Youth and the informal sector represent two constituencies with tremendous potential to contribute as citizens, entrepreneurs, and leaders. They require access to opportunity; and to obtain opportunities, they must have a part in the shaping of their political and economic systems. Giving them a stake in society allows them to develop new ideas and ventures on their own initiative for the betterment of communities.

Addressing economic informality requires consulting marginalized populations on the barriers they face in business and public life. A campaign in Guatemala to raise understanding on this issue resulted in simplified procedures for registering a business and the beginning of formal property rights for indigenous people. Such reforms had immediate results on business activity, and in the longer term act to extend the rule of law.

Youth face a variety of challenges, and especially need to understand how they can create economic opportunities through entrepreneurship. In Afghanistan, entrepreneurship education for high school students has introduced them to fundamental market concepts and prompted intense interest from hundreds of students who have pursued business ideas.

Further reading:
“Reducing Economic Informality by Opening Access to Opportunity” (CIPE REFORMToolkit)

“Promoting Youth Development: Policy Options and Reform Recommendations” (CIPE ECONOMICReform Policy Paper)
From 2004 to 2007, the National Economic Research Center (CIEN) changed the perception of the informal sector in Guatemala and influenced reforms that encouraged business registration and property formalization. Three-quarters of Guatemala’s work force, and the majority of the indigenous population, operated in the informal sector. Because the state was never designed to serve informal sector groups, it excluded them from legal, economic, and policy processes. Apart from the tax authority, government institutions were practically non-existent for informal businesspeople, even the courts and security. Most businesspeople experienced high transaction costs and low benefits from formal institutions.

Given the cultural and institutional realities in Guatemala, CIEN’s Economics Director Hugo Maúl identified two priority tasks for overcoming exclusion and strengthening democratic institutions. First, Guatemala “must recognize, be familiar with, and respect the existence of plurality and cultural processes that make it possible for people of different cultures to live together peacefully. Second, it must complement the informal institutions with formal institutions that promote the positive aspects of informal arrangements.”

Assessment of the Informal Sector

The Center for International Private Enterprise (CIPE) hosted a one-day conference on the informal economy in 2005 to bring the benefit of CIPE’s partner experiences in Latin America to the Guatemala program. Lessons from Venezuela’s Center for the Dissemination of Economic Knowledge enriched CIEN’s advocacy framework, while Peru’s Institute for Liberty and Democracy guided the program’s research methodology. CIEN also studied existing evidence on the economic practices and realities of Guatemala’s indigenous communities.
In an effort to gain deeper insights into the informal sector, CIEN conducted a survey among 1,200 informal businesspeople in five cities. The survey addressed perceptions of the benefits of becoming formal, the presence of state institutions, and the relationship between ethnicity and informality. CIEN’s findings indicated that informality was not a cultural phenomenon in Guatemala, but rather was caused by the absence of a state presence, high transaction costs in becoming formal, and the exclusion of various groups – including but not limited to indigenous groups – from policymaking.

CIEN separately interviewed 200 entrepreneurs selected from among indigenous broccoli producers, informal vendors, and women handicraft exporters in order to assess obstacles to joining the formal economy and operating a business. The interviews focused on the costs and benefits of becoming formal and how people in the informal economy perceived the central and local government. They revealed, for instance, that the costs of formalizing a business in some cases represented more than 18 months’ profit.

CIEN also held six focus groups with more than 100 informal entrepreneurs at “La Terminal” market in Guatemala City, following the model of CIPE’s National Business Agenda approach. These focus groups gathered grassroots input on the most important obstacles to doing business and ways to remove them. This process allowed the entrepreneurs in the market to reach a consensus on their priorities and incorporate their preferred solutions into a credible advocacy document.

Advocacy Campaign
CIEN published its research findings in its book *Informal Economy: Overcoming the Barriers of an Exclusionary State*. The book recommended a set of governance reforms such as increasing transparency in policy formulation, improving communication channels with the informal sector, raising the

CIEN’s public advocacy campaign produced significant changes to reduce the barriers to formalizing a business. The number of registered businesses jumped by 24 percent.
central government’s presence at departmental and municipal levels, and encouraging citizens’ participation in politics. Instead of greater regulation and tax burdens in response to informality, CIEN called for tangible benefits in exchange for formalization. CIEN specifically recommended reforms to reduce the cost of formalizing real estate and businesses, recognition of informal commercial practices, and revisions to the minimum wage and labor regulation.

To raise awareness of the benefits of business formalization, CIEN held a conference and presented the book at meetings in six cities with association leaders. Its active media campaign – comprising 7 press conferences, 11 television shows, 21 radio shows, and 32 articles – reached an audience of perhaps several million. With the cooperation of the National Institute of Statistics, CIEN’s evidence convinced policymakers and the public that informality is the rule rather than the exception in Guatemala.

CIEN reached more than half the members of the Guatemalan Congress by sharing its research and recommendations in an edition of its legislative bulletin. It also approached several Congressional committees, among which the Committee on Indigenous Affairs was particularly receptive. CIEN’s visit to this committee influenced the Congress to reform the laws regarding titling and land registration.

La Terminal market’s business agenda was first presented to participants from the focus group meetings and market leaders. The agenda was then presented at a general assembly of La Terminal’s informal vendors in addition to more than 400 people at town hall meetings. The agenda even guided a public debate on informality, organized by CIEN, among indigenous and informal leaders, an academic expert, the President of the Economic Commission of the Congress, and the Director of Economic Planning for Guatemala City. After several months of negotiating, CIEN helped informal vendors and municipal authorities agree to changes in policies for cleaning, security, and the organization of vendors on streets and sidewalks.
Impact on Business Registration and Property Rights

CIEN’s public advocacy campaign produced significant changes to reduce the barriers to formalizing a business. In 2006, the government implemented a “single-window” system for registering a new business, which reduced paperwork by 90% and the number of required office visits from 15 to just three. The cost of registering a business dropped to less than $50. With these changes, the number of registered businesses jumped by 24 percent between 2006 and 2007. Most of the 8,000 new firms represented businesses that were previously informal, now joining the mainstream economy.

