

Study on the Effects of Business Formalization Programs on the Productivity and Long-Term Survival of Micro and Small Enterprises in APEC

APEC Small and Medium Enterprises Working Group

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**Asia-Pacific
Economic Cooperation**



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Acronyms and Abbreviations

| | |
|-----------------|---|
| APEC | Asian-Pacific Economic Cooperation |
| GDP | Gross Domestic Product |
| SMEWG | Small and Medium Enterprises Working Group |
| NAFIN | Nacional Financiera (Mexico) |
| MSMes | Micro, Small and Medium Enterprises |
| SMEs | Small and Micro Enterprises |
| OECD | Organisation for Economic Co-operation and Development |
| ILO | International Labour Organization |
| CAF | Development Bank of Latin America and the Caribbean |
| SBS | Superintendency of Banking, Insurance, and Pension Fund Administrators (Peru) |
| INEGI | Institute of Statistics and Geography (Mexico) |
| PRODUCE | Ministry of Production (Peru) |
| ABS | Australian Bureau of Statistics |
| ASBFEO | Australian Small Business and Family Enterprise Ombudsman |
| ISED | Innovation, Science and Economic Development Canada |
| CRA | Canada Revenue Agency |
| SII | Internal Revenue Service (Chile) |
| RES | Registry of Companies and Societies (Chile) |
| Corfo | Production Development Corporation (Chile) |
| Sercotec | Technical Cooperation Service (Chile) |

| | |
|----------------------|---|
| Fosis | Solidarity and Social Investment Fund (Chile) |
| ProChile | Export Promotion Directorate (Chile) |
| Sence | Training and Employment Service (Chile) |
| SUBREI | Undersecretariat of International Economic Relations (Chile) |
| SAS | Simplified Joint Stock Company (Mexico) |
| CURP | Unique Population Registry Code (Mexico) |
| FAE-MYPE | Business Support Fund for Micro and Small Enterprises (Peru) |
| PAE-MYPE | Business Support Program for Micro and Small Enterprises (Peru) |
| Reactiva Perú | “Reactivate Peru,” COVID-19 Guarantee Loan Program (Peru) |

1. Executive Summary

Across five APEC economies—Australia; Canada; Chile; Mexico; and Peru—this study examines how business formalization programs and business support programs affect SME productivity and survival and the mechanisms through which effects materialize. Evidence comes from (i) a mixed-methods design combining (i) desk research and program mapping, (ii) an SME survey focused on firms with recent exposure to these programs, and (iii) semi-structured interviews with policymakers. Findings are comparative and mechanism-oriented rather than economy-specific impact estimates.

Among beneficiary firms, 59.5% reported revenue growth after participating in these programs. Revenues respond earlier than employment, and bundled programs—registration plus operational support—show more consistent effects than registration-only schemes.

Key findings:

- **Bundling beats bureaucracy.** Registration-only schemes underperform. Programs that pair formalization with operational tools (cash-flow solutions, payroll onboarding, and market linkage) deliver stronger, more consistent improvements by reducing cash-flow risk, lowering compliance friction, and creating repeatable demand.
- **Performance moved first.** 59.5% of beneficiaries reported higher revenues; employment typically lags, consistent with productivity gains preceding new hires.
- **Demand diversified; finance formalized.** 76% reached new client types, 58% entered new markets, and 65% opened a business bank account. Among credit applicants, 76.5% were approved—yet only 41% applied—flagging an access–take-up gap.
- **Compliance got easier; burden perceptions persist.** 54.8% felt better able to meet tax obligations after support, though many still view the tax system as burdensome—procedural ease improved, but perceived cost/complexity remains high.
- **Digital first works when paired with humans.** 85.7% fully understood requirements; 67.9% received onboarding guidance; 92.3% found integrated digital platforms useful. Still, many micro firms need human assistance to translate “formal clarity” into day-to-day routines.
- **Coverage is low, and demand is high.** 66.4% had never used a program, and only 21.1% knew such programs existed, yet 60.8% would join a free, needs-based program—evidence of latent demand and an awareness/reach constraint.
- **One size doesn’t fit all.** Early-stage firms capture the largest first-mile gains (e.g., bank account opening rises with firm age), while mature firms prioritize reputation, stability, and public procurement; impacts and satisfaction vary with business maturity.

Policy Implications:

- **Shift from registration to bundles.** Treat registration as a gateway that unlocks tax onboarding, e-invoicing/digital payments, a first commercial route (fairs, e-commerce, procurement), and basic advisory.
- **Adopt hybrid delivery.** Digital one-stops work best when paired with human onboarding for micro- and first-time formalizers.

- **Close the awareness gap.** Multichannel outreach with simple entry routes converts latent interest into take-up.
- **Link finance to milestones.** Pre-approved, guarantee-backed working capital tied to adoption (e.g., active e-invoicing, first payroll) turns approvals into use.

In essence, this study shows that formalization delivers when it moves firms from permit to practice. Packaging registration with simple tax/payroll setup, digital payments, and a clear first route to market—delivered through digital portals backed by human support—speeds cash conversion, routinizes compliance, and turns one-off sales into repeatable demand. These channels are the pathway to productivity and survival: they raise revenue per worker and capacity utilization in the near term and—by stabilizing cash flow and diversifying customers—lower exit risk over the medium term.

Given program heterogeneity and a non-probabilistic sample, results are best interpreted as comparative signals about mechanisms rather than economy-level impact claims. The chapters that follow set the context and literature, map instruments, present cross-economy evidence, and provide concise, economy-aware recommendations and a practical monitoring frame for implementation across APEC.

2. Introduction

The project “Study on the Effects of Formalization Programs on the Productivity and Survival of Micro and Small Enterprises in Selected APEC Economies” was developed under the APEC Small and Medium Enterprises Working Group and the Ministry of Production of Peru. Recognizing that Micro, Small, and Medium Enterprises (SMEs) account for more than 97% of all businesses in APEC economies and generate the majority of private sector employment (APEC, 2025), the project sought to evaluate how formalization¹ policies and programs influence their performance, survival, and access to markets. This work also responds to the persistent challenge of informality, which in 2020 was estimated at 13.4% of APEC’s gross domestic product (GDP) (APEC, 2024), limiting enterprises’ growth potential and fiscal sustainability across the region. Generating evidence on how business formalization programs operate in practice and identifying lessons that can strengthen SME policies across APEC economies are key contributions from this initiative. This debate is crucial, as micro and newly established firms face the highest exit rates. In fact, less than half of new businesses typically survive beyond five years, with survival rates being especially low among micro enterprises (Calvino et al., 2015).

The study was carried out in five economies—Australia; Canada; Chile; Mexico; and Peru—selected to enable a developed–emerging economy comparison and for their diverse institutional frameworks and policy approaches to informality. The methodology combined a literature review, mapping of business formalization programs, a cross-economy survey of SMEs, and in-depth interviews with policymakers. This multi-source approach provided both quantitative and qualitative evidence, enabling a comparative analysis of barriers, incentives, and outcomes linked to formalization strategies.

The project generated several significant results. First, it consolidated and integrated an evidence base that connects academic debates on informality with empirical data from enterprises and the perspectives of policymakers. This is particularly relevant given the limited number of studies that evaluate the design and effectiveness of business formalization programs in practice. By addressing this gap, the project also contributes directly to the objectives of APEC’s Small and Medium Enterprises Working Group (SMEWG), which seeks to strengthen evidence-based policymaking to support the growth and formalization of SMEs in the region.

Second, it compiles a comprehensive mapping of business formalization programs and business support programs across the five economies, revealing that most economies rely on instruments such as simplified tax regimes, digital platforms for business registration, and targeted financial services. These instruments have been adjusted over the years in response to changing economic and social conditions. For instance, some mechanisms were reinforced during the COVID-19 pandemic while others lost effectiveness. By consolidating this information in a comparative framework, the mapping not only illustrates how economies continue to rely on and adapt these strategies but also provides a systematic reference that can serve as a foundation for future research and policy evaluation.

Third, it collects empirical evidence through surveys and interviews with enterprises that had participated in business formalization programs, offering valuable insights from SMEs’ experiences and perceptions. Indicative patterns include revenue gains among supported firms, improvements in market

¹ Formalization refers to the process by which a firm fully integrates into the formal institutional and financial system—including legal formalization (registration, licensing, tax ID, social security affiliation), operational compliance (ongoing tax, labor, sectoral obligations, payroll reporting, e-invoicing where applicable), and economic formalization (effective access to and use of formal finance, digital payments, value chains/public procurement, and certified business services). Unless otherwise stated, “formalization” in this report is used in this comprehensive sense; when referring to subcomponents, we explicitly use legal formalization, operational compliance, or economic formalization.

access, higher rates of business-account opening, and relatively high approval rates among credit applicants. At the same time, non-participant firms display low awareness of available programs despite a stated willingness to join when support is relevant and accessible—highlighting an outreach and take-up gap. These insights, together with perspectives gathered in policy dialogues, underscore both the tangible benefits of support programs and the institutional considerations for scaling them across APEC. The evidence informs a regional discussion on delivery models that move firms from legal status to operational capability.

The report is structured to guide the reader from context to evidence and, finally, to implications. It begins with an economic context, which provides a comparative overview of the five selected economies, describing their macroeconomic conditions, the prevalence and patterns of informality, and the structure and dynamics of the SME sector. Building on this foundation, the literature review explores the concept of informality in depth, examining its definitions, dimensions, and typologies, drawing from both classical perspectives and recent debates. It also reviews the policy instruments that enable legal/operational formalization and business-support mechanisms that expand economic formalization, with particular attention to the principal policy measures targeting SMEs across the APEC region. It then synthesizes empirical evidence on links between legal/operational formalization and economic formalization, productivity growth, firm survival, and the broader dynamics of business development. Together, these components provide the analytical scaffolding for interpreting the empirical evidence presented in the following sections.

The document then turns to the fieldwork, presenting the qualitative and quantitative approaches applied in the study. This section explains how the SME surveys and the structured interviews with policymakers were designed and implemented. The following section presents comparative findings on how business formalization programs and business support programs affect SME productivity, business survival, access to finance, and integration into markets. The report concludes with economy-aware recommendations and a practical monitoring frame.

By consolidating evidence from five diverse economies, the report goes beyond documenting programs and outcomes: it highlights good practices, reveals persistent barriers, and draws recommendations that can inform future policymaking. In doing so, it positions formalization not only as a pathway to productivity and survival for individual enterprises but also as a driver of inclusive growth and resilience at the regional level. These insights provide APEC with a valuable foundation for advancing cooperation and designing policies that empower SMEs as engines of sustainable and competitive development.

3. MSMEs in APEC

Micro, Small, and Medium Enterprises (MSMEs)² play a fundamental role within APEC. They are regarded as the true engines of economic activity, accounting for more than 97% of the business sector (APEC, 2025) and generating the majority of private sector employment. According to APEC (2021), in most member economies, over 98% of firms are MSMEs, and in more than half of the economies, their share even exceeds 99%. Furthermore, these enterprises contribute between 40% and 60% of GDP (Gross Domestic Product) in most cases and generate around half of the private sector's total output across the region (APEC, 2021; APEC, 2025).

Despite their structural importance, MSMEs have long faced multiple challenges that hinder their growth, competitiveness, and internationalization. Access to finance remains one of the most significant obstacles: the global SME credit gap is estimated at USD 5.7 trillion, which represents around 19% of global GDP, and this figure increases to nearly USD 8 trillion when informal enterprises are included (World Bank, 2025c). This persistent shortfall reflects the fact that many small firms lack the collateral or credit history required by financial institutions. Regulatory and tax burdens are also disproportionately costly for smaller enterprises, which have fewer administrative resources to comply with complex procedures and ongoing filings (APEC, 2020).

In terms of international integration, MSMEs' participation remains limited: the value of direct exports attributable to MSMEs ranges from less than 15% in some economies to slightly above 25% in others (APEC, 2021). This low participation also reflects broader challenges related to scaling up, high regulatory costs, and limited integration into global value chains, patterns common across the region (APEC, 2020). Finally, digital divides further exacerbate these gaps. While digital tools could lower barriers to entry, SMEs in developing economies lag behind in adoption because of infrastructure and skills deficits (Kergroach, 2021). Taken together, these long-standing structural barriers explain both their restricted presence in international trade and their vulnerability to external shocks.

Beyond these barriers, one of the most pervasive challenges in APEC is the persistence of informality. In emerging economies, nearly 80% of MSEs operate informally (McKinsey Global Institute, 2024). These firms often operate with legal and/or operational informality, which reduces short-term costs but limits access to credit, authority support, and digital platforms—factors critical for long-term productivity and resilience (OECD, 2023c). For this reason, formalization is recognized as a strategic pathway for improving competitiveness, fiscal sustainability, and inclusive growth (APEC, 2024). In advanced APEC members such as Australia and Canada, informality is limited, and policies focus instead on boosting productivity, innovation, and competitiveness. By contrast, in Chile; Mexico; and Peru, high informality makes formalization itself a key policy priority, directly shaping the design of economy-level support programs.

The outbreak of COVID-19 further exposed these structural vulnerabilities. MSMEs faced acute revenue losses, liquidity shortages, and widespread closures, with MSEs being the most affected due to their weaker access to credit and safety nets. In APEC economies, the crisis resulted in severe contractions in output and employment across the region, underscoring the urgency of strengthening resilience and formal financial inclusion (APEC, 2020). At the same time, the pandemic acted as a catalyst for rapid digital adoption: e-commerce platforms, digital payments, and remote business solutions became essential lifelines, allowing many MSMEs to maintain operations and access customers during lockdowns (APEC, 2020). However, this acceleration also highlighted new gaps—

² The acronym SMEs (Small and Medium Enterprises) is also used consistently in the literature. Although this term itself excludes micro-enterprises, it almost always implicitly includes them.

particularly in digital literacy, cybersecurity, and infrastructure—that continue to constrain the capacity of MSMEs to fully leverage digital tools for long-term growth (APEC, 2022).

Beyond these immediate shocks, MSMEs remain key agents of innovation and adaptation. Their flexibility allows them to adopt emerging technologies, respond to market shifts, and serve niches often overlooked by larger firms. Yet most MSMEs still face constraints in financing, technical capacity, and human capital, which limit their ability to fully adopt Fourth Industrial Revolution technologies such as artificial intelligence, automation, and data analytics, though most still lack the technical capacity and resources necessary for full integration (APEC, 2021). In parallel, the transition toward a green and circular economy presents both opportunities and challenges for MSMEs, particularly in areas like energy efficiency and sustainable services. Still, these opportunities remain underexplored, often blocked by informational and capacity gaps, especially for digital transformation (APEC, 2021).

In response to these challenges, APEC economies have introduced a variety of policies, many emerging in the context of COVID-19, that combine short-term relief with structural reforms. In Australia and Canada, packages prioritized liquidity support and advisory services, linking recovery efforts to broader digital and sustainability agendas. Examples include Australia's SME Loan Guarantee Scheme and ASBAS, and Canada's Innovation Solutions Canada and Smart Cities Challenge. Chile; Mexico; and Peru adopted complementary approaches emphasizing digitalization and credit guarantees. In Chile, the "Digitaliza tu Pyme" program reached more than 50,000 firms; in Mexico, NAFIN mobilized up to USD 1 billion in SME loans and promoted venture financing; while in Peru, schemes like PAE-MYPE and decentralized trust funds supported recovery alongside the launch of a circular economy roadmap (APEC, 2022).

Taken together, these initiatives illustrate how APEC members have sought to bridge gaps in financing, digitalization, and sustainability, creating conditions that not only support short-term recovery but also foster the long-term formalization and competitiveness of MSMEs. However, they are not the only mechanisms in place. Local institutions across APEC economies also maintain specific programs aimed at formalization and business strengthening, which are the focus of this study. In economies with high levels of informality, such as Chile; Mexico; and Peru, programs focus more directly on legal formalization (registration & licensing) and operational compliance. In contrast, in developed members like Australia and Canada, where formality is largely guaranteed, policies center on enhancing productivity, innovation, and competitiveness.

Understanding this diversity of approaches is essential for evaluating how business formalization programs and business support policies shape the resilience and long-term development of MSMEs in the region, as formalization constitutes a central mechanism to enhance productivity, expand market access, and ensure sustainability. Building on this, the following section examines the experiences of Australia; Canada; Chile; Mexico; and Peru, highlighting similarities, differences, and good practices in constructing more enabling environments for MSMEs.

Before turning to these experiences, it is key to identify business size classifications across APEC economies to highlight the absence of a universal standard. The definitions for micro, small, medium, and large enterprises—categorized by both employee count and annual revenue—are established by authorities and vary significantly in their thresholds. The following table presents these divergent criteria for Australia; Canada; Chile; and Mexico, underscoring the critical importance of referencing local definitions when conducting cross-jurisdictional analysis, formulating trade policy, or designing support programs for businesses.

Table 1. Business Size Classification by Number of Employees and Revenue: APEC-Selected Economies for Study

| Economy | Size Category | By Number of Employees | By Annual Revenue |
|--|---------------|-------------------------|---|
| Australia | Micro | 0–4 (Common definition) | AUD 1 – less than AUD 2 million |
| | Small | 0–19 | AUD 2 million – less than AUD 10 million |
| | Medium-sized | 20–199 | AUD 10 million – less than AUD 100 million |
| | Large | 200+ | AUD 100 million – less than AUD 250 million |
| Source: Australian Taxation Office (2020). Note: Employee ranges for micro and small are often combined in official Australian statistics. A common separate definition for micro is 1-4 employees. | | | |
| Canada | Small | 1–99 | Less than CAD 5 million |
| | Medium-sized | 100–499 | CAD 5 million – CAD 25 million |
| | Large | 500+ | More than CAD 25 million |
| Source: Financial and Taxation Statistics for Enterprises, Canada | | | |
| Chile | Micro | 1–9 | 0–2,400 UF |
| | Small | 10–49 | 2,401–25,000 UF |
| | Medium | 50–199 | 25,001–100,000 UF |
| | Large | 200+ | 100,001+ UF |
| Source: CAF (2023). Note: Unidad de fomento (UF) | | | |
| Mexico | Micro | 1–10 | Up to USD 200,000 |
| | Small | 11–50 | USD 200,001 – USD 5,000,000 |
| | Medium | 51–250 | USD 5,000,001 – USD 12,500,000 |
| Source: USMCA; Secretaría de Economía (2009) | | | |
| Peru | Micro | 1–10 | Not exceeding 150 UIT |
| | Small | 11–100 | Between 150 UIT and 1,700 UIT |
| | Medium | 101-250 | More than 1,700 UIT and up to 2,300 UIT |
| Source: PRODUCE (2024) | | | |

Taken together, the divergent size definitions explain why MSME statistics are not directly comparable across economies. This is particularly relevant for gender analysis, as differences in thresholds can mask where women-owned firms are concentrated and how they access support. To frame the subsequent economy-specific sections, Box 1 distills common gender patterns and persistent gaps observed across APEC.

Box 1: A Cross-Economy Look at Gender Dynamics in APEC MSMEs: Insights from Four Selected Economies

The participation of women in the MSME sector is a critical driver of economic growth across APEC economies. Data from four selected APEC members—Australia; Canada; Chile; and Mexico—reveals shared challenges related to finance, business scale, and survival rates, alongside distinct economy-specific patterns that highlight both progress and persistent barriers in women's entrepreneurship.

Australia: Female entrepreneurship is growing rapidly, with women now owning or leading about one-third of small businesses—double the 1970s rate. Growth between 2006 and 2021 reached 24%, over three times the male counterpart rate. Despite this, significant barriers remain: 35% of women cite "responsibilities outside work" as a top-three barrier, and 38% struggle with access to finance, prompting economies' local commitments to backing women in small business (ASBFEO, 2024; Ministers Treasury, 2024).

Canada: Clear gender patterns emerge in business longevity. Over sixteen years, the majority of male-owned businesses showed higher survival rates than the majority of female-owned businesses. However, equally owned businesses were most resilient, with 54.2% survival after 16 years versus 41.3% for female-owned and 46.5% for male-owned. Notably, the business birth rate for majority female-owned firms (11.5%) consistently exceeded male-owned firms (9.3%), suggesting women start businesses at higher rates but face greater sustainability challenges (ISED, 2024).

Chile: Significant gender gaps persist in business ownership. While micro-enterprises show 1.3 times more male owners, this ratio widens to 2 times in small enterprises, 3.4 in medium-sized, and 4.3 in large enterprises, showing severe underrepresentation of women in larger firms (CAF, 2023).

Mexico: Women own 34% of the economies' 4.7 million MSMEs, predominantly as micro-enterprises (76%). Access to finance remains a critical barrier, with only 13% of women-owned MSMEs securing loans. A notable trend is the rise of "Nenis" (Nuevas Empresarias con Negocios por Internet)—approximately 1.2 million women creating businesses through social media, often driven by economic necessity as household providers (Secretaría de Economía, 2024).

Sources:

- CAF. (2023). *Las pymes en Chile*.
- Innovation, Science and Economic Development Canada (ISED) (2024).
- Key Small Business Statistics 2024. Australian Small Business and Family Enterprise Ombudsman (ASBFEO). (2024). Women-Owned Small Business.
- The Hon. Julie Collins MP, Minister for Women, Minister for Small Business (2024).
- Secretaría de Economía, México. (2024). *Mipymes mexicanas: motor de nuestra economía*.

4. Literature Review

4.1. Understanding Informality: From Economic Structures to Business Practices

In recent decades, the study of the informal economy has gained increasing relevance in both academic research and public policy. Recent literature (Chen et al., 2005; Kanbur, 2009; Medina & Schneider, 2018) emphasizes that informality should not be viewed as a marginal issue but as a structural characteristic embedded in the functioning of many economies. However, its definition, measurement, and policy response continue to be major challenges. One of the main difficulties lies in the diversity of socioeconomic realities across economies, which causes the definitions and expressions of informality to vary significantly depending on the institutional context, regulatory framework, and labor and productive market conditions.

Another factor that complicates its study is the multidimensional nature of informality. It covers a wide range of situations, from unregulated labor relationships to business units that operate partially or completely outside the legal system (Benjamin et al., 2014; ILO, 2019). Business informality, the main focus of this study, refers to MSMEs that, either by strategic choice or necessity, do not meet all the legal and tax requirements established by the economy. This not only limits their access to formal services and benefits but also creates negative economic and social externalities³.

Empirical evidence suggests that business informality has important consequences for the productivity and sustainability of enterprises (Jütting & Laiglesia, 2009; De Mel, McKenzie & Woodruff, 2013; and La Porta & Shleifer, 2014). Informality and low productivity are strongly linked, not only due to limited access to financial and technological services, but also because of legal instability, lack of access to more demanding markets, and low investment in innovation (McKenzie & Sakho, 2010; Amin et al, 2019). In addition, informal businesses tend to have shorter lifespans because they are more vulnerable to economic crises, regulatory changes, or limited capacity to grow (Rand & Torm, 2012; Grimm, Knorringa & Lay, 2012). All of this directly affects the potential of MSMEs to act as engines of inclusive growth.

Therefore, understanding the dynamics of business informality, especially in diverse environments like those in APEC, is essential to designing targeted policies that support sustainable formalization processes. This section explores the conceptual frameworks and main theoretical debates that have shaped the study of informality, with a focus on its dimensions, typologies, and main causes.

