

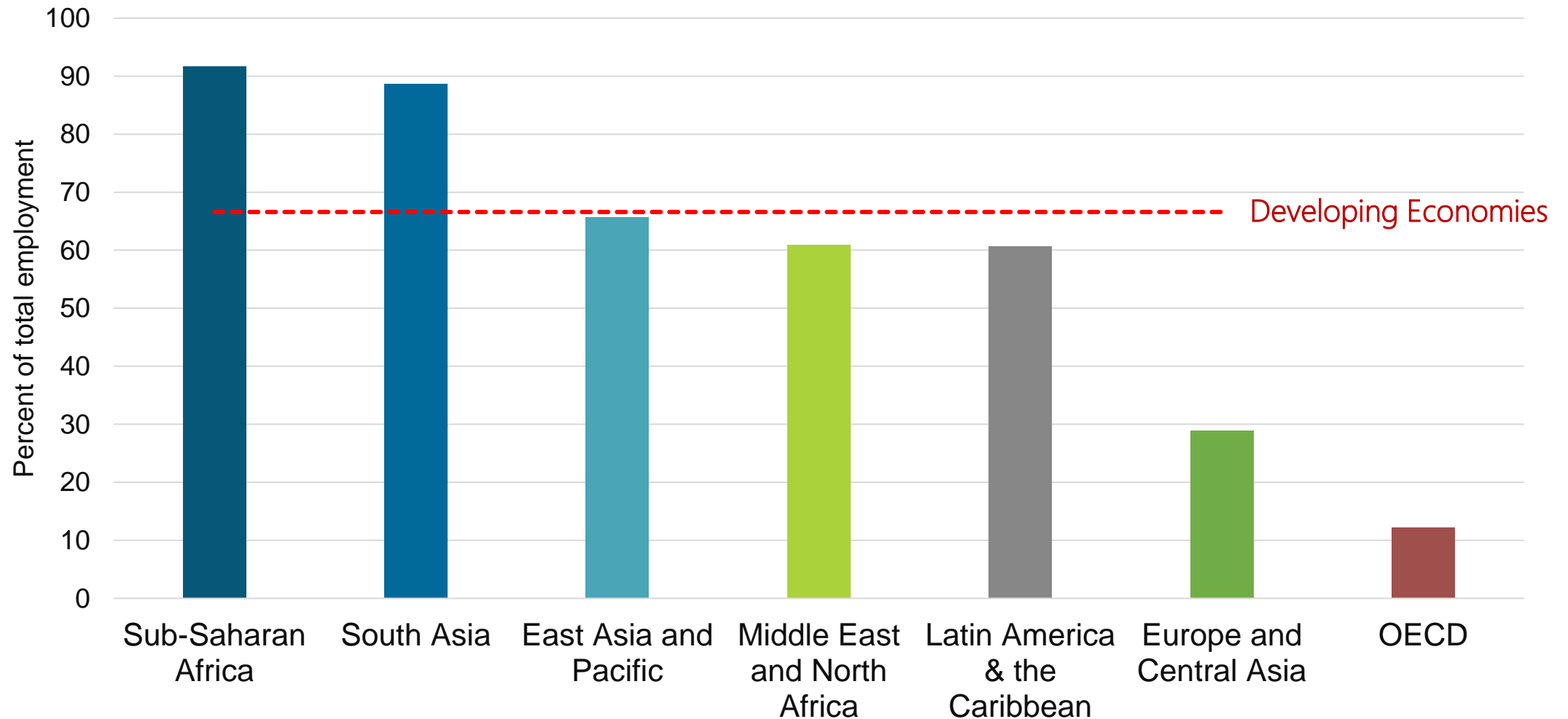
# Formalization: Digitalization Can Empower But Not Replace a Better Business Environment

