



Business Development in Mozambique:

What is the role of the regulatory business environment in supporting formalisation and development of micro, small and medium enterprises?

Final Report

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Preface

This study is the result of a research project carried out by the German Development Institute (Deutsches Institut für Entwicklungspolitik, DIE) in cooperation with the following Mozambican project partners:

- Directorate of Studies and Policy Analysis (Direcção Nacional de Estudos e Análise de Políticas, DNEAP) of the Ministry of Planning and Development
- Independent research institute “Cruzeiro do Sul” (Instituto de Investigação para o Desenvolvimento José Negrão)

The DIE is a German think tank for development policy. Its work is based on the interplay between research, consultancy and training. This research project was part of the 43rd post-graduate course of the DIE.

Various people contributed to the success of our study:

First of all, we would like to thank all our interview partners for their time and effort dedicated to our study. Particularly, we express our gratitude to the entrepreneurs who participated in our survey, acknowledging that without their participation this report would not have been possible. We also thank representatives of authorities and international organisations for their professional input and assistance.

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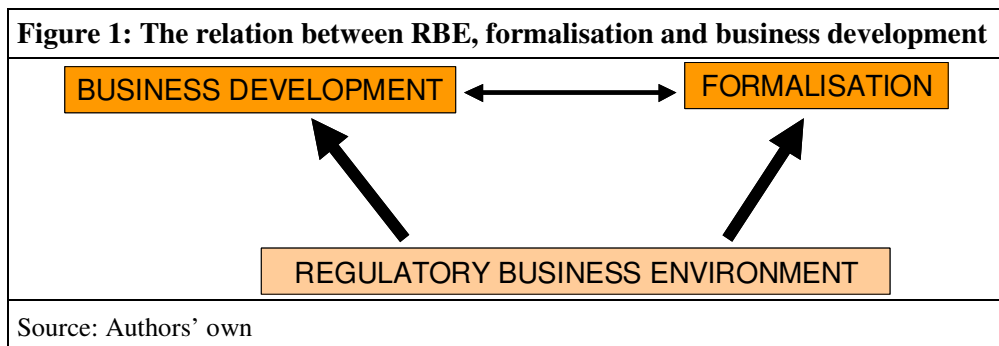
ACB	Associação Comercial da Beira (Commercial Association of Beira)
ACIANA	Associação Comercial, Industrial e Agrícola de Nampula (Commercial, Industrial and Agricultural Association of Nampula)
AfDB	African Development Bank
ATM	Autoridade Tributária de Moçambique (Mozambican Revenue Authority)
BAU	Balcão de Atendimento Único (One-stop shop)
CCIMOSA	Chamber of Commerce and Industry of Mozambique and South Africa
CEMPRE	Censo de Empresas (Business Census)
CPI	Centro de Promoção de Investimentos (Center for the Promotion of Investments)
CTA	Confederação das Associações Económicas (Confederation of the Economic Associations)
DIE	Deutsches Institut für Entwicklungspolitik (German Development Institute)
DNEAP	Direcção Nacional de Estudos e Análise de Políticas (Directorate of Studies and Policy Analysis)
ESRP	Economic and Social Rehabilitation Program
FDI	Foreign direct investment
FIAS	Foreign Investment Advisory Service (Multi-donor service of IFC / World Bank)
FRELIMO	Frente da Libertação de Moçambique (Liberation Front of Mozambique = ruling party of Mozambique)
GCI	Global Competitiveness Index
GDP	Gross domestic product
HIV/AIDS	Human immunodeficiency virus / acquired immune deficiency syndrome
IFC	International Finance Corporation
INE	Instituto Nacional de Estatística (National Statistical Institute)
INSS	Instituto Nacional de Segurança Social (National Institute of Social Security insurance institution)

IRPC	Imposto sobre o rendimento das pessoas colectivas (Corporate income tax)
IRPS	Imposto sobre o rendimento das pessoas singulares (Personal income tax)
IVA	Imposto sobre o valor acrescentado (Value added tax)
KPMG	Consulting agency and global network of professional firms providing audit, tax, and advisory services
MSME	Micro, small and medium enterprises
MTn	Meticais novos (Mozambican currency)
MW	Minimum wage
NUIT	Número único de identificação tributária (Tax identification number)
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PARPA	Plano de Acção para a Redução da Pobreza Absoluta (Poverty Reduction Strategy Paper)
PES	Plano Económico e Social (Economic and Social Plan)
PSD	Private sector development
RBE	Regulatory business environment
RENAMO	Resistência Nacional Moçambicana (Mozambican National Resistance = opposition party of Mozambique)
RPED	Regional Program for Enterprise Development (Ongoing World Bank research project)
SME	Small and medium-sized enterprises
SSA	Sub-Saharan Africa
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
VAT	Value added tax
WB	The World Bank

1 Introduction

The support of private sector development (PSD) is the most important leverage for broad-based economic growth and poverty reduction. This is especially true for the context of Sub-Saharan Africa (SSA) (Altenburg / Drachenfels 2007). Within the current debate among researchers and policy makers about PSD there are two main approaches: the neo-structuralist and the neo-classical approach. The latter is more dominant in recent literature, not least due to some criticism regarding the former.¹ From the neo-classical perspective, the priority for governments is not to engage in selective support measures for certain economic sectors but to provide adequate rules and regulations for the whole private sector, i.e. a favourable regulatory business environment (RBE). The most visible and well-received literature in this field is the Doing Business report series (World Bank / IFC 2007–2008)² which assesses laws and regulations affecting private enterprises in 178 countries. Its main postulate is that the nature of the RBE determines enterprise growth. A business friendly regulatory environment is therewith a prerequisite for the development of the private sector (European Union 2007).

The Doing Business report series focuses on small and medium enterprises (SMEs)³. One key assumption is that improvements to the RBE foster growth and formalisation of SMEs (Djankov et al. 2002b). However, the empirical evidence in academic literature regarding this key assumption is unclear. Particularly the triangular relation between the RBE, formalisation and enterprise development has not been sufficiently elaborated (see figure 1). This research gap generated the motivation for our research study.



The purpose of our study is to analyse the influences of the RBE on business formalisation and development. Our approach differs from the Doing Business approach in two ways: Firstly, we additionally include micro enterprises in our sample – and thus focus on micro,

¹ It is argued, for instance, that the selective and subsidy-based measures advocated by the neo-structuralist approach distort markets and have not proven to be effective in fostering the development of the private sector. See section 3.2 for more details.

² Altenburg and Drachenfels (2006) provide an overview and a critical assessment of this debate.

³ Also, the bulk of further literature on enterprise development refers to SMEs. Therefore most of the literature cited in the course of the study makes reference to SMEs.

small and medium enterprises (MSMEs)⁴ – to correspond to the economic reality of Mozambique. Secondly, our empiric data is based on a business survey and therefore presents the entrepreneurs' point of view. By contrast, the Doing Business data is based on analyses of laws and interviews with lawyers.

One of the reasons why this study addresses the issue of formalisation⁵ is the assumed link between the nature of the RBE and the entrepreneur's formalisation decision. According to the Doing Business report 2008 on Mozambique, burdensome entry regulations push people into the informal economy (World Bank / IFC 2007: 8). In accordance with this assumption, the usual approach to enterprise formalisation (as well as to enterprise growth) is regulatory simplification (Kenyon 2007a: 13).

The issue of formalisation is quite complex as we cannot generally state that the formal economy is good and the informal bad for society: "The experiences indicate that no simple rule exists that increasing or decreasing 'formalisation' necessarily improves or worsens the well-being of the poor or welfare of society at large." (Guha-Khasnobis et al. 2006: 9). But a big informal economy indicates that regulations are not adjusted to the reality of private enterprises.

Even though some authors question the potential of small firms (e.g. Naudé / Krugell 2002), most researchers within the debate on PSD widely agree upon the important role of the MSME sector. This is mainly due to its contribution to employment creation (Esselaar et al. 2006: 1). From a policy perspective, focusing on smaller rather than on larger firms "may contribute to rendering the industrial structure more balanced and reduces income inequality" (Altenburg / Eckhardt 2006: 7).

Employment and income generation contribute to human development and good living conditions. As a large share of employees work in MSMEs, a dynamic MSME sector is of major importance.⁶ Besides, it is generally believed that MSMEs in developing countries can contribute substantially to increasing productivity and, as a consequence, to overall economic growth (Altenburg / Eckhardt 2006: 3). This is why this study focuses on MSMEs and tries to find out, which factors can lead to their development.

As mentioned above, there is an academic debate on the impact of the RBE on business development. According to the Doing Business report, heavy regulation – predominantly found in developing countries – hinders enterprise growth. As a consequence, it is argued that a simpler business regulation leads to enterprise growth and even a higher Human

⁴ In this study we define MSMEs as enterprises with 1-99 workers. For more details regarding the term MSME within the Mozambican context see section 5.2.

⁵ According to Nelson and De Bruijn (2005), "'Formalisation' means graduating from the informal to the formal sector, either directly or via semi-formal status". See section 4.1.1 for more details on the term "formalisation".

⁶ However, researchers still debate on the pro-poor quality of SME development (see Altenburg / Eckhardt 2006: 33). For example, Beck, Demirgüç-Kunt and Levin (2003: 4) do not find a significant relationship between the size of the SME sector and poverty alleviation.

Development Index (World Bank / IFC 2005: 4). But there are authors who doubt that reforms to the RBE are sufficient for a positive impact on the development of MSMEs. Altenburg and Drachenfels (2007: 1) for example argue that enterprises benefit from simpler business regulations in terms of saving time and money but that there is no evidence that this goes hand in hand with improved enterprise performance. This example illustrates the controversial debate on how the RBE influences business development.

Mozambique is a suitable example for analysing the impact of the RBE on the formalisation and development of MSMEs. On the one hand, the economy is characterised by a large number of smaller businesses and widespread informality (Kaufmann / Parlmeyer 2000). According to a survey conducted by the Mozambican National Statistical Institute (Instituto Nacional de Estatística, INE) about 75% of the population carry out an informal activity (2006b: 84). On the other hand, regulations are considered a major burden to the development of the private sector in Mozambique (World Bank / IFC 2007).

Moreover, recent economic growth in Mozambique has not been broad-based. Since the end of civil war in 1992, the country shows a continuous economic growth. But Mozambique remains one of the poorest countries in the world. Growth is driven by only a few, but large, capital-intensive projects (e.g. MOZAL) with relatively few linkages to local businesses and thus limited employment and income effects. Therefore, the main challenge for the country is to expand growth dynamics of the MSME sector in order to achieve more broad-based economic growth.

Hence, analysing empirically the role of the RBE for promoting MSME development is a highly relevant research subject for Mozambique. The present study investigates whether business regulations are the main barriers for the formalisation and development of MSMEs and whether there are other key barriers. In addition, a deeper analysis of the relationship between formalisation and enterprise development will contribute to learn about the correlations in the triangular relation investigated (see above).

In the following chapters we elaborate the elements of the research question. Chapter 2 presents the methodological approach used in this study. Chapter 3 discusses the term regulatory business environment within the context of the neoclassical approach. Chapter 4 reviews literature regarding the relationship between the RBE, formalisation and enterprise development. Chapter 5 introduces to the Mozambican context, specifically to the economic history, the relevance of MSMEs and informality, the investment climate and the regulatory framework for MSMEs. Moreover, it presents the definition of formality used in this study. Chapter 6 provides the empirical findings which are the fruit of an 11-week field stay of the research team in Mozambique. Chapter 7 draws conclusions referring to our research question. Finally, the annex contains our questionnaires for the enterprise survey as well as a Portuguese summary of our preliminary findings, among others.

2 Methodological approach and data sources

As explained above, this study is inspired by the academic debate on the World Bank's Doing Business approach, which initiated a lively discussion on the effects of the regulatory business environment (RBE) on business development. Starting from theoretical assumptions on the effects of the RBE (see chapter 3) our study is meant to provide empirical evidence on this matter. The overall aim is to

- contribute to a better understanding of the relevance of the RBE for the formalisation decision and the development of micro, small and medium enterprises (MSMEs) as compared to other relevant factors like training of the owner, infrastructure etc. and
- explore and describe the triangular relation pattern between the RBE, formalisation and development of MSMEs.

In accordance with this overall aim, our research strategy encompassed three main steps:

- 1) Literature review
- 2) Data collection in Mozambique, mainly through an enterprise survey
- 3) Analysis of the qualitative and quantitative data collected

2.1 Literature review

This study is based on the profound review of literature regarding

- the concept of the RBE (chapter 3),
- the concept of formalisation and the empirical evidence regarding the factors contributing to it (chapter 4),
- the concept of business development (with a focus on small enterprises) and the empirical evidence regarding the factors contributing to it (also chapter 4), and
- the Mozambican context for MSMEs (chapter 5).

The literature reviewed consists of mainly academic papers encompassing both theoretical as well as empirical studies. Furthermore we have studied policy papers, particularly from development agencies and the Government of Mozambique, as well as the laws and regulations relevant for the MSME sector in Mozambique.

2.2 Data collection

Looking for answers to our research question, our team collected empirical data during an 11-week field stay in Mozambique (see annex 5 for the time table). The instruments used for data collection were interviews with different actor groups. We conducted interviews with:

- Entrepreneurs
- Business associations
- Donor agencies / microfinance institutions
- State authorities / staff of public administration

The **entrepreneurs** constituted the main actor group (for detailed information see sample description in 6.1). The characteristics of their businesses as well as the entrepreneurs' perceptions about business constraints were our major concern.