³ This issue is especially relevant in the context of the APEC region, where the MSMEs represent around 97% of all businesses and generate the majority of private employment (APEC, 2025). However, many of these businesses operate under informal conditions, which restricts their access to financing, formal value chains, and systems of legal and social protection. It is estimated that the informal economy in APEC accounts for 13.4% of the regional GDP (APEC, 2024), although this number hides significant differences among member economies.

4.1.1. Defining Informality

The concept of informality gained relevance in the early 1970s, driven by the influential 1972 report by the International Labor Organization (ILO) on Kenya⁴. In this first approach, informality was defined by easy entry, low barriers to starting economic activities, and its concentration in family-run or individually managed businesses, often small in size. These activities also showed intensive use of labor, adapted technologies, low levels of capital investment, and strong reliance on basic skills. As a result, they tended to develop in unregulated markets, outside of labor and tax laws. This led to low incomes, unsafe working conditions, and very limited social protection.

The continuous growth of informality in various regions, especially in Latin America, led to strong criticism of the dualist approach that strictly opposed it to the formal sector. Scholars such as Portes and Castells (1989), through socioeconomic studies and comparative analyses in Latin American contexts, argued that informality was not simply a sign of underdevelopment but rather a strategic and functional response to the dynamics of global capitalism.

From this broader perspective, informality was redefined as a survival strategy for people excluded from the formal labor market or looking to supplement low incomes. It was also seen as a way for formal firms to accumulate capital by subcontracting tasks or using low-cost labor and even as a tool for avoiding regulations used by businesses to reduce labor and tax costs. This view enriched the understanding of informality beyond subsistence activities, recognizing its internal diversity and complex relationships with the formal sector. Informality was no longer seen as a single, uniform sector but rather as a spectrum of activities that vary in scale, productivity, degree of insecurity, and connection to the legal system (Maloney, 2004).

In line with this conceptual evolution, major international institutions have developed their own definitions of informality (see Table 2), reflecting their analytical priorities:

- **The International Labour Organization (ILO)** defines the informal economy as including “all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements” (ILO, 2015).
- **The World Bank (WB)** tends to use an approach that focuses on economic units operating outside the reach of regulation and taxation, emphasizing the lack of formal registration or licenses (Perry et al., 2007).
- **The Organization for Economic Co-operation and Development (OECD)** highlights informality as a challenge for overall productivity and tax collection, and it has investigated the vulnerability of informal workers and the underreporting of income⁵.

Although these institutional definitions are essential for measurement and the design of specific policies, their tendency to simplify such a complex phenomenon often creates difficulties for achieving a holistic understanding and for making comparisons across different contexts. The table below compares how major international organizations conceptualize informality, highlighting their analytical approach, units of analysis, and underlying assumptions.

⁴ This pioneering document, based on a qualitative field study in Nairobi, introduced the term “informal sector” to describe a group of economic activities operating outside the control of the economy. However, these activities were an essential source of employment and income for a large part of the urban population (Hart, 1973; Tokman, 1978)

⁵ While the OECD does not always offer a definition as clear as the ILO’s, its analyses focus on activities that escape official registration and control, stressing the underestimation of GDP and the fragmentation of labor markets (OECD, 2023b).

Table 2. Comparative Perspectives on Informality: Institutional Approach

| Aspect | International Organization | | |
|----------------------------|--|---|---|
| | ILO | World Bank | OECD |
| Analytical Approach | Social protection, labor rights, coverage deficits | Regulatory compliance, business registration, tax evasion | Aggregate productivity, tax revenue, worker vulnerability |
| Unit of Analysis | Workers and economic units | Firms/enterprises | Employment, economic activity, and underreporting |
| Key Characteristic | Not covered or insufficiently covered by formal arrangements | Lack of formal registration or licensing | Operate outside formal regulatory oversight, contributing to the underestimation of GDP |
| Perspective | Structuralist/welfare-oriented | Legalist/economic (rational choice) | Fiscal / Economic policy-oriented |

Source: Compiled by the author based on definitions and conceptual frameworks from the ILO (2015), World Bank (Perry et al., 2007), and OECD (2023).

Academic literature has added further layers of complexity to the understanding of informality (see Table 3):

- **Chen (2012)** draws an important distinction between informal employment and informal enterprises, arguing that informality cannot be understood only in terms of legal status but must also consider the degree of integration into formal systems.
- **Tokman (1978)** and later contributions by Castells and Portes (1989) conceptualize informality as a consequence of labor market segmentation and the exclusion from formal employment opportunities in developing economies.
- **La Porta & Shleifer (2014)** understand informality as a rational response to excessive regulation and weak state capacity.

These opposing perspectives reveal a fundamental tension in how informality is conceptualized: whether as a legal-institutional process of formalization or as a broader and more complex socio-economic phenomenon. It is also worth noting that some scholars argue that the persistence of informal activities is not only due to regulatory burdens. Rather, such activities may represent rational responses to limited opportunities in formal markets, especially in low- and middle-

income economies (Maloney, 2004; Meagher, 2013; Williams & Horodnic, 2017). In this sense, informality appears not only as a lack of regulation but also as an adaptive strategy for survival or accumulation in response to existing economic conditions.

Table 3. Comparative Perspectives on Informality: Academic Approaches⁶

| Aspect | Academic | | | | |
|---------------------------|--|---|---|---|---|
| | Tokman (1978) | Portes & Castells (1989) | Maloney (2004) | Chen (2012) | La Porta & Shleifer (2014) |
| Main Approach | Social protection, labor rights, coverage deficits | Regulatory compliance, business registration, tax evasion | Aggregate productivity, tax revenue, worker vulnerability | Multidimensional: survival vs. opportunity; bureaucracy vs. structure | Informality as result of excessive regulation and weak state capacity |
| Unit of Analysis | Workers and economic units | Firms/enterprises | Employment, economic activity, and underreporting | Firms (motivations), labor markets | Firms |
| Key Characteristic | Not covered or insufficiently covered by formal arrangements | Lack of formal registration or licensing | Operate beyond state oversight; GDP underestimation | Internal heterogeneity; informal–formal continuum; structural interlinkages | Rational evasion of regulation and taxation; informality as consequence of burdensome rules |
| Perspective | Structuralist/welfare-oriented | Legalist/economic (rational choice) | Economic/fiscal policy | Socioeconomic, institutional, structuralist | Legalist / Institutional economics |

Source: Author's elaboration based on Tokman (1978); Portes and Castells (1989); Maloney (2004); Chen (2012); and La Porta & Shleifer (2014).

In summary, the conceptualization of informality has evolved significantly, moving from early dualist and residual views toward a much more nuanced and multifaceted understanding. This evolution recognizes its inherent heterogeneity, its structural persistence, and its complex interconnections with the formal sector of the economy. Although the lack of legal and social protection remains a central element in most contemporary definitions, informality continues to be an elusive concept. Its meaning and scope vary greatly depending on the analytical lens used, whether institutional, legal, socioeconomic, or sector-specific.

This conceptual ambiguity in the literature highlights the need to approach informality through a framework that acknowledges its multiple dimensions. Throughout the conceptual debates, it

⁶ The following table summarizes the main academic approaches to informality discussed above, highlighting their analytical approach, units of analysis, key perspective, and theoretical orientations.

becomes clear that, for a deeper understanding and the development of effective strategies, it is essential to analyze not only the different dimensions of informality but also the various types of economic actors involved and the key factors that influence its persistence.

4.1.2. Typology of Informality

Building on the multidimensional understanding of informality discussed in the previous section, this second section focuses specifically on the characteristics, trajectories, and typologies of business informality. By shifting the analytical lens toward the firm as the unit of analysis, the literature has moved beyond generalized definitions to a more nuanced debate on degrees of compliance, motivations for informality, and the heterogeneity of informal enterprises. This section critically reviews such developments, identifying theoretical perspectives and classification frameworks that help explain the diversity of informal economic units—especially among MSEs.

The conceptualization of business informality has undergone a significant evolution within academic discourse, moving beyond the initial, simplistic dichotomy between formal and informal. Contemporary research has embraced the intrinsic heterogeneity of the informal sector, leading to the development of diverse typologies aimed at capturing the multiplicity of motivations, structures, and dynamics that characterize businesses operating outside state regulation. This review of the literature will explore the main classifications of informal enterprises, analyzing how these typologies enrich our understanding of the phenomenon and, crucially, offer more nuanced implications for public policy.

Historically, pioneering studies on the informal sector tended to adopt a distinctly binary view, classifying businesses as either formally registered or completely informal (Lewis, 1954; Hart, 1973). However, this approach, while useful in its early stages, proved insufficient to grasp the complexity of real-world operations. Recent literature, driven by scholars such as Godfrey (2011) and Williams and Horodnic (2017), has convincingly argued that informality is not a dichotomous condition but rather a continuum along which businesses exhibit varying degrees of compliance with regulations. This paradigm shift is of paramount importance, as it acknowledges that firms can operate in a "grey zone," partially adhering to certain regulations while consciously disregarding others.

This continuum perspective underscores the existence of multiple forms of informality that extend beyond the mere absence of registration. For instance, a firm might be duly registered but employ its workers "off the books," constituting a case of informal employment within a formal firm; alternatively, it might possess a valid business license but systematically evade income taxes (La Porta & Shleifer, 2014; Williams & Shahid, 2016). The analytical and practical challenge, therefore, lies not only in distinguishing between the formal and the informal but also in mapping the various positions along this spectrum and comprehending the underlying reasons for each placement.

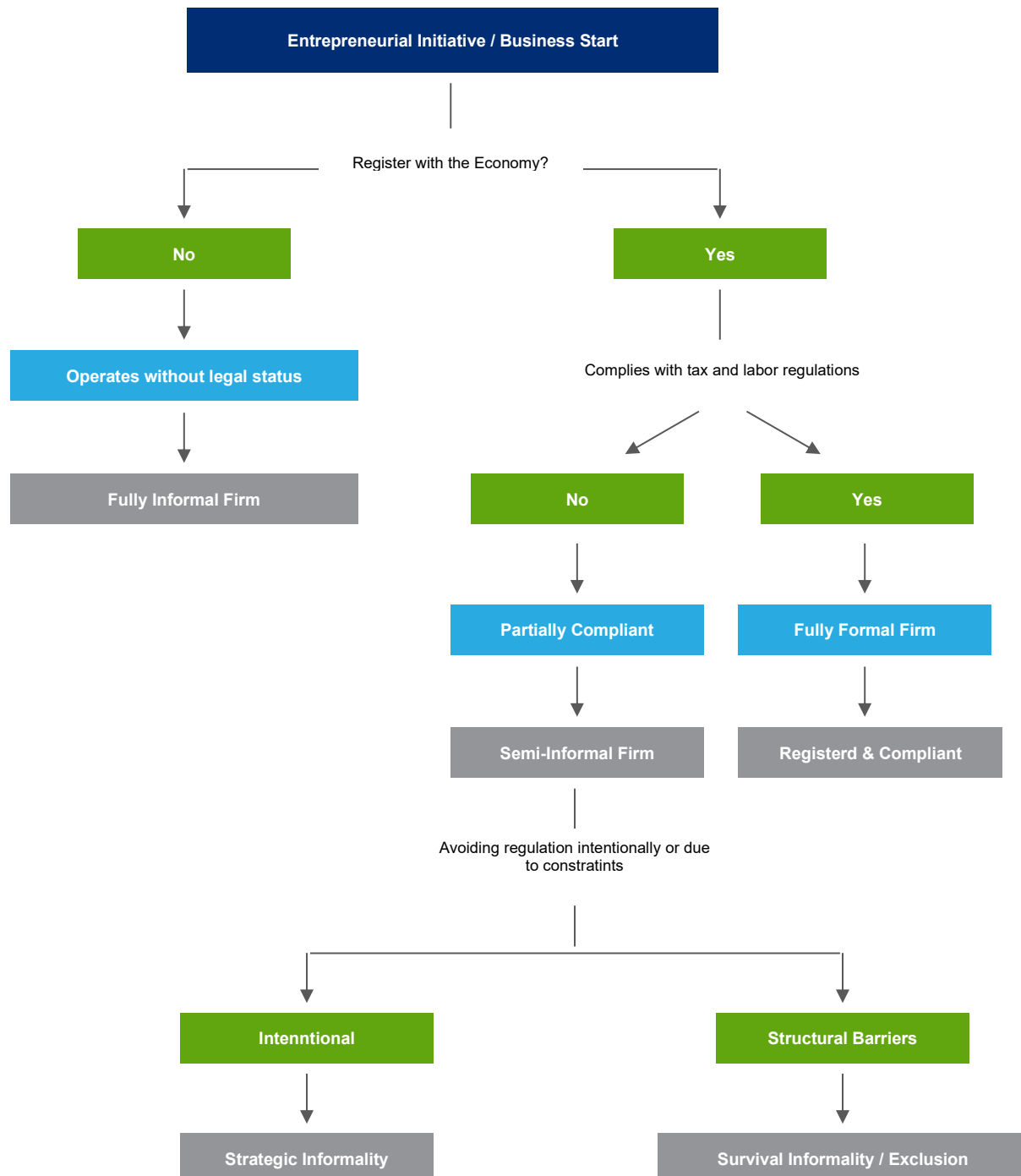
One of the most influential typologies in the literature distinguishes informal enterprises based on the primary motivation driving their creation and subsistence. This classification has generated considerable debate regarding agency and structure within the context of informality.

The first category encompasses necessity-driven informal enterprises (survivalists). This typology, often associated with the structuralist perspective of informality, describes businesses that primarily emerge as a survival strategy in the face of a lack of formal employment opportunities or persistent exclusion from the labor market. Scholars such as Chen (2012) characterize these units by their low levels of capital and skills, as their entrepreneurs typically have limited access to financial and educational resources.

Consequently, they exhibit low productivity and limited growth potential, with operations often being rudimentary, employing limited technology, and showing little innovation. They predominantly engage in subsistence activities, such as small-scale retail, basic services, or artisanal production,

focusing on generating minimal income for daily sustenance. Due to their precariousness, they demonstrate high vulnerability to economic shocks and regulatory changes, lacking buffers or social protection. Paradigmatic examples include street vendors, small family workshops, and domestic workers.

Figure 1. Trajectories of Regulatory Compliance Among Micro and Small Enterprises



Note: Based on conceptual distinctions and typologies developed by Perry et al. (2007), Maloney (2004), La Porta & Shleifer (2014), Godfrey (2011), Chen (2012), and Williams & Horodnic (2017), with interpretative contributions from Tokman (1978), Portes & Castells (1989), and the International Labour Organization (2018).

In contrast, the second category comprises opportunity-driven informal enterprises (dynamic or strategic). This typology, more aligned with the legalist view of informality, refers to businesses that choose informality as a deliberate strategy to optimize profits and circumvent costs and regulations they perceive as excessive or inefficient (La Porta & Shleifer, 2008). These businesses often benefit from higher capital and skill potential among their founders, who may possess relevant education or experience, translating into greater productivity and growth potential compared to their "survivalist" counterparts. Although operating informally, they may invest in technology and harbor aspirations for expansion.

A distinctive feature is their practice of regulatory arbitrage, intentionally operating informally to avoid taxes, social contributions, or restrictive labor regulations, which allows them to offer more competitive prices or increase profit margins (Williams & Horodnic, 2015). Frequently, these businesses establish linkages with the formal sector, functioning as subcontractors or input suppliers to formal firms, demonstrating their integration into broader value chains without formalizing their own structure. Examples include small construction firms employing undocumented labor, manufacturing workshops evading taxes, or professional services operating "off the books." Recognizing these two broad categories is fundamental for public policy, as interventions to support "survivalists" (e.g., microcredit, basic training) differ substantially from those aimed at incentivizing the formalization of "dynamic" businesses (e.g., regulatory simplification, reduction of tax burdens, improvement of state services in exchange for formality).

A third line of typologies focuses on the interconnectivity and relationships of informal enterprises with the formal sector, deepening the notion of the continuum. The idea of a spectrum has allowed for the identification of "hybrid models" or "grey zones" that defy strict dichotomous classification.

One such model is Embedded Informality. These businesses operate informally but are deeply integrated into formal value chains, acting as subcontractors or essential input suppliers (Portes, 1994). Although they may lack formal registration, their operations are intrinsically linked to the demand and quality standards of the formal sector. This typology suggests a functional informality that coexists with and, in fact, serves formality, implying that its eradication without a carefully planned transition could have negative repercussions on the formal sector itself.

Another important category is partial compliance or strategic informality. As previously mentioned in the broader discussion of informal firm characteristics, these businesses selectively choose which regulations to comply with and which to circumvent (Godfrey, 2011). An illustrative example would be a firm that registers to avoid fines or bureaucratic harassment but systematically under-declares income or employs workers without contracts to reduce labor and tax costs. This typology underscores the agency of informal firms and their ability for "regulatory arbitrage," seeking an optimal balance between the risk of detection and cost savings.

Finally, the concept of transitioning firms represents a crucial segment of informality. Especially among opportunity-driven businesses, this category includes those with explicit aspirations to formalize as they grow or seek access to new markets. These firms represent a priority target for formalization policies, as they are intrinsically more likely to respond to incentives such as access to formal credit, business training, or the possibility of participating in public tenders (World Bank, 2021). The study of these transition pathways is fundamental to understanding the "exit routes" from informality.

The development and sophistication of these typologies of informal enterprises have profound implications for the design and implementation of public policies. The era of "one-size-fits-all" solutions has been widely discredited in the literature. Instead, both international institutions and academics advocate for the adoption of differentiated and multifaceted approaches. For necessity-driven informal enterprises, the policy focus should be on providing social safety nets, access to essential basic services (health, education), training programs designed to enhance their productive skills, and

microcredit aimed at subsistence and sustainable minimal growth (ILO, 2018). In this context, full formalization might not be a realistic or desirable short-term goal.

In contrast, for opportunity-driven informal enterprises or those along the continuum with formalization potential, policies should concentrate on reducing the costs of formalization (simplifying procedures, reducing initial taxes), enhancing the perceived benefits of formality (access to broader markets, bank credit, legal protection, quality public services), and strengthening trust in public institutions (World Bank, 2021).

Finally, for those businesses that practice strategic informality or regulatory arbitrage, monitoring and enforcement policies must be smarter and more targeted, seeking to disincentivize the most detrimental practices without stifling economic activity or creating excessive barriers (Williams & Shahid, 2016). This implies a delicate balance between oversight and the offer of attractive incentives.

In conclusion, the evolution of typologies for informal enterprises, from a simple dichotomy to a multifaceted spectrum ranging from survival to strategy and hybrid positions, has substantially enriched our understanding of the phenomenon. Recognizing this diversity is crucial for designing policy interventions that are both effective and equitable, promoting sustainable transitions toward greater formalization and economic well-being. Continued research in this field is essential to refine these typologies and their practical implications, especially in heterogeneous economic environments.

4.2. SME Policy Support Mechanisms and Outcomes

While the previous section addressed the conceptual and structural dimensions of informality, this section explores the responses that local authorities, institutions, and scholars have developed to address the phenomenon—particularly in the realm of business informality. The persistent and heterogeneous nature of informal enterprises has prompted a wide range of policy strategies aimed at promoting formalization, with varying degrees of success.

Formalization is often framed as a desirable policy objective due to its potential benefits: increased productivity, improved working conditions, enhanced tax compliance, and broader access to public support mechanisms. However, the relationship between formalization and these outcomes is far from straightforward. Empirical evidence suggests that the effects of formalization differ significantly depending on the type of enterprise, the sector, and the institutional context in which it occurs. This section critically reviews the literature on the diverse institutional approaches adopted across different economies—particularly within APEC economies—and the outcomes of policies related to productivity and long-term survival.

4.2.1. Business Support Approaches to Address Informality

As mentioned in the previous sections, the pervasive and multifaceted nature of business informality necessitates a comprehensive examination of policy approaches aimed at facilitating the transition from informal to formal economic activity. The literature underscores that there's no single, universally effective solution. Instead, successful formalization strategies require a tailored, multi-pronged approach that addresses the diverse determinants and typologies of informal enterprises (World Bank, 2022).

Regarding the intervention logic, two frameworks converge. First, the "exit vs. exclusion" approach suggests that some firms choose to leave the formal perimeter after a private calculation of costs and benefits, while another fraction remains de facto excluded due to low productivity, the limited relevance of formal services, or limited state capacity. Therefore, effective policy must act simultaneously on three factors: (i) reducing the costs of becoming/being formal, (ii) increasing the benefits of formality, and (iii) mitigating risks/uncertainties throughout the firm's growth trajectory (Perry et al., 2007). A second framework comes from micro evidence: formality is correlated with higher productivity and better working conditions (Rand & Torn, 2012), but the causal effects depend on the type of firm and institutional quality. Thus, the packages are not an ad hoc list: they are the operational translation of these levers.

Under this logic, the review organizes the policy landscape into five families that directly map the cost-benefit-risk triangle: simplification and one-stop shops (costs), digital compliance and traceability (benefits and verification), finance and liquidity (cash risk), market access (credible benefits), and aftercare and capabilities (sustaining compliance and performance), complemented by pro-MSME tax regimes that smooth the transition to the system.

4.2.1.1. Regulatory Simplification and One-Stop Shops

The starting point comes from transaction cost economics and institutional theory: complex rules, extensive procedures, and discretion increase the total cost of compliance and uncertainty (Coase, 1937; North, 1990). When these fixed costs are high relative to the scale of an MSME, the likelihood of postponing or avoiding formalization increases. The administrative burden literature reinforces this intuition by documenting that time, complexity, and procedural stress reduce adherence to regulations. Empirical evidence shows that simplifying and standardizing procedures increases formal registrations and business creation (Bruhn, 2011; Kaplan et al., 2011). A contemporary extension—risk proportionality—proposes adjusting requirements according to the risk of the activity, reducing costs for low-risk activities and focusing supervision where it is most profitable (OECD, 2010/2014). In terms of design, the digital one-stop shop and predictable deadlines reduce friction and make formal permanence predictable.

