transcripts of interviews

Four participants were interviewed for the purposes of this study by using the qualitative method of semi-structured interviews. They each gave their insights about the topics and the questions that were posed to them. Answers were then coded and categorized according to the importance that was assigned to them during the analysis of transcripts. It can be said that three terms were mentioned by all of the participants: gender inequality, interconnectivity and the authorities. These terms were coded in one category, as they represent the characteristics of the regulatory infrastructure. When it comes to gender inequality, the informal sector in both countries is dynamic and even though all participants confirmed that the sector is comprised out of both genders, there are more females compared to males. In addition, in Rwanda, youth<sup>7</sup> is playing important role among the actors in informality. Another term mentioned for both countries is interconnectivity. In Senegal, the informal sector does not represent only the source of employment, but also serves as the core for other interactions including family, social and cultural spheres of life. As stated by S1<sup>8</sup> (May, 23) Email interview: “it represents social, economic and cultural hub for all the actors involved”. Then, one more term that got attention is the government. In Senegal, authorities are trying to incorporate informal sector and promote SMEs inside of promotion programmes for development. While in Rwanda, authorities are helping SME transformation by establishing Rwanda Cooperative Agency (RCA) which is in charge of creating so called free-markets. Free markets are buildings where people who were selling products on the streets are moved in to continue operating their business there (R1, May, 17, Skype interview).

Informants gave the answers that seem to indicate how gender inequality, interconnectivity and authorities are being related in many ways. Authorities are trying to cope with gender inequality by creating programs for empowering women and by showing them how to create their own jobs and start enterprises. Informal sector as such is rich of multiple kinds of relationships and therefore it is difficult for authorities to reach inside the system and change their forms.

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<sup>6</sup> The project is led by the University of Twente with consortium partners from South Africa, Senegal and Rwanda. It is part of the ENERGIA Gender and Energy Research Programme funded by DFID.

<sup>7</sup> Not specified by gender.

<sup>8</sup> Four informants are classified as S1 and S2 for Senegal and R1 and R2 for Rwanda according to their wish to stay under anonymity.

In Rwanda, resources appear to be one of the main characteristics of the informal sector. These resources are mostly economic by nature and expressed through lack of financial capacities and capabilities of people operating in iMEs. The lack of financial capacities is additionally burdened with the low capacity for bank loans. Without financial capacity to rent the properties for operating the business, people are forced to operate on the streets. Apart from that, one of the main obstacles for people involved in iMEs is illiteracy<sup>9</sup>, since they might have a low level of education and many of them might not be able to read. A closely linked problem and the possible consequence of illiteracy among the informal sector might be low awareness of knowing how government can support them as well as deficient knowledge about the policies. On the other hand, there can also be the situation in which they are aware of the registration procedures, but they are ignorant towards them since they try to avoid paying taxes. As stated by R1 (May, 17) Skype interview: ‘‘someone may think that paying taxes is throwing money away’’. Poverty is the main factor that makes them operate in informality. Being able to keep all the money earned motivates them towards staying in informality. Also, motivations are caused by the lack of resources, for example as stated by R1 (May, 17) Skype interview: ‘‘people that work in informality not have the capacity to rent the house for their business and all that they earn is being spent for living expenses’’. That seems to be the main discouraging factor for moving from informality. Another significant insight given by R2 (May, 26) Email interview, is that affordability keeps informal micro entrepreneurs operating their business and on top of that, what boosts their popularity is affordability in terms of comparing to the prices set by the formal entrepreneurs for the same kind of products. The same informant gave the information about the corruption, which is the only remark documented from the interviews about the phenomenon of bribery related to iSMEs. It enlightens the information how already being in informality makes it easier to be involved in the corrupt practices; hence the short term nature of their activities encourages them to use corruption as the instant way that can help them survive.

According to informants, the authorities of Rwanda are trying to help informal micro enterprises in many different ways:

- the institution of free-markets, where they provide them space for moving their business from the streets
- public campaigns for explaining how businesses can be registered and formalized
- public campaigns are usually advertised through the radio since it is the most popular mass media
- arrangement of meetings between the bank representatives and people, where they can inform how to get loans

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<sup>9</sup> According to The fourth Population and Housing Census in Rwanda conducted in August 2012 (2012 RPHC) shows that 68% of Rwandan population aged 15 years and above were literate while in Senegal that rate was 52% in 2011 according to UNESCO Institute for Statistics.

- providing help by involving police when someone has safety problems while working in their business
- “The government eased the process of paying taxes with the online platform. The situation used to be different and usually it was taking up to three hours to pay taxes in the bank. Everything has been made digital so it means that you can save time” as reported by R1 (May, 17) Skype interview
- “Through cooperatives they are able to access any facilitation needed”: R2 (May, 26) Email interview. Cooperatives are established by Rwanda Cooperative Agency and they consist of persons who on a voluntary basis want to organize together to run and control the enterprises.

Informants from Senegal gave the information that a lack of guidance and ruling by the authorities induce vibrant and intense informal sector. The lack of employment serves as the main motivational factor for people to operate in informality, thus when not being able to find a job, they start doing something in order to sustain themselves. “The informal sector- it is the biggest remedy against poverty and unemployment” as pointed out by S2 (May, 23) Email interview. Solidarity was one of the main things pointed out, since the interconnectivity and co-dependence can be explained with the multiple ties that exist in the informal sector. People are being connected on many levels while being part of iMEs what implies that informality is a way of life. They are obstacle for recognizing corruption and hinder obeying to formalities and registration. People operating in informal enterprises are mostly aware of the policies but they keep running their businesses despite the fact it should be formalized.

According to interviewees government stand can be described with several actions:

- Campaigns aiming promotion of employment among youth which are in accordance with promoting SMEs and overall development of SMEs
- iSMEs recently became part of interest and jurisdiction of the Ministry for business, consumption, promotion of local products and SMEs
- Even though iMEs tend to keep their activities outside of formality while authorities still tend to involve them by providing financial support and information in help with organization, formation of SMEs, information, awareness and importance of formal activities

High public demand for the informal sector enterprises is something that has been noted by the interviewees in both countries. However, countries have different informal markets that dictate different demands, such as Rwandese market dictating the need for textile informal enterprises while in Senegal the biggest need is for the agriculture and arts & crafts micro businesses. This, however, does not hinder the

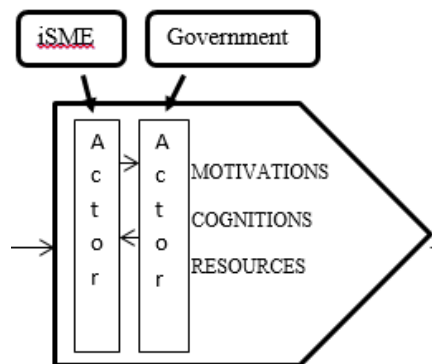
fact that the informal sector is diverse; it only gives the information where is the biggest demand. High public demand in Rwanda is driven by the low prices set by informal micro enterprises which are ‘‘offending the taxpayer who has the same product and works in SMEs’’ as reported by R2 (May, 26) Email interview.