March 6, 2024

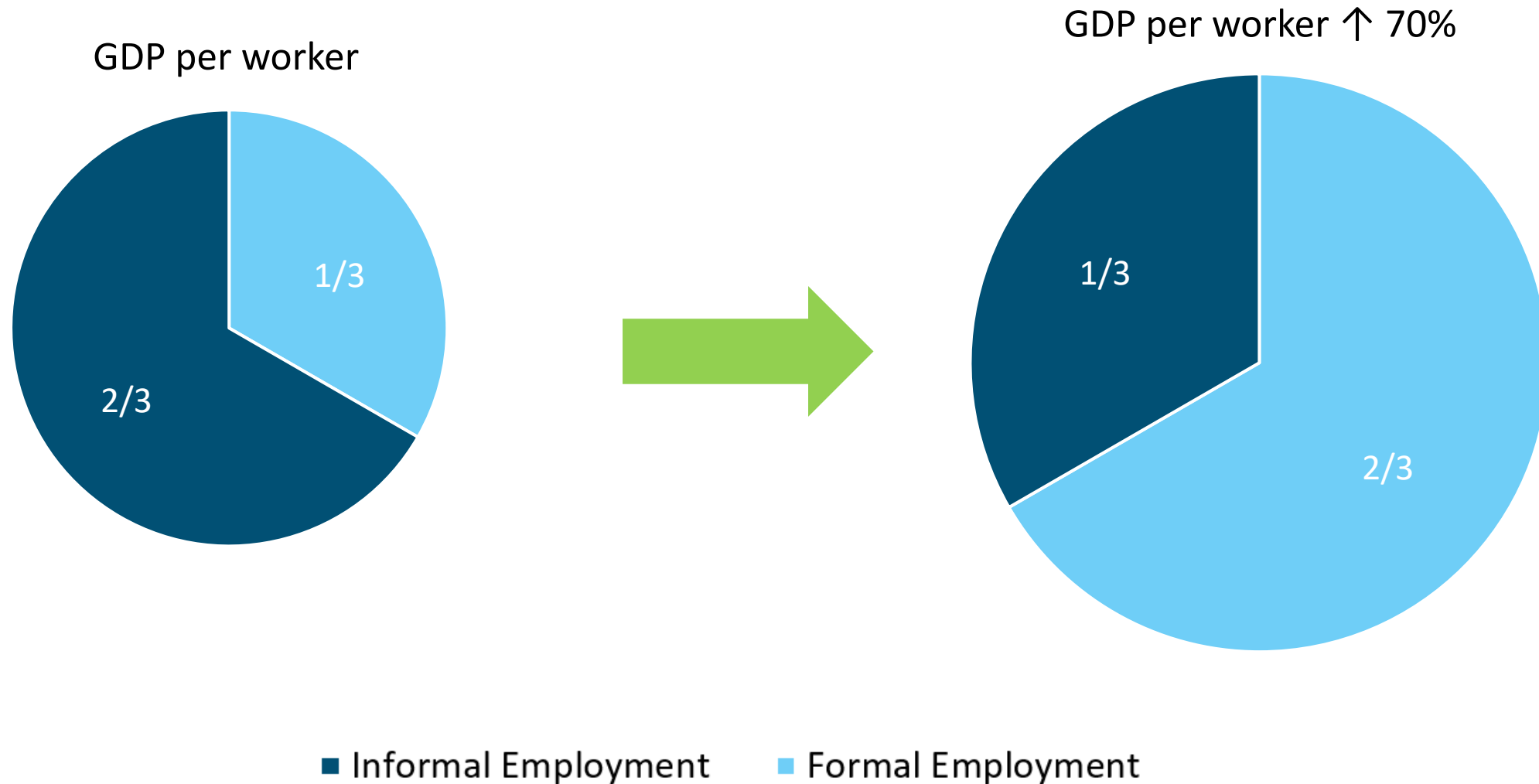
Norman Loayza, Director  
Development Economics Global Indicators Group