Figure 2. Regulatory simplification and one-stop shops in APEC

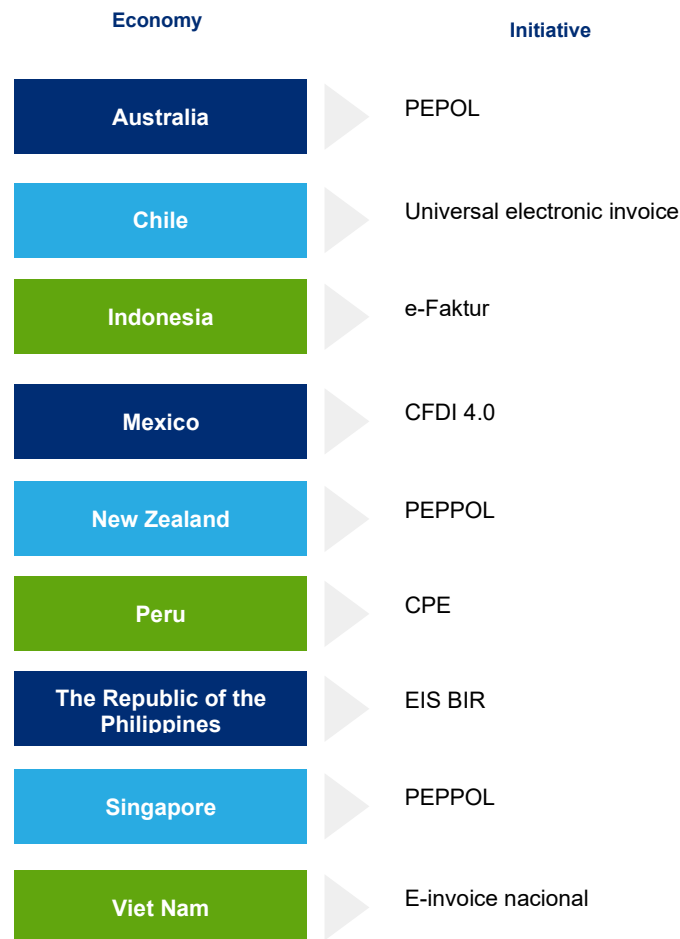
| Economy | Initiative |
|---------------------------------|-------------------------------------|
| Australia | Business Registration Service (BRS) |
| Canada | BizPal |
| Chile | Your business in one day |
| Hong Kong, China | e-Registry |
| Indonesia | OSS-RBA |
| Mexico | SARE/CONAMER |
| New Zealand | Companies Office / NZBN |
| Peru | SID-Sunarp |
| The Republic of the Philippines | Philippine Business Hub (CBP) |
| Singapore | GoBusiness and ACRA BizFile+ |
| Viet Nam | National Business Registration |

Source: Author's elaboration

4.2.1.2. Digital Compliance and Traceability

The digital compliance and traceability operate on the benefit side and its verifiability. Deterrence and third-party reporting models show that when transactions leave verifiable traces—for example, through electronic invoicing and pre-filled declarations—self-compliance increases and the scope for evasion decreases (Allingham & Sandmo, 1972; Andreoni et al., 1998). More importantly, such traceability enables B2B and B2G relationships that require formal receipts, use of tax credits, and access to invoice-based finance. The quasi-experimental evidence is compelling: the widespread use of electronic invoicing and VAT cross-taxation strengthens compliance throughout the customer-supplier chain (Pomeranz, 2015), and third-party audit studies show dramatic differences in effective compliance (Kleven et al., 2011). In design, this translates into e-invoicing with automatic validations, pre-declarations, and interoperability with payments and banking.

Figure 3. Digital Compliance and Traceability in APEC



Source: Author's elaboration

4.2.1.3. Finance and Liquidity

Finance and liquidity are so important because they address the cash risk that hinders entry and, above all, persistence in formality. The literature on investment sensitivity to cash flow and credit restrictions in small firms shows that, without working capital and mechanisms to soften shocks, firms reduce investment, employment, and the adoption of formal practices (Fazzari et al., 1988; Beck et al., 2005). In developing economies, relaxing these restrictions generates high marginal returns (Banerjee & Duflo, 2019). Politically, this translates into working capital lines, guarantees, timely payment rules, and (reverse) factoring leveraged with electronic invoices; by converting receivables into liquidity and limiting collection variability, these instruments reduce the risk of formalization and consolidate permanence.

Figure 4. Finance and Liquidity in APEC

| Economy | Initiative |
|-----------|---|
| Australia | Payment Times Reporting Scheme / Payment Times Procurement Connected Policy |
| Canada | Minimum goal of 5% purchases from indigenous businesses (PSIB) |
| Chile | Payment within 30 days |
| Mexico | Productive Chains (NAFIN) |
| Peru | Negotiable Invoice |

Source: Author's elaboration

4.2.1.4. Market Access

Even with low costs and available liquidity, formality doesn't "pay off" if there's no credible demand. The theory of linkages and signals suggests that B2G/B2B windows and public procurement programs for MSMEs act as signals of stable demand, facilitating repeatable sales and learning about quality standards. By anchoring sales to formal contracts, these schemes highlight the benefits of formality in the short term and, at the same time, strengthen tax traceability and access to credit.

Figure 5. Market Access in APEC

| Economy | Initiative |
|-----------|--|
| Australia | Commonwealth Procurement Rules + SME exemption |
| Canada | Minimum goal of 5% purchases from indigenous businesses (PSIB) |
| Chile | ChileCompra / Public Market |
| Mexico | LAASSP |
| Peru | Compras a MYPERú |

Source: Author's elaboration

4.2.1.5. Capabilities and Post-Registration "Aftercare"

Evidence on management training indicates modest effects when training is used in isolation and larger and more lasting effects when combined with technical assistance and management tools integrated into compliance (McKenzie, 2021). Mechanistically, aftercare reduces compliance errors, improves records and cash flow, and lowers the risk of relapse into informality; therefore, it works better as a complement to simplification, traceability, and access to markets/finance than as a standalone policy.

Figure 6. Capabilities and Post-Registration "Aftercare" in APEC

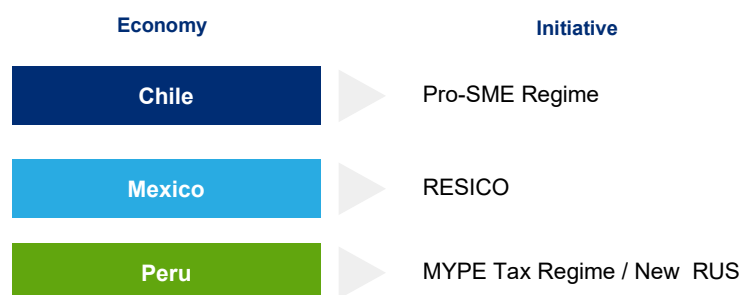
| Economy | Initiative |
|-----------|------------------------------|
| Australia | Compras a MYPERú |
| Canada | CRA Liaison Officer Service |
| Chile | Digitize your SME |
| Peru | Program "Tu empresa" / CDE |
| Singapore | SMEs Go Digital / InvoiceNow |

Source: Author's elaboration

4.2.1.6. Simplified pro-MSME tax regimes

Finally, simplified regimes smooth entry into the tax system, lowering fixed compliance costs and providing rules proportional to scale. From a legal/institutional perspective, they narrow the gap between perceived benefits and the initial costs of formalization; their effectiveness increases when integrated into one-stop shops and digital platforms.

Figure 7. Simplified pro-MSME tax regimes in APEC



Source: Author's elaboration

4.2.2. Effects of Formalization on Firm Productivity and Survival

The transition from informal to formal status is a central objective of development policy globally, driven by the expectation that formalization yields significant benefits for firms, including enhanced productivity and improved survival rates. While early theoretical arguments and anecdotal evidence often pointed to clear advantages, recent empirical literature, incorporating more rigorous methodologies, presents a nuanced and sometimes contested picture. This review synthesizes current academic findings on how formalization influences firm productivity and survival, drawing on a range of studies and perspectives.

The conventional wisdom posits a positive causal link between formalization and firm productivity. The argument hinges on the premise that formal firms benefit from enhanced access to key inputs, better management practices, and greater incentives for investment and innovation. De Soto (1989), for example, highlighted that formal property rights and legal recognition allow firms to use assets as collateral, thereby facilitating access to formal credit and larger-scale investments that can boost productivity.

However, recent empirical studies, particularly those employing more robust identification strategies to address selection bias (where more productive firms might self-select into formality), offer a more modulated view. A study conducted by Floridi et al. (2022) found that while there is a small positive effect of formalization on firm performance, a significant proportion of estimates (54%) showed insignificant effects, and rigorous designs tended to identify smaller and more dispersed benefits. In contrast to simple correlations—which show large gaps between formal and informal firms—work that corrects for self-selection suggests more limited and heterogeneous returns to formalization: in Bolivia, when estimating the effect of registering on profits, the returns are lower than those suggested by the crude comparison between groups (McKenzie & Sakho, 2010).

This suggests that simply acquiring formal status may not be a panacea for low productivity. For instance, Rand (2012), in examining formalization in Viet Nam, found that while formalizing firms made an important contribution to aggregate manufacturing SME productivity growth by growing faster

and increasing efficiency, the initial waves of formalization predominantly involved already more productive informal firms. Later, as policy changes accelerated formalization, less productive firms also formalized, which could depress average formal TFP growth, though the overall effect remained positive. In Brazil, the SIMPLES program shows local/heterogeneous impacts on performance. Overall, the balance is of benefits conditioned by the type of firm and the institutional environment (Fajnzylber et al., 2011).

Regarding productivity, the causal logic operates through three channels: access to formal inputs/markets, best management practices, and technological adoption. The OECD (2019) argues that managerial capabilities, facilitating digital adoption, and articulating innovation networks are levers that increase productivity in SMEs—but their effectiveness requires combined “packages” (not isolated measures). A key mechanism is transactional traceability: theory and evidence show that third-party records (e.g., e-invoicing) reduce information asymmetries and improve contractual and tax discipline, which in turn facilitates B2B/B2G linkages.

The relationship between formalization and firm survival is another critical area of inquiry, with complex findings that challenge simplistic assumptions. Intuitively, formalization should enhance survival by providing legal protection, access to larger markets, and better financial stability. The World Bank (2022) indeed argue that formal status provides firms with greater legal recourse, allows them to engage in more secure contracts, and broadens their customer base, thereby reducing operational risks and increasing longevity. The ability to access formal credit markets, as explored by Truong and Bui (2022) in Viet Nam, is often seen as a crucial factor, as it provides firms with the liquidity and investment capacity to weather economic shocks and pursue growth opportunities, thereby improving their chances of survival.

But this is not always the case. Survival depends critically on timely liquidity and the cost of financing working capital. The survey of enterprises made by the OECD (2020) shows that under pandemic scenarios, the Schumpeterian cleansing effect does not appear: firms of all ages and productivity levels die if there is insufficient liquidity and insolvency support, which leads to credit/guarantee schemes and predictable restructuring rules. In addition, recent empirical evidence indicates that the link between formalization and survival is not always straightforward or universally positive. Comparative analyses for Egypt find that, although formalization can broaden the tax base and better protect workers, formal costs/processes exceed the capacity of many microenterprises (Krafft et al., 2024). In fact, firm age, productivity, and owner education predict formality, suggesting that many current informal firms are not viable candidates for formalization without differentiated support.

Furthermore, research on formalization policies that reduce entry costs has yielded mixed results regarding survival. For example, a World Bank working paper on Colombia (“Live or Let Die: Formality, Firm Survival, and Credit Access in Colombia,” 2022) found that while a reform significantly increased the number of registered small formal firms, it did not provide evidence that these newly formalized firms had a higher probability of survival. This suggests that simply lowering registration costs might induce formalization among firms that are not inherently viable in the formal sector, leading to higher rates of exit despite formal status. This finding underscores the importance of considering underlying firm quality and managerial capabilities alongside formalization incentives

Grounding these mechanisms in practice, the next section profiles the five economies to contextualize how institutional capacity and market structure condition program design and take-up.

5. Economic Context

This section examines the economic context of selected APEC economies—Australia; Canada; Chile; Mexico; and Peru. It analyzes key dimensions such as macroeconomic conditions, the scale and evolution of MSEs, their contribution to employment and economic output, and prevailing levels of informality. The discussion also addresses structural barriers to business development, the enterprise environment, and the processes of business registration, and maps the ecosystems of business support and formalization policies. Through a comparative approach the section highlights patterns, disparities, and policy implications across economies, pointing to opportunities to strengthen MSE competitiveness and sustainable formalization within the APEC region.

Australia

Table 4. Overview of Macroeconomics and SMEs structure in Australia

| Economy Profile: Australia | |
|-----------------------------------|-------------------|
| GDP (2024) | USD 1.75 trillion |
| GDP per capita (2024) | USD 64,407 |
| Informal output (% of GDP, 2020) | 14% |
| Share of businesses that are SMEs | 99.8% |
| SMEs' contribution to employment | 67% |
| SMEs' contribution to GDP | 56% |

Australia's robust economy, with a GDP of USD 1.75 trillion and 4.1% unemployment (World Bank, 2025a), is underpinned by a highly fragmented, SME-led private sector. As of June 2024, small firms (0–19 employees) numbered 2,589,595 and medium firms (20–199) 68,214, together comprising 99.8% of all enterprises; large firms (200+) were 5,189 (0.2%) (ABS, 2024; ASBFEO, 2024c). SMEs are macro-relevant: in 2022–23 they accounted for 66% of private employment (5.368 million in small firms; 3.184 million in medium firms) and 56% of industry value added (AUD 589,843 million in small; AUD 409,972 million in medium) (ASBFEO, 2024a, 2024b).

The policy offer is broad, spanning advisory, mentoring, and financial instruments via business.gov.au (grants, loans, and tax concessions), but binding constraints persist: 46% of small firms report labor shortages and wage-cost pressures (ABS Business Conditions, 2022), heightening the risk of temporary non-compliance or market exit despite the two-day business registration benchmark (World Bank, 2020b). Coupled with business dynamics, including growth in non-employing firms and a less favorable survival gradient among smaller units per ABS CABEE, the picture suggests that passive program availability is insufficient. To raise productivity and survival, evidence favors

proactive bundles that combine management training, technical assistance, and compliance tools, which deliver larger and more persistent effects than standalone offers (McKenzie, 2021).

Canada

Table 5. Overview of Macroeconomics and SMEs structure in Canada

| Economy Profile: Canada | |
|--|-------------------|
| GDP (2024) | USD 2.24 trillion |
| GDP per capita (2024) | USD 54,282.6 |
| Informal output (% of GDP, 2020) | 16% |
| Share of businesses that are SMEs | 99.6% |
| SMEs' contribution to employment | 63.6% |
| SMEs' contribution to GDP | 48.3% |

Canada's economy reached USD 2.24 trillion in 2024, with a GDP per capita of USD 54,282.6, 1.5% growth, 6.5% unemployment, and 2.4% inflation (World Bank, 2025b). Within this macro context, the enterprise base is overwhelmingly SME-led: as of December 2023 there were 1.10 million employer businesses—1.07 million small (98.1%), 16,966 medium (1.5%), and 3,346 large (0.3%) (ISED KSBS, 2024). Statistics Canada's Business Counts (December 2023) also show that the 1–4 employees class is the largest, confirming a micro-heavy structure.

SMEs are macro-relevant for jobs and output. In 2023, SMEs accounted for approximately 63.6% of private-sector employment (small businesses 46.5%; medium-sized businesses 17.1%). In 2021, they contributed 48.3% of private-sector GDP (34.4% small businesses; 13.9% medium-sized businesses). These figures imply that variations in SME productivity or survival materially affect employment, demand, and the tax base.

The support architecture bundles financing, advisory, and tax education—via Innovation Canada's Business Benefits Finder and the CRA Liaison Officer program (free, confidential, one-on-one guidance). Yet structural frictions persist: SMEs rank the removal of interprovincial trade barriers as a priority, and in October 2025 weak demand was the top obstacle (52%), alongside elevated insurance (68%), tax/regulatory (67%), and wage (64%) costs. Official data also show lower survival rates among smaller firms—for cohorts starting with 1–4 employees, 62.5% remain active after five years and 44.3% after ten. Together, these pressures reveal productivity gaps and heightened exit risk within the SME segment. Policy should therefore pivot from passive program availability to proactive,

bundled outreach that integrates managerial capability building, targeted technical assistance, and simplified compliance tools.

Chile

Table 6. Overview of Macroeconomics and SMEs structure in Chile

| Economy Profile: Chile | |
|--|--------------------|
| GDP (2024) | USD 330.27 billion |
| GDP per capita (2024) | USD 16,709.9 |
| Informal output (% of GDP, 2020) | 19,4% |
| Share of businesses that are SMEs | 80,1% |
| SMEs' contribution to employment | 43% |
| SMEs' contribution to GDP | 26,1% |

Chile's GDP reached USD 330.27 billion in 2024 (GDP per capita USD 16,709.9), with 2.6% real growth, 9.1% unemployment (ILO-modeled), and 4.3% CPI inflation—i.e., moderate expansion with lingering labor-market slack and inflation back near target (World Bank, 2025a; World Bank, 2025b). Within this macro context, the enterprise base is tilted toward smaller units: in 2020, micro firms represented 61.6% of companies, small 16.1%, medium 2.4%, and large 1.17% (SII administrative data, reported by CAF, 2023), a structure associated with high sales concentration among large firms (CAF, 2023). In employment and output terms, MSMEs generate 43% of economy-wide employment (SUBREI, 2025), yet they account for only 26.1% of value added—micro 2.7%, small 12.8%, medium 10.6%—which underscores a pronounced productivity gap, especially at the micro end (Ministry of Economy, 2017; CAF, 2023).

Against this background, informality remains a significant feature of the labor market, concentrated in micro and own-account segments, amplifying survival challenges and dampening average productivity. In parallel, formalization has been streamlined via *Tu Empresa en un Día* (RES/ChileAtiende), and a broad support network—CORFO (e.g., Fortalece Pyme for digital adoption), Sercotec (e.g., Crece), FOSIS – Emprendamos (seed/early growth), SENCE (training/wage subsidies), and SII's tax-education portals—bundles finance, advisory, and compliance tools (ChileAtiende, 2025; RES, n.d.; CORFO, n.d.; Sercotec, n.d.; FOSIS, n.d.; SENCE, n.d.; SII, n.d.). Taken together, regional assessments pointing to fragmentation and ad-hocism in SME policies (Dini & Stumpo, 2020) suggest that program availability alone is insufficient; raising productivity and strengthening survival will require coordinated, sequenced bundles—managerial upgrading, targeted technical assistance, and simplified

compliance—linked to market-access pathways (supplier development and export readiness) and delivered through regional nodes with aftercare.

Mexico

Table 7. Overview of Macroeconomics and SMEs structure in Mexico

| Economy Profile: Mexico | |
|--|-------------------|
| GDP (2024) | USD 1.85 trillion |
| GDP per capita (2024) | USD 14,157.9 |
| Informal output (% of GDP, 2020) | 31,5% |
| Share of businesses that are SMEs | 99,08% |
| SMEs' contribution to employment | 68% |
| SMEs' contribution to GDP | 52% |

Mexico's GDP reached USD 1.85 trillion in 2024 (GDP per capita USD 14,157.9), with 1.5% real growth, 4.7% inflation, and 2.71% unemployment (ILO-modeled). This points to modest growth and low unemployment, with inflation above the 3% target but easing relative to 2022–23 (World Bank, 2025b). Within this macro context, the enterprise base is overwhelmingly SME-led. Using the latest census-based structure, micro firms (95%), small (4%), medium (0.8%), and large (0.2%) of establishments; in 2019 there were 4,773,995 economic units (INEGI, 2020; INEGI, 2024a). On employment and income/output (CE 2019), MSMEs employed 68.4% of personnel (micro 37.8%, small 14.7%, medium 15.9%; large 31.6%) and generated 52.2% of total business revenues (micro 14.2%, small 16.1%, medium 21.9%). These levels underscore the macro-relevance of SME productivity and survival for jobs, demand, and the tax base (INEGI, 2019 release from CE-2019).

Against this background, informality remains a major headwind: the informal economy represented 24.8% of GDP in 2023 (up from 21.9% in 2020), while business-demography evidence (EDN-2023) shows elevated churn—re-openings concentrated among informal establishments and births outpacing deaths in commerce and services—signaling fragile survival among micro and own-account units (INEGI, 2024c; INEGI, 2021; INEGI, 2024b). In parallel, Mexico has streamlined entry through the Sociedad por Acciones Simplificada (SAS)—a fully digital, no-notary incorporation track that integrates e-signature and one-stop federal procedures (name authorization, RFC and RPC inscription) under the 2016 LGSM reform (Secretaría de Economía/Gob.mx, 2016–2025). Taken together, these features suggest that program availability alone is insufficient; raising SME productivity and survival will require proactive, end-to-end packages that couple managerial capability building, targeted technical assistance, and simplified compliance tools with cash-flow smoothing (e.g., supplier

credit/factoring) and structured pathways to demand (supplier development and public-procurement linkages).

Perú

Table 8. Overview of Macroeconomics and SMEs structure in Peru

| Economy Profile: Peru | |
|--|--------------------|
| GDP (2024) | USD 289.22 billion |
| GDP per capita (2024) | USD 8,452.4 |
| Informal output (% of GDP, 2020) | 59.4% |
| Share of businesses that are SMEs | 99.4% |
| SMEs' contribution to employment | 89.4% |
| SMEs' contribution to GDP | 30.9% |

Peru's GDP reached USD 289.22 billion in 2024, with GDP per capita of USD 8,452.4 and real GDP growth of 3.3%. Unemployment was 4.8% (ILO-modeled estimate). Annual inflation closed 2024 at 1.97% (Metropolitan Lima CPI); personal remittances equaled 1.7% of GDP in 2023 (World Bank, 2025b; BCRP, 2024).

Formal MSMEs are the backbone of the private sector: 2,245,795 formal MSMEs in 2022 (prelim. 2,299,978 in 2023), representing 99.4% of formal firms: micro 94.2% (2,178,907), small 5.0% (116,577), medium 0.2% (4,494) (PRODUCE, 2024). In 2022, MSMEs generated 10.9 million direct jobs—90.6% of private-sector employment—and contributed 31.4% of economy-wide value added (at 2007 prices: PEN 178,290 million), underscoring their macro-relevance (PRODUCE, 2024).

Yet informality remains pervasive: 83.1% of MSME employment is informal, rising to 91.3% in micro-enterprises; business demography also signals churn—the MSME stock grew 6.0% in 2022, while in 2023 an estimated 148 thousand firms exited and 109 thousand returned to operation amid weak demand (PRODUCE, 2024). In parallel, crisis-era programs—Reactiva Perú and FAE-MYPE—provided liquidity that helped sustain firm continuity (BCRP, 2025), but entry costs remain non-trivial: in Doing Business 2020 Peru ranked 76th overall, with 8 procedures and 26 days to start a business, indicating scope to streamline onboarding (World Bank, 2020). Taken together, the combination of high informality, elevated churn, and entry frictions suggests that program availability alone is insufficient; raising MSME productivity and strengthening survival will require proactive, territorially delivered, sequenced bundles that integrate managerial capability building, targeted technical assistance, and

simplified compliance tools, linked to pathways to demand (supplier development and public-procurement access).

5.1. Formalization Programs and Policies

As developed in the previous section, MSMEs' contributions across the APEC economies are substantial—especially when situated within each economy's specific context. Across APEC, formalization and business support programs emerge as consequences of distinct problem sets. In high-income economies—where levels of informality are comparatively low and most firms already operate formally—the binding constraints are information frictions, compliance complexity, and access to scale-up finance (OECD 2024); entrepreneurs need clarity, predictable timelines, and streamlined interfaces to comply and grow. By contrast, in middle-income economies with higher enterprise and labor informality, the cost-benefit of formalizing is often unfavorable unless procedures, taxes, and ongoing compliance costs fall sharply and firms can quickly access finance, markets, and digital tools after registration (La Porta & Shleifer, 2014). In short, similar policy labels can conceal different objectives and binding constraints.

As a result, two dominant pathways appear (see Table 9). Australia and Canada place a coordination & scale-up emphasis—integrating information and advisory to reduce search and compliance frictions and connecting firms to scalable finance (grants, loans, and wage-subsidy schemes). Chile; Mexico; and Peru place an entry-cost reduction emphasis—one-stop/simplified registration and tax regimes (TR), paired with targeted finance, advisory, and market-access tools to make formalization stick. These emphases often coexist but succeed under different conditions and should not be judged with a single yardstick.

Beyond formal entry and compliance programs, these economies have incorporated business support mechanisms—finance, advisory, and market-linkage tools—that aim to raise MSMEs' productivity, competitiveness, and survival (see Table 9). First, scale-up finance (FN)—grants, loans, tax credits, and wage subsidies—relaxes working-capital and investment constraints, often translating into higher profits (OECD, 2024). Second, advisory and capability-building programs (ADV)—managerial, digital, and innovation support—boost firm productivity, as shown in randomized evaluations (Bloom et al., 2013). Finally, market-linkage mechanisms (MKT)—public procurements and supplier-development schemes—that generate demand and reputation effects that translate into faster growth and formal job creation (Ferraz et al., 2015).