Collection instruments and method triangulation

Based on the literature review, the data collection strategy and the collection instruments were developed. The data collection strategy consisted of a mix of quantitative as well as qualitative instruments.

In order to combine quantitative and qualitative data two types of questionnaires were elaborated for the enterprise survey: a standardised quantitative questionnaire and a semi-structured qualitative questionnaire. Both instruments were used complementary during the data collection phase. This method triangulation (Flick 2004) allowed

- the use of statistics in order to analyse the information given by the entrepreneurs (quantitative tool), and
- a methodological "openness" leaving the possibility for the entrepreneur to mention factors concerning the development of his enterprise that are out of focus of the researcher but that could turn out to be highly relevant (qualitative tool).

To test the methodological strategy we conducted a pre-test phase (first two weeks of our stay in Mozambique). After that, both questionnaires were revised, complemented and adapted to the field characteristics.

Interviews

204 usable interviews were conducted between 18 February and 8 April 2008 by the DIE research team and local students. The interviews constitute the main source of information of the research project and are subdivided as follows:

- 174 interviews with entrepreneurs (146 quantitative and 28 qualitative interviews)
- 30 guided interviews with “experts” (representatives of business associations, state authorities involved in the regulation of enterprises, development agencies, and microfinance institutions)

The **entrepreneurs** interviewed were selected amongst the universe of Mozambican MSMEs⁷. For detailed information concerning the sampling strategy and the description of the sample see section 6.1. The quantitative and the qualitative questionnaire were designed to gain information about

- the quality of the RBE,
- the quality of further factors that matter for business development such as infrastructure, level of education of the owner, access to credit, etc. (termed “X-factors” in the present study, see chapter 4),
- the level of formality of the enterprise, and
- the recent enterprise development.

Both questionnaires are attached in the annex of this study (see annex 2 and 3). The interviews with the entrepreneurs took about 30 to 60 minutes.

Beyond the interviews with entrepreneurs, 30 guided interviews were carried out with “**experts**”, such as representatives of state and municipal authorities, business associations, development agencies as well as microfinance institutions (see list of institutions in annex 4).

The expert interviews took about 30 to 90 minutes. The interview guidelines were elaborated to gain

- general information about the RBE in Mozambique
- general information about the broader investment climate, business development and development constraints (especially for MSMEs) in Mozambique
- specific information regarding business regulations (especially concerning registration procedures, inspections, labour and tax regulations, etc.).

The qualitative and the quantitative interviews were carried out by two research group members in each case; an „interviewer“ and a „secretary“. In the case of the qualitative interviews the secretary’s mission was to document the interview afterwards based on his or her interview notes. In the case of the quantitative interviews the questionnaires were filled out during the interview and entered afterwards into the computer programme excel.

⁷ Definition of MSMEs used for the empirical investigation: Enterprises with 1-99 workers (for more details see section 5.2).

2.3 Data analysis

The data consists of 146 completed questionnaires (quantitative data set), 28 minutes from enterprise interviews and 30 minutes from expert interviews (qualitative data).

Both data sets were used for a parallel and complementary data analysis during the data collection phase as well as for the closing appraisal. During the data collection phase both data sets were checked cursorily with regard to the sampling strategy and the validity of the information obtained. After the collection phase, the data was analysed within a two-week closing appraisal.

For the closing appraisal the data sets were transferred to two computer programmes for data analysis. In order to facilitate the analysis of the qualitative data according to the Grounded Theory (Glaser / Strauss 1988), the computer programme Atlas.ti was adopted. Atlas.ti allowed systematic coding and theoretical sampling procedures as well as the systematisation and the comparison of data pieces. The quantitative data set was analysed by means of the computer programme STATA. Because of time restrictions we limited the data analysis to basic descriptive statistics operations.

As stated in the beginning of the chapter, the methodological strategy was elaborated to gain information regarding the relations between the RBE and formalisation, RBE and business development as well as about other X-factors and their effects on formalisation and business development. In this context the qualitative data was useful particularly with regard to delivering “explanatory” information about the “quality” of the relations (linkages between the different factors), whereas the quantitative data provided evidence on their relevance and – to some degree – on descriptive correlations.

The results of the data analysis (that will be presented in chapter 6) were examined by the research team and presented and discussed in a closing workshop with our Mozambican project partners.

3 The concept of regulatory business environment

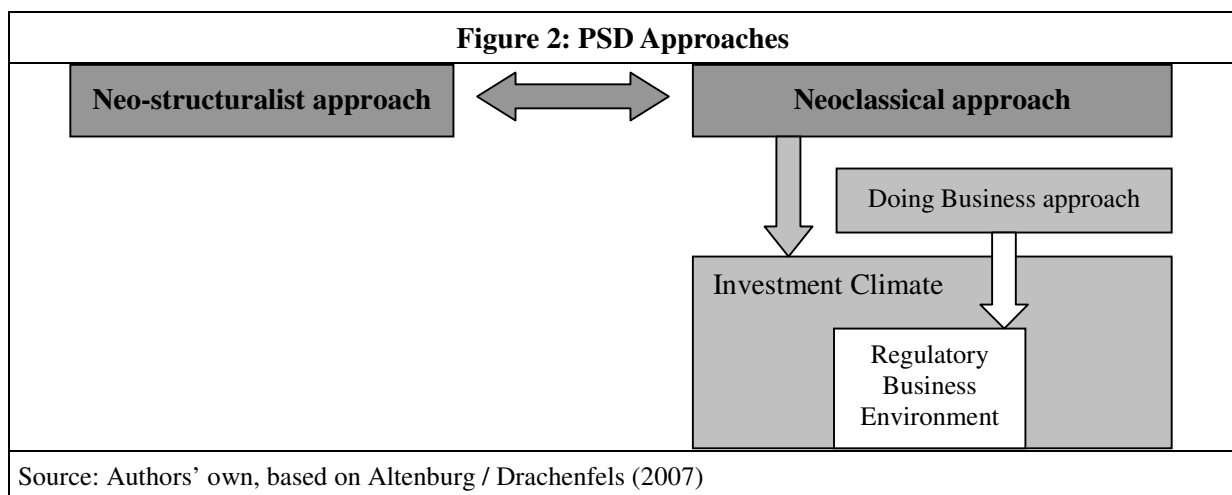
The regulatory business environment (RBE) is a set of factors that affects the development of private enterprises. As it lies in the focus of our research question, it is important to have a deep understanding of the term RBE. This chapter explains the term RBE and puts it in the context of private sector development (PSD). It also shows how the RBE can be divided into different categories.

3.1 Different approaches to private sector development

There is a debate among researchers and policy makers concerning appropriate approaches for promoting PSD in developing countries. According to Altenburg and Drachenfels (2007: 5-11) one can distinguish the following two broad approaches for promoting PSD:

- Neo-structuralist approach
- Neoclassical approach

The RBE is a recently dominant – but also critically discussed – concept within the neoclassical approach (Altenburg / Drachenfels 2006). According to the terminology proposed by Altenburg and Drachenfels (2007), the different approaches to PSD can be illustrated as in figure 2.



The **neo-structuralist approach** stresses the crucial role of SMEs for PSD, emphasises market failure and the need for corrective policies (Altenburg / Drachenfels 2007: 8-9). It assumes that markets do not automatically provide the socially optimal quantity and quality of goods and services that the private sector and especially SMEs need for a dynamic performance. Among others, entrepreneurs often lack managerial skills, access to business development services, access to credit and the integration into clusters and value chains. From a neo-structuralist's perspective, governments have to enhance the competitiveness of SMEs by addressing these shortcomings. They are supposed to do this by means of a broad range of subsidy-based selective support measures.

The **neoclassical approach** does not focus on SMEs but addresses the private sector as a whole (Altenburg / Drachenfels 2007: 6-7; Beck / Demirgüç-Kunt / Levine 2003: 3). Although it does not deny market failure in the area of PSD, it is more concerned with government failure and postulates that inappropriate or burdensome regulations are one key barrier for PSD. Accordingly, the approach is sceptical regarding the ability of governments to promote PSD through selective support measures and emphasises market-based solutions that help to improve the framework conditions for *all* businesses, no matter whether big or

small. Governments should hence have a limited role and mainly monitor the good functioning of markets.

Within this neoclassical approach, one can distinguish between the narrow concept of the RBE and the broader concept of the investment climate. As this distinction is not consistently made within literature, Altenburg and Drachenfels (2007) propose a definition which will be adhered to in this study.

Following their definition, the concept of the **regulatory business environment** “covers regulations that immediately affect businesses through the costs of compliance.” (Altenburg / Drachenfels 2007: 6). The concept describes the characteristics of the regulations that affect the core activities of a private enterprise like registering the enterprise, getting a licence, employing workers, paying taxes (for more details see section 3.5). The analysis made in the Doing Business report series by World Bank and IFC focuses on the RBE and, in a nutshell, recommends deregulating bureaucratic procedures and improving private property rights guarantees. According to this “Doing Business approach”, over-regulation and cumbersome bureaucracy (often referred to as ‘red tape’) is seen as the major constraint for PSD.

The term **investment climate** refers to a set of enabling factors broader than the RBE. It comprises all the elements of the RBE, but adds other factors such as political and macroeconomic stability, rule of law, trade policies and international rules and standards, the functioning of financial markets, the quality of infrastructure, the health system and the overall level of education (World Bank / IFC 2004b).⁸

The main difference between the narrow concept of the RBE and the broader concept of the investment climate is their analytical focus. Proponents of the concept of the RBE would probably not question the importance of the additional factors of the investment climate for PSD. However, they see reforms of the RBE as the priority field of action.

3.2 Critique of the neo-structuralist and the neoclassical approach

Both the neo-structuralist and the neoclassical approach have received substantial criticism.

The neo-structuralist government-driven and subsidy-based SME support programmes, on the one hand, are said to distort market solutions, give improper incentives and therefore result in an inefficient use of resources. According to Altenburg and Drachenfels (2006: 397, 406) this criticism is at least in part empirically backed. Moreover, Beck, Demirgüç-Kunt and Levine

⁸ In the context of Sub-Saharan Africa, the major challenges for PSD are good governance, a lack of adequate infrastructure, low levels of education and underfunded health sectors (especially due to the high HIV prevalence) (Altenburg / Drachenfels 2007: 7, 31-32).

(2003: 1-3) indicate that microeconomic evidence from several individual countries does not support the view that SMEs are crucial players within PSD.⁹

Concerning the neoclassical and especially the Doing Business approach, so far there is no empirical evidence that supports the view that guaranteeing property rights and simplifying administrative procedures is really sufficient to unleash private sector dynamism (Commander / Svejnar 2007; Altenburg / Drachenfels 2006). Moreover, the approach is criticised for its rather simplistic key assumptions.

Either approach has both strengths and weaknesses. Altenburg and Drachenfels (2007: 43) therefore recommend an integrated approach to PSD in Sub-Saharan Africa, which corresponds to the advice given in UNECA's report "Unleashing the Private Sector in Africa" (UNECA 2005). Such an integrated approach combines the "neoclassical" creation of an enabling environment for *all* businesses with a range of complementary selective "neo-structuralist" public policies that help to overcome internal constraints of certain disadvantaged players of the private sector, especially SMEs.

It has to be emphasised that neither the proponents of the neo-structuralist approach nor the proponents of the neoclassical approach deny the relevance of any of the elements of the other approach. The key difference lies in the role that is attributed to state institutions and market institutions respectively.

3.3 Recent attention to the neoclassical approach

The international donor community has been concerned about PSD and poverty reduction in developing countries. It has provided considerable neo-structuralist assistance to SMEs for many years. Only in 2002, the World Bank Group approved 1.5 billion US-Dollars for SME support programmes (Beck / Demirgüç-Kunt / Levine 2003: 1).

According to Altenburg and Drachenfels (2006), however, recent policy-oriented studies on pro-poor economic growth follow the neoclassical approach. Proponents of this approach mainly recommend relying on market forces. They argue that neo-structuralist policies with industry-specific state interventions have failed in the past.

Prominent neoclassical examples are The World Development report 2005 ("A Better Investment Climate for Everyone", World Bank / IFC 2004b) or the Doing Business reports edited by the World Bank and IFC. However, the focus of these two reports is different: While the 2005 World Development report analyses the broader investment climate, the Doing Business reports focus on private sector regulations, i.e. the RBE.

⁹ At the same time, however, Beck, Demirgüç-Kunt and Levine (2003: 3) emphasise that this microeconomic evidence is country-specific. Cross-country analysis might lead to other results.

3.4 Good versus bad regulation

Some proponents of the neoclassical approach, and particularly of the Doing Business approach, advocate for an overall ‘deregulation’ in order to spur PSD. However, it is important to stress that from a social welfare perspective one can conceptually distinguish between ‘good’ and ‘bad’ regulation. Whether a specific regulation is good or bad for economic and social development depends both on

- the content of the regulation, and
- the quality of its implementation.

First of all, it depends on the **content** of the respective regulation and the underlying economic problem whether the regulation really hampers or even fosters economic and social development (Altenburg / Drachenfels 2006: 400-402; 2007: 20).

In many areas, such as health and safety, environmental protection, competition and taxation, it is desirable from a common or social perspective that businesses and citizens comply with certain standards. Some regulations are necessary to protect consumers and to secure the smooth functioning of a market economy. Thus, some regulations might even benefit businesses. These include among others rules that guarantee property rights and help to enforce them, competition laws and safety regulations at the workplace.