According to the informants, the overall stand that authorities take in Senegal was described as positive and supportive. Since intentions to address the problems mentioned above are noticed and the initiative has been shown. The biggest difficulty for authorities that has been noted is that informal micro entrepreneurs are not registered at one particular place due to the convenient flexibility concerning work on the street. That implies adjustable working hours, frequent change of place and autonomous decisions on working hours.

### 5.1.1. Interpretations of the interview results

As stated in the previous section, interviews gave the insight for explaining the informal sector and informal enterprises in Rwanda and Senegal. Even though informants were notified about the purpose of the study and its main focus, it is remarkable that all of them were referring to the informal Micro Enterprises when asked about the iSMEs, especially conceptualizing them as the street sector enterprises. This annotation affected the results of findings as well as the reflection on them.

Codes or important phrases were assigned to four categories which are interconnected. Certain codes seemed to be appearing in both Rwanda and Senegal, highly emphasizing characteristics of the system, thus they were grouped and best describe the category of the regulation infrastructure. Moreover, according to interviewees, the system is showing imbalance when it comes to gender representation. Women are more active than men and in Rwanda there is a programme designed to help women with their businesses, how to start as well as how to transfer to formality.



Process

Figure 4: Applied CIT model framework showing the process arena

<b>Rwanda</b>	<b>Measures</b>
<b>Approach</b>	Campaigns, radio promotion
<b>Method</b>	Cooperatives (Rwanda Cooperative agency), Free markets, online platform

Table 8: What government provides to iSMEs

In Rwanda, government shows incentives and interest for iSMEs in general by creating the online platform for paying taxes, this makes it easier for the iSMEs. On the other hand, a number of key issues arise from this, such as the fact that online platform requires computer literacy and resources such as internet connection and available computer to use in order to use the option of paying taxes online. This is highly questionable in the society where illiteracy exists. With considerable illiteracy levels it can be assumed that level of computer literacy is not high either. Considering the awareness levels of the government, it can be perceived that campaigns to promote SMEs among iSMEs are implying that they do possess certain awareness about informal enterprises. Radio promotion is especially important since radio represents the main source of mass media in Rwanda and there is a tendency from people working in both formal and the informal sector, to listen to the radio on a daily basis. Using radio for the promotion of development and formalization is the principal indicator showing how there is positive attitude towards reaching the people with measures by using the mass media method most close to them. Another noteworthy measure that government is providing to iSMEs is establishing Cooperatives as easier way for informal micro enterprises to group in order to have enough resources to manage the enterprise together. One more remark is apropos Free- markets, especially being established in Kigali city, capital of Rwanda, where they group informal street micro enterprises inside of spaces made for markets. Another way of looking to this question is that grouping street enterprises does not provide assured and the long term solution for informal entrepreneurs.

It is of crucial importance to give a closer look at the other actor and demonstration of iSMEs' characteristics. Motivation of people working in informality is incentivized by the three main factors: poverty, taxes and survival. As it has been said before, informal entrepreneurs are usually persons that are not able to find employment that easily or not at all in the formal sector is why they try to find something in informality. Being a job seeker in developing country leaves smaller chance to fight the poverty on individual level without being involved in informal activities. Poverty and survival are interconnected and



mutually dependent factors that drive the motivation of iMEs and encourage them to start operating the business. Not being forced by authorities to pay taxes leaves space for disobedience. Cognitions and resources deserve special consideration due to the fact that their appearances are linked and associated. Thus, illiteracy and ignorance<sup>10</sup> are causing the lack of knowledge informal entrepreneurs have about policies. Illiteracy restricts them in understanding the documents, while ignorance can mean they are aware of the policies but not interested to obey to them. As it has been said previously, poverty was discovered as motivational factor and it is correlated with lack of resources in general. Illiteracy as well as poverty is triggering shortage of financial capacity and capability. In general state of financial and material scarcity it is extremely difficult to establish the system in which literacy is high and obeying to the rules that include financial compulsions will function by the book. Lack of resources can also influence the motivational factor. The three characteristics are tightly connected and related to each other. Resources might be the most powerful characteristic that is determining the other two, since there are no financial means for education/literacy neither for starting the business in formality nor renting the property. Factors that describe iSMEs actor in process arena are influenced by the fusion of different elements that have been observed here.

<b>Senegal</b>	<b>Measures</b>
<b>Method</b>	Tax system, Financial incentives
<b>Approach</b>	Campaigns for SME promotion among youth

*Table 9: What government provides to iSMEs*

In Senegal, government is being motivated to regulate iSMEs because of the contribution coming from the taxes, and in doing so it provides financial incentives in order to make the taxes more appealing for the people working in informal businesses. In recent years attention of the government has been brought by acknowledging the informal sector as important part of the national economy. Since then, they have put into force new policy on SMEs, they also showed interest by organizing campaigns for promotion of youth employment and SMEs. Still, understanding of iSMEs is led by the awareness of advantages that regulation can bring. On the other hand, even though there are options for paying taxes or having permits, on the contrary taxes are usually motivating iSMEs to stay in informality since in that way they are not supposed to pay anything.

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<sup>10</sup> According to the current findings from interviews, ignorance was mentioned by informants and it means that certain level of awareness about SMEs policies exists among informal entrepreneurs but they tend to ignore policies, therefore overall impression was described as ignorant.

Equally important is to uncover the characteristics of informal enterprises as the other actor in process arena. In Senegal, as well as in Rwanda characteristics are interrelated and mutually causal. Being a developing country, poverty is one of the main elements infiltrated in all spheres of life. It stimulates people that are looking for a source of financial means to go and start their business on the street. Unemployment rates are high and formal sector is not potent enough to provide everyone with a job. Among these motivational factors, the one that serves as a glue to connect them is solidarity. Informal sector gives employment, but since many iMEs are run by families or family members are helping them. That brings us to resources that iSMEs are lacking of in their operation. They are aware of the policies on SMEs but they are showing unwillingness to apply them. All these standards are connected with the instant nature of the informal street MEs and their causing elements, among all, particularly survival. In the case of street iMEs survival contributes more as motivation to keep with trade activities. In survival conditions, people are not able to think about procedures, regulations and formality, they are focused on day-to-day routine of providing themselves with the necessities to survive, such as food. Survival element has been undoubtedly confirmed as the major source of motivation for informal enterprises. It pushes them on the bane of society with constant uncertainty and precariousness for their sustentation.