Box 2. How to read Table 2.

The columns "Formalization" and "Business Support" indicate the primary policy purpose of each initiative.

- Some instruments deliver **"soft formalization"**⁷ (guidance/permit portals). They focus on reducing information and coordination frictions at entry and during compliance.
- Others are **"hard formalization"**⁸ tools (one-stop registration, simplified legal/tax regimes). They cut entry and compliance costs.
- Same label, different job: a check under "Formalization" can mean guidance/coordination (soft) or registration/simplification (hard), depending on the economy's binding constraint.

Table 9. Mapping of formalization programs and business support by economy

| Economy | Initiative | Formalization | Business Support |
|-----------|--------------------------------|---------------|------------------|
| Australia | Business.gov.au | X | X |
| | Advisory and Mentoring | | X |
| | Funding | | X |
| | Loans | | X |
| | Sponsorships | | X |
| | Grants and Rebates | | X |
| | Tax Benefits | | X |
| | Business Advisor | | X |
| Canada | BizPaL | X | X |
| | Expert Advisory | | X |
| | Partnerships and Collaboration | | X |
| | Tax Credits | | X |
| | Researchers and Facilities | | X |
| | Loans and Capital Investments | | X |
| | Wage Subsidies and Internships | | X |
| | Grants and Funding | | X |

⁷ Formalization (soft) refers to instruments that provide guidance or coordination at the entry stage or during ongoing compliance (e.g., portals that consolidate permits, licensing, and procedures) but do not, by themselves, execute legal incorporation.

⁸ Formalization (hard) refers to instruments that provide legal/administrative incorporation or simplified tax/registration regimes that execute or directly enable formal entry (e.g., single-window registration, simplified legal forms).

| | | | |
|---------------|--|---|---|
| Chile | Tu Empresa en Un Día | X | |
| | Abeja Seed Capital | X | X |
| | Pioneers Capital | | X |
| | Cooperative Creation | | X |
| | Formalizate | | X |
| | Emprende Seed Capital | | X |
| | Business Centers | | X |
| Mexico | Sociedad por Acciones Simplificada | X | |
| | Financing for Cooperative Societies | | X |
| | Financing for Vendors in Street Markets and Mobile Markets | | X |
| | Financing for Public Market Tenants | | X |
| | Financing for Women Entrepreneurs | | X |
| | Financing for Micro, Small and Medium Enterprises | | X |
| | Financing for Entrepreneurs | | X |
| | Surety Bond Guarantee | | X |
| | Move Your SME (Mueve tu PYME) | | X |
| | NAFIN + States Boost Program (Impulso NAFIN + Estados) | | X |
| | Business Financing | | X |
| | NAFIN Credit Factory | | X |
| | Sustainable Eco-Credit | | X |
| | Business Eco-Credit | | X |
| | Federal Supplier Contracts | | X |
| | Simplified Stock Company | | X |
| Peru | Program "Tu Empresa" | X | X |
| | Produce Más | | X |

Source: Author's elaboration based on official sources: Australian Authority (business.gov.au), Authority of Canada (Innovation Canada Platform), Authority of Chile (SERCOTEC – Technical Cooperation Service), various public financial institutions in Mexico (SEDECO CDMX, NAFIN), and Authority of Peru (Ministry of Production – PRODUCE).

Compared with several other APEC members, the five economies analyzed share three salient features in the SME support mix. First, they deploy whole-of-government digital portals and local delivery networks to reduce search and coordination costs, making information and advisory services accessible beyond the capital cities. Second, their finance instruments are broad-based and scalable—grants, tax credits, guarantees, loans, and wage-subsidy channels are routinely available to small firms,

with an emphasis on working capital and investment for productivity upgrading. Third, they increasingly use demand-side levers—public procurement and supplier-development schemes—to convert formalization into sales and learning-by-doing. Within this common architecture, Australia and Canada lean toward coordination & scale-up (compliance streamlining plus finance and hiring incentives), while Chile; Mexico; and Peru lean toward entry-cost reduction (single-window/simplified regimes) paired with finance, advisory, and market linkages so that formalization sticks. This context frames the mapping that follows.

With this policy architecture mapped, the next section tests these mechanisms against field evidence from our MSME survey and policymaker interviews.

6. Analysis

This section presents the empirical findings from the study's fieldwork, which integrates qualitative and quantitative methods to develop a comprehensive view of business formalization dynamics and enterprise-support mechanisms across five APEC economies—Australia; Canada; Chile; Mexico; and Peru. The mixed-methods design combines interviews, document review, and expert inputs from the APEC SMEWG Webinar⁹ for in-depth analysis of institutional and policy contexts, together with a structured SME survey to capture broader patterns. The empirical findings distinguish firms that participated in formalization and business support programs from those that did not, profile respondents, evaluate program impacts, and summarize MSMEs' perceptions and recommendations for future interventions.

6.1. Descriptive Statistics by Economy

This section presents the descriptive profile of the final sample of MSMEs surveyed across the five economies: Australia; Canada; Chile; Mexico; and Peru. A total of 250 firms were surveyed, with 50 observations per economy. The following analysis will focus on four core indicators selected from the survey that define the structure of the sample: years in operation, number of workers, enterprise size, legal structure, and whether firms reported receiving local support through business support formalization programs.

The objective of this section is to provide a clear overview of who the surveyed firms are by economy, situating them in terms of maturity, scale, and institutional linkage. This serves a dual purpose: first, to validate the diversity and representativeness of the dataset obtained during fieldwork of each economy; and second, to establish a baseline from which later analytical chapters can interpret differences in policy outcomes.

While the sample is numerically balanced, the composition of MSMEs differs markedly between economies. Some economies are characterized by a predominance of microenterprises and younger firms, while others show stronger representation of small or more established businesses. Patterns also diverge in workforce size and in the proportion of firms that have accessed support programs. These descriptive statistics highlight the heterogeneity of MSMEs in the region and underscore the need to consider economy-specific contexts when analyzing the effectiveness of formalization policies.

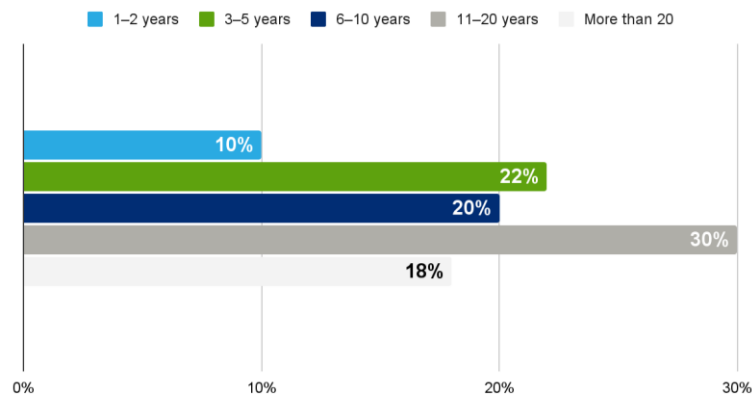
⁹ The insights referenced from the APEC SMEWG Webinar correspond to the session “Study on the Effects of Business Formalization Programs on the Productivity and Long-Term Survival of MSEs,” held on 13 November 2025 and organized by the Ministry of Production of Peru as part of the APEC SME Working Group agenda.

6.1.1. Australia

Business Years of Operation

In Australia, the sample reveals a relatively mature business profile. Almost one-third of firms (30%) have been operating for 11–20 years, and 18% surpass the 20-year mark. Taken together, nearly half of Australian firms (48%) have more than a decade of operations, highlighting the strong presence of established businesses. At the same time, younger businesses are also present, with 22% operating for 3–5 years and 10% with only 1–2 years of experience. This suggests a balanced mix between established players and new entrants, which allows us to capture the diversity of experiences of Australian SMEs.

Figure 8. MSMEs' years of operation in Australia

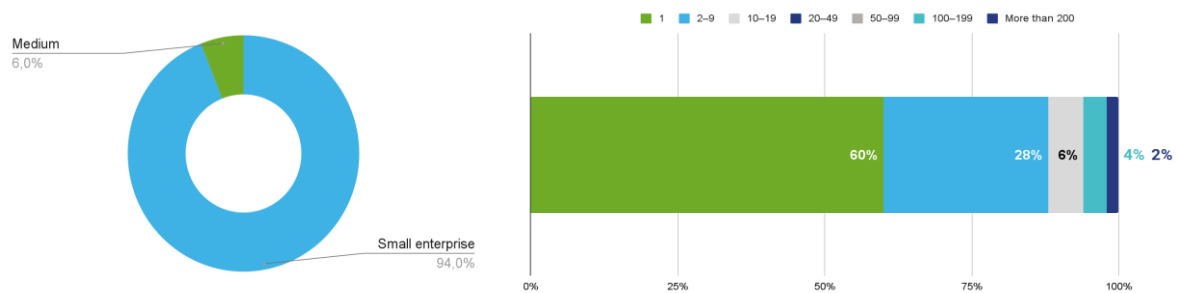


Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Number of employees and Business size

Regarding the number of employees, most firms in the Australian sample fall within the MSEs categories as defined by the economy's standards. Sixty percent are one-person businesses, and another 28% employ between 2 and 9 workers. Altogether, nearly 94% of firms fall into the micro (0-4 employees) and small (5-19 employees) categories, while 6% employ more than 20 workers, falling into the medium-sized category. This distribution suggests that, although firms operate with very reduced workforces, they tend to adopt comparatively more formal organizational structures than in other economies.

Figure 9. Distribution of Firms by Size and Number of Employees in Australia



Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

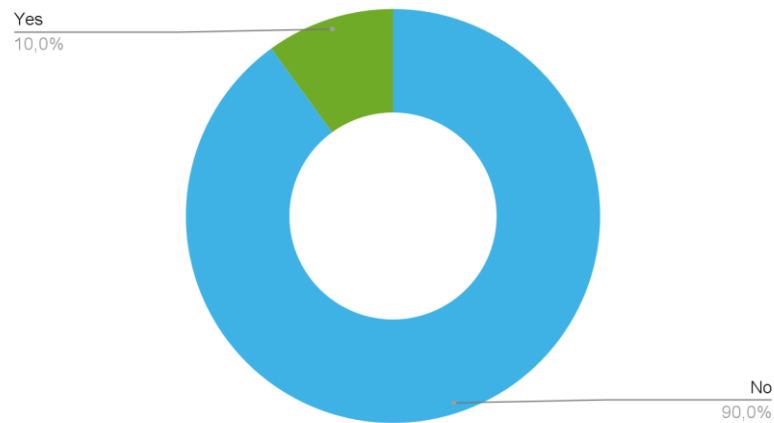
Business legal structure

Consistent with this, the legal structure of firms reflects a strong individual orientation combined with notable formalization. The majority (76%) operate as sole proprietorships, underscoring the prevalence of single-owner businesses. However, 16% are corporations, which is remarkable for small-scale enterprises and may indicate regulatory or cultural drivers encouraging formal registration. Partnerships account for only 4%, with no cooperatives or trusts reported. This dual profile—micro in size yet comparatively formal in legal status—highlights the particular institutional and business environment shaping Australian MSMEs.

Access to government programs

Beyond these structural characteristics, access to government support appears relatively limited. Only one out of 10 surveyed firms received government support, while 90% did not. This low coverage raises questions about policy targeting and outreach, especially considering that international evidence points to formalization support being more effective when smaller firms are reached early. In Australia's case, the dominance of self-employed businesses may limit both the demand for and uptake of such programs.

Figure 10. Share of Australian firms that received government support



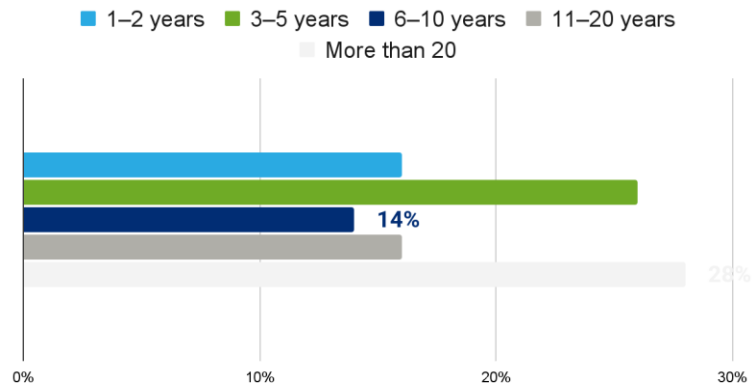
Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

6.1.2. Canada

Business Years of Operation

The Canadian sample is even more distributed across firm ages. Twenty-eight percent have been active for more than 20 years, while 26% are in the 3–5 year range, 16% have 1–2 years of operation, and 14% are in the 6–10 year range. This balance underscores the coexistence of established enterprises with strong survival records and younger firms still consolidating their market presence. Literature on SME resilience suggests that such a mix reflects a healthier business ecosystem, with firms at different stages benefiting differently from business support and formalization incentives.

Figure 11. MSMEs' years of operation in Canada

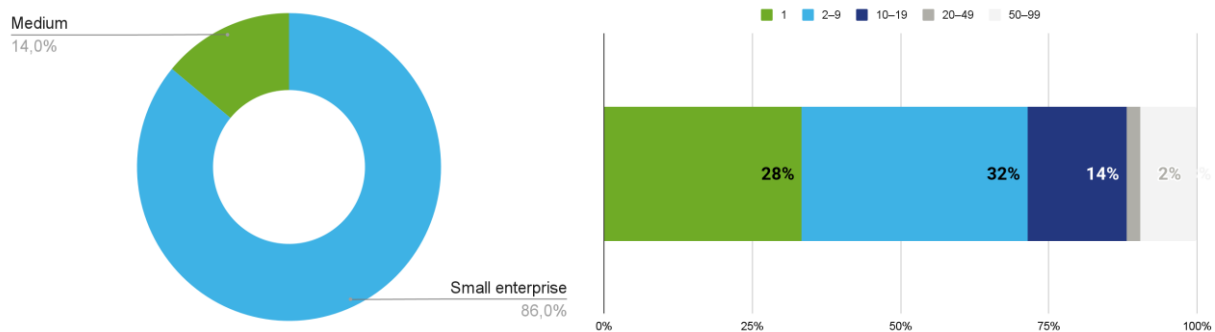


Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Number of Employees and Business Size

Although most Canadian MSMEs are very small—28% are one-person businesses and 32% have 2–9 workers—the economy stands out for a stronger presence of larger employment scales compared to the other economies. Fourteen percent employ 10–19 workers, while 2% fall into the 20–49 category. Notably, 10% of firms have 100–199 brackets, and 6% exceed 200 employees. In terms of classification, 20% are microenterprises, 66% are small enterprises, and 14% are medium-sized firms. This broader distribution is consistent with Canada's diversified SME structure and suggests a stronger institutional capacity to sustain formalization and growth over time.

Figures 12 and 13. Distribution of firm size and number of employees (Canada)



Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Business Legal Structure

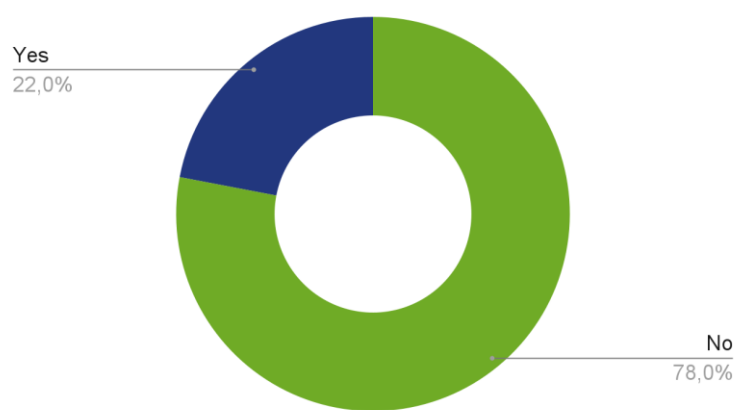
In terms of legal structure, Canadian MSMEs are predominantly sole proprietorships (64%), reflecting a strong prevalence of individual ownership. Corporations account for 16% of firms, a comparatively high share among the five economies, while cooperatives also reach a notable 12%, standing out as a distinctive feature of Canada's business landscape. By contrast, only 4% of firms are registered as partnerships, and another 4% fall under other legal forms. This distribution illustrates a

balance between individual ownership and more formal organizational structures, suggesting institutional conditions that facilitate both incorporation and cooperative arrangements within the Canadian SME sector.

Access to Government Programs

Regarding access to government programs, 22% of firms reported receiving business support or formalization programs support—more than double the share in Australia or Mexico. While this still leaves the majority without access, it may indicate that support policies in Canada have reached a meaningful segment of MSMEs. Such coverage aligns with the literature emphasizing how stronger institutional frameworks can foster higher levels of program uptake and compliance among MSMEs.

Figure 14. Share of Canadian firms that received government support



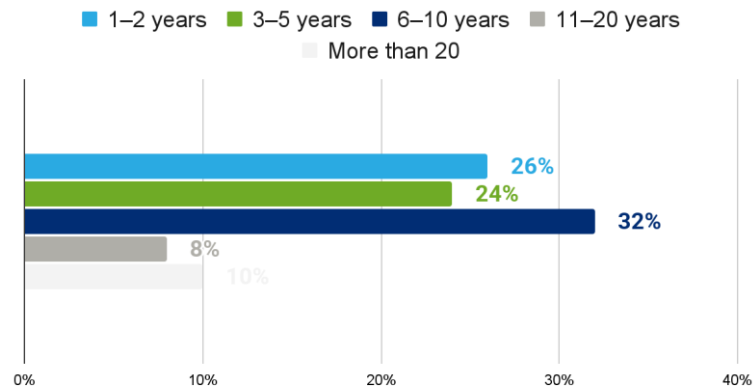
Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

6.1.3. Chile

Business Years of Operation

In Chile, the SME sample obtained is concentrated among younger but not brand-new businesses. Nearly one-third (32%) fall within the 6–10 year range, followed by 26% with 1–2 years of activity and 24% with the 3–5 year range. Only 18% of businesses have more than a decade of operation, indicating that long-term survival is comparatively less common than in Australia or Canada. This pattern reflects a business environment where renewal is frequent and continuity more fragile—an issue often linked in the regional literature to informality, productivity gaps, and barriers to scaling up.

Figure 15. MSMEs' years of operation in Chile

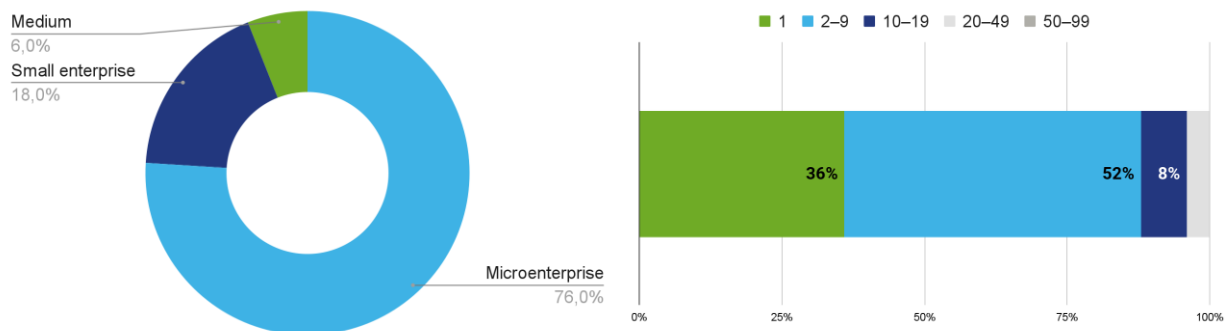


Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Number of employees and Business size

Most Chilean MSMEs are small-scale employers: 36% are one-person businesses, and 52% have 2–9 workers. Only minor shares reach higher employment brackets, with 8% in the 10-19 range and 4% employing 20-49 workers, while larger categories are virtually absent. Accordingly, 76% of the sample are microenterprises, 18% are small, and only 6% are medium-sized. This dominance of micro-scale firms is consistent with prior evidence from Latin America, where small organizational structures are often linked to difficulties in accessing finance and formal markets.

Figure 16. Distribution of firm size and number of employees (Chile)



Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

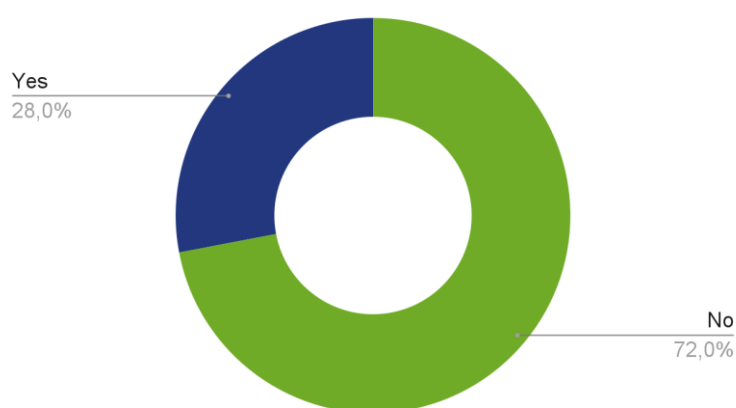
Business legal structure

In terms of legal structure, Chilean MSMEs show a more balanced composition. Sole proprietorships represent 46% of businesses, complemented by a relatively high share of partnerships (38%), which is the strongest among the five economies. Corporations are less common (2%), while cooperatives and other forms account for 2% and 12%, respectively. This structure reflects Chile's tradition of collective business arrangements and highlights a greater reliance on partnerships compared to the individual ownership patterns observed in Australia and Canada.

Access to government programs

Regarding government programs, 28% of Chilean MSMEs reported having received government support through business support or formalization programs. This puts Chile above Mexico; Peru; Australia; and even Canada but still well below the full coverage. It might indicate that while public programs have made some inroads, the majority of MSMEs—especially microenterprises—remain out of reach, echoing earlier findings about the uneven effectiveness of formalization campaigns and programs in the region.

Figure 17. Share of Chilean firms that received government support



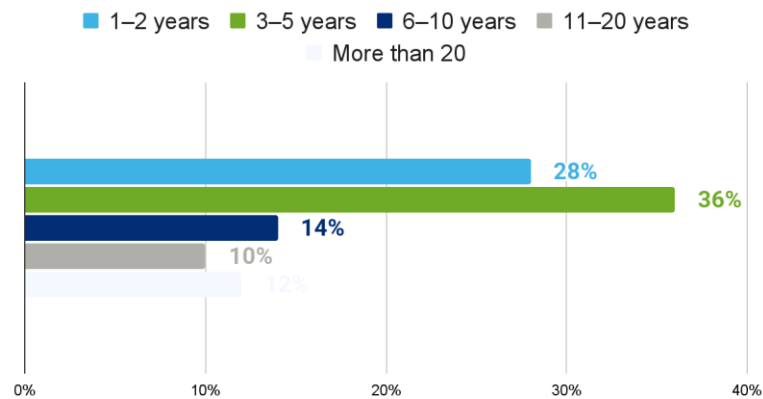
Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

6.1.4. Mexico

Business Years of Operation

Mexican MSMEs in the sample are predominantly young. Thirty-six percent have been operating for 3–5 years and 28% for 1–2 years, while an additional 14% fall within the 6–10-year bracket. In total, nearly eight out of ten firms have less than a decade of activity, and only 22% have operated longer, with just 12% exceeding 20 years. Compared to Australia or Canada—where older firms are more common—the Mexican profile reflects a dynamic yet fragile business base, with many enterprises still in early stages of consolidation. This youthfulness has often been associated with higher vulnerability to informality and business discontinuity.

