

# Challenges of Formalizing Informal SMEs in the Telecommunications Sector in the Democratic Republic of Congo

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**Abstract:** This study, conducted within the framework of the issue of formalizing informal SMEs in the telecommunications sector in the DRC, and considering the country's current economic situation, highlights the importance of increasing economic revenue. This study presents itself as a tool that can enable authorities to regularize the informal sector. Its objectives are to demonstrate the means of formalizing SMEs in the informal sector and to identify the limitations of this sector. To arrive at these results, we opted for a hypothetico-deductive (abductive) and analytical methodology, drawing on various research techniques to achieve our objectives. Following our investigations, we understood that many SMEs would like to join the formal economy, but it presents numerous barriers to entry in terms of processes. This is considered the major cause of the formalization problem and prevents the State from mobilizing more revenue to address its various challenges. Therefore, it is recommended that the State regulate this sector through a regulatory authority and facilitate the processes for obtaining the necessary documents to enable SMEs to establish themselves in the formal economy.

**Keywords:** *Small and Medium-Sized Enterprises, Informal and Formal Sectors, Formalization, Economic Development, Telecommunications.*

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## I. INTRODUCTION

The Democratic Republic of Congo (DRC) is distinguished by the complex economic dynamics of informal SMEs in the telecommunications sector.

Nancy B. and Ahmadou A. (2012) argue that the informal sector is playing a significant role in socio-economic development in African countries, contributing a substantial share of GDP and employment. For several years, the

informal economy has been the focus of all academic research. Defined as all activities or practices carried out outside of established rules and norms, informality has often been perceived as "social deviance" from the State's perspective (SENE I. 2022). Representing a significant portion of employment in developing countries, the informal economy encompasses all micro-enterprises that partially or completely escape public regulation. Its prevalence is explained by rapid urbanization, the lack of social protection

forcing micro-entrepreneurs to generate a subsistence income, and a lack of social and human capital.

Thus, to understand informality, one must understand the reasons why many entrepreneurs remain in the informal sector. Similarly, El Hassania (2022) points out that when an entrepreneur lacks access to the equipment necessary for their production (premises or land, vehicles, computers, etc.), their performance decreases by 6.6%. According to this author, this finding is due to the fact that the absence or inadequacy of production infrastructure and limited access to financing are obstacles that entrepreneurs face when they wish to start an economic activity, inevitably leading them to the informal sector.

The informal economy is therefore the part of the overall economy that operates outside of official regulatory frameworks. The ILO notes that actors in the informal economy are not covered by regulations. Informal activities are linked to a lack of growth, particularly related to productivity. Targeted research shows that the average informal activity in an emerging or developing economy barely reaches a quarter of the productivity of an average formal sector firm. The reasons for these differences often stem from poor policies or an inadequate national legal and institutional framework that does not foster the development of formal businesses. These shortcomings include inadequate education and training policies, weak institutions, high transaction costs, excessive regulation, corrupt and inefficient administrative systems, complicated and prohibitive taxation, a lack of property rights, limited access to credit, and the absence of a supportive and stable legal and judicial system. According to the ILO, one of the defining characteristics of informal businesses is the lack of decent work. This translates, for workers, into a lack of access to remunerative employment, job protections, rights, representation, and the ability to defend their interests. This also translates into a lack of access to financing, markets, and property, significantly hindering these businesses' ability to enter into commercial contracts, expand their operations, and produce efficiently (African Scientific Journal, 2024).

International labor organizations (ILO and OECD) demonstrate that the informal sector continues to grow, accounting for 67.4% and 9.8% of jobs in developing and emerging economies, respectively, and 18.3% in developed countries. In Africa, it represents 16% of jobs, and 85.8% are informal (Commentcamarche, 2024). SMEs operating in the telecommunications sector in the city-province of Kinshasa, particularly those in the Matete district, increasingly prefer to remain in the informal economy due to a lack of documentation to facilitate their entry into the formal economy, as well as a deficiency in the processes required for formalization. It is therefore necessary to revitalize this sector to enable Congolese entrepreneurs to thrive. This requires understanding why informal SMEs choose to operate in the informal sector, what challenges they face within the telecommunications sector, and what measures need to be implemented to formalize SMEs.

In the following sections, we will discuss the methodology used in this study. Through a study that considers several groupings, we will examine the various factors influencing formalization, including the interplay between informal and formal sectors, economic issues, and development. We will then conclude with an interpretation of our findings and recommendations.