### 5.1.2. Conclusion

Actor characteristics that have been assessed affect social life and give enormous impact on the policies and Rwandan and Senegalese societies in general. Informal enterprises are representing the large part of the society<sup>11</sup> and their actions and motivations affect many society structures. Above all, it has an impact on private and public sphere of life, being that powerful to create a manner of life out of informality and strengthen the establishment of social classes and class structure differentiation in Rwanda and Senegal.

The research results allude that in Rwanda illiteracy represents a challenge both for people as well as for the authorities, since without knowing how to read it might be difficult to inform about the policies and the ways they can work in regulated way. That enlightens the fact how personal capabilities are low, not only financial. Education is considered to be one of the main instruments both for fighting illiteracy and for transferring to the formal sector employment, and it has been identified as deficient, testifying about personal capabilities of people working in the informal micro enterprises.

High public demand for informal sector enterprises reflects the categories of motivation, resources and cognitions being mutually dependent and causative. One phenomenon that has been distinguished is the relation towards paying taxes in Rwanda. People involved in iSMEs seem to see paying taxes as an option and not as a requirement for maintaining the business. This evokes the impression that paying taxes

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<sup>11</sup> See table 6, Chapter 3.2.

depends on the entrepreneur's free will to obey to the rules, suggesting further the low enforcement power and weakness of the authorities to impose the regulation.

It can be discussed whether the intentions shown and possible incentives are sufficient for iMEs to motivate them to transfer to the formal sector. In both countries ambitions to transfer the informal enterprises to formality were revealed, but no one could talk about their success. Therefore, intentions of the authorities might be insufficient to make changes in the informal sector and its transformation. In Rwanda there are cooperatives which can help in providing resources and facilities, if people meet condition of joining together in forming the enterprises in a formal way. This might seem restricting for individuals, since it is possible to form enterprises outside of informality only when gathering with others, this lowers their autonomy in operating the business. On the other hand, this gives the chance to micro entrepreneurs to form small enterprise in order to formalize their business and make the formalization burden easier to handle.

Interviews discovered the relationship between poverty and unemployment in Senegal. It has been identified that iMEs are the main source for fighting against poverty and the important source of employment. Hence, lack of financial resources together with absence of possibilities for employment stimulates informality. Likewise, in Rwanda survival is the main reason and motivational factor for people in informality what limits them and keeps them constantly involved. Regarding survival, it is worth noticing that the gender inequality was mentioned and linked to it, hence women are the ones that are supposed to feed their children so they can survive, therefore they represent majority among the informal workers. Survival orientation also brings the problem of operating hours into light. If they are operating businesses only to sustain themselves from day to day, it represents the key problem for regulation structures and all regulation policies regarding business sector since their temporary nature defines what products they will be selling at the moment, what can change according to the market needs in the near future what is one of the main characteristics of the street iMEs.

## 5.2. Data collected from the project Productive uses of energy<sup>12</sup>

Due to the usefulness of the data gathered during the Scoping Phase of the Productive Uses of Energy<sup>13</sup> project, four indicators are used to complete the data section for this study purposes. Data on rental

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<sup>12</sup> The project is led by the University of Twente with consortium partners from South Africa, Senegal and Rwanda. It is part of the ENERGIA Gender and Energy Research Programme funded by DFID.

<sup>13</sup> Ibid.

payments and permits were already processed by researchers of the Project, while the data on whether they want to grow their business and the reasons why they have their own enterprise have been processed and analyzed by the researcher of this study. The data yielded by that study provide convincing evidence that there is a remarkable difference between the countries of Rwanda and Senegal when it comes to obtaining permits for working, even though the permit does not imply that the business is formalized. They represent the lowest level of regulation what allows only operating and it is without any social, labor, financial responsibilities or state related incentives. All informal street enterprises, run both by man and woman, are required to have permits in Rwanda. The permit system appears to suggest that the authorities created some way for iSMEs to easy complying with the regulation. In Senegal, situation is different and informal enterprises can work without permits<sup>14</sup>, what is being confirmed with the low level of permit possession in the Table 10.

	Yes	No
<b>Rwanda</b>	76,8%	23,2%
<b>Senegal</b>	24,6%	75,4%

*Table 10: Permit payments*

*Source: Scoping phase report for Productive uses of energy*

Comparable to permit payments, the data appear to suggest that paying rent is the criteria that demonstrated dissimilar results regarding two countries. Paying rent in Rwanda is practiced by majority of informal enterprises examined in the study, while in Senegal that percent is bellow half of the enterprises. This points out how the informal sector in Rwanda is treated differently than in Senegal, showing how there are some guidelines regulating the rent and permits and more importantly that these are followed by informal micro enterprises, which in majority comply with them.

	Yes	No
<b>Rwanda</b>	80,4%	19,6%
<b>Senegal</b>	39,3%	60,7%

*Table 11: Rental payments*

*Source: Scoping phase report for Productive uses of energy*

Profit of street vendors is dependent on the street conditions where they sell products. Moreover, closeness to the customers and flexibility to choose the busiest part of the street are positively related to

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<sup>14</sup> Findings are not published yet, this is taken form the Scoping phase of the project. The research done included 120 informal Micro scale street food enterprises from Rwanda and Senegal.

making profit. It seems that this confirms the data generated by researchers for the study Productive uses of energy<sup>15</sup> how informal merchants favor to be situated nearby a local transport terminal station or next to the entrance of a train station for instance. What's more, position defines opportunity to be seen which consecutively results with the sort of arrangement obtainable or permitted.<sup>16</sup> There is a connection between position on the street, profit and permit system. Mobility of the business is positively related to profit in informality sector, thus informal entrepreneurs tend to observe pedestrian traffics on the street and then chose the location according to the need of the area. This is different comparing to formal enterprises since their main indicator is renting the place with intention to stay for at least some time. However, being always at the same spot can be seen as advantageous both for informal and formal businesses, since customers are often attracted by the image of accessing the same enterprise at the constant place, no matter if that is a stand or the property building. In the case of grouping them, it means that they are concentrated at one place and their selling capacities are affected even more with concurrency, what can be avoided while on the street. It is evident that these and similar factors of different market conditions have not been taken into account when creating that option for informal MEs.

Another essential point rising from the data is the question posed to entrepreneurs concerning their wish and the intention to grow their business. In the survey that micro entrepreneurs had to fill in was a section about entrepreneurialism and the aim was to find out about how ‘‘they come to the idea to run a business and their ideas about the future of their enterprise’’<sup>17</sup>. The first question is straightforward and has the aim of finding out whether they have the objective of growing the business or not. The answers are shown in the Table 12. Hence the answer in Senegal was yes in 100% of the cases answered while in Rwanda only one person answered with no intention to grow the business, the rest either expressed the wish to grow the business or they had no answer or did not know yet. Here, it should be taken into account that these were informal street food entrepreneurs working in micro enterprises. It is significant to note the number of people that did not answer the question in Rwanda while this category in Senegal does not exist. This infers the fact that they are aware of the possibility for expanding, their choice about it and how they consider growing the business as an option. This question does not provide more than just a statement based on personal opinion of the entrepreneur, who was asked without any previous clarification what ‘‘growing the business’’ means for the survey.