# Informality is Widespread in Developing Economies and One of Their Most Formidable Challenges



# The Substantial Economic Gains of Formalization



# The Main Conclusion on Addressing Informality:



# Digitalization Can Help Make Formality Attractive



01

Providing  
Information



02

Reducing  
Transaction Costs



03


Promoting  
Transparent and  
Fair Competition



04

Facilitating  
Enforcement on  
Both Formal and  
Informal Enterprises


# But Digitalization is Effective only when the Business Environment is Favorable



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**Business Entry**


Online One-Stop Shop



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**Taxation**

Digital Tax Portal



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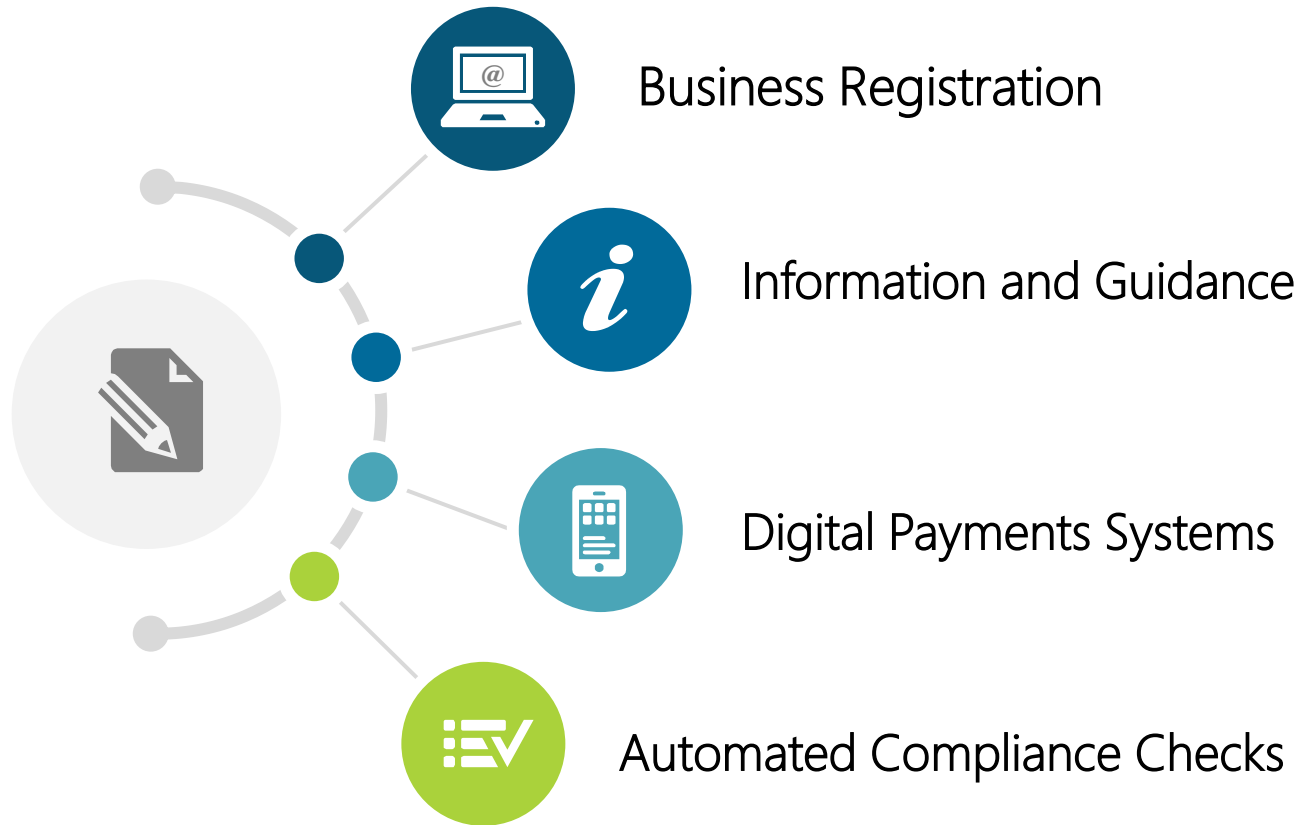
**Dispute Resolution**