Other regulations are dispensable, or not cost-efficient, and thus unnecessarily increase the costs of doing business. Vivid examples are given in the Doing Business report of the year 2004, which explicitly investigates the scope and manner of regulations. In 2004, for instance, it took 215 days to start a business in the Democratic Republic of Congo, compared to only two days in Australia. In the same year, it took almost 1500 days to enforce a simple contract in Guatemala, but only seven days in Tunisia. Finally, a bankruptcy proceeding required more than ten years in Brazil. In Ireland, it took less than six months (World Bank / IFC 2004: xiii). These short comparisons indicate an over-regulation in selected countries. This does not only impose a burden on entrepreneurs, but also on the society as a whole, as it stifles productive activity.

Any analysis focusing on administrative simplification needs in the first place to define which rules and regulations are desirable for development and which are not. Therefore, the term ‘regulation’ should not be equated with ‘administrative burden’ (‘red tape’).

Moreover, it depends on the **quality of implementation** whether the regulation hampers or fosters economic and social development. Hence, it is essential that state authorities are capable of enforcing “good regulations” properly. According to the findings of Altenburg and Drachenfels (2007: 30), entrepreneurs in Sub-Saharan Africa complain more about the inconsistent application of regulations than about the number of regulations as such. Summing up, the quality of regulations does not only depend on their content, but also on the capacities of the public administration as a service provider for private enterprises.

3.5 Operational categories of the regulatory business environment

How can the dimensions of business regulations be measured?

The World Bank’s Doing Business reports have made an important contribution to breaking down ‘regulatory burdens’ into more operational categories. The Doing Business reports are a series of annual reports investigating the regulations that enhance business activity and those that constrain it. 178 economies can be compared by means of quantitative indicators on business regulations and the protection of property rights. These indicators typically include the number of procedures, time and official costs related to core activities of private businesses. The data are based on studies of laws and regulations and surveys of national lawyers. The set of categories is not fixed. Frequently, new categories are added in the new editions of the Doing Business report.

In 2008, the categories of the Doing Business report are:

Table 1: Categories of the Doing Business report	
1. Starting a business	6. Protecting investors
2. Dealing with licenses	7. Paying taxes
3. Employing workers	8. Trading across borders
4. Registering property	9. Enforcing contracts
5. Getting credit	10. Closing a business
Source: World Bank / IFC (2008)	

3.6 Conclusion about the regulatory business environment and the Doing Business approach

The quality of the RBE lies in the focus of the recently dominant Doing Business approach to PSD. The key elements of the Doing Business approach can be summarised as follows:

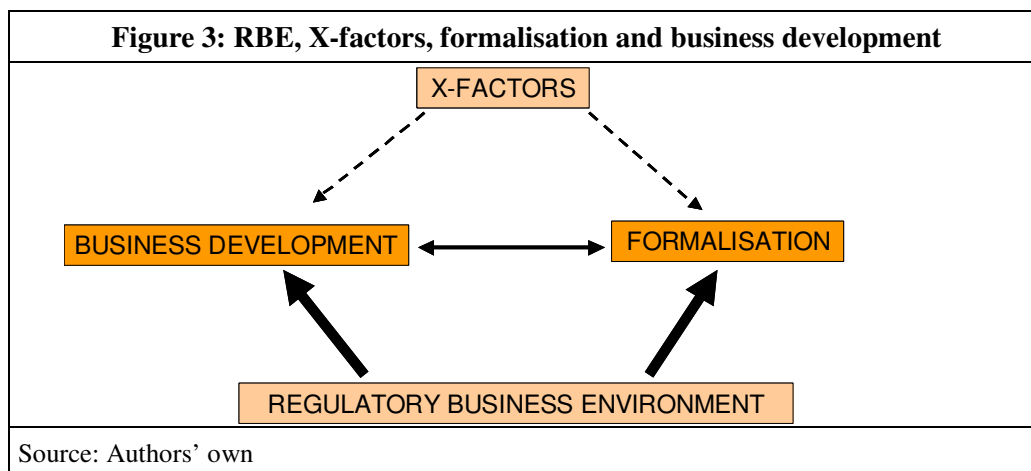
- Extensive government regulations hamper the formation, registration and development of private enterprises and therefore reduce rather than increase economic development and welfare.
- The key role of the state is to create good framework conditions for the development of the whole private sector.
- Selective public policy interventions in markets are especially distorting and often harmful to economic development.

We assume that the categories of the RBE listed in section 3.5 can have an impact both on the formalisation and on the development of MSMEs. As there is only limited empirical evidence on this matter (see chapter 4), the objective of our study is to make a contribution to fill this research gap.

4 Literature review on formalisation and development of enterprises

Plenty of scientific studies provide empirical evidence about factors that influence the performance of the private sector. The regulatory business environment (RBE) and its components are just one set of factors that have an impact on formalisation and development of enterprises. Lots of research has been done on other relevant factors within the broader concept of the investment climate (which we call “X-factors” in the following). The reciprocal relationship between formalisation and business development has also been discussed in literature.

This chapter reviews the existing empirical literature on the following relationships:



- The relationship between the RBE and formalisation
- The impact of other relevant factors (X-factors) on formalisation (both section 4.1)
- The relationship between the RBE and business development
- The impact of other relevant factors (X-factors) on business development (both section 4.2)
- The reciprocity between formalisation and business development (section 4.3)

To make sure that authors and readers comprehend the terms “formalisation” and “business development” in the same manner, we give explanations at the beginning of the respective sub-chapter. At the end of this chapter, we summarise the main arguments and available empirical evidence with regard to our research question (section 4.4).

4.1 Formalisation

This chapter first explains the meaning of the term “formalisation”. Then, it reviews existing literature (especially about Sub-Saharan Africa) regarding the relationship between the RBE and formalisation as well as the impact of other relevant factors on formalisation of enterprises.

4.1.1 The meaning of the term “formalisation”

The term “formalisation” is closely related to the term “informal sector”, as informal enterprises become formal through the process of formalisation. Therefore, it is important to describe the phenomenon of the informal sector in the first place. From this starting point it is much easier to understand what formalisation actually means and which costs and benefits it might bring along.

There are many different concepts and definitions of the “informal sector”. The term was first mentioned by the British economist Keith Hart in 1971. However, until today there is no clear definition of what exactly it means. Generally speaking, the view of the informal sector has changed. According to Chen (2004), it is possible to distinguish between an old view of the informal sector and a new view of the informal economy¹⁰ (see table 2).

Old view	New view
The informal sector is the traditional economy that will wither away and die with modern, industrial growth.	The informal economy is ‘here to stay’ and expanding with modern, industrial growth.
It is only marginally productive.	It is a major provider of employment, goods and services for lower-income groups. It contributes a significant share of GDP.
It exists separately from the formal economy.	It is linked to the formal economy – it produces for, trades with, distributes for and provides services to the formal economy.
It represents a reserve pool of surplus labour.	Much of the recent rise in informal employment is due to the decline in formal employment or to the informalisation of previously formal employment relationships.
It is comprised mostly of street traders and	It is made up of a wide range of informal

¹⁰ Chen (2004) prefers the term “informal economy” over the term informal sector, as the former emphasises the interplay between informal and formal economic activities.

small-scale producers.	occupations – both ‘resilient old forms’ such as casual day labour in construction and agriculture as well as ‘emerging new ones’ such as temporary and part-time jobs plus homework for high tech industries.
Most of those in the sector are entrepreneurs who run illegal and unregistered enterprises in order to avoid regulation and taxation.	It is made up of non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation; and most non-standard wage workers would welcome more stable jobs and workers’ rights.
Work in the informal economy is comprised mostly of survival activities and thus is not a subject for economic policy.	Informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses, and informal employment includes not only self-employment but also wage employment. All forms of informal employment are affected by most (if not all) economic policies.
Source: Chen (2004): 15-16	

Nevertheless, in the literature the “informal sector” is typically described as the opposite of the “formal sector” and attributed one or more of the following characteristics:

The informal sector consists of self-employed persons and micro enterprises with a low number of employees

- who are often family members,
- have a low level of schooling,
- use simple technologies and production techniques,
- perform very labour intensive activities,
- are exposed to strong competition,
- lack any form of social security, and / or
- evade public regulations.

Accordingly, there are many definitions of the term “formality”. Commonly, one or more of the following three criteria are used to define a formal business: size (more than a certain number of employees), legal status (company registration etc.) and a certain physical and human capital per worker (Bigsten 2004: 704). For the purpose of the empirical investigation

in Mozambique reported in this study, a definition of formality based on the legal status of the enterprise with respect to the areas (i) register/ licence, (ii) labour regulation, (iii) tax regulation has been used (see chapter 5.5).

To become formal, originally informal enterprises have to go through the process of “formalisation”. According to Nelson and De Bruijn (2005), “‘Formalization’ means graduating from the informal to the formal sector, either directly or via semi-formal status”. The authors use a legal definition to describe the process of formalisation. A small firm that has an operating licence from the local authority but is not registered with the state authorities is referred to having a semi-formal status. Kenyon also prefers a legalist definition stating that “‘Formalization’ refers to the process whereby previously non-compliant enterprises become integrated into these formal or state-sanctioned institutions, such as property registries and tax-rolls” (Kenyon 2007a: 3).

According to Djankov et al. (2002b: 1), enterprises formalise when benefits outweigh the costs of formalisation. These costs and benefits are not the same for all informal entrepreneurs but differ for specific economic activities. For example, a supplier of electricity and water would benefit from a stable legal environment whereas an agricultural producer would benefit from market information, certification and branding to meet certain quality standards (Kenyon 2007b: 2). This study tries to find out what this implies for the context of Mozambique: Which factors of the RBE hamper and which foster formalisation of MSMEs?

The following table gives a general overview over costs and benefits of formalisation from the entrepreneur’s perspective¹¹:

Table 3: Costs and benefits of formalisation	
Costs	Benefits
Enterprises need to pay taxes (income tax, social security tax, VAT, public services tax etc.)	Enterprises can grow without being afraid to become a target of government inspections
Burdensome government regulations: formal entrepreneurs need to spend much time on fulfilling requirements and submitting documents	Less vulnerable to harassment/ corruption
	More certainty in the prospects of the enterprise (property rights, enforcing contracts...)
	Access to police and court services
	Easier access to financial services and markets

¹¹ Costs and benefits of formalisation differ enormously across countries and within different fields of business.

	Easier to obtain export permissions
	Participate in SME assistance programs etc.
Source: Djankov et al. (2002b): 4-9	

4.1.2 The relationship between the regulatory business environment and formalisation

How do certain elements of the RBE influence the decision of an entrepreneur to formalise? According to Lund and Skinner (2003: 10) regulation needs to be transparent and simple to encourage enterprise formalisation. But just blaming over-regulation for the existence of the informal sector is not thought-out thoroughly (Altenburg / Drachenfels 2006: 393). It is important to think about an “optimal level of regulation, not just a minimum level” (Te Velde 2006: 1). Altenburg and Drachenfels (2007: 22) state that measures to simplify business regulations in several African countries so far have not proven that easing business regulations induces formalisation.

Starting a business formally, depending on the country specific regulation, requires bureaucratic processes, money and time. According to the Doing Business report, entrepreneurs most likely will decide to run their business informal if regulations to start a business are burdensome and costly (World Bank / IFC 2004: xi). However, in their econometric analysis of the effect of the RBE on enterprise creation, Van Stel et al. (2007: 16) find no evidence that “number of procedures, time and cost to start a business have a significant impact on start-up rates”.

If an entrepreneur has to pay a high severance payment according to the employment law, he or she will most likely hire someone without a formal contract or rely on informal subcontractors (World Bank / IFC 2004: xi). Strict dismissal protection might even hinder an entrepreneur to hire workers. According to the Doing Business report, there is “a strong correlation between these labour rules and the level of informal labour” (FIAS 2006b: 6).

On the one hand, not having access to formal credits might be a reason for informal enterprises to think about formalisation. Informal moneylenders often take high interest rates, and finance from friends might be unreliable (Djankov et al. 2002b: 9). Also, from a neo-structuralist view, limited access to capital markets hampers the development of informal enterprises (Altenburg / Drachenfels 2006: 10). On the other hand, the existence of informal sources for finance (e.g. credits from family or network members) reduces the necessity to formalise.

Taxes are one of the most obvious costs of formalisation which some firms cannot or do not want to comply with. As a reaction, “informalisation” becomes a “survival and development strategy” (Nelson / De Bruijn 2005: 584). For formal firms heavy taxes might represent a growth constraint (see FIAS 2006b: 6). However, from a social perspective it is evident that without tax receipts the government is not able to fund infrastructure, social services and the institutional setting necessary to enforce property rights and contracts (Nelson / De Bruijn 2005: 578).

4.1.3 The impact of other relevant factors on formalisation

Empirical evidence substantiates the assumption that besides the RBE elements additional “X-factors” play a crucial role for the decision of an entrepreneur to formalise or not. These factors include:

- Education
- Information
- Ethnicity
- Age
- Corruption

Bigsten et al. (2004: 705) find that owners and managers of formal firms in Kenya were better educated than those of informal firms. According to Neshamba (1997: 52) who investigated the Zimbabwean case, the transition from informal to formal seems to “depend on the ability and character of the owners”, like “the ability to forge links with larger firms and governments departments” or the “ambition and vision” of the owner.

It is not only important how the actual costs and benefits of formalisation are, but also how they are perceived by the entrepreneur: “Formalisation will occur only if entrepreneurs perceive it to be in their self-interest.” (Kenyon 2007b: 1). In this context, the level of the entrepreneur’s information is crucial for his decision to formalise or not. According to Kenyon (2007b: 2) an entrepreneur may not have access to information on how to regularise his firm or what the benefits would be. In addition, “entrepreneurs may not be aware of the medium- and long-term costs of operating in the informal sector” (FIAS 2006b: 5).