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<sup>15</sup> The project is led by the University of Twente with consortium partners from South Africa, Senegal and Rwanda. It is part of the ENERGIA Gender and Energy Research Programme funded by DFID.

<sup>16</sup> Findings are not published yet, this is taken form the Scoping phase for the project. The research done included 120 informal micro scale street food enterprises from Rwanda and Senegal.

<sup>17</sup> Ibid.

	Yes	No	NA	Total
Rwanda	37	1	18	56
Senegal	59	0	0	59

Table 12: Do you want to grow your business?

Source: Scoping phase report for Productive uses of energy

Another question that was analyzed was open end type and it was about reasons behind operating their own business. There were more than twenty reasons given and the explanations were ranging from one word to long sentences thus it was suitable for qualitative analyzing. Nevertheless, among that variety of answers given, some of them included the reasons based on more personal grounds while others had more general statements which can be categorized, such as the state of economy. The answers were coded and essential ones were considered for this study while the most frequent ones are stated hereafter in the Table 13. Roughly thirteen entrepreneurs have told that they could not find a job and that was the reason why they have their own business, while seven of them specified that there is a lack of job offer. These reasons are interrelated with the third given reason of easiness to start the business. This all brings the deduction that points on the valuable role of economic parameters in decision that informal micro entrepreneurs make, and lack of employment is connected with low offer on the labor market, which cannot comprise all the needs.

Reason	Cases
Could not find a job	13
Scarcity of jobs	7
Easy to start	3

Table 13: Reasons why they have their own business, numbers are approximate

Source: Scoping phase report for Productive uses of energy

Then again, this question was not related further with the conditions and it was not explored whether this was their subjective wish with no objective means to be realized. Moreover, the indicators of business growth, such as years of owning the enterprise or expanding the number of employees can indicate if that would be feasible, but the analysis did not include the cross examination of the economic measures for that possibility, only the cognitive perception of the informal entrepreneurs.

### 5.3. Analysis

It is required to mention that for the purposes of this study only the national level of the authority was taken into account, since their structures created the policies on SMEs which are studied here. Nevertheless, the interview contains one question on whether there are differences between the level of authorities and their involvement in the informal sector. However, that question stays unanswered since the informants gave the information that there are no differences, or they are not familiar with them. It may be correct that not all structures of authority act the same, but that is not covered within this research results.

Certainly, it can be said that interactions of actors in the process arena are affected by the dependency among factors. Actors tend to act and react upon one another in such a way that contributes to and induces the level of iSMEs inclusion in the policies. In order to come to answers the CIT was applied in a reverse way, so that presumed policy exclusion can be identified as the outcome of the government and iSMEs interaction in the process arena. Furthermore, observing the wider context can serve in finding the root of actors' characteristics. Geographical location, the regulation infrastructure and deep-rooted informality can give a substantial stimulus as inputs. Input arena seems to be almost predetermining component for actors' attitudes and their appearance.<sup>18</sup> Given these points, it seems evident that interaction between three arenas resembles to interaction between actors in process arena confirming the circle of dependency. Arena metaphor is the best term for the complexity of interactions and relations. As Bressers (2007) wrote "The characteristics of the actors shape the process, but are in turn also influenced by the course and experiences in the process and can therefore gradually change during the process". For this reason, analysis that has been conducted here is seen as a snapshot for the current situation at the moment of analysis, taking into account the fact if one characteristic changes its appearance and capacity the relations explained will also change respectively. Characteristics that shape and have the ability to re-shape the structure are governed by the dynamic structure that is driving interactions.

### 5.4. Conclusion

<b>Characteristics</b>	<b>Government</b>	<b>iSMEs</b>
<b>Motivation</b>	High level	Medium level
<b>Cognitions</b>	High level of awareness	Medium level of awareness

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<sup>18</sup> See figure 2 in Chapter 2.

<b>Resources</b>	Provided	Not enough, lacking
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Table 14: Explanations of actor characteristics from the process arena adapted from the CIT model framework in Rwanda

By using the CIT framework it is possible to divide all factors in three groups, according to the actors' characteristics of motivation, cognitions and resources. Division allows tracking the sources of factors what will be significant for discussion later on. Diversity of factors behind the actors' characteristics is giving the opportunity to conduct explorative analysis according to the degree of their manifestations. A difference can be perceived among factors and one can be distinguished as prevailing and primary which can serve as the starting point for analysis. Poverty plays the leading element which provokes other elements that evolve from it, such as survival, illiteracy and lack of financial capacities. This means that poverty is first among equally presented elements i.e. *primus inter pares*, the only difference is that it influences other elements more than any other factor while survival can be distinguished as the driving factor of the informal street micro business sector. Poverty induces survival, while lack of financial capacities is consequence of poverty and survival elements, while all of them influence the degree of motivations, resources and cognitions.

Subsequently, analyzing governments' devotion shows that there is a certain level of actors' awareness about iSMEs, even though iSMEs are not included in the official document in Rwanda. Not having enough resources might influence the level of motivations and their intention to include them in the policy more satisfactorily. Thus, they recognize the need to support iSMEs by spreading the information about policies and introducing the rental and permit systems. It seems that government understands well the position of iSMEs, what testifies about the high level of awareness. However, in the policy document not enough attention is given comparing to the part of the economy they comprise what gives the impression that the efforts are not recognized officially what affirms iSMEs marginal position in the policy and partial inclusion.

Regardless of acknowledgment shown by the government, due to the survival element informal entrepreneurs are not able to grasp and make use of government's help since often they do not poses any resources or capital, in other words not having with what to start. Therefore, it is difficult to make use of any help that is on their disposal, iMEs do not perceive opportunities as they would if survival element is not present in that remarkable extent. On the other hand, percentage of paying rent and permits is high so it is possible to say that awareness level of iSMEs towards policy and formalization intentions is medium. Motivation for staying in informality is high due to the poverty and lack of resources that they are facing thus the overall motivation for complying with the policy is medium. From all this it follows that there is interaction between two actors, government and iSMEs in process arena. That interaction is influenced by



characteristics related to them, which are acting integrally and interdependently. Even though government is providing help and support for informal enterprises, the difficulty can be that they failed to notice the key element that determines the position of the informal enterprises, and that is their survival.

