



Benin: Impact Evaluation of the Entrepreneur Status

Benin, along with 16 other OHADA countries in Africa, revised its commercial laws to introduce a new status called Entrepreneur. This status is designed for micro and small businesses, and registering with this new status is easy, free of charge and takes only one business day.

Using a randomized experiment, the research team shows that enhancing the benefits of formalization through personalized assistance induces more firms to formalize. However, formalization appears to offer limited benefits to the firms, and the costs of assistance are high, suggesting that such enhanced formalization efforts are unlikely to be cost effective.

Context

The informal sector is predominant across Sub-Saharan Africa. In Benin, informality is particularly high: in 2009, the national statistics agency estimated that the informal sector represented up to 70 percent of the GDP and 95 percent of employment (INSAE, 2009).

Informality has important implications for government and firms - governments may face difficulties collecting taxes to finance public services, informal firms may not be able to access bank financing, public contracts and government programs and may face more corruption or intimidation from the authorities, and formal firms may suffer from unfair competition by the informal sector and from higher taxes if all the tax burden is supported by the formal sector.

Intervention

In an effort to promote formalization across the region, the Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA)—with support from the World Bank



Group—has revised its General Commercial Law to introduce the entrepreneur status. The entrepreneur status is a simplified legal regime specifically designed for small entrepreneurs to facilitate the migration of informal businesses into the formal sector.

While the law applies to all 17 member countries, each country can define its own set of incentives to encourage informal firms to adopt the new status. In April 2014, the Government of Benin launched the pilot phase of the entrepreneur status, a simplified and free legal regime offered to small informal businesses to enter the formal economy. Experts from the World Bank and IFC, are carrying out a multi-year randomized impact evaluation testing three different versions of the entrepreneur status.

Evaluation Design

For the study, 3,600 informal businesses were randomly allocated between three treatment groups and one control group. The following three packages of incentives are being tested:

Treatment group 1 (300 firms): received an in-person visit explaining the benefits of formalizing, and help with registering if needed.

Treatment group 2 (900 firms): received the in-person visit, and also facilitated access to government training programs, and support to open a business bank account designed for the entrepreneur.

Treatment group 3 (1200 firms): in addition to the services provided to groups 1 and 2, was also offered support in dealing with the tax authorities including tax mediation services.

Policy Relevance

Upon completion of the impact evaluation, the package of incentives that result in the highest number of business formalizations will be scaled up and adopted by the government as the official entrepreneur status. New insights gained from the project will also inform the shaping of the entrepreneur status in other OHADA member countries. The study will also explore whether the granting of the entrepreneur status is more effective for women entrepreneurs, thus contributing to women's empowerment, and inclusive growth.

Results

While few informal firms registered for this new status after the legal status was launched, the interventions were successful in getting more informal firms to become formal. Personalized visits to firms coupled with an explanation of benefits and assistance filling out forms induced 9.6 percent of informal firms to formalize, and adding supplementary services in the form of access to business training, bank accounts, and tax mediation services increased this to 16.3 percent. Overall, the majority of businesses that formalized as a result of the program did it relatively soon after the first visit.

However, such efforts are costly. Firms that formalize do not appear to benefit much from this status in the first two years afterwards. They access more business training and pay lower taxes due to a tax exemption, but are not more likely to have business bank accounts, gain new customers, have higher profits or sales, or hire additional

workers. As such, it appears that the costs of the program are large relative to the benefits for firms.

Materials

[Methodology Note](#)

[Baseline Report](#)

[Midline Questionnaire](#)

[Protocols](#)

[Midline Report](#)

[Qualitative Methods](#)

[Midline Technical Working Paper](#)

[End-line Technical Working Paper](#)

[Survey instruments, survey data, and replication files](#)

[Journal Publication](#)

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Research Funding Partners

Benin Investment Climate project

Competitiveness and Integrated Growth Opportunity project

[Competitiveness Policy Evaluation Lab](#)

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[Impact Evaluation to Development Impact \(i2i\)](#)

[The Private Enterprise Development in Low-Income Countries \(PEDL\)](#)