Bigsten et al. (2004: 711) find that “ethnicity [...] has a strong influence on the choice of formality status” in the Kenyan manufacturing sector. After having compared African and Asian-owned firms the authors concluded that the majority of African firms were informal.

Also, the age of the enterprise seems to play a crucial role for a firm being formal or informal: “The older the firm, the more likely it was to be formal, reflecting the fact that informal firms appear to die more often than do formal firms” (Bigsten et al. 2004: 711). Besides, owners and managers of formal firms were usually older than those of the informal firms (Bigsten et al. 2004: 705).

Moreover, corruption is a major factor that hampers formalisation. There is a link between “decreases in corruption and increases in the size of the formal economy” (OECD 2006: 30). Due to corruption, businesses mistrust government and as a consequence they do not see advantages in formalising their enterprises.

All in all, there is some empirical evidence that there are factors beyond the RBE that influence the level of formality of firms. However, there has been done considerably less empirical research on the determinants of formalisation compared to the determinants of business development.

4.2 Business development

This section first explains the meaning of the term “business development”. Then, it reviews existing literature (especially on Sub-Saharan Africa) regarding the relationship between the RBE and business development as well as the impact of other relevant factors on business development.

4.2.1 The meaning of the term “business development”

The purpose of this study is, among others, to identify obstacles for the development of MSMEs. There are different indicators for business development. The most objectively measurable one is certainly enterprise growth in terms of turnover and employment. The bulk of the available empirical investigations focuses on enterprise growth in these terms, or even on growth of the whole economy (see below).

However, there are also other indicators for the development of a business, for example if the business moved to a better location, extended its working space or improved its working conditions through investments in the building. Moreover, there are subjective factors that individual entrepreneurs might perceive as signs for business development. Those factors can not be specified as they might differ from entrepreneur to entrepreneur. In the context of a business survey conducted with owners of micro and small enterprises, it is much more realistic to get reliable information about individual and subjective perceptions of business development than about exact numbers regarding turnover and employment, especially because owners of these businesses might not even have reliable records.

Before reviewing the empirical literature on the influence of the RBE and other factors on (enterprise) growth, the term “growth” is briefly discussed. Within literature on PSD one has to distinguish between two very different interpretations:

- Some authors, like Djankov, McLiesh and Ramalho (2006), analyse factors that determine the growth of the whole economy in terms of rising GDP per capita.
- Others, like Biggs and Shah (2006), analyse factors that determine the growth of individual enterprises in terms of turnover and employment.

With regard to our research question that looks at development of MSMEs, the second interpretation seems more relevant. However, literature focusing on the first interpretation is also useful as it adds to the understanding regarding the impact of regulations.

For our focus on MSME development it is therefore important to have a look at business growth theories. Why do some enterprises grow and others do not? O’Farell and Hitchens (1988) classify available business growth theories into four main groups. Schmitt-Degenhardt, Stamm and Zehdnicker (2002: 10, 16) reduce this variety of approaches further and distinguish between static and dynamic approaches, on the one hand, and between internal and external reasons for enterprise (non-)growth on the other (see table 4). They also point out

that not every enterprise wants to grow and that non-growth orientation might also be in line with a clear and rationale entrepreneurial behaviour.

Table 4: Approaches and criteria explaining SME growth and non-growth		
	External criteria	Internal criteria
	The company's environment	The look inside the company
Static approach There are different size levels and types of SMEs. There is no automatic "passing through" from level 1 to level 2 and further.	I There are external reasons that support or hamper the transformation from a "level 1"- to a "level 2"-type company.	II There are internal reasons that may explain why a company remains on "level 1", while the environment would permit the passing on to "level 2".
Dynamic approach The growth of SMEs is compared to the development of living organisms: Over time the individual entity passes through different stages of the life-cycle.	III During its life-cycle the relationship between the company and its environment changes, thus in different moments the special setting in the environment may support or hamper growth.	IV During the growth process, the internal organisation and relations within the company change. The necessary adaptations affect the performance of the company in different stages of its life-cycle.
Source: Schmitt-Degenhardt / Stamm / Zehdnicker (2002): 10		

As our research question analyses the relevance of the neoclassical approach to private sector development (PSD) and thus focuses on the influence of external factors on the development of MSMEs, field I and III are particularly interesting for us. Fields II and IV support the neo-structuralist approach that requires targeted interventions to overcome internal shortcomings (see chapter 3.1).

4.2.2 The relationship between the regulatory business environment and business development

The relationship between the RBE and business development is quite controversial. Some researchers have found evidence that the core categories of the RBE have a fundamental impact on the development of businesses. Others argue that this evidence is at best patchy and often due to methodological defects.

As growth is a crucial indicator for business development, most of the reviewed literature analyses the relationship between business regulations and growth.

Business regulations are a particular type of institutions. There is a wide range of literature that deals with the impact of institutions in the broader sense on growth, and other literature that deals with the impact of the RBE in the narrower sense on growth.

First, we will give an overview over the literature that finds evidence for a positive impact of institutions (including the RBE) on growth. By analysing a large sample of 80 to 140 countries, Rodrik, Subramanian and Trebbi (2002) estimate the respective contributions of institutions, geography and trade to economic growth in terms of GDP per capita. They conclude that the quality of institutions, among others the rule of law and the security of private property rights, clearly outplays the other factors. Butkiewicz and Yanikkaya (2004) point out that not only the rule of law promotes growth, but also democratic institutions.¹²

The authors of the Doing Business reports affirm that all the categories included in their index have an substantial impact on the performance of the private sector.¹³ Djankov, McLiesh and Ramalho (2006) use the Doing Business data base for performing a cross-country regression analysis and conclude that countries with less burdensome regulations grow faster. They also address the problem of causalities, i.e.

- Do better business regulations promote economic growth?
- Do available resources of faster growing countries improve business regulations?
- Does another factor (X-factor) promote both growth and the quality of the RBE?

They examine this causal link by means of an instrumentation. Their results indicate that business regulation is an important determinant of GDP growth.

Beck, Demirgüç-Kunt and Levine (2003) use similar core categories as indicators for the business environment. In their cross-country regressions of data from the manufacturing sectors of 76 countries, they find qualified evidence that the overall business environment influences economic growth (in terms of GDP per capita).¹⁴

Some authors examine particular components of the RBE and their influence on growth. Biggs and Shah (2006: 22), for example, examine the role of private support institutions in determining SME growth in Sub-Saharan Africa. Their regressions discover that firms that have access to formal finance grow faster. Johnson, McMillan and Woodruff (2002) measure the importance of property rights and access to credit respectively for PSD in five post-communist countries. They find that secure property rights are fundamental for reinvestments

¹² Butkiewicz /Yanikkaya (2004) refer to existing empirical evidence that suggests that the maintenance of the rule of law promotes growth, while adopting democratic institutions does not appear to improve growth. They disprove this conclusion, as it is very sensitive to sample selection and to estimation technique.

¹³ An overview of the Doing Business categories is included in chapter 3.5.

¹⁴ Beck / Demirgüç-Kunt / Levine (2003) measure the quality of the business environment by means of the following categories: starting and closing a business, securing property rights and enforcing contracts. Their sample does not include informal enterprises.

of profits and thus for enterprise growth. Moreover, in their sample, weak property rights discourage firms from investments, even when bank loans are available.

Other authors question the importance of the RBE for growth and thus the significance and accuracy of the above mentioned pieces of literature. Commander and Svejnar (2007), for example, analyse a large sample of firms in view of the severity of business environment constraints faced by them. They criticise that much of the empirical literature on business regulations has not adequately addressed the methodological challenge this issue poses. They conclude that few perceived constraints retain explanatory power once the methodology is adjusted.

Altenburg and Drachenfels (2007) are also very sceptical about the potential of RBE-reforms to promote PSD. On the whole, they point out the lack of empirical evidence on the impacts of RBE-reforms. In the context of Sub-Saharan Africa, they check the relevance of three business reform areas that are emphasised in the Doing Business reports, namely easing business registration, providing property rights, and simplifying labour regulations. The assumption that simplified registration requirements enhance competitive pressure and productivity, and thus save businesses a significant amount of money and time is well-conceivable. The authors, however, point out that there is no evidence that reforms that ease registration really improve enterprise performance, e.g. in terms of SME growth. Moreover, they discover that property titling programmes have only had a minor positive impact on access to credit. Finally, they emphasise the lack of evidence to support the view that rigid labour regulations substantially hamper labour mobility and wage flexibility.¹⁵

The lack of empirical evidence is also addressed by Pande and Udry (2005). They distinguish between macroeconomic and microeconomic data and stress the urgent need for microeconomic analysis. Macroeconomic literature, which is backed by persuasive cross-country regression evidence, indeed indicates a strong correlation between institutional development and growth. However, Pande and Udry argue that the scope of using cross-country data for identifying channels of influence on growth is limited due to the heterogeneous environment.

Furthermore, Rodrik (2008) criticises the standardisation of “good institutions”.¹⁶ He emphasises that policy makers cannot simply copy best-practice institutions from other countries. In fact, country- and context specific characteristics have to be considered.

Last but not least, Nyamu-Musembi (2006) scrutinises the link between secure property rights and economic productivity. She questions the theory that secure property rights improve

¹⁵ Other authors, however, identify rigid labour regulation as a severe growth constraint for businesses, as they may discourage firms from hiring new workers. This view is consistent with the argumentation of the Doing Business reports that call for a simplification of labour laws. Botero et al. (2004), for example, find in their cross-country analysis that heavier labour regulations increase unemployment.

¹⁶ The Doing Business approach is an example of “standardisation” because it ranks countries and postulates that fewer business regulations are automatically better for doing business.

entrepreneurs' access to credit¹⁷ and argues that empirical studies in Africa have not found evidence on this correlation.

The above summarised literature review clearly shows that the relationship between the RBE and growth is not beyond dispute, especially due to the inconclusive and unclear empirical evidence.

4.2.3 The impact of other relevant factors on business development

There has been made a lot of research on factors other than the RBE that have a fundamental impact on enterprise growth, and might therefore also be relevant for the development of MSMEs. Among these “X-factors” are:

- Infrastructure
- Education
- HIV/AIDS
- Business networks
- Export diversification
- Financial, criminal and political stability issues

Many studies have identified poor infrastructure as a major obstacle for growth and doing business. This includes bad regional transport, unreliable electricity and water supply, and the lack of adequate telecommunication services. According to the study of Altenburg and Drachenfels (2007: 31), the lack of adequate infrastructure is one of the major challenges for PSD in Sub-Saharan Africa.

The level of education is another factor that is frequently mentioned as a considerable determinant of enterprise performance. Biggs and Shah (2006) reveal in their analysis of the role of private support institutions on SME growth in Sub-Saharan Africa, that education – particularly the education of managers – is significant for firm growth. They find that SMEs with managers that have secondary or university education grow six per cent faster on average than SMEs with managers that have only primary or even no education (Biggs / Shah 2006: 22).¹⁸ Yet, it is controversial how strong the impact of education is compared to the impact of the RBE. Djankov, McLiesh and Ramalho, on the one hand, do not deny the positive

¹⁷ See for example De Soto (2000).

¹⁸ Biggs / Shah (2006) base their analysis on data and research results from the Regional Program for Enterprise Development (RPED), which was conducted by the World Bank in manufacturing enterprises in Sub-Saharan Africa in the 1990s.

influence of education on growth. Their cross-country analysis shows that both improvements of primary school enrolment and improvements in secondary education increase growth rates. The impact of improving the RBE, however, is stronger (Djankov / McLiesh / Ramalho 2006: 4). Altenburg and Drachenfels (2007: 31), on the other hand, identify the shortage of skilled workforce as a much greater limitation to enterprise development than e.g. labour regulations. It is important to note that Djankov, McLiesh and Ramalho measure growth in terms of GDP per capita whereas Altenburg and Drachenfels refer to individual enterprise growth. Therefore, the two statements are not necessarily totally opposite, yet they indicate a certain degree of controversy.

In addition, HIV/AIDS seriously challenges PSD, especially in Sub-Saharan Africa, where HIV prevalence rates are high and health systems poorly equipped. HIV/AIDS imposes both direct and indirect costs on private businesses (Barks-Ruggles 2001: 2). Direct costs include treatment costs of sick employees and health and insurance benefits. Indirect costs refer to the declining productivity and frequent absenteeism of sick employees, the lack of skilled and experienced workers due to permanent illness and early death and increased recruitment and training costs for replacement staff. What makes things worse is the fact that HIV/AIDS particularly affects young adults at their most productive age. According to Barks-Ruggles (2001: 2) there is some evidence that AIDS increases the costs of doing business. However, data is still scarce and the particular consequences for MSMEs need to be assessed.

Business networks also influence enterprise performance. Biggs and Shah (2006) examine the role of networks in determining SME growth in Sub-Saharan Africa and in fact prove that within their sample networked firms grow faster than other firms. They show that SME networks often compensate for failed or non-existent formal institutions in the form of long-term trading relationships and tight, often ethnically-based, business networks. It is supposed that these networks influence firm growth by alleviating financial constraints, providing market information, and helping to enforce property rights as well as business contracts.