E-Court

Digitalization cannot operate miracles

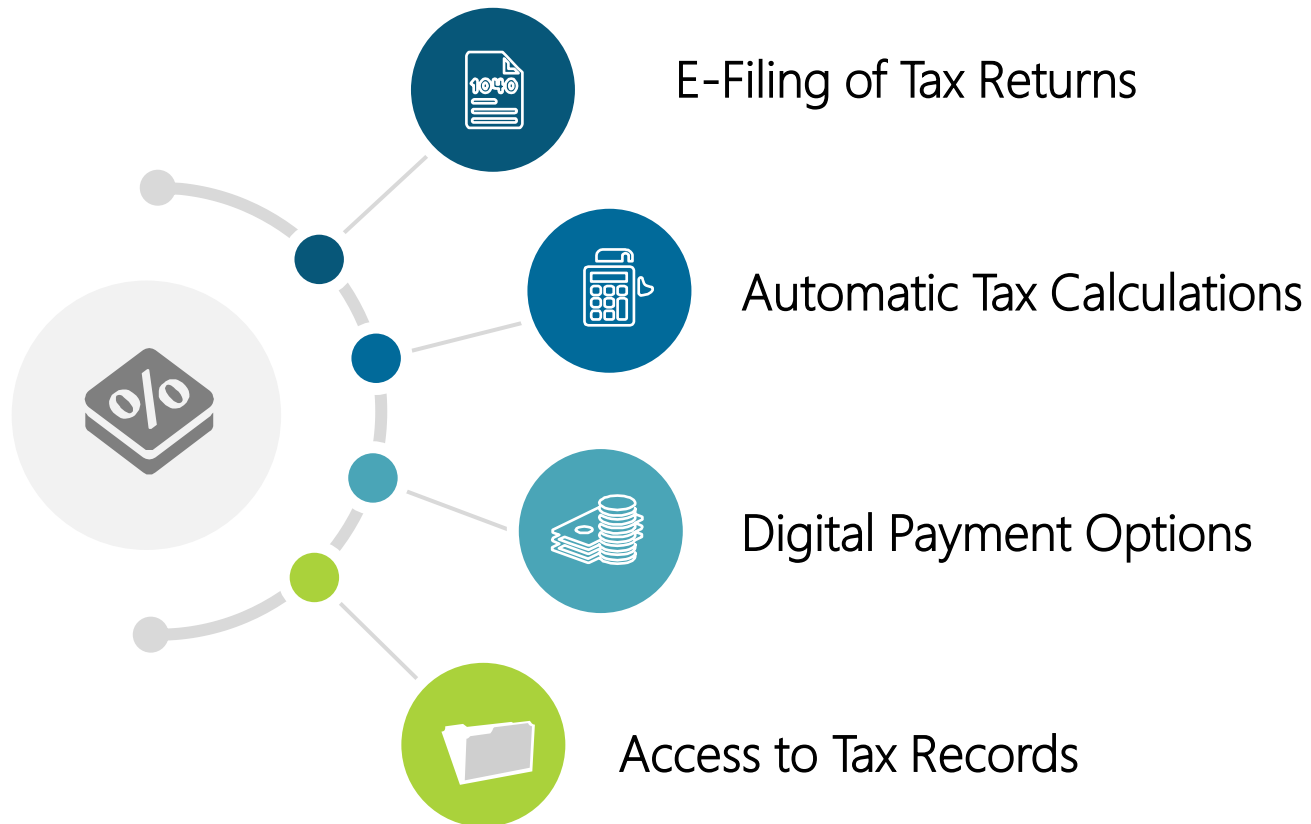


# (1) Business Entry – Online One Stop Shop



But, if the regulatory framework is too heavy, firms will still not register

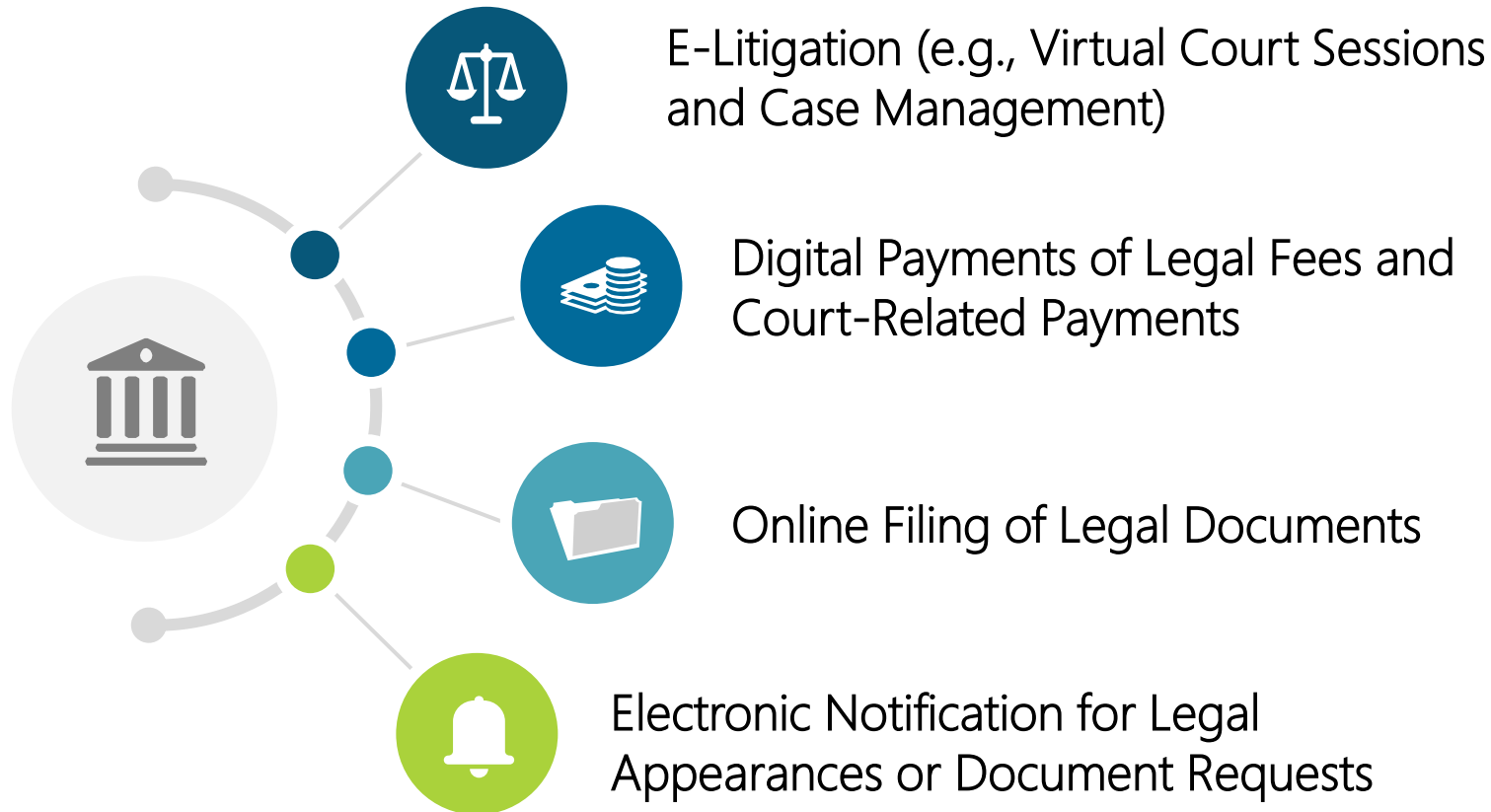
## (2) Taxation – Digital Portal



**But,** if tax rates are too high and taxation