## II. RESEARCH METHODOLOGY

The aim of this research is to introduce us to the challenges faced by informal SMEs in the development of the country, in order to outline the issues and prospects for formalizing small and medium-sized informal enterprises operating in the telecommunications sector in the Democratic Republic of Congo. It also aims to demonstrate the means of formalizing SMEs in the informal sector and to highlight the advantages offered by the formal sector compared to the informal sector. Therefore, this section presents the methodological approach chosen for this study. The choice of methods and techniques is crucial and depends on the nature of the subject or objective of the study and the researcher's goals. Thus, we will highlight the hypothetico-deductive (abductive) and analytical methods, as well as the data collection techniques used in this study. By definition, we can say that a method is a path to follow to achieve a fixed or given objective (Godefroid S., 2024), and a technique is a process or set of processes implemented to obtain a specific result (LAUBET JL., 2000). Our approach is designed as follows:

- The abductive method: This method helped us, on the one hand, to observe the facts and, on the other hand, to formulate hypotheses.
- The analytical method: This allowed us to analyze the information gathered.
- Documentation technique: Using this technique, we conducted a phenomenal analysis with the help of specific documentation. This technique allowed us to consult several documents, websites, theses, books, final year projects, and course materials to gather the necessary elements for our research.
- The unstructured interview technique: This allowed us to collect the data necessary for the construction of this study. Data collection protocol: In this study, a face-to-face questionnaire, including closed and open questions on various aspects of the problem of formalizing informal SMEs, served as our data collection tool.

## III. RESULT

In this section, we present the results of our field surveys. The collected data was analyzed and processed using the statistical software SPSS. This software helped us to perform the various statistical analyses presented in this study. Thus, these results are presented, analyzed, and interpreted.

Regarding this research, the study of entrepreneurship in the informal sector is a crucial concept that should not only be examined but also developed. And despite certain realities that exist within this activity, as some entrepreneurs have stated, we believe the information gathered is compelling. Based on these results, we have a sample of 120 respondents. Our target population was selected using a non-probability reasoned selection method. "Non-probability samples are not chosen randomly but by filtering them based on specific criteria. The common-sense randomness referred to here differs from probabilistic randomness." In essence, our aim was to draw parallels between the formalization of SMEs and the informal sector. Regarding the identification of respondents, of all those surveyed, 80 entrepreneurs (66.7%) were men, and 40 entrepreneurs (33.3%) were women. Information on educational level indicates that of the 120 people surveyed at various locations in the Matete commune, 50% held a bachelor's degree, 25% had a postgraduate diploma, and 25% did not specify their level of education. As for age, 41.7% were between 26 and 35 years old, and 8.3% had an unspecified age category. It is worth noting that, regarding seniority, 41.7% of respondents have between 2 and 6 years of experience in this sector, while 4.2% did not specify their seniority. Our surveys also revealed that 44.2% are frequently informed about the informal sector, while 21.7% have never heard of it. Concerning the sector in which entrepreneurs operate, the table shows that a significant 67.5% work in the informal sector, while 5.8% did not specify their sector.

We observed that in the Matete municipality, 50% of entrepreneurs own micro-enterprises, and 4.2% did not specify their business category. We observe the following:

- 50% are micro-enterprises with only one employee, and 4.2% did not specify the number of employees in their businesses;
- 45% confirmed that they pay VAT in the Matete municipality, and 23.3% are SMEs that pay the environmental tax; and
- 36.1% choose the informal sector to reduce expenses, and 18.9% prefer the informal sector due to a lack of resources to formalize their businesses.
- Regarding entrepreneurs working in the telecommunications sector in the Matete municipality, we observe the following:
- 30.8% are ineligible for bank loans because they operate in an unequal market, and 15.8% are currently ineligible due to their turnover.
- 42.5% are SMEs facing various limitations because they struggle to obtain bank loans, and 14.2% face these limitations due to a lack of resources and having unregistered staff as a result of insufficient funding;
- 63.3% of SMEs do not receive government subsidies because they operate in a sector not recognized by the government, and 15% do not apply for government programs;
- 36.1% of entrepreneurs prefer the informal sector to minimize expenses, and 18.9% prefer the informal sector because they lack the resources to formalize their businesses. Based on our investigations, we found that 35% of entrepreneurs face difficulties in legalizing their

SMEs due to a lack of certain documents required to begin the legalization process with the government, and 15.8% have insufficient capital to launch their businesses. Regarding the support that entrepreneurs in the Matete district expect from the Congolese government, the findings are as follows: 41.7% would like the government to reduce some of the costs associated with the process, and 16.7% suggest that the government simplify the formalization procedures, as there are too many administrative steps involved. Let's note the following regarding the various difficulties faced by entrepreneurs in the telecommunications sector: 46.7% are SMEs that face difficulties accessing bank loans, and 8% did not specify the problems they encounter while operating in the informal sector.

#### IV. CONCLUSION

Most entrepreneurial issues stem from the debate surrounding the formalization of informal SMEs and the implementation of strategies that SMEs and the government should put into practice, taking into account socio-economic and environmental requirements. These issues take various forms and each has content that varies according to context and type. In this study, we have chosen to analyze the formalization of informal SMEs in the telecommunications sector in the Democratic Republic of Congo.

Our decision to study the formalization of informal SMEs arises from long-standing observations of the difficulties faced by entrepreneurs, particularly those in the telecommunications sector, regarding their development, given the limitations of the sector they operate in.

Entrepreneurship is considered the key driver of economic growth; it supports a country's growth and economic development through market innovations. Our recommendations are formulated as follows:

- Facilitate the transition of workers and economic units from the informal to the formal economy;
- Promote the creation of businesses and decent jobs in the formal economy;
- Prevent the computerization of jobs in the formal economy.
- Establish an informal sector regulatory authority to facilitate the smooth transition of SMEs from the informal to the formal economy.

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