Another important factor mentioned by researchers that influences the pattern of growth of African economies is export diversification. This is mainly due to the small size of most African markets. Moreover, there is some empirical evidence from developing countries that indicates that learning-by-exporting might lead to increased productivity (Wolf 2007: 392). Thus, it is conceivable that export diversification does not only lead to the growth of the GDP per capita, but also to the growth of individual exporting enterprises. However, the problem of reverse causality has to be addressed: It is beyond dispute that enterprises first must have reached a critical firm size and a certain level of productivity before they can enter into the export market. Wolf (2007) uses firm-level panel data from Ghana to analyse the firm characteristics that are associated with exporting in the non-traditional agricultural and manufacturing sectors. He finds a clearly positive relationship between firm size and the likelihood to export.

Moreover, the survey of 80 countries conducted by Ayyagari, Demirgüç-Kunt and Maksimovic (2006) reveals that the most binding constraints for enterprise growth are not regulations but rather obstacles related to finance, crime and political stability.

Summarising the arguments above, the available evidence from literature suggests that (enterprise) growth is not exclusively determined by the RBE. Factors like the quality of

infrastructure and education, HIV/AIDS, business networks, export diversification, and, last but not least, financial, criminal and political stability issues are also critical for their economic performance. We thus assume that these factors are relevant for the development of MSMEs.

4.3 The reciprocity between formalisation and business development

We assume that there is a link between the two key elements formalisation and business development themselves. Some researchers state that “formalisation is an inevitable step in the process of growing and succeeding” (Kaufmann / Parlmeyer 2000: 11). According to this idea, formalisation of MSMEs will enhance their productivity and lead to a positive business development, including growth. An agricultural producer might be capable of meeting quality standards due to the process of formalisation and improved market information. As a consequence, productivity and growth might be fostered (Kenyon 2007b: 2). For another entrepreneur, the improved access to finance (e.g. lower interest rates) thanks to formalisation might have a similar positive effect.

But the opposite correlation – an enterprise will formalise having reached a certain size – is also very well conceivable: “Formalisation can be regarded as a rational course of action only when an enterprise has begun to grow or when there is a near certain growth opportunity in prospect and the operator will be able to meet increased transaction costs” (Nelson / De Bruijn 2005: 584). An enterprise with a certain size will not be able to hide anymore from state inspection and thus will formalise.

Besides, the share of the informal economy is much higher in developing countries than in developed countries (Chen 2004: 16-18). Therefore, one can assume that there is a connection between the general level of economic development and formalisation.

From a perspective related to society as a whole the informal economy also brings costs and benefits. On one hand, the informal economy offers opportunities in particular for the poorer population and enables businesses to run that would not be able to do so as formal enterprises. This is partly due to the low entry costs associated with starting informal businesses. Informality offers a “low costs arena for experimentation that can lead to business growth” (Nelson / De Bruijn 2005: 575).

But the informal economy also has a negative effect on the macroeconomic level. Tax evasion has a harmful effect on long-term overall growth and productivity, because governments cannot deliver “publicly provided goods and services such as infrastructure, education, and law and order” (Bigsten et al. 2004: 713). As a consequence, the lack of resources and of public goods effects negatively the business environment which is not able to support small-scale enterprise development (Nelson / De Bruijn 2005: 576). One can observe an obvious interplay: governments depend on taxes for good performance and the private sector on a business friendly environment for development.

However, sufficient tax earnings do not guarantee that governments use them effectively and wisely in order to provide the public goods needed for business environments that support PSD. Kenyon (2007b: 1) sees the informal economy as a reaction to state failure. From his point of view, “informalisation” becomes a “coping mechanism” to corrupt and / or inefficient regulation. Therefore, bad governance and poor administration capacities seem to be important factors that hinder both enterprise formalisation and development.

4.4 Summary of main arguments and evidence regarding our research question

Building on the discussion in chapter 3 and the literature review above, this section summarises the main arguments and evidence regarding our research question. A reminder: The purpose of this study is to comprehend and empirically investigate for the case of Mozambique the triangular relationships between the RBE, formalisation and business development (see figure 3 in chapter 4). In addition, our investigation captures further factors (X-factors) that influence formalisation and development of MSMEs (such as infrastructure, education, health and networks). By this means, we want to gain evidence on the relative importance of the RBE and the X-factors in Mozambique.

In the following, the main arguments and evidence regarding the three arrows of the triangular relation of our research question are summarised:

- 1) RBE and formalisation
- 2) RBE and business development
- 3) Formalisation and business development

Ad 1. It is assumed that the RBE constitutes a key determinant for the formalisation of enterprises; it can foster or hamper it. If the costs associated with the compliance with formal regulations regarding “starting and closing a (formal) business”, “employing workers” and “paying taxes” outweigh the benefits of formality like “less fear and burden of government inspections”, “access to the police and the courts” and “easier access to financial services”, firms stay informal and vice versa.

In addition to these RBE factors, X-factors like education and information of the owner, ethnicity, age of the enterprise and corruption are likely have an effect on the formalisation of an enterprise.

Ad 2. It is assumed that the RBE directly influences business development; it can foster or hamper it. For example, employee-friendly dismissal protection and high taxation of profits may constitute disincentives for an entrepreneur to invest in the expansion of his or her business. Moreover, poor protection of investor rights and deficient contract enforcement can prevent potential investors from investing in private businesses.

In addition to these RBE factors, X-factor like infrastructure, education of owners and workers, HIV/AIDS, access to business networks and international markets as well as finance, crime and political stability issues are likely to influence business development.

Ad 3. As argued in chapter 4.3, a reciprocal relation between formalisation and MSME development is conceivable.

On the one hand, it is assumed that formalisation depends on the size and development dynamics of an enterprise. One motivation to formalise can be the increasing costs of informality. When enterprises develop, the costs of being informal grow. Having reached a certain size, these costs exceed the coping costs associated with formality. Another motivation to formalise can be that the benefits of formality increase with the size of an enterprise. The bigger the enterprise, the more incentives it has to formalise, because bigger enterprises rely more on public services (e.g. regulations regarding property rights) than small enterprises do.

On the other hand, it is plausible that formalisation is a necessary precondition for business development. As discussed in chapter 4.1, informal enterprises do not develop as easily as formal enterprises do. For example, the access to several important “inputs” like formal bank credits and the use of the judiciary system for enforcing contracts or settling disputes, typically depend on the formal registration of the business. If these factors are binding constraints for business development, then formalisation is a necessary precondition for the development of the enterprise.

5 The context of Mozambique

Mozambique has seen a period of continued growth during the last years but still remains one of the poorest countries in the world. The major challenge for Mozambique is to achieve broad-based growth. The research question addressed in this study is especially relevant for Mozambique since (i) the bulk of existing enterprises are small and informal, (ii) the investment climate in general is qualified as poor, and (iii) economic policy appears rather to overlook the challenges associated with high levels of informality. In this chapter we will

- provide the relevant historical background for private sector development (PSD) in Mozambique (5.1),
- briefly characterise the MSME sector and the informal sector (5.2),
- sum up the perception of the regulatory business environment (RBE) and investment climate (5.3),
- describe the regulatory framework for MSMEs in Mozambique (5.4), and
- give the definition of formality used in the empirical investigation (5.5).

5.1 Brief economic history of Mozambique

During the last 50 years Mozambique's economy was shaped dramatically by political changes. The colonial period ended with the independence in 1975. During the post-independence period the state adopted a centrally planned system and the country suffered from civil war. Reforms during the 1980s and the signing of a peace treaty in 1992 set the basis for Mozambique's transformation into a market-driven economy and multi-party democracy.

The following longer quotation taken from a World Bank report provides an overview of the economic history from independence to 1995 (World Bank 1995: 1-3):

“The industrial base that Mozambique inherited from the colonial period was diverse and large by African standards. In 1973 total manufacturing value-added per-capita was estimated to be the sixth largest in Sub-Saharan Africa. Initially built around agro-processing activities for exports such as cashew, tea, sugar, cotton, and sisal, the manufacturing sector expanded rapidly before independence, reflecting an upsurge of foreign investment from South Africa. During that time, the sector diversified into manufacturing consumer and intermediate goods such as construction materials, food products, garments, furniture, glass, metal products, soap and cigarettes. By 1972 the manufacturing sector had expanded to contribute 12 percent of value-added and employed 100,000 workers among 1,400 firms.

The post-independence period saw a massive exodus of the settler population and the loss of entrepreneurial and management capacity. The state assumed ownership of most industrial firms and intervened to manage those abandoned by private owners, known as *intervencionadas*. As many as 254 manufacturing firms out of 575 registered firms were either state-owned or state-operated by 1984. Despite large investments undertaken in the early 1980s (such as state farms, iron, steel, aluminum, chemicals, and textiles), industrial output suffered a severe setback during this period reflecting the impact of the growing internal war, inadequate incentives provided under the centrally planned system, and lack of foreign exchange to import spare parts and raw materials. By 1986, manufacturing output was less than half its 1980 level and one third its pre-independence level.

The Economic and Social Rehabilitation Program (ESRP) that began in 1987 focused on sharply revising the macroeconomic setting and incentive structure to create the right conditions for private sector-led growth in a market-driven economy. While progress has been made in reducing macroeconomic instability through increased fiscal and monetary discipline, the rate of inflation has remained relatively high, averaging 44 percent in 1993. Trade and exchange rate liberalization have been implemented to remove foreign exchange constraints and to improve the competitiveness of tradable products. A market for foreign exchange was instituted in 1992 with the removal of most exchange controls and the unification of several exchange windows; the market-based exchange rate has remained within the 10-20 percent range since March 1992.

Quantitative restrictions on imports and exports have been essentially removed. Domestic markets have been liberalized and price controls progressively eliminated for most goods and services. The system of "conditioned" prices, which involved ex-post review of industrial prices, was phased out in 1992 and price controls are currently restricted to a few foodstuffs and services. [...]

Policy reforms have fostered private sector development both by privatizing state-owned enterprises and by changing legislation and administrative procedures that affect the flow of financial and real resources. A privatization program was initiated in 1989, and government agencies were established to coordinate and facilitate the sale of parastatals.“

Since the end of the civil war in 1992, Mozambique has changed rapidly from a centrally planned economy into a more market-driven system. In spite of frequent natural disasters and economic shocks, since 1996 Mozambique has been able to achieve stable economic growth of an average of 8.2% per year (The Economist Intelligence Unit 2007: 11). Table 5 gives an overview of important macroeconomic indicators for the period 2002 to 2006.

Year	2002	2003	2004	2005	2006*
GDP (US\$ bn)	4.1	4.8	6.1	6.6*	7.2
Real GDP growth (%)	8.2	7.8	7.2	7.5*	7.9
Consumer price inflation (av.; %)	16.8	13.4	12.7	7.2	13.2
Population (m)	18.7	19.1	19.4	19.8	20.2
Exports of goods fob (US\$ m)	809.8	1,043.9	1,503.9	1,745.3	2,359.5
Imports of goods fob (US\$ m)	1,476.5	1,648.1	1,849.7	2,242.3	2,794.7
Current-account balance (US\$ m)	-869.1	-816.5	-607.4	-760.6	-376.7
Source: The Economist Intelligence Unit (2007): 5		* Economist Intelligence Unit estimates			

In 2006, the GDP amounted to US\$7.2 billion. In 2005, the GDP per capita was US\$335 (US\$ 1242 measured in purchasing power parities) (UNDP 2007: 280). The state budget 2008 has a deficit of 129% (Assembleia da República 2007b: 3). According to the African Economic Outlook 2008, official development assistance (ODA) will finance more than half of government expenditure in 2008. This figure illustrates the aid dependency of the country. The fact that nearly half of ODA takes the form of direct budget support, may be seen as a sign of donors' continued confidence in Mozambique (OECD/AfDB 2008: 462).

Despite the generally speaking positive macroeconomic development of Mozambique, it is important to recognize the lasting serious problems in human development. In 2005, the country reached a Human Development Index value of 0.384, occupying rank 172 out of 177 countries (UNDP 2007: 232).

5.2 The relevance of MSMEs and informality

MSMEs dominate the Mozambican enterprise sector. MSME definitions vary from country to country. Our definition is adapted to the MSME classification of the National Statistical Institute of Mozambique (INE 2004a). The INE classification is based on enterprise size. According to INE, MSMEs employ between one and 99 employees whereas enterprises with one to four employees are classified as micro-enterprises, enterprises with five to nine employees as small enterprises and enterprises with ten to 99 employees as medium enterprises.

MSMEs represent 98,6% of the total number of enterprises, contribute 52.1% to GDP and employ 42.9% of employees in the formal sector (INE 2004a: 9). These numbers emphasise the high economic relevance of MSMEs (see table 6).