The dialogue with the congressional Committee on Indigenous Affairs, bolstered by CIEN’s media campaign, set the stage for approval of the Cadaster Law in 2006. This law on titling and land registration was the first step in the formalization of property rights in Guatemala, especially among indigenous communities.

Using statistical evidence later published in its book, CIEN demonstrated that the system of property titling imposed high transaction costs on informal owners. With the cooperation of the Association of Housing Builders and Developers, CIEN’s legislative recommendations resulted in a reduction of a 12 percent tax on property transfers to 3 percent. The reforms to facilitate the registration of property boosted the construction of homes by 40 percent. Continuing its advocacy, CIEN produced another victory when Congress passed the Real Estate Guarantees Law. This law opened up access to credit for thousands of small businesses by allowing them to use non-fixed assets (in addition to land and buildings) as collateral.

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Sources

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Informal Sector and Youth Afghanistan

**Tashabos: An Education in Entrepreneurship**

*by Xiaohang Liu*

Focusing on Afghanistan’s development after decades of war, the Center for International Private Enterprise (CIPE) has helped prepare thousands of Afghan youth to participate in the revival of their economy. Back in the 1970s, General Motors published a textbook in Spanish called Empresa: How the Private Enterprise System Works. Its goal was to teach Latin American employees the principles of market economics and free enterprise. Subsequently adopted by the U.S. Chamber of Commerce, in 2005 CIPE translated the curriculum into Dari and renamed it *Tashabos* – meaning entrepreneurship – to better resonate with Afghan communities.

An expanding program to educate Afghan high school students in the basics of entrepreneurship, as of 2009 Tashabos reached 23,000 students in 44 schools. Within a few years of its introduction, numerous girls and boys who had participated in the program were already applying their knowledge. According to surveys of participants, *Tashabos* has led to the formation of more than 508 new businesses by students who applied their classroom knowledge to the real world. Another 86 students have improved their families’ businesses. Not everyone enrolled in the program will eventually become an entrepreneur, but each participant receives a valuable understanding of economic concepts such as savings, investment, and risk. In fact, a large number of students are now considering careers in the private sector, a healthy reversal from past years when a great majority of students preferred working for the government.

**The Birth of Tashabos**

The Afghan Ministry of Education, assisted by CIPE, first launched a pilot version of *Tashabos* in May 2005. It was implemented in two Afghan secondary schools and received positive feedback from students, teachers, and parents. Since
then, the Ministry of Education and CIPE have expanded the program repeatedly, eventually reaching 23,000 students.

Originally, *Tashabos* was a one-year course for 10th graders, using primarily the textbook. The text – one of very few books which Afghan students get to keep – describes the successes of a married couple who capitalize on their knitting skills to build a full-scale manufacturing business. Through this story, the course teaches the concepts of supply, demand, capital, investment, and risks. After the first year, CIPE developed an advanced, second-year curriculum for students in 11th and 12th grade levels. The advanced course goes beyond the general concepts and offers more complex materials on business administration, finance, and marketing. It also incorporates practical exercises so that students can apply what they learn to actual entrepreneurship.

As enrollment in the course increased, CIPE stepped up its teachers’ training, especially for the advanced classes, and launched improvement initiatives, such as updating and adding new content. At the same time, CIPE closely monitored the progress of *Tashabos*, conducting surveys on the students’ gains in knowledge, evaluating the proficiency of teachers, and assessing the impact of the curriculum on both students and parents, many of whom were able to take advantage of their children’s understanding of entrepreneurship.

Business Stories

The impact of *Tashabos* can be observed in the streets of Kabul. After taking the entrepreneurship course in his high school, a 19-year old man named Sadaar applied the concepts of competitiveness and risk to his father’s bakery. His idea was simple: a greater variety of bread products to attract a larger customer base. Since then, due to Sadaar’s initiative sparked by *Tashabos*, the bakery greatly increased sales and added three bakers on staff, thus creating employment while offering customers more choices.
Similarly, a 16-year old student named Muslim conducted a market analysis based on his lessons and opened his own business to sell prescription glasses and contact lenses. He obtained start-up capital not only from his father but through borrowing. His business idea helped Muslim move up the value chain, as he purchased machinery that fits lenses into frames instead of importing prefabricated frames with lenses.

Some *Tashabos* teachers creatively combined education with real-life experiences. The Zinab Kobra High School for girls encouraged students to display and sell their unique handicrafts at the school. One 10th grade student, named Shabnam, was inspired by her sales at school to develop a tailoring business – after she first opened a beauty shop: “Before I started in the *Tashabos* 10th grade class, I worked as a beauty shop assistant, but after I studied *Tashabos*, I learned from the characters ‘Omid and Lima’ in the textbook story about how a person could improve, so I took the risk, hired 10 people and opened a beauty shop.”

Beyond the tangible benefits of *Tashabos* – such as generating profits, increasing family income, and creating employment -- the program has educated students about a concept of greater importance: the free market. These young Afghan high school students have learned how to participate in a free market economy and make the best of their current conditions. Moreover, as they learn about private enterprise, they also obtain a glimpse into freedom and democracy. This new entrepreneurial mindset is expected to become a key element in Afghanistan’s future.

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