Figure 18. Years of operation (Mexico)

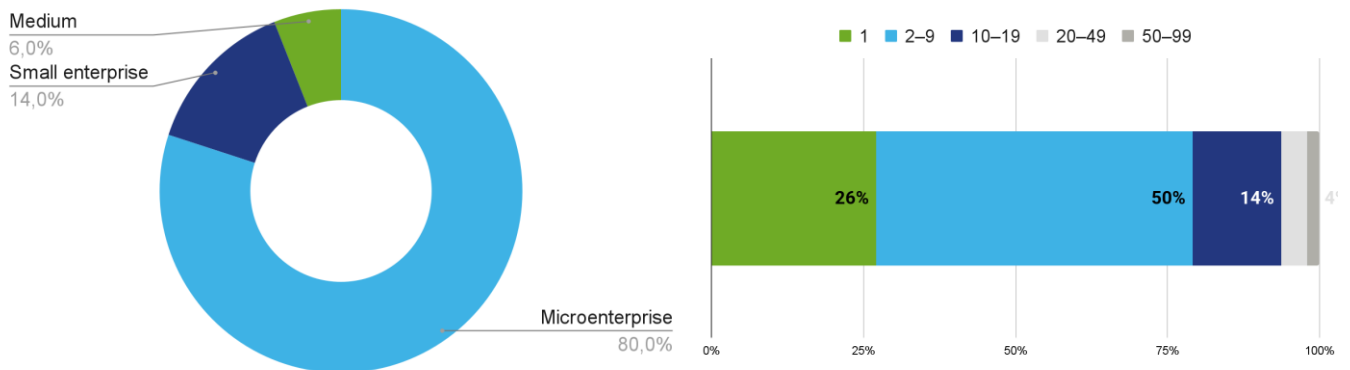


Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Number of Employees and Business Size

Turning to employment size, Mexican MSMEs are overwhelmingly micro in scale. Half of the firms employ 2–9 workers, while 26% are single-person businesses. Another 14% fall into the 10–19 worker range, and only marginal shares reach higher categories, with 4% employing 20–49 and just 2% surpassing 100 workers. This distribution translates into 80% microenterprises, 14% small, and 6% medium-sized firms. The dominance of microenterprises mirrors broader regional trends, where small firm scale has often constrained productivity and long-term survival.

Figure 19. Distribution of firm size and number of employees (Mexico)



Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

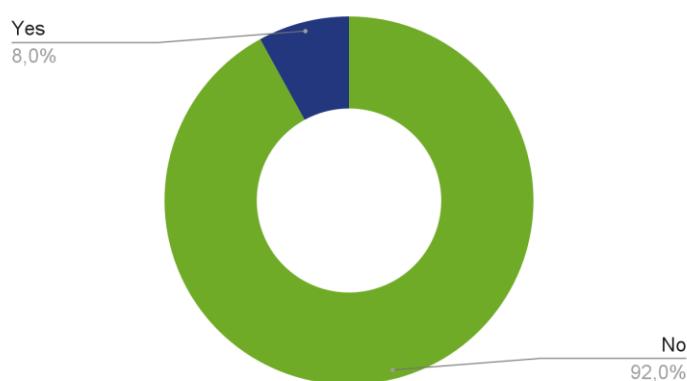
Business Legal Structure

The Mexican sample is dominated by sole proprietorships (66%), underscoring the prevalence of individually managed businesses. Partnerships account for 14% of firms, while cooperatives represent 6%. Corporations and trusts are marginal, each reaching only 2%, and another 10% of businesses fall under other categories. This distribution illustrates a predominance of small-scale, individually owned firms, consistent with broader Latin American patterns of informality, while the presence of cooperatives and partnerships reflects some degree of organizational diversification.

Access to Government Programs

In terms of government support, only 8% of firms reported receiving government support, the lowest among all five economies. The gap is particularly notable given the high prevalence of microenterprises—the group that formalization and business support programs are typically designed to reach—yet policy uptake remains very limited. Such restricted coverage may risk reinforcing cycles of informality, leaving smaller firms without incentives or support mechanisms to consolidate and remain formal.

Figure 20. Share of Mexican firms that received government support



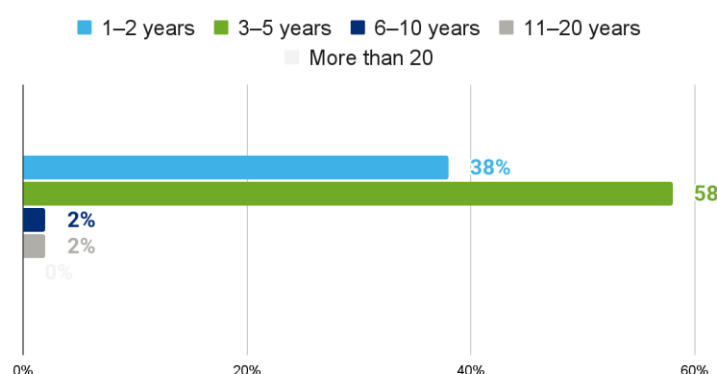
Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

6.1.5. Peru

Business Years of Operation

Peru presents by far the youngest MSME profile in the study. Fifty-eight percent have operated for 3–5 years and 38% for only 1–2 years, meaning that 96% of businesses are less than six years old. Virtually none exceed a decade of activity. This concentration in early stages underscores both dynamism and fragility: while new firms continuously emerge, sustaining them over time remains a challenge, as highlighted in the research plan regarding survival barriers.

Figure 21. MSMEs' years of operation in Peru

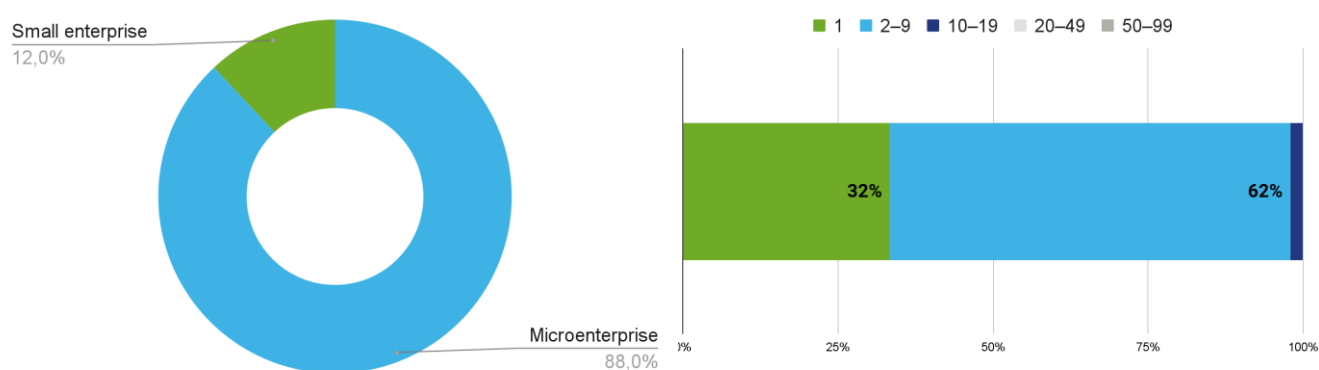


Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Number of Employees and Business Size

In terms of employment, nearly two-thirds of Peruvian firms (62%) employ 2–9 workers, while 32% are one-person businesses. Firms with larger workforces are virtually absent, with only marginal shares reaching 10 or more employees. As a result, 88% of firms are microenterprises, 12% are small, and none are medium-sized. Peru thus shows the strongest concentration of microenterprises across the five economies, a pattern consistent with regional evidence on the prevalence of informality and its implications for productivity and long-term survival.

Figure 22. Distribution of firm size and number of employees (Peru)



Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

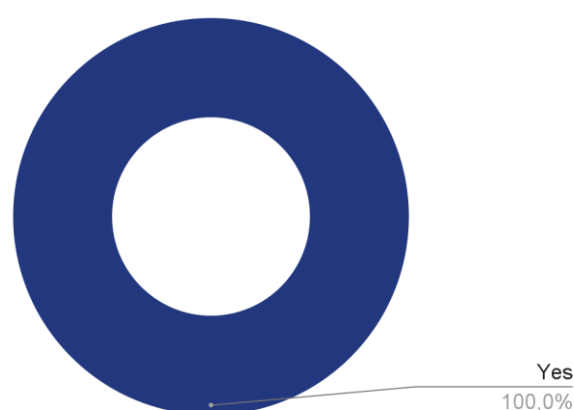
Business Legal Structure

In terms of legal structure, Peru presents a markedly different profile, with partnerships dominating the legal structure of surveyed MSMEs (54%)—the highest share across the five economies. Sole proprietorships still account for 44%, but corporations and cooperatives are entirely absent. Only 2% of firms fall into other legal categories. The unusual prominence of partnerships suggests specific institutional and regulatory dynamics in Peru, where collective arrangements may offer advantages in navigating formalization processes and accessing support programs.

Access to Government Programs

Regarding government support, all surveyed MSMEs reported having received government support related to formalization and business support. This outcome does not necessarily imply universal policy coverage but rather reflects the research team's greater outreach capacity in Peru, where access to the official beneficiary list provided by the Ministry of Production allowed to directly contact firms that had already participated in formalization programs. As a result, the Peruvian case expands the subset for analyzing the indicators related to enterprises that did receive support, offering a particularly rich dataset for that dimension of the study.

Figure 23. Share of Peruvian firms that received government support



Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Overall, the descriptive profiles highlight the diversity of MSMEs across the five economies in terms of age, size, legal structure, and access to support programs. While each economy shows distinctive patterns, what unites them is the heterogeneity of micro and small businesses and the varying degree of program outreach. These descriptive insights set the stage for the next section, which moves from economy-specific profiles to a cross-economy analysis of firms that received or did not receive support.

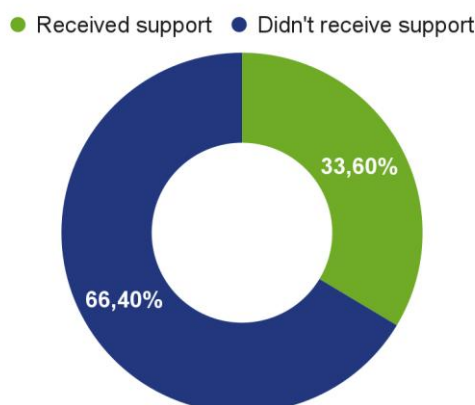
6.2. Findings

6.2.1. MSMEs that Participated in Support Programs

This section examines the subset of firms that reported receiving government support related to business support and formalization. These respondents constitute one of the most important parts of this study, as the survey aims to capture the experiences and assess the impact of business support and formalization interventions on productivity and business resilience—a visible evidence gap in the formalization literature. The analysis draws on a selection of key indicators organized into four

dimensions: business performance, access-related improvements, perceptions of compliance, risk and benefits, and the overall experience with the formalization program.

Figure 24. Share of MSMEs that participated in a support program



Sample: 50 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

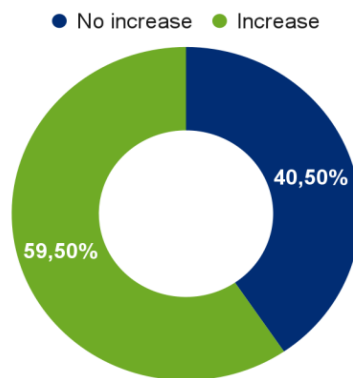
The results presented here serve a dual purpose. On the one hand, they provide evidence on tangible effects such as changes in revenues, workforce size, and access to markets and financial services. On the other hand, they shed light on how beneficiaries perceive the costs and benefits of both business support and formalization initiatives, their ability to comply with regulatory frameworks, and the extent to which support programs were accessible and effective. Together, these perspectives allow us to evaluate not only whether support interventions have generated measurable outcomes but also how firms interpret their value and sustainability.

For this report, specific indicators were selected, such as the proportion of firms reporting revenue or employment growth after receiving support, the share that accessed new markets or successfully obtained financing, and the percentage that expressed improved ability to comply with tax obligations or satisfaction with the program. These are part of a broader set of survey questions and have been selected to provide a clear first look at the most relevant dimensions of impact and perception. Additional variables from the full instrument will be incorporated in the final report. As mentioned before, 33.4% of the whole sample did receive some type of support; this means this section will be based on 84 surveyed firms.

6.2.1.1. Business Performance

This dimension examines whether support translated into measurable improvements in firms' economic activity, focusing on revenue and employment dynamics (beneficiary subsample).

Figure 25. Share of firms that reported increased revenue after accessing support



Sample: 84 firms. **Source:** Authors' elaboration based on survey data.

Across economies, support programs are associated with clear improvements in firm performance among beneficiaries. A majority of MSMEs (59.5%) report higher revenues after receiving business support or formalization. For those that grew, the typical uplift is modest but economically meaningful—about 28.75 percent on average—indicating that interventions are helping firms strengthen sales rather than producing one-off spikes.

“Informality should not be treated as an on/off switch. Many microenterprises operate in pure survival mode, and for them the real constraint is not the registration form but the lack of capabilities, productive assets and stable demand.”

(Carlos de los Rios, UNDP, APEC SMEWG Webinar, November 2025)

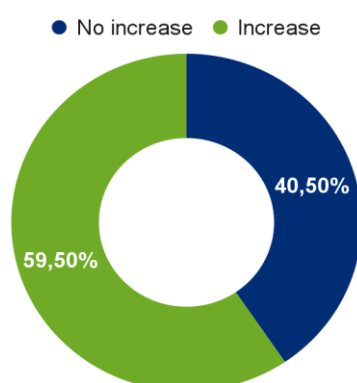
At the same time, 40.5 percent did not report revenue gains, pointing to uneven impact that merits attention in program design and targeting. Yet these initiatives cannot sustain revenue growth by themselves. Economies like Chile evidence these limits, where formal firms earn on average CLP 2.8 million per month, compared to CLP 580,000 among informal ones, but more than half of micro-entrepreneurs still earn only up to the minimum wage (CNC, 2025). As María Paz Rojas points out, registration often serves less as an endpoint and more as a gateway—opening doors to subsidies, training, and investment programs that enable some firms to expand, though results may take time to consolidate (Interview with María Paz Rojas, Ministry of Economy and Tourism of Chile, June 2025).

Still, as Carlos de los Rios stressed, formalization outcomes also depend on whether the broader enabling environment actually supports firms beyond registration. In many APEC economies gaps in infrastructure, fragmented institutional mandates, and limited coordination across levels of government make it difficult to deliver the complementary conditions that small firms need to transition and remain formal. These institutional frictions help explain why many micro-entrepreneurs enter formal

registries but struggle to translate that step into higher productivity or sustained revenue growth: the gateway opens, but the path beyond it is uneven and often incomplete.

The type of support also plays a decisive role. Beneficiaries of business operations support are more likely to report revenue increases (72%) than those receiving formalization-only support (53%). This suggests that bundling formalization with commercial and managerial tools—routes to market, billing and payments, and basic financial formalization—more effectively converts compliance into sales. Interview evidence reinforces this point across economies.

Figure 26. Share of firms that reported increased revenue after accessing support



Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

In Peru, Christian Flores highlighted Cyber Wow—the economy's largest e-commerce fair organized by the Ministry of Production—as an example of how digital training and access to online markets can rapidly expand sales for micro and small firms (Interview with Christian Flores, PRODUCE, July 2025). Similarly, in Australia, Michael Walpole explained that the ATO has complemented formalization with tools such as cash-flow management and training resources, helping supported firms consistently show positive revenue results (Interview with Michael Walpole, University of New South Wales, July 2025).

Box 3. Cyber Wow—Ministry of Production of Peru

“Formalization alone rarely delivers immediate growth; instead, revenues expand when it is paired with tools such as digitalization and market access. We have seen microenterprises that, after joining Cyber Wow, sold up to 5,000 in a single campaign.” (Interview with Christian Flores, June 2025).

Building on the insights discussed during the APEC SMEWG Webinar (November 2025), the Chilean experience offers an additional example of how an integrated and gender-responsive design can strengthen the link between formalization, productivity, and business survival.

Box 4. Capital Pionera—Chile’s gender-responsive formalization programme

During the APEC SMEWG Webinar (November 2025), María Paz Rojas from described Capital Pionera, a targeted line within SERCOTEC’s Programa Emprendedores, as an example of how formalization can be linked to improved earnings when it is combined with tailored business support.

Drawing on Chile’s 2022 Micro-entrepreneurship Survey, she highlighted that 58% of micro-entrepreneurs operate informally, and that informality is highly feminized: 63.2% of informal entrepreneurs are women, and 62.8% of them perceive their business as “too small to formalize”. At the same time, women are under-represented in more productive, male-dominated sectors, which tend to pay higher wages. This combination of high informality, concentration in lower-productivity activities, and limited access to support constrains both income growth and business survival for women-led microenterprises.

Capital Pionera was designed to respond to these specific constraints. The programme targets women entrepreneurs operating in sectors with greater male participation but higher productivity, such as mining and quarrying, manufacturing, energy and utilities, construction, automotive trade and repair, transport and storage, and related services. Beneficiaries receive a subsidy to finance a work plan that combines entrepreneurial management activities with investments, but they also go through a set of mandatory trainings that address the main bottlenecks discussed in the webinar:

- **Digitalization (e-invoicing, electronic payments):** enabling firms to bill, sell, and comply efficiently, strengthening their commercial performance.
- **Financial management and simplified accounting:** addressing key barriers that prevent women-owned firms from capitalizing on new market opportunities.
- **Business model design:** supporting the transition from subsistence entrepreneurship to commercially viable operations.
- **Time-management training:** a critical tool given women’s disproportionate unpaid care burden, which often limits revenue growth and business survival.

In María Paz Rojas’s assessment, programmes such as Capital Pionera connect them to subsidies, digital tools and managerial support, creating the conditions for more sustained revenue improvements over time rather than isolated spikes. This logic is consistent with the survey results discussed in this section, which show that enterprises receiving business operations support in addition to formalization are more likely to report revenue gains than those that only receive help with registration.

This examples underscores that to translate initial gains into lasting productivity, interventions must go beyond registration by bundling formalization with business support strategies—digitalization, subsidies, managerial training, and access to markets.

Box 5. Policy Insights on Revenue

- **Cash-flow management and training (Australia).** Formalization is complemented with managerial tools, helping explain consistent positive revenue outcomes.
- **Formalization as a gateway to subsidies (Chile).** Registration opens access to investment

and training programs, supporting growth even if gradual.

- **Digitalization and market access (Peru).** Initiatives like Cyber Wow show that revenues expand significantly when compliance is paired with e-commerce tools.
- **Wage subsidies and resilience (Peru).** Complementary instruments can raise survival from 70% to 90% among supported firms.

In contrast to the revenue results, less than half of the firms (46.5%) reported increasing their workforce, while 53.5% did not experience any growth. This indicates that job creation lags revenue gains, as many MSMEs prioritize stabilizing cash flow and operations before taking on the fixed costs of new hires—consistent with evidence that formalization can enable. However, it does not by itself guarantee employment growth in small, cost-constrained firms. Among those that did expand, the average headcount rose by 28.4%, showing that when conditions align, the employment response is meaningful. Overall, the pattern is concentrated: a subset converts support into jobs, while the majority consolidates first revenue-wise. This reflects what Australian experts described in interviews as the “true marker of success”: surviving the early years of volatility, with hiring only possible once firms gain financial stability (Interview with Michael Walpole, June 2025).

Hiring appears to be a second-stage decision rather than an automatic response to better performance. Firms first use the support to stabilize cash flow, formalize processes, and reduce operational risk; only when those gains look sustained do they take on the fixed cost of a new employee. Officials from the Ministry of Production of Peru (PRODUCE) and the Ministry of Labor of Peru (MTPE) described formalization as precisely this gateway for workers to access labor rights but emphasized that it only materializes once businesses have consolidated enough to bring staff onto payrolls.

“Formalization is not only about bringing in more taxpayers but also about helping firms grow, consolidate, and generate sustained employment.”

Christian Flores, Director, Programa Nacional Tu Empresa, PRODUCE (Interview, July 2025)

“Business formalization is the gateway to labor formalization. Through the SCORE program we worked with micro-suppliers to improve management and compliance, which enabled workers to be placed on payroll and access their rights.”

Julio Bardales, Director, Ministry of Labor and Employment Promotion – MTPE (Interview, July 2025).

In other words, the program appears to support hiring, but what really drives firms to take on employees is having operational certainty rather than just experiencing a temporary revenue increase. Programs that connect formalization with practical enablers—such as digital invoicing and payments, access to business bank accounts, and basic cash-flow tools—are more likely to

turn short-term performance gains into sustained job creation. In addition, a light and temporary measure, like a “first-hire bridge” (for example, onboarding support or short-term relief from non-wage costs), could further encourage both a greater number of firms to hire and a stronger expansion among those that do.

To complement the quantitative evidence, this section includes an insight box that synthesises recurring mechanisms emerging from interviews and qualitative analysis. These boxes are not additional data points but reflections that help explain how revenue gains can (or cannot) translate into employment and productivity improvements.

Box 6. Mechanisms linking revenue gains to employment

The heterogeneity of employment responses can be explained by three mechanisms:

- **Liquidity smoothing:** Digital invoicing and faster payments reduce the cash-flow risk of committing to a new salary.
- **Compliance made simple:** Business bank accounts and streamlined payroll processes lower the hassle cost of formal employment.
- **Credible demand:** Access to markets (fairs, e-commerce platforms, public procurement) helps convert revenue gains into repeatable sales, which ultimately justify new hires.

Taken together, the revenue and employment results show more than isolated firm-level outcomes: they reveal the mechanisms through which support programs translate into productivity. Revenue growth signals that firms are producing and selling more efficiently, while employment gains—although slower—indicate a capacity to reinvest and expand operations. Support is generally effective, although not always sufficient to change the trajectory of the business—underscoring the need for complementary tools. Moreover, operations-oriented programs generate more consistent revenue improvements than those focused solely on traditional formalization. In this sense, business performance improvements are not an end in themselves but a pathway to higher productivity. At a regional scale, these matters because MSMEs account for the majority of enterprises and jobs across the region. When support programs succeed in turning initial revenue gains into sustained productivity, they not only strengthen individual firms but also reinforce MSMEs' central role as engines of inclusive and resilient growth in the Asia-Pacific.

6.2.1.2. Access-Related Improvements

This dimension examines whether support programs—both those focused on formalization and those oriented toward business operations—translate into broader access to benefits that enable MSME growth and sustainability, such as new clients, entry into markets, and financial services. These forms of access are critical because they determine not only the immediate visibility of firms but also their capacity to consolidate and scale operations over time. However, evidence from interviews shows that these potential benefits are not automatic: without complementary tools, registration or training alone often falls short of unlocking sustained advantages.