is complicated, firms will try to avoid and evade paying taxes



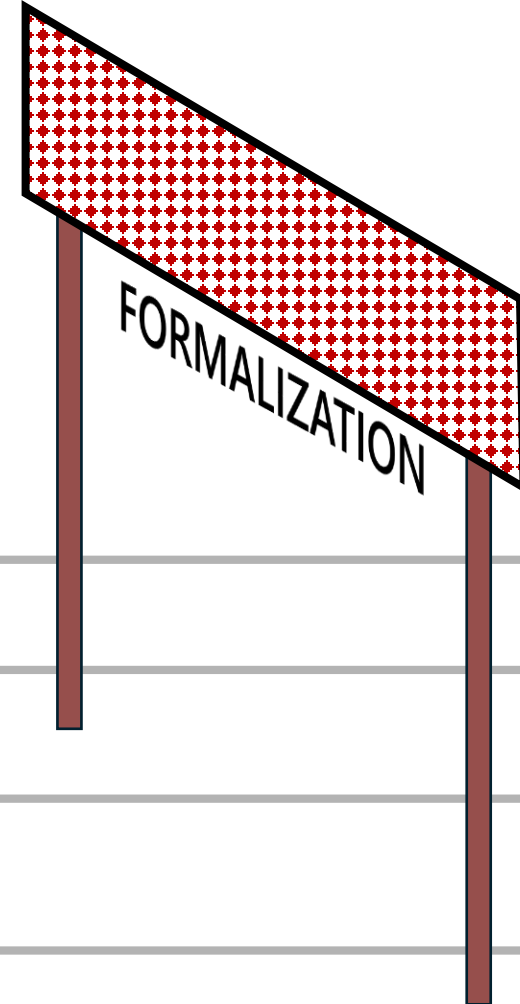
## (3) Dispute Resolution – E-Courts



But, if the judicial system is arbitrary and unpredictable, firms will not use formal courts or out-of-court mechanisms

# What is Needed?

Comprehensive Business Environment Reforms...