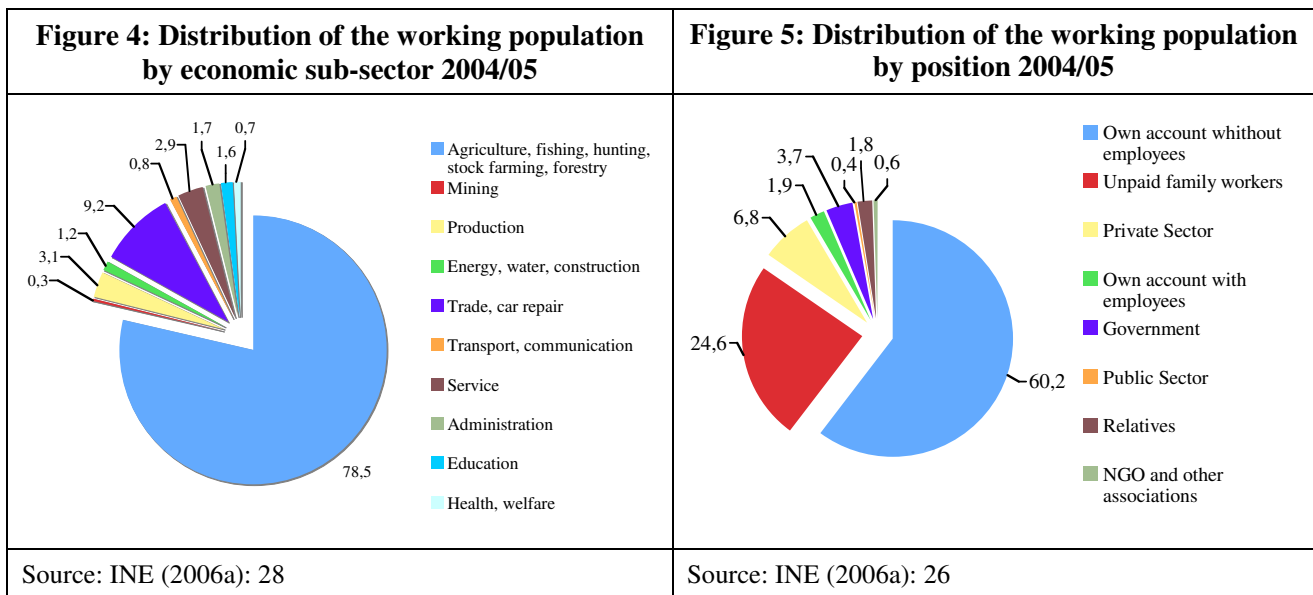
Table 6: Relevance of micro, small and medium enterprises	Total in %	Share of GDP in %	Employees in %
Micro	79.9	40.1	14.1
Small	9.6		5.8
Medium	9.1	12	22.9
Large	1.4	16.5	57.1
Source: Ministério da Indústria e Comércio (2007): 34-35			

Trade and manufacturing are the most important activities within the MSME sector. Trade firms make up 57.4% of the total number of MSMEs and 22.9% of sales originated by MSMEs. Although only 9.9% of the total number of MSMEs belong to the manufacturing sector, it represents 39.2% of sales originated by MSMEs (Ministério da Indústria e Comércio 2007: 36).

According to the Economist Intelligence Unit, “there is still concern that the economy is growing at two speeds. Although the dynamic, capital-intensive export sectors – dominated by the Mozal and Sasol mega-projects – are growing strongly, with the help of large inflows of FDI, economic activity in the rest of the private sector is well below potential” (The Economist Intelligence Unit 2007: 11).

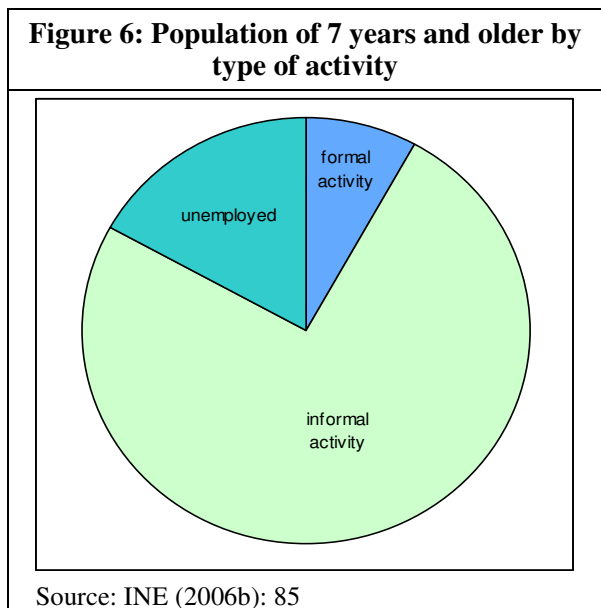
The economically active population encompasses 91.8% of the population above 15 years (49.9% of the total population) (INE 2006a: 17). The level of qualification and education is very low. 57% of the Mozambican population are illiterate. More than 80% of the work force is unskilled. The lack of specific work experience and access to professional training results in a weak employability (Conselho de Ministros 2006b).

The most important economic sub-sectors in terms of the working population are agriculture and trade (see figure 4).



Informal working conditions dominate the labour market. Only 10.9% of the economically active population is formally employed, respectively 6.8% by the private sector and 4.1% by the government including the public sector. 60.2% of the economically active population is self-employed and 24.6% are unpaid family workers (see figure 5) (INE 2006a: 26). The coverage of the social security system is very low. There is a big disparity between the number of contributors and the number of beneficiaries of the social security system: in 2005, only 17,974 persons contributed to the system compared to 609,287 registered beneficiaries (INE 2005).

According to a survey carried out by INE representing a universe of more than 10 million Mozambicans of 7 years and older, 75% of the population carry out an informal activity, 17% are unemployed and only eight per cent carry out a formal activity (see figure 6) (2006b: 85). In 1997, 28% of the children between the age of seven and fourteen years were working (INE s.a.).



5.3 How are the investment climate and the regulatory business environment perceived for Mozambique?

In general, the various available country rankings paint a rather gloomy picture of the Mozambican investment climate. They provide different perspectives, reveal several weaknesses compared to many other countries, but also identify some relative strengths.

In general, Mozambique's international competitiveness is very low. The Global Competitiveness Index (GCI) 2007/2008 classifies Mozambique at rank 128 out of 131 countries. Further, it categorises Mozambique as a factor-driven economy. The GCI highlights three most problematic factors for doing business: lack of access to finance, high bureaucracy and corruption (World Economic Forum 2008).

Surprisingly, the results concerning the assessment of the narrower concept of RBE paint a more optimistic picture than the above-cited rankings. The Doing Business report 2008 benchmarks Mozambique at rank 134 out of 178 countries. The rating varies between rank 33 for "investor protection" and rank 162 for "employing workers". Since 2005 the indicator for "starting a business" has improved significantly (World Bank / IFC 2007).

The "Study on the impact of taxes, customs, licenses and other fees on the investment climate", undertaken in 2006 by FIAS, states that small businesses face particular constraints including the lack of access to: capital, skilled labour (including management skills), modern technologies, as well as higher costs of complying with the tax system as compared to bigger firms (FIAS 2006a: 65).

In what concerns business regulations the report states that during the period of 1996-2006 little progress was made regarding the reduction of administrative barriers. The authors found that most problems with licensing occurred at the national level (FIAS 2006a: 87), because

- the catch-all approach was inefficient and unnecessary,
- information and transparency were lacking,
- decision-making was discretionary and there was widespread corruption,
- the legal framework was incomplete and had several shortcomings, comprising the missing legislation regarding the use of fees and fines and missing administrative provision in place to set uniform detailed application of the decrees,
- the legal framework was poorly implemented,
- the inspection regime was inappropriate.

Accordingly, the authors conclude that many of the key constraints identified in past surveys of manufacturing firms still hold: lack of access/ high cost of finance, uncertain policy environment and regulatory/ administrative barriers, inadequate infrastructure (electricity, transportation) (FIAS 2006a: 35).

The business climate survey 2006 shows that factors of governance (e.g. political system, bureaucracy, corruption) are expected to have the strongest negative influence on the development of the enterprises interviewed. The survey was undertaken by the consulting agency KPMG Mozambique, in partnership with the Confederation of the Economic Associations of Mozambique (CTA) and the Chamber of Commerce and Industry of Mozambique and South Africa (CCIMOSA), with the sponsorship of the German Cooperation (KPMG et al. 2007).

The following table provides an overview of further information on the RBE and the investment climate in Mozambique, covering core publications of the last decade:

Table 7: Publications about the investment climate and RBE in Mozambique	
Publication	Basic information provided
Business Leadership South Africa (2007): Mozambique: the business view. Results of a survey on the business environment and investment climate. online: CTA http://www.businessleadership.org.za/documents/BLSA%20OP%204%20Mozambique.pdf	<ul style="list-style-type: none"> • Coverage: Maputo, Beira, Nampula • Main findings: business climate improved markedly
World Bank / IFC (2007): Doing Business 2008: Mozambique: A Project Benchmarking the Regulatory Cost of Doing Business in 178 Economies, Washington, DC (2004) Doing Business in 2004: Understanding Regulation, Washington, DC (2005): Doing Business in 2005: Removing Obstacles to Growth, Washington, DC (2006): Doing Business 2007: How to reform, Washington, DC	<ul style="list-style-type: none"> • Survey and research, Coverage: Maputo • Mozambique's Rank 2008 out of 178 countries: <ul style="list-style-type: none"> - Ease of Doing Business 134 - Starting a Business 125 - Dealing with Licenses 147 - Employing Workers 162, Registering Property 126 - Getting Credit 97, - Protecting Investors 33 - Paying Taxes 72, - Trading Across Borders 140 - Enforcing Contracts 138, Closing a Business 134
Byiers et al. (2006): Enterprise Development in Mozambique: Results Based on Manufacturing Surveys Conducted in 2002 and 2006, Maputo: DNEAP (Discussion Paper 33 E	<ul style="list-style-type: none"> • Coverage: 2002: 192 firms, 2006: 158 firms • Maputo, Beira, Nampula C., Nacala, Chimoio, Gurue • Key constraints identified: <ul style="list-style-type: none"> - Telecommunications - Electricity - Transport - Land access - Tax rates, tax administration
USAID (2004): Removing obstacles to economic growth in Mozambique: A diagnostic trade integration study. online: http://www.integratedframework.org/files/mozambique_dtis_vol2-dec04.pdf	<ul style="list-style-type: none"> • Diagnostic study • Key constraints identified: <ul style="list-style-type: none"> - Heavy costs of regulatory environment - SMEs disadvantaged by burdensome system - Unnecessary and excessive constraints embodied in policies, practices, laws and regulations

<p>Borgarello, A., D. Marignani, Z. Mavura (2004): What hinders small and medium Entrepreneurs in Mozambique? online: http://www.italcoopmoz.com/docs/nostre_publicazioni/quaderno_7.pdf</p>	<ul style="list-style-type: none"> • Coverage: 32 firms, 30 organisations • Maputo, Inhambane, Gaza, Sofala • Key constraints identified: <ul style="list-style-type: none"> - Credit market - Macroeconomic environment - Institutional framework - Infrastructures and market
<p>CTA, CPI, RPED, Africa Private Sector Group, WB (2003): Mozambique Industrial Performance and Investment Climate 2003. online: http://www1.worldbank.org/rped/documents/ICA006.pdf</p>	<ul style="list-style-type: none"> • Coverage: 193 firms (36% micro/small, 31,6% medium) • Sectors: Food and beverage, Textiles and garments, wood, metals, machinery, furniture • Maputo City, Matola, Chimoio, Beira, Nampula City, Nacala • Key constraints identified: <ul style="list-style-type: none"> - Lack of access and the high cost of capital - Uncertain policy environment - Regulatory/administrative barriers - Infrastructure
<p>Biggs, T., J. Nasir, R. Fisman (1999): Structure and Performance of Manufacturing in Mozambique. RPED Paper No. 107. online: http://www1.worldbank.org/rped/documents/rped107.pdf</p>	<ul style="list-style-type: none"> • Coverage: 153 firms, Manufacturing sector • Maputo, Beira, Chimoio, Quelimane, Nampula, Nacala, Mossuril • Key constraints identified: <ul style="list-style-type: none"> - Lack of access to credit - Government policy - Bureaucratic burden/ Administration

5.4 The regulatory framework for MSMEs

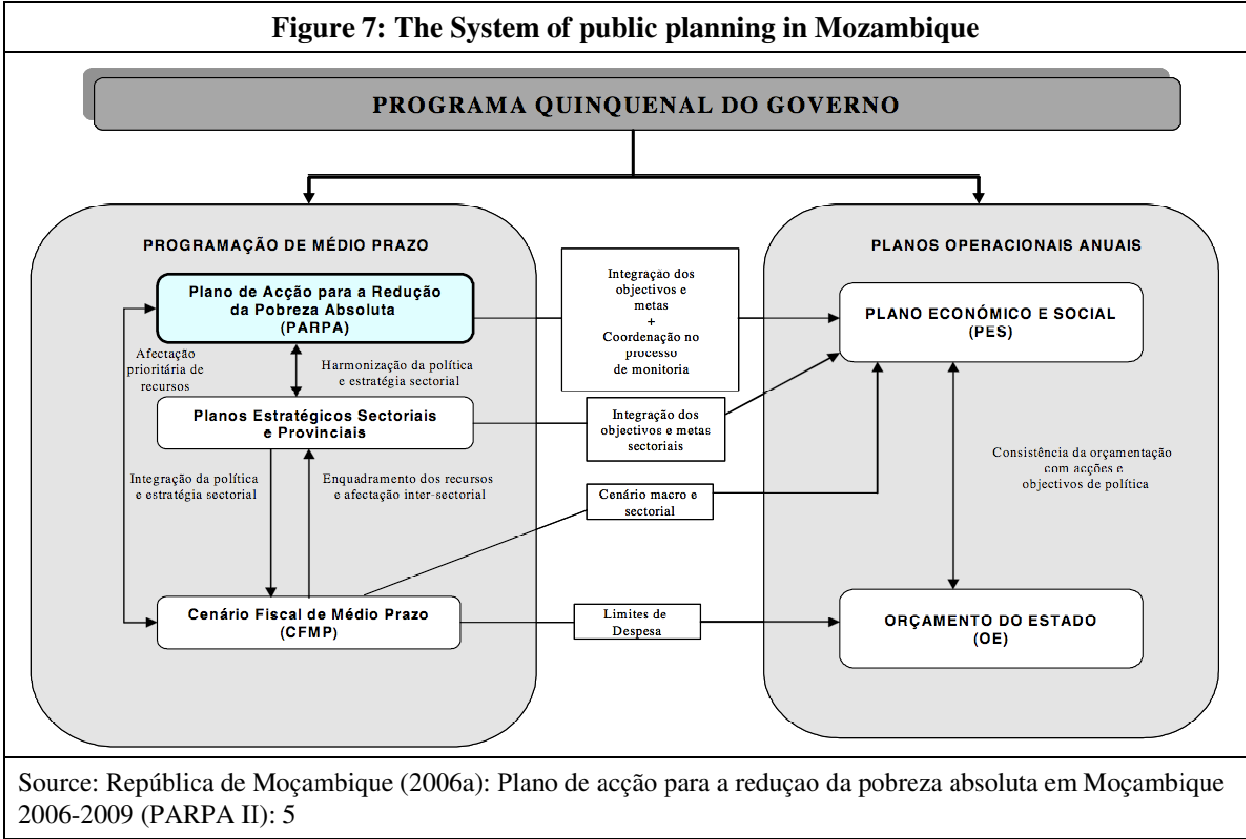
In the following we will describe the framework of the strategic economic policy (5.4.1), the public administration (5.4.2) and specific MSME regulations in Mozambique (5.4.3).

