



International
Labour
Organization

Can formalization of businesses improve business performance and socio-economic situation of ESAF clients?

Evangelical Social Action Forum (ESAF):

An impact evaluation of ESAF (India)'s innovation

Awareness raising campaign and BDS for the formalisation and strengthening of growth-oriented enterprises

2012

Innovative Finance for Social Justice



The informal economy - Key issues

- ✓ Represents from 35 to 90 per cent of total employment, in developing countries particularly
- ✓ Reflects very diverse realities of wage and self employment worldwide, from informal contracts, to precarious employment and undeclared work
- ✓ For individual businesses and/or micro and small enterprises, informality is a drag hindering growth, productivity and access to mainstream resources



The ILO and informal economy

The ultimate goal set by the representatives of the governments, workers and employers is to “move out of informality”

2002: Adoption of the Resolution on Decent Work and the Informal Economy by the International Labour Conference (ILC).

A number of ILC Resolutions have made specific recommendations with respect to the informal economy, such as

- ✓ the promotion of sustainable enterprises (2007),
- ✓ rural employment for poverty reduction (2008),
- ✓ skills development (2008),
- ✓ gender equality (2009)



INNOVATION & RESEARCH METHODOLOGY



Microfinance for Decent Work (MF4DW) in a Nutshell...

- ✓ Action Research Programme
- ✓ Timeframe: 2008-12
- ✓ 16 partner-MFIs worldwide

GOAL:

To measure the impact of decent work innovations on the welfare of microfinance clients



MF4DW: Experimental Research Design

“...is used for the controlled testing of causal processes.”

- **Target groups and Control Group**
 - Only target group(s) have access to the innovation.
- **Client selection**
(random sample / stratification / matching)
- **Panel Data Sets**
 - Baseline survey before implementation of innovation
 - One to four follow-up surveys



Informal economy among ESAF clients

Key Results from the Diagnostic Survey (2008):

- **85% of the self-employed clients do not have any kind of registration for their activity;**
- **69% of the self-employed do not conduct bookkeeping - even basic such as maintaining an income and expenditure book. This rate is even higher when disaggregating by registration status (74% of clients with unregistered businesses do not keep records);**
- **88% of self-employed clients do not pay taxes;**
- **When they had employees (only 41 clients in the group), only 24% of them provided their staff with some kind of social benefits, usually paid on the basis of ad-hoc and informal arrangements.**



ESAF's Innovation on formalization

ESAF's Innovation targeting "ready-to-grow" clients:

- 1) Awareness raising campaigns on the registration and formalisation processes
- 2) Targeted Business Development Services (BDS) through Business Development Officers.

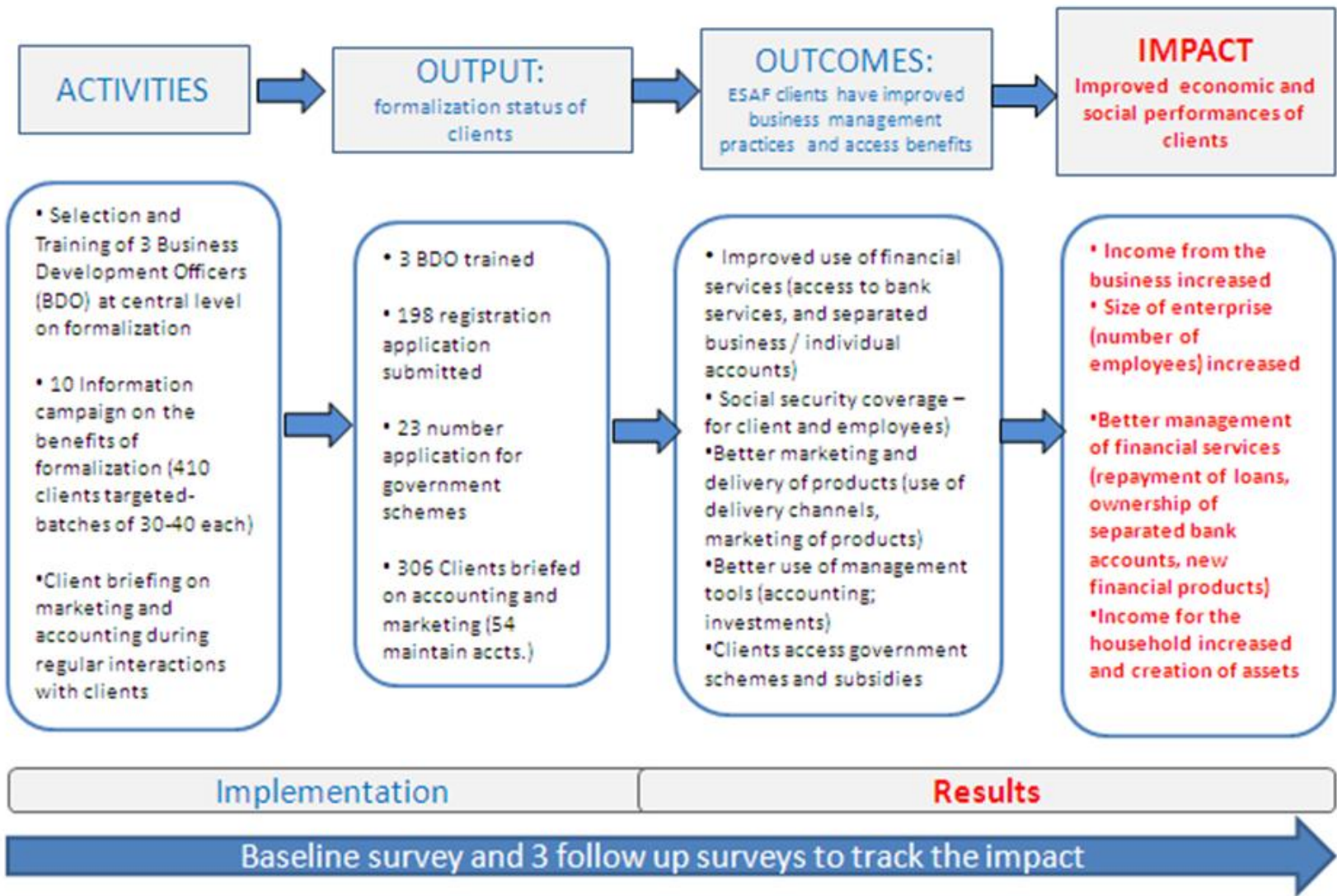
ESAF's Assumption:

Formalisation seen as a key opportunity for the growth of enterprises as it should:

- ✓ allow enterprises to access a broader range of financial and non-financial services and
- ✓ penetrate into a larger market network.



ESAF's Innovation Results Chain



ESAF's Research Methodology

1. Baseline Survey

→ The research department in ESAF conduct the baseline survey with 670 clients (340 clients from target branches and 330 from control branches) between April and May 2010

2. Provision of formalisation support services with the support from newly recruited Business Development Officers (BDOs)

- Branch and Field Officers Introduction programme
- Orientation and Sensitisation programme for clients through group training in each of the three states of implementation of the innovation (Vadanapilly, Valapad and Perinjanam branches in Kerala, Coimbatore in Nadu and Nagpur in Maharashtra).
- Individual client visits to reiterate the message on the benefits of getting formalised.

4. Follow-up Surveys

→ Three follow-up surveys in total, one every 6 months.



FINDINGS & RESULTS



Results: Formalisation

- Awareness about formalisation was increased by 93 per cent
- Formalisation itself increased by roughly 70 per cent
- Ownership of bank accounts increased but impact insignificant
- No impact on firm insurance
- Awareness about government support schemes was affected positively
- No increase in usage of government support schemes



Results: Clients' Enterprise and Market Linkages

- No impact on annual turnover nor on investments in machinery
- Significant impact on highest turnover bracket
- Significant negative impact on employment: share of firms that have employees decreased significantly however, among those that hire, the number of employees was not affected.
- Management practices as captured by maintaining books of accounts improved significantly by 15 percent
- Access to electricity improved but not significantly
- Positive significant impact on demand and on advertisement activities



Results: on Socio-Economic Characteristics

- Negative impact on monthly household income: control group sees larger shift from lowest to next income group.
- Positive impact on Indicator “household enterprise is main income source”, i.e. improved perception of importance of enterprise for household
- Positive impact on remittances as most important income



Results: Clients' Loan Size and Repayment Capacity

Based on the econometric impact assessment:

- Mixed impact on size of last loan
- No impact on repayment difficulties



Conclusions:

- There is clear difference for certain outcomes between target and control groups, in particular, related to the formalisation status, business practices
 - More limited results relate to the longer term impact, such as improvement of the social outcomes for the clients.
- It is reasonable to attribute the impact on formalisation to the awareness raising activities and business development services piloted through the innovation**



Recommendations from the ILO:

1. Deepen further its knowledge about the key indicators that differentiate growth oriented clients from clients that do not have this potential, to be able to provide differentiated services depending on respective needs.
2. Continue the practice and expand the function of Business Development Officers
3. Share the results of the project with relevant authorities, with evidence of the lengthy processes in accessing benefits for small entrepreneurs.
4. Continue to track progress in improving well-being of clients, as part of its social performance agenda.
5. Share tools, methodologies, and findings from the action research through national and international networks of microfinance institutions in order to encourage similar work in promoting formalisation and the campaign for Decent Work around the world



Concrete actions by ESAF post the MFDW project.

1. Formation of a separate Department to support livelihood activities which includes formalisation.
2. Improved higher loan support to enhance the microbusiness.
3. Included registration of the business as one of the primary indicators to track change among micro-entrepreneur clients.
4. Sector wise need specific handholding support to the entrepreneurs.
5. Development of exclusion list of livelihoods that may cause harm to environment and which will not be financed.