“Success is not simply registering a business; it’s surviving those first years without collapsing under compliance and cash flow pressures”

Michael Walpole, UNSW, Australia (Interview, July 2025)

Interviews across economies reveal a shared concern: while formalization offers firms a first step toward visibility and legitimacy, its benefits are often short-lived if not paired with additional support. MSMEs face high compliance costs and administrative burdens that threaten their survival if left alone. Regarding this matter, Michael Walpole (University of New South Wales, Australia,

2025) reinforced, “Success is not simply registering a business; it’s surviving those first years without collapsing under compliance and cash flow pressures.” Similarly, another factor that stresses MSMEs is that they don’t perceive clear advantages, reflecting a gap in post-formalization services and incentives. For instance, in Canada, Duchesneau and Boichev (Corporations Canada, 2025) observed that “incorporation brings legitimacy, but too many MSMEs stop there without connecting to the programs that make it worthwhile.” These reflections highlight that microenterprise, particularly in vulnerable sectors, face high compliance costs and administrative burdens that threaten their survival if left alone

Similarly, during the APEC SMEWG Webinar, Claudio Bravo-Ortega (Adolfo Ibáñez University, APEC SMEWG Webinar, November 2025) drew on the Ruta de la Pyme project in Santiago to illustrate that many entrepreneurs simply “do not know what steps to follow”, face dispersed requirements across agencies, and encounter heterogeneous rules and costs across municipalities. In these contexts, the absence of a single, trusted point of contact—and the time required to visit multiple offices—constitutes a major barrier to accessing the very benefits that formalization is expected to unlock.

Digitalization emerged as a double-edged tool in this debate. Panelists agreed that digital tools can reduce bureaucratic costs, speed up registration, and lower the cognitive burden of compliance. As Carlos de los Ríos (UNPD, APEC SMEWG Webinar, November 2025) noted, many initiatives in Latin America have focused on using digital tools to simplify registration and reduce bureaucratic costs—an agenda that is both necessary and valuable. In Chile, for example, online registration and digital channels have eased initial formalization for many microenterprises.

“Digitalization and registration are only a first step; without capabilities, trust and access to markets and finance, formalization remains a promise rather than a real productivity gain.”

*Carlos, UNPD
(APEC SMEWG Webinar,
November 2025)*

However, Tulio Crava (ILO, APEC SMEWG Webinar, November 2025) emphasized that these digital gains remain incomplete without complementary capabilities and protections. On one hand, digital technologies expand opportunities for invoicing, payments, and participation in new commercial channels. On the other, low digital literacy, limited trust in institutions, and uneven connectivity risk excluding the most vulnerable firms and deepening existing inequalities. He also warned that platform-based business models can create new forms of informality and precarious employment if regulatory frameworks fail to keep pace.

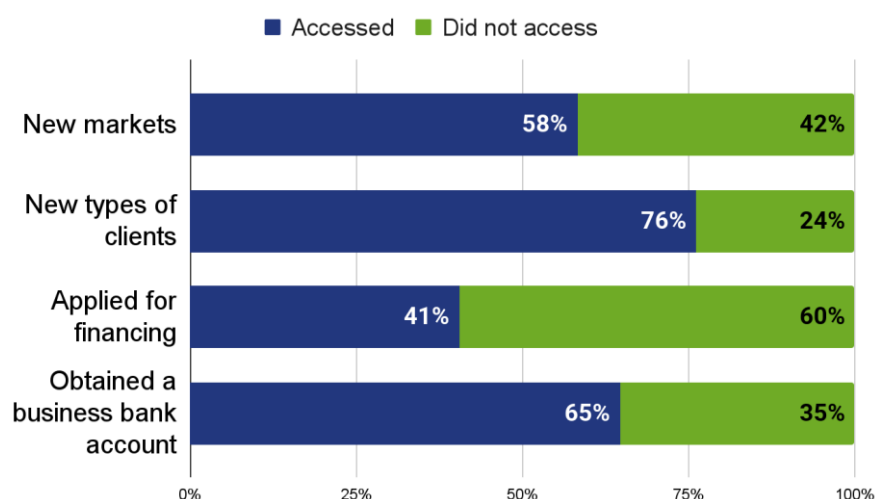
These access constraints—whether institutional or digital—also shape how firms experience the benefits of formalization over time. Stakeholders in the interviews also highlighted that formalization alone is rarely sufficient to secure lasting access to opportunities. In Chile, María Paz Rojas (Ministry of Economy and Tourism of Chile, 2025) stressed that “formalization is just the beginning—the real

impact comes when firms can access subsidies for training and investment.” A similar pattern emerged in Peru, where Christian Flores (PRODUCE, 2025) noted that “many corporate buyers now refuse to work with firms that cannot issue invoices or use bank accounts, so we integrated financial services into the formalization package.” Without such complementary measures, firms risk falling back into informality or remaining stagnant despite being formally registered.

“Many corporate buyers now refuse to work with firms that cannot issue invoices or use bank accounts, so we integrated financial services into the formalization package”

Christian Flores, Director, Programa Nacional Tu Empresa, PRODUCE (Interview, July 2025)

Figure 27. Market and financial access improvements by firms that received government support



Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Survey data reflects these perceptions. A strong majority of firms reported gaining new types of clients (76%), including buyers that require invoices, public entities needing to register purchases, and online consumers who can only pay through credit cards or digital platforms. Complementing this, 58% indicated access to new markets, showing how credibility and visibility can quickly translate into commercial opportunities. The financial dimension, however, presents a more nuanced picture. Only 41% of firms applied for credit, but among those who did, three-quarters were successful. Similarly, nearly two-thirds (65%) opened a business bank account, an institutional step that separates personal and business finances and helps build credit histories. This indicates that once MSMEs decide to engage with credit providers, formality significantly improves their chances of approval.

Experiences from high-income economies with lower informality, such as Canada, show how ecosystem design—not only firm-level interventions—can make those connections more automatic, by lowering informational, administrative and financial barriers (see Box 7).

Box 7. Lessons from Canada: What Makes Formalization Attractive?

Canada illustrates how the right ecosystem can shift the incentives toward formality. As Barbara Orser (University of Ottawa, APEC SMEWG Webinar, November 2025) highlighted during the APEC SMEWG Webinar, three elements stand out:

- **Financial inclusion:** Nearly universal access to bank accounts facilitates the transition to formal operations.
- **Digital integration:** Entrepreneurs can navigate the full range of government programmes from a single interface, reducing the cognitive and administrative load.
- **Targeted ecosystem support:** Women's entrepreneurship centres and programmes for under-represented groups ensure that benefits reach those typically left behind.

The Canadian case shows that ecosystem design—not only firm-level support—can fundamentally reshape incentives for MSMEs.

Taken together, these results confirm the qualitative insights: market access tends to expand faster than financial access, and both require deliberate efforts to connect newly formal firms with the opportunities that make compliance worthwhile.

6.2.1.3. Regulatory Compliance

This dimension assesses how beneficiary MSMEs perceive their ability to comply with the obligations that show up as a formal enterprise after receiving support, whether it's an ease or a burden.

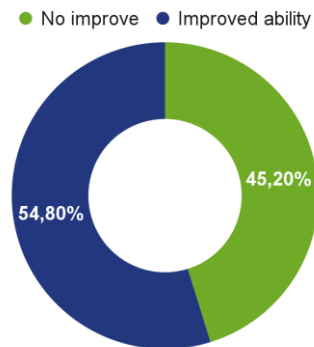
According to the survey, 54.8% of firms reported that their ability to comply with tax obligations improved after receiving support. This suggests that the programs not only facilitated certain benefits but also reduced the perceived burden of compliance for more than half of the beneficiaries. This can be interpreted as a positive signal, since, as noted earlier, tax obligations after formalization are one of the main reasons many informal businesses hesitate to formalize. However, the fact that nearly half of firms did not report such improvements indicates that the support's effectiveness in easing compliance remains uneven, potentially depending on other factors such as firm size, prior experience, or the complexity of the sectors in which they operate.

At the same time, as highlighted during the APEC SMEWG Webinar, experts stressed that improvements in firms' ability to comply do not automatically translate into a regulatory environment perceived as fair or favourable. Even when micro-entrepreneurs feel more capable of meeting their obligations, the broader configuration of taxes, permits and social policies can still make formalization look like a bad deal for them—an insight reflected in Claudio Bravo-Ortega's intervention.

“Even when firms feel more capable of complying, the broader system of taxes, permits and social policies can still make formalization look like a bad deal for micro-entrepreneurs”

Claudio Bravo-Ortega, Adolfo Ibáñez University (APEC SMEWG Webinar, November 2025)

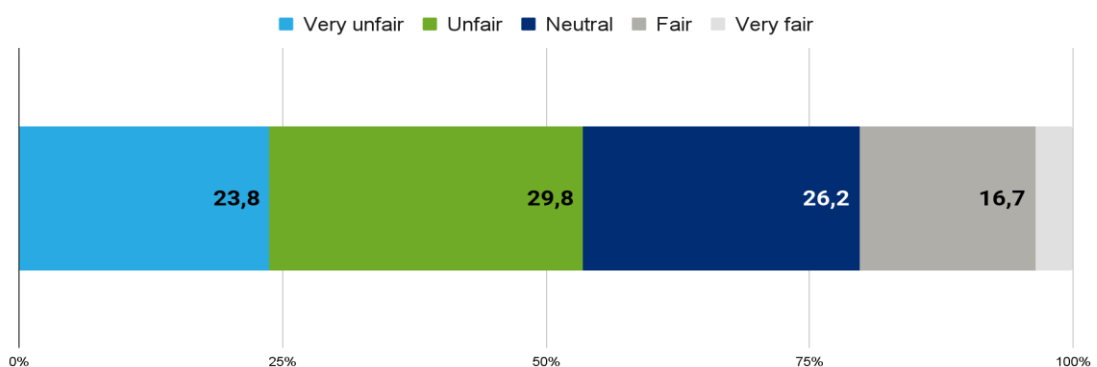
Figure 28. Share of MSMEs that improved their ability to comply with tax regulations after receiving support



Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

When asked about the fairness of the current tax system for MSMEs, opinions were more divided.

Figure 29. Distribution of the perceptions of fairness of the current tax system for MSMEs



Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Roughly 54% of respondents viewed the system as unjust (30% “somewhat unjust” and 24% “very unjust”), while only 21% considered it just (17% “somewhat just” and 4% “very just”). Meanwhile, 26% held a neutral view. This distribution highlights a persistent perception that, despite improvements at the individual firm level, the broader institutional framework continues to be seen as disadvantageous for smaller enterprises. The contrast between firms feeling more capable of complying and at the same time judging the tax regime as unfair suggests that while compliance may be technically more manageable, the associated costs and requirements are still perceived as disproportionate.

Qualitative evidence helps explain this apparent paradox. In Australia, Michael Walpole (University of New South Wales, 2025) emphasized that:

“The system is strict and can be punitive regarding deadlines and penalties, and many microbusinesses simply cannot afford professional accounting support.”

Michael Walpole, UNSW, Australia (Interview, July 2025)

This observation resonates with those firms in the survey that did not perceive improvements: although programs help some MSMEs adapt, the cost of ongoing compliance remains prohibitive for the smallest. In Peru, officials from PRODUCE and MTPE similarly emphasized that payroll and taxation requirements often lead microenterprises to avoid formalization or eventually revert to informality.

Panelists during the APEC SMEWG Webinar expanded on this dynamic by highlighting the institutional factors that shape firms’ perceptions of fairness. Carlos de los Rios (UNDP, APEC SMEWG Webinar, November, 2025) explain that, in several APEC economies, formalization reforms have concentrated on making registration easier, yet deeper bottlenecks remain untouched—fragmented mandates across ministries, heterogeneous municipal procedures, and persistent infrastructure gaps. These structural inconsistencies mean that, even when firms feel more confident completing individual tasks, the overall regulatory landscape still appears unpredictable and burdensome.

Digitalization adds another layer to this challenge. As Tulio Crava (OIT, APEC SMEWG Webinar, November 2025) emphasized, digital tools do simplify certain processes—such as invoicing or online registration—but they also introduce new risks when regulations do not keep pace. MSMEs may unintentionally violate digital requirements they do not fully understand, creating a “double burden” of traditional paperwork combined with emerging digital obligations. This reinforces the idea that compliance is not only about capacity but also about clarity and regulatory coherence.

A similar concern was raised by María Paz Rojas (Ministry of Economy and Tourism of Chile, 2025), who noted that registration rarely produces immediate benefits for microenterprises operating with thin margins, because fixed regulatory costs remain disproportionately high even after they enter the formal system. Her remarks resonate with the survey’s perception data: firms may manage to comply with individual procedures, but the cumulative weight of taxes, permits, and administrative obligations still feels misaligned with the realities of micro-scale operations.

This pattern is not unique to Latin American contexts. Duchesneau and Boichev (Corporations Canada, 2025) similarly noted that incorporation “brings legitimacy, but too many MSMEs stop there without connecting to the programs that make it worthwhile,” reinforcing that across APEC economies the challenge is not completing registration, but ensuring that firms can meaningfully benefit from it.

These structural challenges are particularly visible in Chile, where recent evidence presented during the APEC SMEWG Webinar illustrates how microenterprises encounter systemic barriers long after registration. The insights from the Ruta de la Pyme initiative provide a clear example of why many firms still perceive compliance as costly and uncertain, even when their technical ability to comply improves.

Box 8. “Ruta de la Pyme” and the Hidden Barriers to Formalization in Chile

During the APEC SMEWG Webinar, Claudio Bravo-Ortega drew on insights from Santiago’s Ruta de la Pyme project to illustrate why many micro-entrepreneurs continue to perceive formalization as disproportionately costly and risky. His intervention highlighted three sets of structural barriers:

- **Severe information asymmetries:** interviews with hundreds of formal and informal entrepreneurs, and a survey of around one thousand firms, show that many micro-entrepreneurs do not know which steps to follow, face dispersed requirements across institutions, and lack a single point of contact.
- **“Regulatory inequality” across territories:** procedures, costs and timelines differ widely between municipalities, creating unequal conditions depending on where a firm is located.
- **Perverse interactions with social protection:** some social protection schemes unintentionally discourage formalization, as entrepreneurs fear losing benefits if they reveal their income.

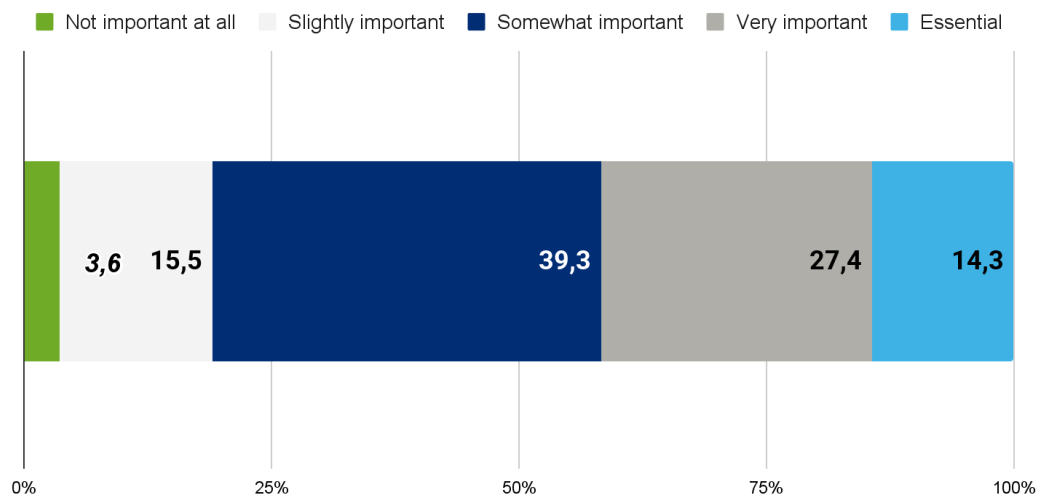
Taken together, these perspectives suggest that improvements in regulatory compliance reported by firms in the survey reflect the value of targeted support, but also that structural barriers—such as the high cost of professional services, administrative burdens, and limited immediate payoffs—continue to undermine the sustainability of formalization. For many MSMEs, the challenge is not only to become more capable of complying but also to perceive the system as proportionate and fair.

6.2.1.4. Perceived Benefits and Risks

This dimension explores how MSMEs evaluate the balance between the advantages and challenges of operating formally after receiving support. Beyond the direct business outcomes, it captures how firms perceive the impact of the received support programs to their growth potential, their overall satisfaction with the results, and the extent to which the benefits outweigh the risks. On the benefits side, most firms acknowledged clear gains and satisfaction from formalization support, as will be seen below:

When asked about the importance of formalization or business support for the growth of their enterprise, most beneficiaries recognized a substantial contribution. Over 40% considered the support either very important (27.4%) or essential (14.3%), while another 39.3% rated it as somewhat important. Only a small minority saw little or no relevance (19.1% combined). These results underscore that for the vast majority of firms, support is perceived not as a marginal intervention but as a key enabler for growth potential.

Figure 30. Distribution of the perceived importance of formalization support for business growth

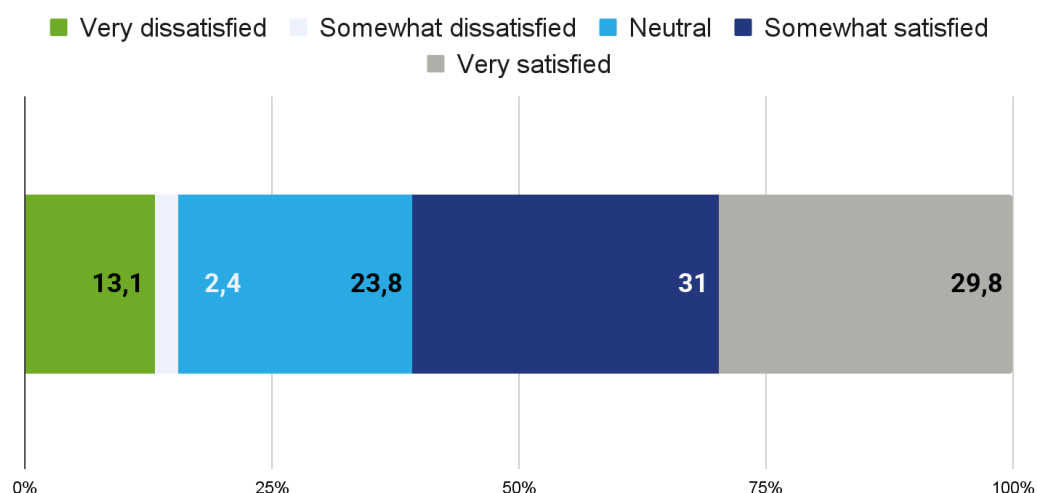


Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Qualitative perspectives help explain why these perceptions are so positive. In Chile, María Paz Rojas (Ministry of Economy and Tourism of Chile, 2025) stressed that formalization is often the entry point to subsidies for investment and training, which give microenterprises tangible benefits they could not access otherwise. In Peru, Christian Flores (PRODUCE, 2025) highlighted that integrating financial services such as business bank accounts and digital payments allowed firms to reach corporate clients, turning support into direct commercial opportunities. In Canada, Duchesneau and Boichev (Corporations Canada, November 2025) pointed out that incorporation tends to bring legitimacy in the eyes of clients and financial institutions, but its value is fully realized only when firms are effectively connected to the programmes designed to accompany their early growth. Taken together, these insights are consistent with the survey's emphasis on perceived importance: firms tend to value support when it links formal status to access to markets, finance and learning, rather than merely to compliance.

In terms of satisfaction with the outcomes of the support, responses skew positive but with important nuance. Around 61% of firms declared themselves satisfied (31% somewhat satisfied and 29.8% very satisfied), while 23.8% remained neutral and 15% expressed dissatisfaction. Beyond these proportions, this indicator carries particular weight: it functions as the most direct measure of overall program performance from the perspective of beneficiaries. Unlike more specific dimensions—such as access, compliance, or financing—this question condenses the general assessment of whether the support was ultimately worthwhile. That a clear majority reported satisfaction therefore provides a strong endorsement of the program's perceived value, even as the presence of neutral and dissatisfied firms points to room for improvement.

Figure 31. Distribution of the satisfaction with the general outcomes of the support programs

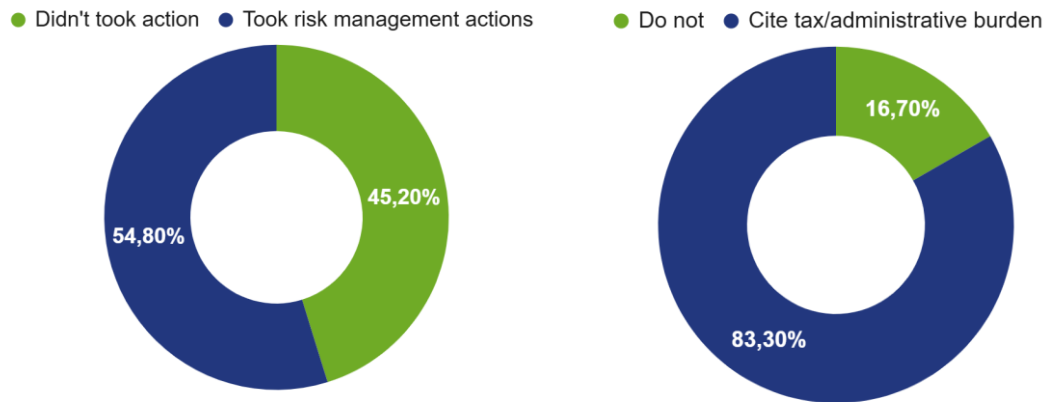


Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

At the same time, the data show that perceived benefits coexist with persistent concerns about risks and burdens. Just over half of beneficiary firms (54.8 percent) reported taking some form of risk-management action after receiving support, suggesting that formalization opened up new vulnerabilities alongside new opportunities. Among those that explained their concerns in more detail, 83.3 percent explicitly cited the tax burden or administrative requirements as ongoing challenges. This is consistent with earlier findings: while support can improve firms' technical ability to comply, many MSMEs still experience the regulatory environment as demanding relative to their financial and managerial capacities.

Insights from the APEC SMEWG Webinar help to contextualize these concerns. Panelists highlighted that, in several APEC economies, formalization has increasingly come to involve a combination of traditional and digital obligations. Tools such as e-invoicing, online registration and electronic reporting can reduce transaction costs, but, as Tulio Crava (IILO, APEC SMEWG Webinar, November 25) noted, they may also create what he described as a “double burden” when microenterprises are expected to navigate both legacy procedures and new digital requirements without adequate guidance or support. From a complementary angle, Claudio Bravo-Ortega (Adolfo Ibáñez University, APEC SMEWG Webinar, November 2025) underscored that heterogeneous municipal procedures, dispersed responsibilities and complex interactions with social-protection schemes can make compliance unpredictable, reinforcing the perception that formalization remains a risky decision for low-margin microenterprises. Carlos de los Rios (UNDP, APEC SMEWG Webinar, November 2025) added that many formalization agendas have focused on simplifying the initial registration step, but have not fully addressed deeper institutional bottlenecks—such as fragmented mandates and uneven local implementation—that shape how fair or burdensome the system feels once firms are inside it.

Figure 32. Share of MSMEs that took risk management actions and that cite tax burden or administrative costs as reasons for revenue decrease



Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Taken together, the survey and qualitative evidence reveal a nuanced picture. Beneficiaries generally perceive support as important for growth and report relatively high levels of satisfaction, particularly when formalization is linked to tangible opportunities in markets, finance and capabilities. At the same time, many MSMEs remain cautious, adopting risk-management strategies and signalling that tax and administrative demands continue to weigh heavily on their decisions. This tension between recognized benefits and persistent risks underscores that sustaining formalization pathways requires not only targeted support to individual firms but also progress in making the broader regulatory environment more predictable, proportionate and responsive to the realities of micro and small enterprises.