<b>Characteristics</b>	<b>Government</b>	<b>iSMEs</b>
<b>Motivation</b>	Medium level	Low level
<b>Cognitions</b>	Medium level of awareness	Low level of awareness
<b>Resources</b>	Provided	Not enough, lacking

*Table 15: Explanations of actor characteristics from the process arena adapted from the CIT model framework in Senegal*

In contrast with the SMEs policy in Rwanda, SMEs policy in Senegal contains more information about how to fight informality and treat iSMEs, with several actions and activities proposed. Even though it is evident that iMEs are not in the main focus of the government, much has been done towards their diminishment, giving support and organizing campaigns represent confirmation of government awareness. Despite the fact that iSMEs position has been recognized officially, in practice not much had been done, permit and rental payments are not practiced successfully and actual moving towards formalization has not been noted. All this affirms the medium level of awareness and motivation.

Even though there are resources provided and efforts expressed in creating activities and action plan for iSMEs in the official policy, because of the strong bonds in the informal sector, nevertheless, iSMEs tend to take no notice of intentions and benefits provided for them. Not enough resources provided low levels of complying with rental and permit system stimulates low level of awareness that iSMEs have towards complying with the policy, while survival stands behind the high motivation for operating in informality.

From the analysis of the interviews and the data it is indicated that there is a complexity of government stands and their manifestation. By analyzing SMEs policy in Rwanda it was impossible to get the answer why iSMEs are barely mentioned therefore, the analyses rely mostly on the insights from data. In SMEs development policy, government of Rwanda has only one objective where transition of iSMEs to the formal sector is mentioned, without any further explaining or providing the action plan. Conversely, informants called government stand as encouraging, enlightening how the authorities foster the development of iSMEs by public campaigns through radio and street informing. Then, the data collected for the project Productive uses of energy make known the fact that there is a certain method of regulation called permit system, and that in the case of Rwanda majority of informal micro entrepreneurs comply with it. Hence, owing to the difficulty and dissimilar information obtained for this study, it is not

appropriate to mark the government policy stand towards iSMEs with one term only. By observing the policy, one may believe that government attitude is neglecting and that the degree of exclusion is high, while on the other hand informants and the data suggest that government is showing interest. Then, without a register of total iSMEs it is difficult to state what their exact number is and involve them in policy objectives. That is to say it is delicate to create policy objectives on the assumption of iSMEs coverage in national economies. Missing the complete register also shows direct causation for the partial inclusion of iSMEs in the policy and medium level of exclusion.

In Senegalese SMEs policy out of sixteen specific objectives, one is dedicated to the informal enterprises and it has the aim to relocate them to the formal sector. The policy is not examining whether that has potential to be realized or not. Conversely, informants had described government attitudes as encouraging, illustrating with examples how they foster the development of iSMEs by empowering youth employment and SMEs development. Then again, the data collected for the project Productive uses of energy put forward the fact that there is some kind of regulation called permit system, and that small number of informal micro entrepreneurs complies with it. Hence, due to the complexity and different information obtained for this study, it is difficult to label government policy stand towards iSMEs with one term only. Policy points on the lack of adequate treatment of iSMEs, while the informants stated the supporting position that authorities take and the data for the project brought up the information how in reality permit system is created by the government but unsuccessfully practiced by majority, though iSMEs are not completely left out, there is a medium degree of exclusion.

## Chapter 6: Discussion and Conclusions

The study was set up to explore the concept of informal SMEs exclusion from the SME policies in Rwanda and Senegal and has identified the degree of the exclusion, the nature and form of the main factors that contribute to the exclusion, their diversification and characteristics behind that diversification as well as the overall impact on societies and the economy. The study also sought to know whether there is a difference in the representation of iSMEs between the policies in Rwanda and Senegal. The general literature on this subject and precisely in the setting of Senegal and Rwanda is lacking answers on numerous fundamental questions within the policy discourse. The importance of adequate policy formation for business environment represents crucial element that can foster prosperity and can be beneficial for developing countries considerably. Then, knowing the difference between the reality and policy inspires further identification of policy oversights and omissions and enables stimulus for focusing on correction of that exclusion.

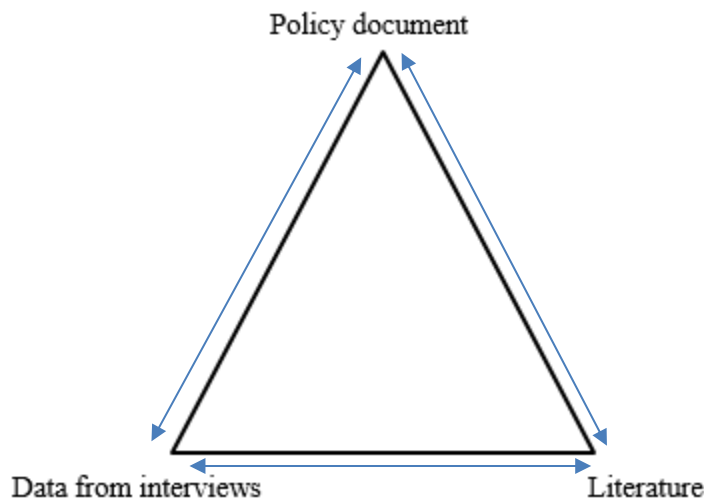
### 6.1. Restatement of the research question

The main empirical results were analyzed and distributed within particular chapter and subchapters, namely: *Chapter 5 Data and Analysis*. Hereafter a look back will be given to the empirical findings with the aim of answering the research question of this study:

*What are the factors that contribute to the exclusion of the iSMEs, particularly informal Micro Enterprises (iME), from the SMEs policies in Rwanda and Senegal?*

With this question the study strived to expand the existing perspective on exclusion of iSMEs' in general and especially iMEs, to identify factors contributing to iSMEs exclusion from SMEs policies, to give insights from the policy angle and to offer policy implications. In doing so, the CIT framework has been used first as a starting position when identifying the imbalance and second, in organization of findings. Data gathered were from two SMEs policies, interviews and data from the project Productive uses of energy. Four participants were chosen according to availability, responsiveness and their involvement in the business sector. It was not possible to find someone from the informal street MEs sector from the place so distant to the area of the research, thus chosen key informants were mostly persons working in MEs sector in Rwanda and Senegal. Yet, data used from the project Productive uses of energy are collected from the field and from the informal street Micro entrepreneurs.

## 6.2. Discussion



*Figure 5: Research process*

Literature review gave information about the current state of specific contexts' marked by deep-rooted informality, geographical location and regulatory infrastructure. This was labeled as input arena that leads actors in their behaving, what has significant impact on the policy outcome.

In order to come to the deduction whether there is policy exclusion and to what extent, it was necessary to investigate the factors that contribute to the exclusion and drive the actors in process arena. Hence, data gathered from the research process were used in the attempt to tackle that. It can be said that governments in both countries pay attention for iSMEs, but iSMEs are not in the main focus of the government policies on SMEs. Also, their stand can be described as combination of the wish to eliminate and support informal enterprises and that is illustrated with the data gathered as well as supported by the literature assessment. In both countries there are stimulating activities for transferring informal enterprises to formal sector. Though, measures that governments take for shutting them down or transferring them are not too harsh for informal enterprises, thus they keep operating the business. Taking into account the percentage that iSMEs comprise in the national economy, governments consider them less than they should be considered. Then again, situation differs in Rwanda comparing with Senegal; Rwanda has permit system which majority of iSMEs are obeying to.