5.4.1 The strategic economic policy framework

In general terms it can be said that the Mozambican economic policy highlights improvements to the RBE but puts less emphasis on the aspect of informality. In the following, a brief review of the most relevant strategic policy documents of the Government of Mozambique regarding the subject of this study is provided.

The Mozambican government operates on a mid term planning period of five years (see figure 7). The **Poverty Reduction Strategy Paper** 2006-2009 (PARPA II) sets the mid term framework for subsequent policies such as Strategic Sector Plans and the Mid Term Budget

Strategy (República de Moçambique 2006b). Annual operation is based on the Economic and Social Plan (PES) and the State Budget.



Both PARPA II and the PES 2007 emphasise improvements to the RBE, as shows the following quotation taken from PARPA II:

“Administrative barriers to the pursuit of economic activities have been identified as the most serious constraint on private sector development. The Government of Mozambique will proceed with a review of the legal and institutional framework that will make it possible to simplify and accelerate the licensing of commercial and industrial activities and tourism, with a view to issuing these licenses within the deadlines stipulated in the law for each of these cases. It will also simplify and unify the inspections of business activities and make them more effective” (República de Moçambique 2006b: 122).

With reference to the objectives of the PARPA II, in 2008 the Government of Mozambique adopted a **Strategy to Improve the Business Environment** (Ministério da Indústria e Comércio 2008). Table 8 presents its strategic actions.

Table 8: Strategic actions to improve the business environment			
Legal reform	Taxes and Credit	Infrastructure	Governance
<ul style="list-style-type: none"> • Start-up and registration of societies • Licensing of activities • Labour environment • Enterprise failure • Inspection • Import and export • Informal sector 	<ul style="list-style-type: none"> • Fiscal environment • Access to finance 	<ul style="list-style-type: none"> • Energy 	<ul style="list-style-type: none"> • Contract reliability • Investment protection • Property registration
Source: Authors' own, based on Ministério da Indústria e Comércio (2008)			

The government recognises the importance of the informal sector for poverty reduction in terms of employment creation and economic potential. To facilitate formalisation, the business environment strategy includes the following strategic actions (Ministério da Indústria e Comércio 2008):

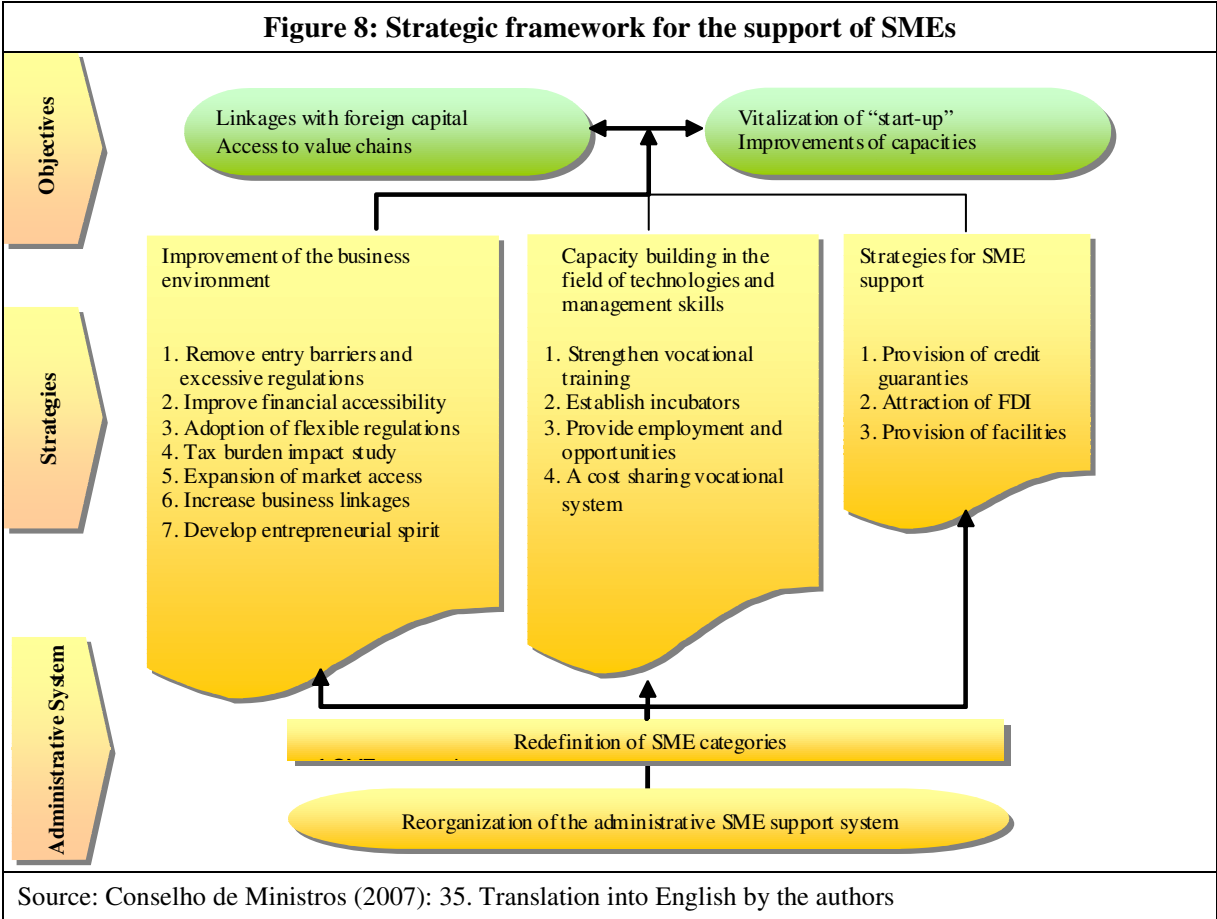
- Fiscal reform including the definition of measures that give incentives for a transition from the informal to the formal sector;
- Registration and licensing services offered by the state at symbolic fees;
- Facilitation of credit access;
- Integration of the informal sector in dialogue forums between the public sector and the private sector.

Within the **Employment Strategy** (Conselho de Ministros 2006b), in 2006 the Government of Mozambique defined the objective to support the informal sector enhancing:

- Infrastructural support for businesses development;
- Access to productive resources;
- Business development services and training;
- Social protection for informal sector operators and employees;
- Realisation of a study on the behaviour and the relevance of the informal sector for employment and the national economy.

The **Strategy for the Development of Small and Medium Enterprises** in Mozambique (Conselho de Ministros 2007a) provides a profile of the Mozambican SME sector and an evaluation of the specific business environment. Moreover, it defines the national SME development policy covering a wide range of areas and spheres of responsibility of different

ministries. The most important step towards an implementation of the strategy is the planned creation of an institute for the promotion of SMEs. The following figure provides an overview of the SME strategy:



5.4.2 The administrative framework

The Mozambican state is rather highly centralised. The actual political-administrative structure traces back to 1978 and was reaffirmed by the constitution of 1990 (Massuanganhe 2005: 12). The territory of Mozambique is structured into provinces (*provincias*), counties (*distritos*), districts (*postos administrativos*), localities (*localidades*) and district capitals (*povoações*). Moreover, urban areas consist of cities and *vilas* (Governo de Moçambique: Constituição da República art. 7). The government and the public administration are hierarchically represented in each territorial unit as local state bodies (Conselho de Ministros 2005: art. 3). The president, ministers and representatives of the respectively higher levels appoint the members of local state bodies. In 1997, Mozambique introduced the legal basis

for local self governance (*autarquia*) of cities (*municipalidades*) and district capitals (*povoações*) (Assambleia da República 1997). Thus, the 33 major cities have elected local parliaments (*assembleias municipais*) and elected mayors (*presidentes do conselho municipal*).

5.4.3 The specific regulatory framework for MSMEs

The regulatory framework relevant for business activity in Mozambique is complex and varies according to various factors such as the type of economic activity, size, location and legal status of an enterprise. We will now outline the most important regulations for MSMEs located in municipalities and carrying out an activity in the trade or manufacturing sector. We focus on the trade and the manufacturing sectors, since the empirical investigation concentrates on these sectors. Moreover, we restrict the review of business regulations to cover the areas of licensing and registration, taxes and labour. Our definition of formality presented in section 5.5 builds on the following review of regulations.

How to obtain a license?

In general, any business activity is committed to apply for a licence. Responsibilities regarding licensing of enterprises located in municipalities are divided between the municipal government (*conselho municipal*) and the provincial government (or national level). Concerning manufacturing activities, the division of responsibilities is defined depending upon the size of an enterprise. Concerning trade activities, the division of competences depends upon 18 classified types of trade firms (Conselho de Ministros 2003: 475, art. 1).

According to the legislation, the municipalities are responsible for licensing:

- manufacturing activities of micro enterprises, and
- trade activities carried out by ambulatory vendors or carried out in provisional structures like booths and stands (*tendas, barracas, bancas*).

The fees that enterprises must pay to obtain the licence for their activity are established in the “municipal constitution” (*códigos de postura*) of each municipality. They depend upon the type of activity.

According to the legislation, the provincial governments (appointed by the national government) are responsible for licensing any manufacturing or trade activity not covered by the municipalities, i.e. manufacturing establishments of small, medium and large scale and specified trade establishments (Conselho de Ministros 2003: 4, art. 8). A licence emitted by the provincial government is usually referred to as *alvará*. To obtain an *alvará*, the enterprise must pass a technical inspection, referred to as *vistoria* that controls the fulfilment of specific technico-functional conditions and norms concerning sanitation, health, industrial safety, and environment (see box 1).

Box 1: Steps to obtain an alvará		
1.	Application for licensing	For manufacturing enterprises additional documentation is required: – Topographical map – Map of site – Detailed description of the project – Environmental impact assessment
2.	Obtain authorization notification of application – <i>notificatória</i>	
3.	Obtain the technical inspection notice - <i>vistoria</i>	
4.	Obtain the operating license – <i>alvará</i>	
Source: Conselho de Ministros (2003; 2004)		

How to register a company?

The Ministry of Justice is responsible for maintaining a central commercial registry, respectively the Provincial Directorates of Registry and Notary in each province. Registry is possible for any enterprise, but compulsory for those licensed by the province or at the national level (i.e. that obtain an *alvará*).

The enterprise registration has been simplified by actualising the Commercial Code and Commercial Registration Code in December 2006 (Conselho de Ministros 2006a). The main improvements are:

- the introduction of “legal entity” (encompassing sole proprietor enterprises as well as companies) as a single registration category;
- the possibility to register in one provincial registry for the whole country;
- the introduction of an electronic registration system in Maputo, Beira and Nampula.

Enterprise registration encompasses four steps:

Box 2: Four steps of company registration	
1.	Company name registration at the Registry of Legal Entities
2.	Agreement on the wording of the company agreement by the shareholders
3.	Opening of a bank account for the purpose of depositing the share capital
4.	Company registration at the Registry of Legal Entities
Source: Centro de Promoção de Investimentos (2006)	

The tax system

The Mozambican tax system distinguishes between national and municipal taxes.

National taxes

The Mozambican Revenue Authority (*Autoridade Tributária de Moçambique*, ATM) is responsible of collecting national taxes and controlling their payment. ATM is represented at the local level by directorates of fiscal areas (*Direcções das Áreas Fiscais*) and units for big tax payers (*Unidades de Grandes Contribuintes*).

The fiscal legalisation of business activities requires first an application for the tax identification number (*Número único de identificação tributária*, NUIT). After having received a NUIT, an entrepreneur has to declare the beginning of her business activity at the Revenue Authority. The most relevant national taxes for MSMEs are (Governo de Moçambique 2007):

- Personal income tax - *Imposto sobre o rendimento das pessoas singulares* (IRPS)
- Corporate income tax - *Imposto sobre o rendimento das pessoas colectivas* (IRPC)
- Value added tax - *Imposto sobre o valor acrescentado* (IVA).

Business income of individuals is subject to IRPS with increasing rates from 10% up to 32% depending on the total income of the person.¹⁹ Incomes below the value of two minimum wages are exempted from IRPS payment. Profits of companies and other corporate bodies are subject to IRPC at a rate of 32%.²⁰ Simplified procedures of tax assessment exist both for IRPS and IRPC.