Box 6. Methodological note on interpreting results by firm maturity

The results presented below should be read with caution due to several factors:

- Small sample sizes in several cases (e.g., Australia n=5, Mexico n=4), which make percentages highly unstable.
- High sensitivity of results to individual responses, since a single observation can shift the distribution substantially.
- Limited cross-economy comparability, since differences reflect both firm maturity and program design in each context.

For these reasons, the findings should be understood as indicative trends rather than statistically robust estimates.

6.2.1.5. Effects of business maturity

The results by company maturity show distinct patterns in terms of motivations, outcomes, and perceptions of the formalization process. First, young companies (1–5 years old) tend to formalize primarily to access new markets and comply with legal requirements. In Peru, for example, nearly 45% of young firms identified access to clients as a key motivation, while in Chile and Mexico this group also valued technical training and improved reputation. In contrast, more mature companies (more than 10 years old) tend to associate formalization with image consolidation, access to public procurement, and market stability, reflecting that their incentives are more linked to expanding their position than overcoming initial barriers.

These patterns resonate with the discussion during the APEC SMEWG Webinar, where panelists underlined that many micro and small enterprises begin their trajectory in clear “survival mode”, and only later transition towards more strategic use of formalization. Carlos de los Rios (UNDP, APEC SMEWG Webinar, November 2025) described this as a kind of “graduation pathway”: early stages require basic inclusion and protection, while more mature firms need instruments to consolidate productivity and expand their market footprint. The survey evidence by age group mirrors this logic, with younger firms focusing on immediate access and older ones emphasizing reputation and stability.

Formalization appears especially relevant in early stages for easing access to financial services. In Canada, 75% of young firms reported opening a business bank account, compared to 100% among older firms. In Peru, only 53% of 1–2 year-old firms obtained a business account, but the proportion rose above 75% among those with more than five years of operation, reaching 100% in the oldest groups. This indicates that programs have their greatest impact on reducing initial barriers to financial access, while for mature firms such outcomes are nearly universal.

Perceptions of change also vary by age. In Australia and Peru, younger firms were more likely to report improvements after receiving support, whereas older firms more often selected “no change” and, in some cases, even perceived additional burdens. This indicates that formalization and business-

support programs tend to raise the compliance and capability baseline of emerging firms, but their marginal effect is more limited for enterprises that are already accustomed to regulatory processes and have internalized many formal obligations. As Tulio Crava (ILO, APEC SMEWG Webinar, November 2025) noted during the webinar, the impact of support is strongest when it addresses the most binding constraints at each stage of the firm's life cycle; for more mature businesses, these constraints are less about initial registration and more about competing in dense markets, meeting complex regulatory requirements and managing cumulative costs.

The effects on trust in institutions are less homogeneous and appear to be shaped as much by context as by business maturity. In Australia, 80 percent of younger firms reported increased trust in government after receiving support. In Canada, Chile and Peru, however, the majority of firms (between 55 and 70 percent) reported no change in their level of trust, regardless of age. This suggests that the credibility of institutions depends not only on the firm's stage of development but also on the broader institutional environment into which support is embedded. During the APEC SMEWG Webinar, panelists emphasized that where procedures are fragmented or unevenly enforced—as Claudio Bravo-Ortega (Adolfo Ibáñez University, APEC SMEWG Webinar, November 2025) illustrated with the case of heterogeneous municipal rules in Chile—even effective programs may struggle to shift perceptions of the state among more experienced firms that have accumulated negative interactions over time.

Business maturity also shapes how firms assess the importance of support for growth. In Peru, 36 percent of young businesses considered formalization or business support “somewhat important” and 32 percent “very important”, whereas among more mature firms these shares tend to decline. For enterprises still consolidating, support is perceived as a critical lever to overcome initial barriers; once firms reach a certain level of stability, they rely relatively more on their own capabilities and networks, and perceive public support as one input among many. This echoes Barbara Orser's (University of Ottawa, APEC SMEWG Webinar, November 2025) reflections during the webinar: as firms grow, their ability to navigate the system improves, and the incremental value of generic support falls unless instruments become more tailored to their evolving needs.

Satisfaction patterns follow a similar gradient. Young businesses tend to show higher satisfaction levels, often because they experience visible short-term changes such as access to bank accounts, simplified procedures or clearer guidance on compliance. In Australia and Canada, more than half of young firms declared themselves “somewhat satisfied”, and around 20 percent “very satisfied”. In Chile and Peru, satisfaction is more evenly distributed across categories, with a significant proportion of mature firms reporting neutral or even unsatisfactory results. One plausible interpretation—consistent with webinar insights—is that more experienced firms have higher expectations regarding the scope and depth of support, and are more sensitive to structural constraints that remain unaddressed for example, complex taxation or uneven local regulation.

Finally, the factors that motivate remaining in the formal sector also differ by maturity. Across all groups, the “desire to grow the business formally” is the most common factor (between 68 and 80 percent), but younger firms place relatively greater weight on incentives, subsidies and access to finance, whereas mature firms prioritize elements such as reputation, market stability and access to public procurement. In other words, early on, remaining formal is closely tied to short-term opportunities and immediate support; later, it is anchored in longer-term strategic positioning. This life-cycle perspective is consistent with the graduation pathways discussed by panelists: initial policies must remove entry barriers and provide basic protection, while subsequent stages require more sophisticated tools to sustain productivity and competitiveness.

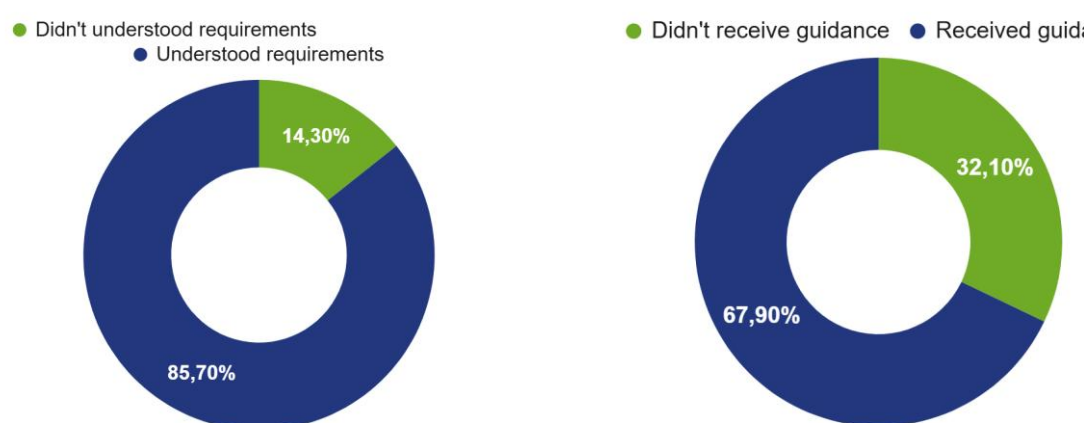
Overall, these findings suggest that business maturity conditions both the motivations and the perceived benefits of formalization. Young firms need support that reduces barriers to entry—bank accounts, training, regulatory simplification and basic market access—while more mature firms require instruments that help consolidate their reputation, expand markets and improve stability in more complex operating environments. For APEC economies, this implies that effective formalization strategies should not rely on a single model, but adapt interventions to where firms are in their trajectory, in line with the “graduation” logic emphasized during the APEC SMEWG Webinar.

6.2.2. Experience with the Formalization Program

This dimension addresses MSMEs’ experience regarding the accessibility, clarity, and effectiveness of the support program. It examines whether firms understood the requirements and steps involved, whether they received guidance during the onboarding process, and how useful they found digital platforms in completing formalization procedures. Together, these indicators provide a connected view of how accessible and user-friendly the program was from the perspective of its beneficiaries.

Survey results suggest that, for those who participated, the user journey was largely positive. Clarity of information was relatively strong: 85.7 percent of firms reported that they fully understood the requirements and steps of the support program. This indicates that communication and explanatory materials were generally effective in helping MSMEs know what was expected of them. At the same time, 67.9 percent stated that they received guidance during the onboarding or application process, underscoring the importance of direct assistance in ensuring that firms could navigate administrative procedures without perceiving them as overly burdensome.

Figure 33. Share of MSMEs that understood the requirements and steps of the support program and share of MSMEs that received guidance during the onboarding or application process.



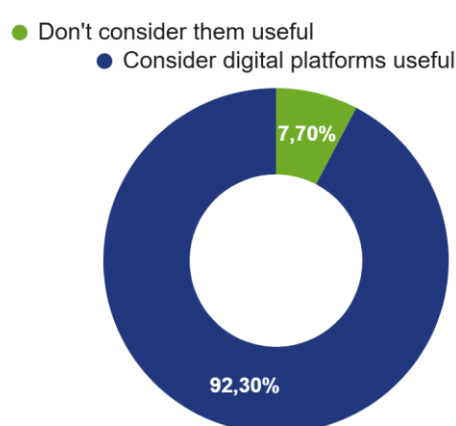
Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Interview insights reinforce these findings and help explain the nuances behind the numbers. In Peru, Christian Flores (PRODUCE, 2025) emphasized that guidance is crucial, as many entrepreneurs get lost if left alone with digital platforms—explaining why nearly 70% highlighted the value of personalized support. This resonates with the fact that, while most firms report clarity and guidance, a minority still struggles to complete the process independently. Similarly, in Australia, Michael Walpole (University of New South Wales, 2025) observed that although procedures are digital and transparent, microbusinesses often face difficulties with technical tax terminology, highlighting that formal clarity does not always translate into practical comprehension.

The APEC SMEWG Webinar further illuminated these issues from a regional perspective. Drawing on the experience of Chile's business development centres, María Paz Rojas (Ministry of Economic and Tourism of Chile, APEC SMEWG Webinar, November 2025) explained that face-to-face advisory services can be decisive for entrepreneurs who need to understand not only what steps to follow but also how those steps interact with sector-specific regulations and local permits. However, she also pointed out that these personalized services are constrained by budget and staffing limitations, raising questions about how to scale human support while retaining quality. Claudio Bravo-Ortega added that, beyond the boundaries of specific programmes, many micro-entrepreneurs still face severe information asymmetries and fragmented points of contact across institutions, suggesting that the relatively positive experiences captured in the survey may not yet reflect the reality of the broader MSME universe.

Digital platforms played an important role in the experience of beneficiaries. Among firms that used them, 92.3 percent considered these tools useful for completing formalization procedures—aggregating responses that rated them as moderately, very or extremely useful. This indicates that technology has been a powerful lever to reduce entry barriers and simplify interactions with public institutions. At the same time, the fact that not all firms engaged with digital platforms, and that a minority still reported confusion or the need for intensive guidance, points to remaining gaps in digital readiness and literacy among some segments of the MSME population.

Figure 34. Share of MSMEs that consider digital platforms useful for completing formalization procedures.



Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

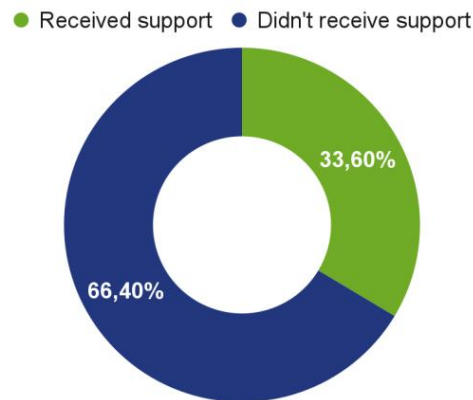
The webinar discussion characterized digitalization as a double-edged tool in this regard. Carlos de los Rios (UNDP, APEC SMEWG Webinar, November 2025) recognized that many initiatives in APEC economies have successfully used digital tools to simplify registration and reduce bureaucratic costs—an agenda that is both necessary and valuable. Tulio Crava (ILO, APEC SMEWG Webinar, November 2025) stressed, however, that when digital channels are not accompanied by investments in digital skills and clear regulatory guidance, they can generate a “double burden”: entrepreneurs must navigate both legacy procedures and new online obligations, increasing the risk of unintentional non-compliance. This concern is consistent with survey evidence showing that, even in programmes perceived as clear and supportive, a subset of firms still takes additional risk-management measures and remains wary of the complexity of the system.

Taken together, the survey, interviews and webinar insights present a coherent picture. For participating MSMEs, the formalization and business-support programs are widely perceived as clear and accessible, and digital tools have been instrumental in lowering barriers. At the same time, the experience of panelists and practitioners highlights that accessibility depends not only on technology, but also on tailored human support, stable local institutions and efforts to address information asymmetries beyond the boundaries of individual programs. From a policy perspective, this points to the value of hybrid models that combine user-friendly digital platforms with proximity services—coaching, advisory centres and targeted outreach—to ensure that the formalization experience is truly inclusive across different types of MSMEs and territories.

6.2.3. MSMEs that Did Not Participate in Support Programs

This section analyzes the subset of MSMEs that reported not having accessed any government support programs. Exploring this group is essential, as the research plan already noted that understanding both beneficiaries and non-beneficiaries provides a fuller picture of the reach and legitimacy of policy interventions, especially given that usual program coverage is inherently limited. While previous sections focused on outcomes for supported firms, here the emphasis shifts to identifying gaps in outreach, awareness, and perceived usefulness of potential programs. These insights help clarify not only why some firms remain outside the system but also how future initiatives can be adapted to their needs. The surveys that reported to not have participated in any type of support program are 66.4% of the total database, which is 166 cases.

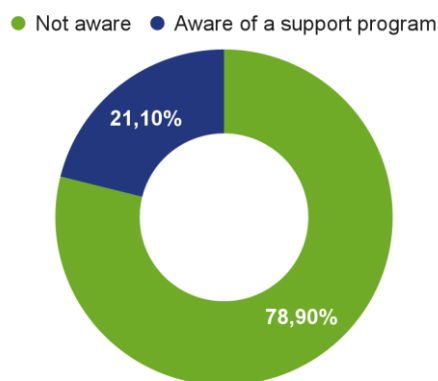
Figure 35. Share of MSMEs that did not participate in any type of support program



Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

The first finding is that most firms without prior participation lack knowledge about available initiatives. Only 21.1 percent of non-beneficiaries reported being aware of any program, entity or initiative that offers business or formalization support. The low awareness rate points to a visibility problem: even where support exists, many MSMEs do not recognize it as accessible or relevant to them. This result is consistent with earlier evidence that program reach is often constrained by communication and targeting rather than intent or budget alone. During the APEC SMEWG Webinar, Claudio Bravo-Ortega (Adolfo Ibañez University, APEC SMEWG Webinar, November 2025) illustrated this blind spot using evidence from Santiago's Ruta de la Pyme: many micro-entrepreneurs “do not know what steps to follow”, face dispersed requirements across agencies, and lack a single, trusted point of contact. From this perspective, low take-up is less a matter of disinterest than of navigating a system that is fragmented, time-consuming and difficult to decode.

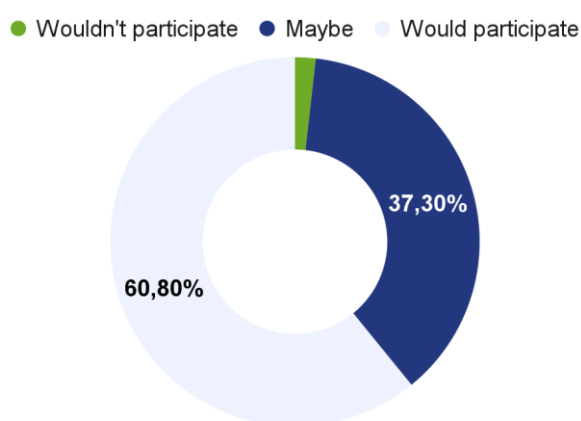
Figure 36. Share of MSMEs that did not know any type of support program



Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Despite this limited awareness, non-beneficiary firms show substantial latent demand for support. When asked whether they would participate in a program if it were free and tailored to their needs, 60.8 percent responded positively. This suggests that the main barrier is not an intrinsic aversion to formalization or public programs, but the absence of clear entry points and a compelling value proposition. Carlos de los Rios (UNDP, APEC SMEWG Webinar, November 2025) emphasized this point during the webinar, noting that many informal entrepreneurs in Latin America are, in fact, willing to formalize but remain in “survival mode” and lack a sequenced, credible pathway that starts with basic inclusion and gradually builds capabilities and protection. In that context, it is unsurprising that many MSMEs stay outside existing programs even if, once asked directly—as in this survey—they express willingness to participate.

Figure 37. Share of MSMEs that would participate in a support program in the future



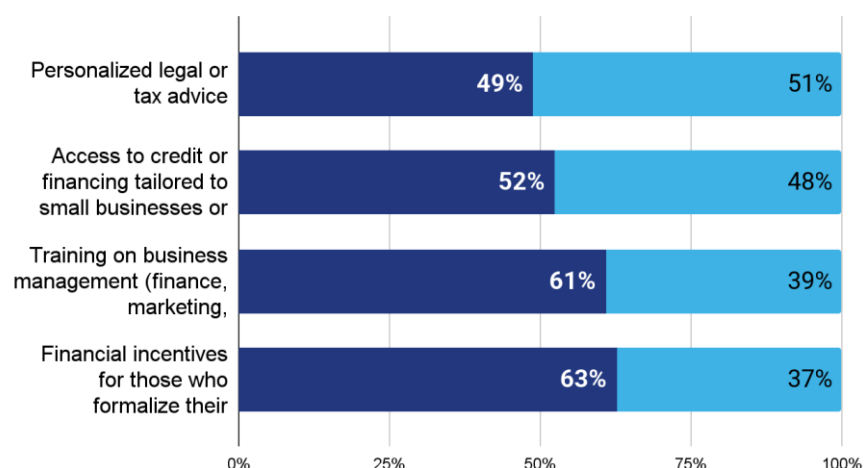
Sample: 84 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

The panel discussion also shed light on why certain groups are particularly hard to reach. María Paz Rojas (Ministry of Economy and Tourism of Chile, APEC SMEWG Webinar, November 2025) highlighted that many women-led microenterprises operate under intense time and care constraints, which limits their capacity to search for information, visit multiple offices or experiment with unfamiliar procedures. If support is not visible, integrated and easy to navigate, they simply cannot afford the additional burden. Barbara Orser (University of Ottawa, APEC SMEWG Webinar, November 2025), drawing on experience from Canada and W20 work, stressed that when programs are fragmented or scattered across agencies, entrepreneurs—especially women with very limited time—tend to “disconnect” from the system for long periods. Her argument reinforces what the survey suggests: there is demand, but it is conditional on having offers that are easy to find, bundled and adapted to real constraints.

When asked which forms of assistance would be most valuable, responses concentrate in resource-intensive and capability-building areas: legal or tax advisory (51.2%), access to adapted financing (47.6%), business management training (39.2%), and economic incentives for those who formalize (37.3%). The pattern closely mirrors that observed among beneficiary firms, confirming that both groups identify finance, compliance support and managerial capabilities as the levers most closely associated with tangible improvements. As Tulio Crava (ILO, APEC SMEWG Webinar, November 2025)

argued in the webinar, informal firms respond to structural incentives: if tax regimes, inspection practices and social protection rules make informality appear safer or more “rational”, they will not engage with programs that do not clearly shift that balance in their favour. The demand for high-value, problem-solving services captured in the survey speaks directly to this need for visible, credible benefits.

Figure 38. Top four types of support considered most useful



Sample: 166 firms. **Source:** APEC SMEWG_205_2023A Survey (2025).

Taken together, these findings suggest that the main challenge for non-beneficiary MSMEs is not lack of interest but lack of connection. Programs are often invisible, hard to interpret or insufficiently adapted to the circumstances of entrepreneurs operating in survival conditions or under heavy time and care constraints. Webinar panelists repeatedly stressed that diffusion, ecosystem design and the credibility of public offers are as important as the content of individual programs. In this sense, the evidence on non-participants complements the analysis of beneficiaries in earlier sections and points to a central policy lesson: expanding formalization and business-support outcomes requires not only effective tools for those already inside the system, but also deliberate strategies to reach, inform and convince those who have remained outside it so far.

7. Conclusions

Based on the initial analysis of both qualitative fieldwork and quantitative survey data across five APEC economies—Australia; Canada; Chile; Mexico; and Peru—the following preliminary conclusions can be drawn:

SME structures differ, but their systemic role is universal.

Across all five economies, MSMEs represent the majority of businesses and a crucial share of employment, confirming their structural importance to growth and inclusion. Advanced economies such as Australia and Canada operate within diversified, service-oriented economies and low informality environments, while Chile; Mexico; and Peru combine higher levels of informality with tighter credit markets and segmented regulatory frameworks. Despite these contrasts, MSMEs remain the foundation of domestic production networks and local value chains.

The cross-economy evidence reaffirms what the literature consistently observes: the smaller and younger the enterprise, the more dependent it is on the quality of its surrounding institutional environment—particularly the ease of entry, access to finance, and the predictability of rules. In this sense, the productivity of MSMEs is not intrinsic but institutionally mediated.

1

Formalization translates into productivity only when paired with operational support.

Across all cases, legal registration alone seldom changes firms' trajectories. Gains in productivity and survival arise when formalization is accompanied by instruments that facilitate compliance, liquidity, and access to markets. This confirms findings from the literature review highlighting formality as an enabling condition rather than a guarantee of better performance.

In high-capacity economies, the challenge is ensuring that formalization leads to actual service uptake—moving beyond “being on the registry” to “operating effectively.” In lower-capacity contexts, the challenge is the inverse: ensuring that entering the formal system produces an immediate and tangible benefit. In both, the lesson is clear—formalization must translate into practice.

2

Three mechanisms drive enterprise-level impact

First, liquidity smoothing through e-invoicing, prompt payments, and simplified taxation allows small firms to mitigate cash-flow volatility and reinvest in operations.

Second, compliance made simple, via business bank accounts, streamlined payroll onboarding, and digital guidance, reduces the administrative cost of formality.

Third, credible demand through procurement access, e-commerce participation, and business fairs transforms temporary revenue increases into repeatable sales.

Firms that benefit from these combined levers report faster productivity gains and greater survival odds than those relying on isolated interventions. This multi-channel logic echoes APEC evidence that productivity growth in SMEs follows from bundled interventions rather than single instruments.

3

Firm maturity shapes what formality means in practice.

Young firms view formalization as entry and legitimacy; mature ones associate it with credit access, tax predictability, and contracting stability. Policies must therefore be sequenced along a continuum of consolidation—from entry to compliance, liquidity, market demand, and capability building. Survey evidence confirms that early-stage enterprises respond best to coaching and onboarding support, while older firms value reduced transaction costs and procurement opportunities.

This “maturity gradient” explains heterogeneity in impact and underscores the need for differentiated support paths, not one-size-fits-all schemes.

4

Institutional coordination and delivery capacity explain divergent outcomes.

In advanced economies, integrated digital portals and reliable data systems enable coordinated delivery and rapid monitoring. In developing ones, fragmentation and limited follow-up dilute program visibility and continuity. Still, targeted initiatives such as Chile's Empresa en un Día, Mexico's simplified tax regime, and Peru's digital invoicing rollout demonstrate that even modest reforms can yield large productivity effects when they reduce transaction costs.

The contrast shows that institutional interoperability—the ability of registries, tax, and payment systems to “talk” to each other—is a hidden driver of policy effectiveness. Where systems connect, onboarding accelerates and compliance becomes habitual.