In pursuing the factors that are contributing to the treatment of informal enterprises, this study has shown that there are numerous factors contributing to the phenomenon. The literature review show no consensus on the set of definite factors that can cause the exclusion of informal enterprises neither tells about the underrepresentation of iSMEs. That lack of consensus has been confirmed with interview results and

secondary desk research. Nevertheless, research revealed that iSMEs are treated differently by the government in the policies comparing to the practice as well as that some of the factors are present with stronger intensity than the others.

#### *How survival and lack of financial resources contribute to the treatment of iSMEs in SMEs policies*

Here, out of big importance would be to state the survival factor. As introduction to this point, it may be convincingly argued that survival colors and induces the level of motivation of entrepreneurs and acts as the main barrier for government in regulating the informal micro business sector mostly due to its dynamic and instantaneous nature. The power of this factor is expressed throughout process arena, since it acts as driving element for the lack of resources since day-to-day existence has priority on resources. Survival was mentioned as the first and foremost term from all informants while describing all of the characteristics and as the main stimulant for high level of motivation of the street iMEs. Research seems to validate the view of Berner's (2012) study on the difference between informal enterprises depending on future intentions they have towards their businesses. In approaching informal enterprises and in designing regulation documents for them it is vital to observe whether enterprise is oriented to growth and stability or it is there without any further plans for future, besides pure survival of the individualist-entrepreneur. That orientation can influence the level of motivation that iMEs have for transfer from informal to formal. Their survivalist nature makes it difficult for government sector to catch the variety in their duration as well as their intentions towards operating the business. Despite this, analysis from the data gathered with the project Productive uses of energy exposed the fact that almost all of the interviewed informal entrepreneurs had wish to grow their business.<sup>19</sup>

Level of financial resources that government is providing is low and not sufficient, thus this acts as powerful stimulant for iSMEs to stay in informality. Current research seems to confirm the view that was expressed in Fjose's (2010) findings regarding insufficient financial means, as the second main factor for iSMEs existence accompanied with instant decisions took by street informal entrepreneurs for setting up businesses. Lack of regard towards iSMEs in the policies on SMEs is also caused by the lack of financial capacities and capabilities to provide iSMEs with the sufficient financial assets. On the other hand, iSMEs transfer to formality is burdened by the lack of resources they need due to the survivalist orientation.

#### *Informality as a manner of life for those involved in the informal sector enterprises*

Besides employment, the informal sector can be seen as manner of life since it is a source of wide-ranging opportunities, continuum that offers benefits for all spheres of life, enabling and encouraging their

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<sup>19</sup> See table 12 in Chapter 5.2.

connection. This acts like another factor that affects the low motivation of iSMEs to respond to the policy and to comply with it and high motivation to stay in informality, while for government this serves as the factor that lowers the level of motivation for iSMEs inclusion in the policies.

#### *Difference in treatment among iSMEs*

Undeniably, the findings endorse the conception of Fjose et al (2010) that government is disregarding enterprises larger than micro scale ones since the data collected represent micro and not small and medium enterprises. In light of the evidence from the interviews, it has been noted that interviewees were referring mainly to micro scale enterprises when asked about iSMEs, this implies that their understanding of informal enterprises is narrowed to micro scale only. However, this clearly implies that their idea of iSMEs is iME located on the street. Then, the finding that was quite unexpected is the link between the differentiation that governments are making between small and micro on the one side and large enterprises on the other and the concepts that informants had on iSMEs. The significance of this finding is noticeably in consonance with Benjamin's (2012) observations that governments are treating small and micro differently than the large informal enterprises, allowing the existence of the later ones. This affects the conceptualization that people make for iSMEs, this can explain the fact that informants opinioned about micro scale enterprises. On the one hand this was the biggest challenge identified for this study, but on the other hand it served as important insight for future research, the influence that government has in forming the concepts people have for informal enterprises.

Besides that, results are in good agreement with Benjamin's (2012) study on the interest that government is showing in offering many ways to pay taxes, while there is still low level of complying with paying taxes. That is illustrated by the level of awareness that governments have for iSMEs. Without a doubt, outcomes indicate that there is no policy that would fit all formal and informal businesses, although government as legislative actor has the advantage of deciding as one group on policy, while informal entrepreneurs are numerous and they need to adapt or decide individually whether to obey to the measures or not.

Multiplicity of factors manifested from the research connects with literature in the way that builds on diversity and the complexity of factors. Apart from that, research on SMEs policies has shown that governments of Rwanda and Senegal are treating informal SMEs differently. Hence, government of Rwanda is paying less attention to iSMEs than government of Senegal<sup>20</sup>. However, different degree of iSMEs inclusion in the policies is not in correspondence with the situation in reality. In practice, there are more actions towards treatment of iSMEs than that is possible to perceive from the observation of the

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<sup>20</sup> See Chapter 4.2.

SMEs policies. Some of the speculations expressed in studies of Rukundo (2015), Ernst&Young (2009) and Benjamin (2012) on government attitudes and the complexity of regulation structures were confirmed. Nevertheless, informants from both countries gave opinions contrary to the position that can be deduced from observing the SMEs policies, describing government stance as encouraging and supporting their opinion with the examples of government actions. On top of everything even though informal enterprises seem to be more regulated in Senegal, data on paying rent and having permits showed that the actual situation is other way around. In Rwanda 80% of the street food iMEs have permits and 60% is paying rent, while in Senegal 25% have permit and 39% pay the rent.<sup>21</sup> A closer look at this data points out that government might not have high motivations and resources to include informal enterprises as fully formalized enterprises equal to SMEs, but there are intentions from the government to regulate them in the modified way, such as the permit system. This can be described as quasi-formalization, since iMEs are still staying in informality, but a step towards their transfer is being made and testifies about the high level of awareness that government in Rwanda poses while in Senegal awareness is on the lower level than in Rwanda. By introducing the permit system there is a clear intention shown for moving towards full formalization since informal sector cannot be developed instantaneously but with the timely actions.

On the whole, it has been reaffirmed that two actors in the process arena are inducing each other's actions and engagements in interaction. Taking into account the extent in which iSMEs are present in the economy and societies, there is no adequate treatment in the policies on SMEs. By using the CIT, actors' characteristics in process arena are perceived and conceptualized and it can be seen what are the main elements triggering the treatment of policies. And the most forcible ones are stated as factors of survival, lack of financial resources as well as creation of lifestyle in and from informality for the people involved, what all comes from the specific context and setting of the countries.

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<sup>21</sup> See Chapter 3.2.2.