Rigid labor market

Cumbersome entry and exit

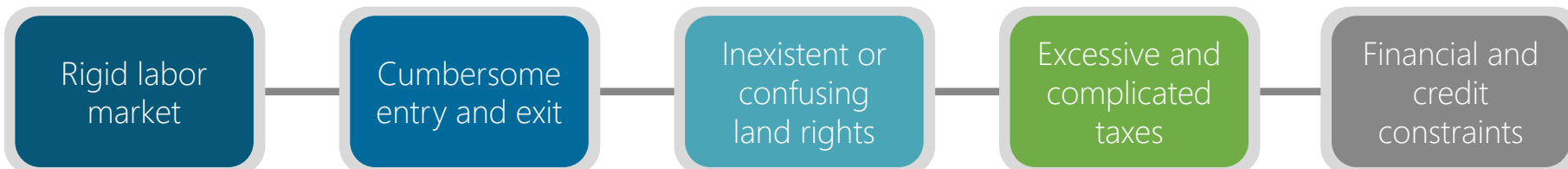
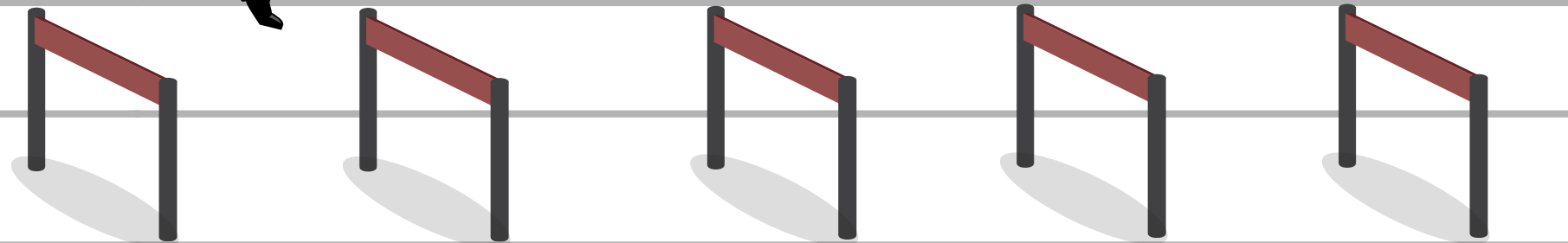
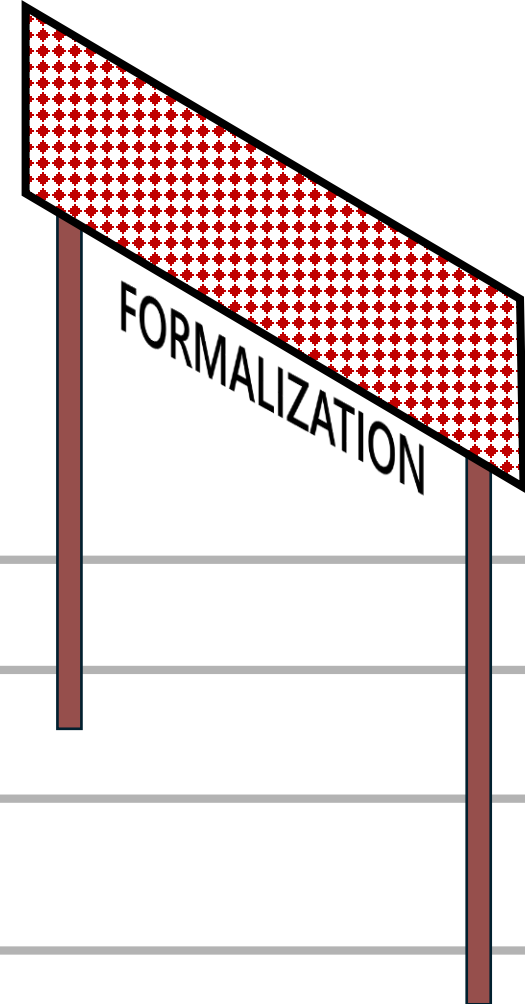
Inexistent or confusing land rights

Excessive and complicated taxes

Financial and credit constraints

# What is Needed?

Comprehensive Business Environment Reforms...  
with Digitalization as a Facilitator



# Digitalization is Effective only when the Business Environment is... *Business Ready*



# Thank you!



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