5

Awareness and accessibility remain binding constraints.

Non-participation is seldom a matter of disinterest. Many SMEs remain unaware of existing programs or perceive them as complex, irrelevant, or too digitalized for their capacities. The survey confirmed that firms that received any form of onboarding or outreach were significantly more likely to report revenue growth and continued program use. This “access gap” highlights the importance of user-centred design and communication—ensuring that policies reach not only those already equipped to participate but also micro, women-led, and rural enterprises that often remain excluded.

6

Inclusiveness and resilience are linked through formalization.

Across economies, formality increases firms' likelihood of accessing financial and policy support, while informality amplifies vulnerability. Women-led and very-micro enterprises face dual barriers—time constraints and limited liquidity—that reduce take-up rates. Programs embedding simplified procedures and predictable payments narrow these gaps. Evidence also suggests that formal and digitally connected firms were more resilient to shocks, aligning with literature that associates formality with adaptive capacity and crisis recovery.

7

Sectoral and locational heterogeneity matter for impact.

Evidence across economies shows that manufacturing and tradable-service SMEs convert formalization into productivity faster, as they already operate with formal buyers and financial institutions. By contrast, micro and local-service enterprises, especially in Chile; Mexico; and Peru, face thinner margins and limited digital or financial access; for them, the main bridge to performance is gaining a first predictable market and timely payments.

Micro enterprises experience higher compliance costs and rely more on hybrid delivery models, combining digital tools with in-person guidance—an approach that the survey confirmed as key for take-up among microenterprises. These contextual asymmetries suggest that productivity effects are strongest when policy design matches real operating conditions, aligning instruments with sector, size, and geography.

8

Data systems are not ancillary—they are part of the policy itself.

Economies with robust SME data systems—such as Australia’s ATO analytics or Canada’s CRA portals—show faster learning cycles and better targeting. By contrast, limited coverage in Latin American economies restricts visibility on non-participants and weakens impact evaluation. Embedding data collection (e.g., e-invoicing, digital payroll) within program design is therefore both an implementation tool and a monitoring mechanism. Information is infrastructure for effective formalization policy.

9

Toward an APEC vision of formalization-to-practice.

Findings from all economies converge toward a common architecture for effective formalization:

- Entry through simplified, interoperable registration;
- Compliance via guided onboarding to tax and payroll systems;
- Cash-flow support through digital finance and milestone-based credit;
- Demand generation through procurement and digital marketplaces; and
- Capability building via advisory and after-care services.

This sequence forms the foundation of an emerging “APEC model” that connects regulatory status to productive practice. Delivery should be digital-first but human-supported, especially for microenterprises and first-time formalizers

10

Regional alignment without uniformity.

At the APEC level, convergence lies in shared principles rather than identical instruments: usability standards for business portals, interoperability between tax and payment systems, and a concise set of behavioral indicators—active e-invoicing, payroll onboarding, access to first market, and firm survival at 12/24 months. At the economy level, policy sequencing must reflect local priorities: coordination and scale where informality is low; immediate entry benefits and bundled post-registration services where informality is high. This dual structure balances comparability with flexibility.

11

From evidence to strategic direction.

Taken together, the findings confirm that formalization and business-operations support strengthen MSME productivity and resilience when treated as a continuous policy journey rather than a one-off event. Success depends on how effectively governments link registration, liquidity, and market access into a coherent pathway that turns formality into everyday functionality.

The regional opportunity now lies in codifying this pathway as a shared APEC framework—anchored in evidence, measurable through simple indicators, and adaptable to diverse institutional realities. Doing so will not only enhance the competitiveness of MSMEs but also reinforce their role as engines of inclusive and sustainable growth across the Asia-Pacific.

12

The next section translates these conclusions into a practical APEC-oriented sequence—linking entry, compliance, liquidity, demand, and aftercare—together with simple metrics for monitoring.

8. Recommendations

8.1. Across Economies

1 Bundle Services to Lower Barriers and Link Formality to Profitability

Formalization should not be treated as a stand-alone act of registration but as the entry point to a bundled service path. It is recommended that formalization programs and policy approaches combine access to immediate enablers—such as a business bank account, simplified tax onboarding, and activation of e-invoicing and digital payments—with business support for growth and survival, including a first commercial route (for example, fairs, e-commerce onboarding or procurement opportunities) and basic managerial advisory.

Across economies, legal registration alone seldom changes firms' trajectories; gains in productivity and survival arise when formalization is accompanied by instruments that facilitate compliance, liquidity and access to markets. In high-capacity economies, the challenge is to move from “being on the registry” to “operating effectively”, while in lower-capacity contexts it is to ensure that entering the formal system produces an immediate and visible benefit. In both cases, the core recommendation is the same: formalization must translate into practice, by linking entry into the system with concrete tools that make doing business easier and more profitable.

2 Use hybrid delivery models: digital-first but human-supported

Digital platforms have become a central tool for simplifying registration and compliance, but many micro and small enterprises still struggle to navigate them on their own. It is recommended that economies adopt hybrid delivery models that combine user-friendly online portals with proximity support—advisory centres, coaching, helplines and targeted outreach through local governments, associations and other ecosystem actors.

For first-time formalizers and microenterprises, step-by-step guidance can make the difference between completing the process and disengaging from it. Hybrid models also help build digital capabilities and trust in institutions over time, ensuring that digitalization lowers barriers instead of creating new divides. In practice, this means designing programmes from the outset as digital-first but human-supported, so that no firm is excluded simply because it cannot decode procedures or platforms alone.

3 Convert Latent Demand by Closing the Awareness Gap

Scaling impact also requires moving Many MSMEs remain outside support programmes not because they reject them, but because they do not know they exist, do not see them as relevant, or find them too complex to navigate. At the same time, a large share expresses willingness to participate if offers are free, tailored and clearly explained.

It is recommended to invest in proactive, user-centred outreach: simple messages about the immediate value of formalizing, visible entry points, and multi-channel communication through local governments, business associations, financial institutions and digital platforms. The objective is to transform latent demand into effective participation, especially among micro, survival and women-led enterprises.

4 Automate MSME Finance to Achieve Scale and Resilience

Formal status often improves the chances of obtaining credit, but many MSMEs still refrain from applying due to perceived complexity, weak collateral or unstable cash flows. To unlock the productivity and resilience gains associated with finance, it is recommended to develop automated financial mechanisms linked to formal status and supported by guarantee schemes.

Examples include pre-approved working-capital lines, products based on transaction and e-invoicing histories, and simplified credit tailored to micro and small firms. Embedding such instruments within formalization support helps ensure that entering the system is accompanied by more predictable liquidity and better capacity to withstand shocks.

5 Tailor Program Support Based on Business Maturity

The impact of formalization and business-support programmes differs across the firm life cycle. Younger firms tend to value reductions in entry barriers, coaching and first access to markets, while more mature firms prioritize tools for market expansion, cash-flow stabilization and lower cumulative compliance costs.

It is recommended that programmes incorporate at least a basic segmentation by maturity stage, distinguishing between early-stage firms and more consolidated businesses and adapting services accordingly. This “graduation” logic improves the relevance of support, increases satisfaction, and makes better use of

6 Mainstream Gender and Inclusion in Formalization and SME Support

Women-led, minority-owned and very small enterprises face higher constraints in time, liquidity and access to information and networks. Generic, “gender-neutral” programmes tend to reproduce these gaps. It is recommended that formalization and SME-support policies systematically integrate a gender and inclusion lens: explicit participation goals for women-led and under-represented firms, criteria that prioritize their entry into higher-productivity sectors, and flexible training formats that reflect care and time constraints. Strengthening ecosystem actors that work with these groups can further help entrepreneurs navigate offers and translate formal status into tangible improvements in income,

limited public resources.

7 Strengthen coordination, standardize core procedures and embed rigorous evaluation

Fragmented mandates, heterogeneous local procedures and weak feedback loops often dilute the effectiveness and perceived fairness of formalization policies.

To address this, it is recommended to reinforce coordination between central and local authorities and gradually standardize core procedures and minimum service standards for registration, licensing and basic compliance. Integrated digital gateways should provide a single entry point for registration, key obligations and access to support. In parallel, programmes should embed monitoring and evaluation from the outset, allowing governments to identify which combinations of tools work best for different types of firms and to adjust instruments and budgets accordingly.

9 Consolidate hybrid digital-human delivery models

Digital platforms can significantly reduce transaction costs and make procedures more transparent, but many micro and small firms still need personalised guidance to understand requirements and feel confident using online tools. It is recommended to design hybrid delivery models

security and opportunities.

8 Treat data systems as core infrastructure for SME policy

Effective formalization and SME support depend on the capacity to see which firms are entering, which are using services, and which are being left behind. It is recommended to treat data systems—such as e-invoicing, digital payroll and unified business registries—as integral parts of policy design rather than technical add-ons.

Robust, interoperable data allows for better targeting, early identification of at-risk firms, and more precise evaluation of programme impact. Over time, this supports a shift from generic interventions to evidence-based portfolios tailored to different sectors, sizes and territories.

10 Build an APEC learning framework for “formalization-to-practice”

The experiences of the five economies show that similar principles can be implemented through very different institutional arrangements. To convert these lessons into a shared asset, it is recommended to develop an APEC-level learning framework focused on “formalization-to-practice” pathways.

This could include a small set of common indicators (such as active registration, use

that combine user-friendly digital portals with proximity services such as advisory centres, helplines, and targeted outreach. This approach ensures that the benefits of digitalization extend to firms with low digital literacy or limited connectivity and that no group is excluded simply because it cannot navigate fully online programmes.

of e-invoicing and payroll systems, access to a first formal market and survival at 12/24 months), regular peer-learning exchanges, and a repository of tested instruments. Such a framework would help economies compare progress, identify adaptable practices, and gradually converge around what works, while preserving flexibility for local conditions.

8.2. Differentiated Pathways by Policy Route

Bundle Services to Lower Barriers and Link Formality to Profitability

In economies where informality is comparatively low and most firms already operate within the formal system, the main challenge is not “getting on the registry” but turning legal status into day-to-day viability. In these contexts, policy should focus on stitching incorporation to a bundle of services: hands-on onboarding that translates tax and regulatory rules into operational routines, practical cash-flow tools, and scalable finance (such as grants, loans, tax credits or wage subsidies) delivered through integrated digital portals. Survey results showing high levels of understanding of program steps and broad satisfaction with digital platforms suggest that this model works well for firms that manage to enter the system, but also that those who never reach—or cannot navigate—online channels remain at risk of falling through the cracks. A hybrid approach, digital-first but human-supported, is therefore key to converting legal clarity into operational clarity for micro and small enterprises.

Where informality is structurally higher, the calculus is different: cutting entry costs is necessary but insufficient unless the first day of formality also unlocks the ability to transact with modern buyers. In these settings, simplified or one-stop regimes should be paired with “day-one” banking, e-invoicing and digital payments, so that new formal firms can invoice, get paid and start building a record with lenders and large purchasers immediately. Experiences from Chile; Mexico; and Peru show that administrative simplification becomes far more powerful when it is combined with after-care services, advisory support and access to liquidity instruments that help firms survive the first formal years, rather than treating registration as an isolated milestone.

Across both types of contexts, the evidence from the survey, interviews and webinar discussions points in the same direction: formalization pathways work best when they are bundled, sequenced and adapted to the policy environment, rather than offered as stand-alone procedures. Framing formalization as an integrated package—with after-care, hybrid delivery and aligned financial and demand-side levers—allows APEC economies to convert one-off registration into durable productivity and survival gains, while using segmentation by size, sector and maturity to keep interventions precise and cost-effective.

Annexes

Annex 1: Survey Link

Full Survey in both English and Spanish:

- https://es.surveymonkey.com/r/CV7D59J?ticket=%5Bticket_value%5D

Annex 2: List of Stakeholders Interviews

| Economy | Date | Specialist Name | Entity |
|-----------|--------------|----------------------|--|
| Australia | 28 July 2025 | Michael Walpole | University of New South Wales (UNSW) |
| Canada | 09 June 2025 | Michel Duchesneau | Corporations Canada |
| Canada | 09 June 2025 | Georgi Boichev | Corporations Canada |
| Chile | 17 June 2025 | María Paz Rojas | Ministry of Economy and Tourism of Chile |
| Mexico | 04 June 2025 | Rosa Carvallo | Consultant |
| Peru | 04 July 2025 | Ana Virginia Moreira | International Labor Organization (ILO) |
| Peru | 20 June 2025 | Christian Flores | Peru's Ministry of Production |
| Peru | 18 June 2025 | Julio Bardales | Peru's Ministry of Labor and Employment Promotion (MTPE) |

Annex 3: List of Webinars Speakers

| Economy | Specialist Name | Entity |
|---------|----------------------|--|
| Peru | Carlos de los Rios | United Nations Development Programm (UNDP) |
| Chile | María Paz Rojas | Ministry of Economy and Tourism of Chile |
| Peru | Tulio Crava | International Labor Organization (ILO) |
| Canada | María Paz Rojas | Ministry of Economy and Tourism |
| Chile | Claudio Bravo-Ortega | Adolfo Ibáñez University |

Annex 4: Panel 2 – Questions, Answers & Policy Implications

- Moderator: Marian Licheri | Carlos de los Ríos & Maria Paz Rojas

| | Question | Key Points | | Common patterns | Policy implications |
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| | | Carlos | Maria Paz | | |
| Q1 | Why, if formalization is so complex, do we still focus mainly on business registration? What are the challenges to go further? | <p>Region tends to treat informality as an individual choice and focus on registration costs (De Soto legacy).</p> <p>Stresses structural barriers, weak institutions, and lack of enabling conditions and coordination across levels of government.</p> | | Formalization is not just “registering a firm” but dealing with deep structural and institutional constraints. | Policies should move from registration-only reforms to systemic approaches that address institutional coordination, infrastructure gaps, and enabling conditions for formal labour markets. |
| Q2 | What is the role of digitalization? How can we strengthen it? What are its pros and cons? | <p>Digitalization is “two-sided”: simplifies bureaucracy (IDs, bank accounts, tax registration) but can deepen inequalities due to low digital literacy and low trust.</p> <p>Argues that digitalization should focus on capacity-building, not only digital registration.</p> | | Digitalization helps, but only if combined with human capacities and trust-building. | Design digitalization strategies linked to training (digital skills, compliance, management), and ensure they do not exclude firms with low digital literacy or connectivity. |
| Q3 | Given that productivity is often the main “promise” of formalization, how would you describe the constraints and the pathway when we prioritize productivity? | <p>Proposes a graduation model:</p> <p>(1) basic inclusion (minimal registration + basic tools/insurance);</p> <p>(2) capacity-building (technical assistance, productive assets);</p> <p>(3) full formalization and consolidation (e-invoicing, digital finance). Emphasizes heterogeneity of informality by sector/territory.</p> | | Formalization should be seen as a multi-step pathway, not an on/off switch; productivity and formalization must advance together. | Promote sequenced “graduation” programs that combine initial inclusion, targeted productivity support, and then full formalization, differentiated by sector, size and territory. |
| Q4 | In Chile, how do you balance digital efficiency and human support so that micro-enterprises move from “knowing the | | Highlights the gap between registration and real operation. Explains efforts to coordinate permits, create a single communication channel, offer both | Hybrid model: digital plus human support; clarity of processes and requirements is crucial. | Invest in “one-stop” service models (online + in-person) that help firms translate formal status into day-to-day compliance, especially around |

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| | rules" to day-to-day formal practice? | | digital and in-person procedures, and support firms in taxation, which is a major difficulty. | | taxation and sector-specific permits. |
| Q5 | How can Chile (and others) address the challenge of scaling up in-person, close support while keeping it effective? | Notes budget constraints and the impossibility of rapidly reaching millions of micro-enterprises. Emphasizes time, incentives and decentralization (empowering regional and local governments). | Describes Sercotec Business Development Centers across Chile providing free, personalized advisory. Recognizes they don't reach everyone but are an important complement to digital tools. | Recognition of fiscal limits and the need for scalable hybrid models: territorial centers + mass digital tools. | Scale territorial support centers (like business development centers) while using digital tools for reach; pair this with decentralized implementation and realistic long-term horizons. |
| Q6 | How should we prioritize between types of support (finance, market access, managerial skills, digital skills, etc.) now that the process has already started? | Argues for working on two fronts: (1) simplification and cost reduction; (2) improving the environment for survival-mode firms (assets, information, skills). Notes high willingness to formalize but low information and limited access to productive assets. | | Support must combine simplification with strengthening productive capacity, especially for survival enterprises. | Design integrated packages that combine regulatory simplification, information services and access to productive assets and skills, particularly for micro and survival firms. |
| Q7 | How do we reach micro-enterprises, especially women-led and minority-led, with coaching, seed capital and a gender lens? | | Explains Chile's gender mainstreaming in productive development programs: differentiated financing for women-led firms, programs like Capital Pionera in male-dominated sectors, and childcare during trainings so women can participate. | Need for gender-responsive design and acknowledging time/care constraints as structural barriers. | Embed a gender lens in all MSME programs (differentiated financing, childcare, targeting women-led firms in high-productivity sectors) rather than keeping gender as a separate, isolated component. |
| Q8 | Looking ahead, how do we ensure sustainability and survival of firms once they formalize? How do we prevent backsliding into informality? | Emphasizes aftercare: decentralization, continued incentives and support after registration. Suggests integrating MSEs into public procurement and value chains to | Highlights that training and support build transferable capabilities: even if a business fails, individuals can start new ones. Notes the system must allow viable firms to prosper and reduce | Sustainability depends on long-term support, continuous incentives and strong human capital, not just one-off registration. | Create aftercare and follow-up schemes (post-registration support, access to markets, procurement, coaching), and recognize entrepreneur capabilities as a long-term asset |

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| Q9 | | sustain benefits of formalization. | structural and gender gaps. | | beyond a single firm. |
| | Final reflections: what key ideas should guide long-term impact on survival and productivity? | Stresses centralization/decentralization balance, incentives, institutional strengthening, simplification and focusing on firms in survival mode. | Stresses reducing gaps (especially gender), designing policies that reflect different needs, and valuing training and mentoring as a long-term investment in productive capacity. | Shared focus on reducing structural and gender gaps, simplifying systems, strengthening institutions and investing in human and firm capabilities. | Use these messages as guiding principles in the final report: (1) address structural & gender gaps; (2) simplify and standardize; (3) strengthen institutions; (4) invest in capacities and productivity, not only in registration. |

Annex 5: Panel 3 – Questions, Answers & Policy Implications

- Moderator: David Licheri | Barbara Orser, Claudio Bravo-Ortega & Tulio Crava

| | Question | Key Points | | | Common patterns | Policy implications |
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| | | Barbara | Claudio | Tulio | | |
| Q1 | How can we “flip the logic” so that firms see formalization as an opportunity rather than a costly burden? What role can the private sector, fiscal policy or programs play? | Highlights structural barriers: low trust in government, unstable programs, unattractive banking environment. Formality becomes logical only when the system works. Must address underlying conditions first. | From <i>Ruta de la Pyme</i> evidence: huge information asymmetry, lack of a single info point, dispersed requirements, long procedures, monetary costs, municipal-level fragmentation. Survival microenterprises—mostly women—face the steepest barriers. | Formalization must combine multiple lines of action: reduce structural barriers AND create incentives. Warns against “revolving door”: firms formalize but return to informality if system benefits are unclear. | Structural conditions shape firms’ decisions; formalization is rational only when benefits > costs. Fragmented, costly, complex systems drive informality. | Formalization strategies must reduce costs/complexity, centralize procedures, and improve trust and system stability so the logic of being formal becomes economically rational. |
| Q2 | What incentives work so that SMEs formalize, stay formal and also become productive? | | Notes barriers include losing social benefits; many low-income entrepreneurs avoid formalization out of fear of losing safety nets. Highlights inequalities between municipalities in costs/times. | Productive incentives must pair with structural reforms. Programs must combine: demonstrating benefits + removing structural barriers. Otherwise formalization is unsustainable. | The incentive structure must reflect the reality of survival firms; social protection design affects formalization. | Integrate social protection reform into MSME formalization strategies; ensure that formalizing does not cause workers to lose benefits abruptly. |
| Q3 | Are there contexts where it actually <i>makes sense</i> for firms to remain informal? What can we learn from low-informality economies like Canada? | Yes—formalization must be attractive. Canada example: robust banking system (99% adults banked), integrated programs, tax credits, accessible incentives. Where labour laws and taxation are | | | Informality persists where the “formal system” is too costly or punitive; strong institutions reduce informality. | Build robust financial inclusion, simplify labour/tax regimes, and expand access to incentives to shift the cost–benefit balance. |

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| | | punitive, informality is rational. | | | | |
| Q4 | How do gender gaps affect access to financial services and formalization? What programs should address this? | W20 recommendation s: conduct gender analysis in ALL programs. Use integrated programming (finance + digital skills + agency building). Support women's ecosystem organizations (centres, hubs). Women have time constraints—programs must be integrated. | | | Gender differences affect financial access; women face time constraints, asset ownership barriers and systemic bias. | Adopt gender-responsive programming across entire MSME policy cycle: financing, training, ecosystems, and childcare/care-support measures. |
| Q5 | Should formalization efforts target SMEs directly or the broader <i>ecosystem</i> (value chain, institutions, regulations)? | | Must address ecosystems: subsidies, incentives, tax systems, procedures, gender barriers, municipal heterogeneity. Combining interventions is more effective than isolated actions. | Effective formalization requires combining multiple lines of action; ecosystem-level reforms need coordination across ministries. | Formalization cannot succeed if approached only firm-by-firm; ecosystems matter. | Design ecosystem interventions (standardized procedures, harmonized regulations, coordinated incentives, and integrated program packages). |
| Q6 | Digitalization: Panel 2 showed strong demand for digital tools (92% useful). But digital platforms also create new forms of informality. What should APEC economies consider? | | | New technologies reduce operational costs and can help formalization, BUT the platform economy creates new informality. ILO is negotiating a new convention on platform work. Need balance: protect workers while using tech for inclusion. | Digitalization brings opportunities AND risks; regulation need + inclusion. | Develop policies for e-formalization, regulate platform work for decent work, and use tech to reduce costs without generating new informal labour. |

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| Q7 | What can the region learn from Canada? What interventions work well? | Strong emphasis on program evaluation. Billions are spent but little is known about what works. Canada's success tied to: (i) digital platforms with economy-wide reach; (ii) strong financial infrastructure; (iii) major investment in women entrepreneurship; (iv) ecosystem strengthening. | | | Evidence-based policymaking is crucial; digital platforms help coordinate interventions. | Invest in rigorous impact evaluations, expand digital access platforms, and build strong financial and ecosystem infrastructure. |
| Q8 | Follow-up: in Canada, some interventions target rural/minority groups more than formalization per se. Does targeted programming help? | Targeting by identity (gender, migrants, BIPOC) saw major growth under Trudeau. But universal financial infrastructure (credit guarantees, development bank) remains the backbone. | | | Targeting helps but must sit on a universal foundation of financial inclusion. | Balance targeted programs with strong universal systems so vulnerable groups can access formalization opportunities. |
| Q9 | Final question: three to five key words for the final report | Consistency, standardization, multiple intervention points, address structural barriers | Lower costs, standardize procedures, growth orientation | Productivity, combination, evidence | All emphasize simplification, standardization, structural change and integrated programming. | Use these as cross-panel guiding principles: <i>simplification, standardization, integrated packages, productivity orientation, and evidence-based implementation.</i> |

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