### 6.3. Conclusions

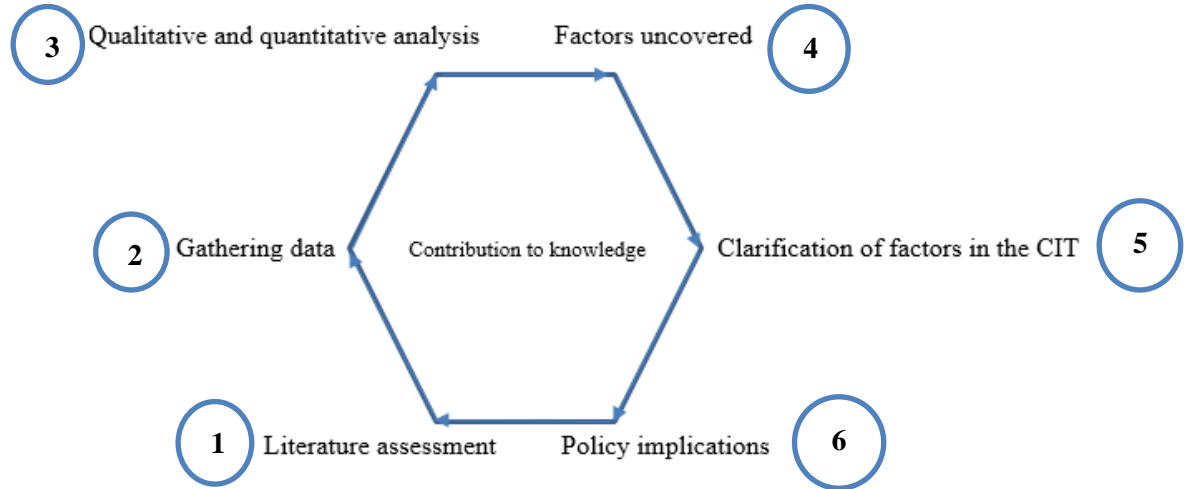


Figure 6: Synthesis of the work

As presented in the Figure 6, study first started with the literature assessment, what brought into light the imbalance of iSMEs representation in the policies on SMEs. Then, in gathering data various ways to bridge qualitative and quantitative methods of analysis were used in order to understand the lack of attention for iSMEs in the policies on SMEs. The analysis revealed that policies do not state all the actions that governments do in order to meliorate the position of iSMEs. What's more, in Senegal it has been noted that there is a medium level of iSMEs exclusion since there is more regard given in the policies than in practice. On the other hand, in Rwanda there is high level of exclusion in the policies, but in reality more actions are being taken. These contradictories are implying that iSMEs are recognized by the governments, but in official policy documents on SMEs not enough attention is devoted towards them, considering that in Rwanda 65% and in Senegal 76% of total SMEs are informal SMEs. In that process the three main factors that contribute to the levels of motivation, cognitions and resources of iSMEs and government have been identified. The clarification of factors gave rise to the observations and policy implications for further investigation and by linking its findings to previous understandings contributed to the general body of knowledge. The necessity for pursuing further investigation of the identified imbalance between the actual number of iSMEs and the extent in which they are represented in SMEs policies has been confirmed. This study has fostered the debate on the importance of the informal sector, informal enterprises, especially micro scale enterprises and policies created for them. By all means, the impact of the results is going beyond the research context in which they were produced insinuating that the connection between the factors of exclusion and regulation structures are shaped by



phenomenon such as informality as a manner of life, which further contributes to the general stratification in the society. Another observation worth mentioning is concerning the way that SMEs policies are communicated and transmitted to the public, including informal street entrepreneurs, and that is by public campaigns on the policies transmitted through the radio. That offers a new perspective on the role of mass media as the link between entrepreneurs and the government. It is likely that this can be seen as the consequence of wider technological and cultural context, as well as the specific context of instruments for implementation of the policies. This demonstrated the deepness of the area covered with the research question and its heterogeneity.

According to the available knowledge, this is the first study to deal with iSMEs exclusion from the policies on SMEs in Rwanda and Senegal and as such it offers an overview of the situation and a screenshot of the phenomenon. Even though the research time frame was insufficient to draw any firm conclusions about the exact level of exclusion apart from identifying it on the level from low to high. The results provide confirmatory evidence that it is possible to state that informal enterprises receive some attention, the research was not sufficient. Hence, more research into the area of SMEs policies and informal enterprises is still necessary.

#### 6.3.1. Evaluations and limitations of the study:

- Research was limited by time and resources, since it was difficult to get information from the place so remote from the subject of investigation. Project was delivered without funding and therefore with limited access and usage of resources such as field research and the list of possible contacts for the interview.
- Re-interviewing was not done since the study was limited by time.
- More interviews would be conducted if there were more positive reactions for cooperation.
- Differentiation between levels of government and their involvement was not made.
- There was insufficient information available about the current state of SMEs policies.
- Multidisciplinary nature of the research enabled only an overview of the identified imbalance at the moment in time, thus the phenomenon was not studied over time.

#### 6.3.2. Theoretical implications

This study was using the Contextual Interaction Theory framework adapted in a way to satisfy purposes of the study in the best manner.<sup>22</sup> The CIT framework is dynamic structure tailed for interaction process

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<sup>22</sup> See Figure 1 in Chapter 2.

that includes two actors.<sup>23</sup> This model gave the opportunity to study two actors, the government and iMEs inside of iSMEs, while examining their characteristics individually and afterwards jointly. The CIT is applied only for the specific context and process while the output arena has been added to the original theory. Adding one arena was crucial since the study tried to explain the outcome of process and input arena. Adding third arena has enriched the study in a way that it gave the full picture of policy exclusion by connecting contexts and giving the balance to the input section.

#### 6.4. Policy recommendations

The study's main goal was to reveal the extent in which iSMEs are represented in the SMEs policies in Rwanda and Senegal and to state whether there is policy exclusion. It is useful to offer recommendations based on the experience regarding severe shortcomings that were identified through this research process. Policy recommendations are divided in general and specific implications what makes it easier to grasp and make use of, and in alignment with study aims they are related to the national level of government. General implications are created regarding the regulation system while specific ones are designed regarding SMEs policies.

General	Specific
Increase efficiency of public institutions	Incorporation of informal MEs in formal structures and creating new place in the system for iSMEs through policy objectives, actions and activities
Increase conditions for employment in formal sector	Modification of existent SMEs policies and objectives
Strengthen and expand the capacity of government resources towards iMEs	Educate and train inspectors for the informal businesses to be impartial and unbiased
Reform the monitoring system for taxes regulations and permit system	Connecting policy objectives with reality
More involvement from scientific community in analyzing all scales of enterprises giving them adequate attention	Set up agency for iSMEs that will create register with total number of informal micro and larger enterprises

*Table 16: General and specific policy recommendations*

<sup>23</sup> See Figure 2 in Chapter 2.

## 6.5. Suggestions for further research

This study tried to give answer for the phenomenon of policy exclusion of informal MEs inside of iSMEs in two developing countries of Rwanda and Senegal. The study revealed that even though phenomenon does exist in both countries in the same form of exclusion, it has different degree. The study can give implications for further research:

- Research was conducted referring to the national level of authorities, leaving the space and inspiration to explore regional and local levels of government as well as the treatment that iSMEs receive from different levels of authorities other than government.
- Research was concerning informal Micro Enterprises as part of the Micro, Small and Medium Enterprises and due to the differentiation that can be made between SMEs, each of them can be studied more and in depth separately.
- Above all, the CIT model framework can be applied entirely with analyzing wider and structural context portraying more broad and comprehensive picture.
- Research had aim to find factors that are causing the phenomenon but excluding the implementation of SMEs policies and their evaluation, what can be inspirational for further studies.
- Analysis can be conducted with the aim to explore the intentions of informal street entrepreneurs who are operating businesses, and distinguish types of intentions and link them with types of businesses that are there.
- Analysis of the changing market needs as an impact on duration of street iMEs.
- Research brought new insight about how informal businesses affect and straighten the social class division, what can be studied more and in greater extent.
- The link between people's perceptions of informal businesses and government's actions concerning iSMEs can be analyzed further.

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## Appendix A

*-13 questions in total-*

'Facesheet' information of a general kind for each interviewee (name, age, gender) and a specific kind (position in company, number of years employed, number of years involved in a certain field of expertise). To be determined with each interviewee beforehand whether he/she agrees on her/his name to be published, initials or they opt to stay under anonymity.

1. Could you describe the informal sector in Rwanda/Senegal according to:
  - a) Gender segregation
  - b) Existing regulatory system
  - c) Are there differences in involvement depending on the level of government
2. Could you say what the current status of iSMEs is in the regulatory framework of Rwanda/Senegal?
3. Could you say what
  - a) Motivates iSMEs to keep operating in informality?
  - b) Discourage iSMEs to move from informality?
4. Could you say to what extent informal business sector is aware about policies on SMEs?
5. Could you describe the government attitude towards policies on SMEs? (Encouraging/discouraging)
6. Could you think of any public campaigns for the promotion of SME policies run by the government? (Such as video promotions, flyers, pamphlets etc.) If yes, are they successful? What are the impacts of these?
7. Do you think there is a public demand for informal enterprises? If yes, what are the most popular enterprises?
8. Is there a public demand for informal food sector enterprises?  
  
(Literature indicates that there are corrupt practices operating in the informal sector) hence, in your opinion,
9. How do corrupt practices, if any, influence the operation of informal enterprises?
10. What could be the impacts of corrupt practices on the implementation of SME policies?

11. Could you say to what extent is possible for iSMEs to access the services that government provides?  
(Such as financial support and information)

Lastly, in your opinion and based on your experience,

12. What are the factors that contribute to the exclusion of the iSMEs from the policies on SMEs in Rwanda and Senegal?

*In case interviewee is the person working in the government sector:*

13. What are the reasons for not including the informal SMEs in the policies on SMEs?

# Appendix B

<p>OS3 : Développer et offrir des produits pour faciliter la migration des entreprises du secteur informel (l'économie informelle) au secteur formel</p>	<p>A32 : Vulgariser la loi d'orientation auprès des organisations patronales et consulaires, des associations, des collectivités locales, des centres de formations, des régions, des universités et des écoles, etc. en vue d'augmenter la transparence sur les avantages de la formalisation des PME</p> <p>A33 : Renforcer les capacités des OPC pour mieux guider leurs membres vers la formalisation</p>	<p>Information des PME sur les nouveaux outils qui leur sont destinés</p>	<p>Développer et produire des outils pour la vulgarisation</p> <p>Organiser des campagnes de vulgarisations ciblées dans tout le Sénégal</p> <p>Former les représentants des organisations patronales et consulaires, les collectivités locales ainsi que des écoles et universités pour faire la vulgarisation continue</p> <p>Impulser la mise en place de formation initiale dans les domaines d'activités des PME</p>	<p>Ministère en charge des PME, Organisations patronales, ONPP ADEPME</p>	<p>Nombre de PME sensibilisées</p>	<p>Taux de participation aux ateliers de formation, enquêtes sondages</p>
<p>Objectifs spécifiques</p> <p>OS3 : Développer et offrir des produits pour faciliter la migration des entreprises du secteur informel (l'économie informelle) au secteur formel</p>	<p>Actions</p> <p>A34 : Renforcer les capacités des organisations d'appui et des collectivités locales dans la mise en place de guichets d'informations et de formalités décentralisées dans toutes les régions</p> <p>A35 : Sensibiliser les agents des impôts à l'incitation des PME informelles à se formaliser</p> <p>A36 : Renforcer les Centres de Gestion Agréés</p>	<p>Résultats</p> <p>Accès des PME aux mêmes services quelque soit leur localisation</p> <p>Redynamisation de l'activité économique locale et augmenter l'assiette fiscale des collectivités locales</p> <p>Création des conditions d'accompagnement de la migration de l'informel vers le formel</p>	<p>Activités</p> <p>Développer le guichet d'informations et des formalités en étroite coopération avec des centres de formalisations et des collectivités locales</p> <p>Appuyer des organisations ayant un intérêt dans l'implantation de guichets d'information et de formalités</p> <p>Développer des modules de sensibilisation des responsables et des agents d'impôts pour inciter entreprises informelles à se formaliser</p> <p>Former les responsables et des agents d'impôts dans les modules pour l'accompagnement des entreprises avec volonté de se formaliser</p> <p>Mettre en œuvre le plan de relance des Centres de Gestion Agréés</p>	<p>Maître d'œuvre/parties prenantes</p> <p>Ministère en charge des PME/MDCL/collectivités locales/ structures d'appui / OP/ PROMER/ARD/ CADL (centre d'appui au développement Local, projets, programmes) ADEPME</p> <p>Ministère en charge des PME/MDCL/collectivités locales/ structures d'appui / OP/ PROMER/ARD/ CADL/Chambre des Métiers/ les projets et programmes (PROMER, CNSF/OP, SITEC SAFIR)</p> <p>Ministère en charge des PME/CEPOD/MDCL/collectivités locales/ structures d'appui / OP/ PROMER/ARD/ CADL/Chambre des Métiers/</p>	<p>Indicateurs</p> <p>Nombre de guichets d'information opérationnels</p> <p>Le taux d'accroissement de PME formalisées</p> <p>Nombre de CGA opérationnel</p>	<p>Sources et moyens de vérification</p> <p>Taux de fréquentation des guichets d'informations ; Cartes d'artisan</p> <p>Statistiques</p> <p>Statistiques Rapports d'activité</p>