Concerning IVA payment, generally speaking, any transaction of goods and services made by enterprises is subject to IVA. According to the following criteria enterprises may apply for three regimes:

- Exemption of IVA payment is applicable for enterprises with an annual turnover below 100.000 MTn and that are exempted from running an official accountancy (*contabilidade organizada*) and that do not export or import. Invoices emitted by enterprises exempted from IVA are not deductible for enterprises under the normal regime.
- The simplified regime is applicable for enterprises whose annual turnover lies between 100.000 MTn and 250.000 MTn and that are exempted from running an official accountancy. These enterprises are levied a tax on 5% on their sales. Invoices emitted by enterprises under the simplified regime are not deductible for enterprises under the normal regime.

¹⁹ Legislation IPRS: Conselho de Ministros (2002a)

²⁰ Legislation of IPRC: Conselho de Ministros (2002b)

- The normal IVA regime with a tax rate of 17% is compulsory for enterprises with an annual turnover above 250.000 MTn and allows the deduction of the IVA paid for the purchase of good and services.²¹

In general, an official accountancy is compulsory for any enterprise with a turnover of more than 1.500.00 MTn per year (Conselho de Ministros 2002b).

Municipal taxes

The municipal taxes have been introduced in the context of decentralisation. These taxes are directly levied and collected by the municipal administration. The most important municipal taxes are among others:

- Economic activity taxes (*taxas por actividade económica*)
- Municipal real estate tax (*imposto predial autárquico*)
- Tax on name plates and advertising plates (*imposto a letreiros e publicidade*)

Labour regulation

In the area of labour regulation we deem most important the following four aspects:

- 1) The protection of employees against dismissal, consisting of the right for compensation in case of dismissal by the employer without a just cause
- 2) A compulsory minimum wage. The Consultative Labour Committee defines the minimum wages for various professional groups (Asssembleia da República 2007a: 484).
- 3) Greater flexibility for MSMEs: while heavily restricted for large enterprises, small²² and medium²³ enterprises may offer short-term contracts during the 10 first years of their activity.
- 4) Employers are bound by law to register all employees at the National Institute for Social Security (*Instituto Nacional de Segurança Social, INSS*) and pay a monthly contribution for social security.

²¹ Legislation of IVA: Conselho de Ministros (1998)

²² According to the labour law a small enterprise consists of max. 10 employees.

²³ According to the labour law a medium enterprise consists of 10 to 100 employees.

One-stop shops

One-stop shops have been introduced in provincial capitals in 2007 (Conselho de Ministros 2007b). Ones fully installed, one-stop shops will provide services regarding licensing, registration and notary, migration, tax and fee payment, civil registration and identification, as well as services complementary to licenses.

Inspections and fines

Enterprises are subject to various inspections. Different ministries and provincial directorates have their own inspections. A unified inspection is planned. Inspections by the authorities responsible for licensing may be announced in case of an “educative purpose” or not announced in case of regular inspection, complaints or detected irregularities (Ministério da Indústria e Comércio 2005: 509).

The following table shows a selection of fines for non-compliance with business regulations, defined by the manufacturing licensing regulation, article 35 (Conselho de Ministros 2003: 14) and the trade licensing regulation, article 22 (Conselho de Ministros 2004: 480).

Table 9: Sectoral fines					
		Scale of enterprise			
		Big	Medium	Small	Micro
Industry	Initiation of industrial economic activity without previous <i>vistoria</i>	80 MW	80 MW	40 MW	40 MW
	Missing registration				10 MW
	Not-fulfilment of norms concerning sanitation, health, security and environment				10MW
Trade	Commercial activity without authorization	20MW + confiscation of goods			
	Initiation or alteration of commercial activity	10 MW + confiscation of goods			
MW = Minimum wage, defined as the current basic salary in public service					
Source: Authors' own					

5.5 Definition of formality

The definition of formality used in this study is based on the three main areas of the regulatory framework for MSMEs described above, namely on the licencing, tax and labour regulations. The following criteria were selected to represent these areas:

- A. The enterprise has a municipal licence or an *alvará*
- B. The enterprise has a NUIT
- C. The enterprise is registered at the INSS

The cumulative combination of these three criteria defines four levels of formality:

1. The enterprise does not comply with any of these criteria (completely informal)
2. The enterprise complies with criterion A
3. The enterprise complies with criteria A and B
4. The enterprise complies with criteria A, B and C (completely formal)

Table 10: Definition of formality for the empirical investigation		Levels of formality			
		1	2	3	4
Criteria	The enterprise is registered at the INSS				X
	The enterprise has a NUIT			X	X
	The enterprise has a municipal licence or alvará		X	X	X
Source: Authors' own					

6 Empirical results: the role of the regulatory business environment for formalisation and development of MSMEs in Mozambique

The present chapter highlights key results of our empirical research with regard to the role of the regulatory business environment (RBE) for formalisation and development of micro, small and medium enterprises (MSMEs) in Mozambique. The basis of these results is the quantitative and qualitative enterprise survey carried out between 18 February and 8 April 2008 (see chapter 2 for more details). The first section of this chapter will explain the sampling strategy and describe the sample of enterprises surveyed (6.1). The second and third sections will present our main results regarding formalisation (6.2) and business development of MSMEs (6.3), respectively. Finally, both dimensions are brought together to get a picture of the relationship between formalisation and business development within the Mozambican context (6.4).

6.1 Sampling strategy

A crucial objective of the sampling strategy was to obtain a sample of firms that contains variability with respect to the level of formality (see section 5.5. for the definition of formality). This, in order to be able to identify factors that are associated with the level of formality and thus could explain it, as well as to analyse whether the level of formality matters for the firm's perception of obstacles for general business development.

Since the level of formality cannot be directly observed, the enterprises were chosen based on the characteristics „enterprise size“ (MSMEs) and „sector“ (trade and manufacturing), which offer variability regarding the level of formality. Moreover we focused our sample on two cities: Beira, in the central part of Mozambique (Sofala Province) and Nampula, representing the north (Nampula Province).

The enterprises to be interviewed were chosen by means of different strategies:

- Firstly, we used two data sets of the National Statistical Institute of Mozambique (INE). The first one was compiled based on the 2004 census of formal enterprises (CEMPRE; INE 2004). The second one was compiled based on the 2004 survey of the informal economy (INFOR; INE 2006).
- Secondly, we got access to (formal and informal) entrepreneurs with the help of Mozambican business associations (ACB in the case of Beira and ACIANA in the case of Nampula).
- Last but not least, interview partners were chosen “quasi randomly” in the field.

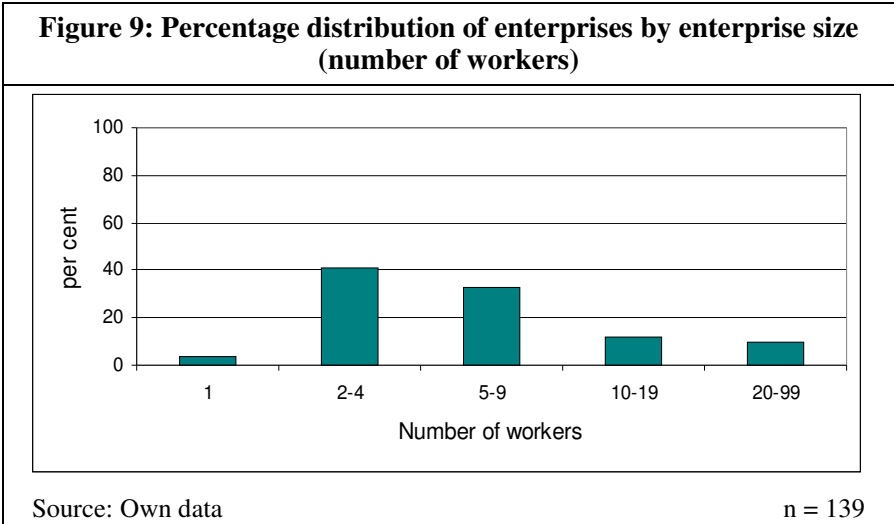
The same sampling strategy was applied for the quantitative (146 interviews) and the qualitative survey (28 interviews).

The remainder of this section describes the quantitative sample with respect to the selection criteria enterprise size (6.1.2), sector (6.1.3) and geographical location (6.1.4).

6.1.1 Enterprise size

As noted above size restrictions were crucial for our sampling strategy, since formality was defined as key category to be analysed and was expected to be linked to the enterprise size. Thus, we focused on “small” enterprises within the spectrum of MSMEs.

As presented in chapter 5.2, our MSME definition is adapted to the classification of enterprises of INE (2004). Following INE, MSMEs employ between one and 99 employees. Figure 9 shows the distribution of enterprises contained in our quantitative sample by size classes. As can be seen, the majority of the enterprises interviewed has two to nine employees.



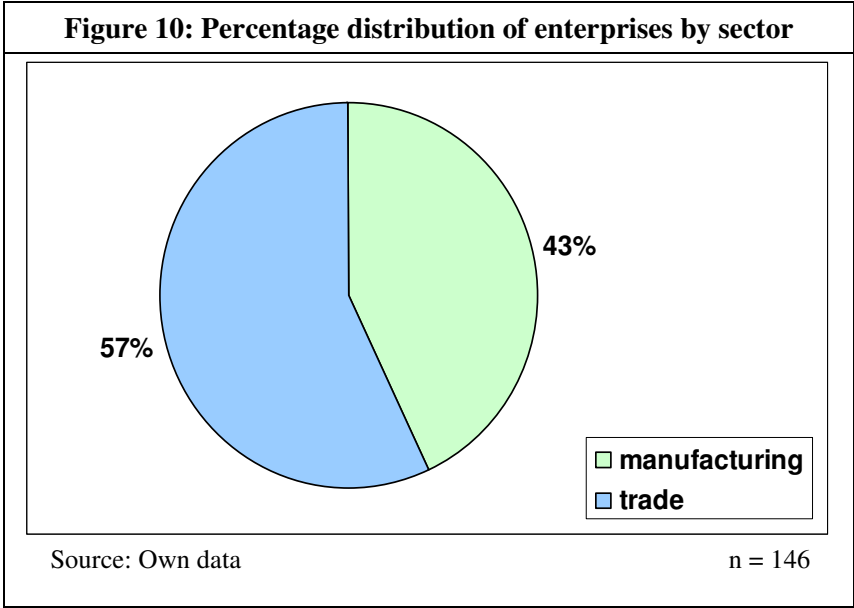
6.1.2 Sector

In our research we focused on the two sectors trade and manufacturing. Given the particular emphasis of our study on formality, the sector selection is mainly dominated by the idea of focusing on a sector with high variability regarding the levels of formality. Since trade was assumed to show high variability concerning formality it was regarded as an adequate sector to be analysed.

Moreover, trade is one of the most important sectors in Mozambique in terms of the number of MSMEs. Nearly 60% of MSMEs in Mozambique are in the trade sector (INE 2004). However, the sector can be assumed to be less productive than for instance manufacturing (the MSMEs in the trade sector contribute merely 23% of the MSME contribution to GDP) (INE 2004). This is partly because of the relatively low investment needed to start-up a trade business. Within the trade sector we focused on the sub sectors “general retail trade”, “food and beverages” as well as “trade with car spares”.

The other sector analysed is manufacturing. On the one hand, the manufacturing sector is smaller than trade; nearly 10% of the MSMEs in Mozambique are in the manufacturing sector. But – on the other hand – it is more productive. The MSMEs in the manufacturing sector account for almost 40% of the MSME contribution to GDP (INE 2004). Besides a higher GDP contribution, enterprises from the manufacturing sector show higher investment rates. We expected to find a lower level of informality in the manufacturing sector as compared to the trade sector, since it is harder to hide away a workshop from authorities than e.g. a mobile stand for retail trading. Within the manufacturing sector, we focused on the sub sectors “furniture” and “bakery”.

Within our sample the sectors trade and manufacture are distributed as follows:



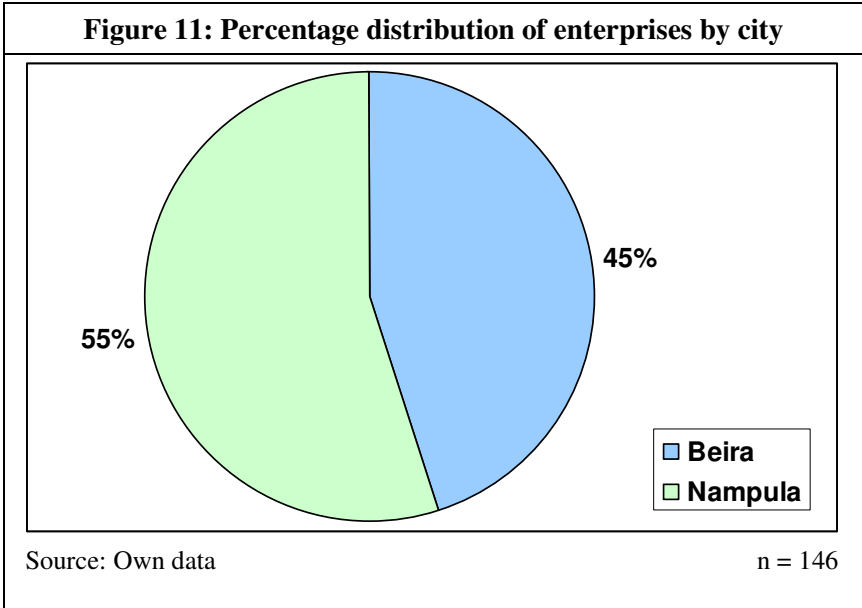
6.1.3 Geographical location

There are remarkable regional differences among the northern, the central, and the southern part of Mozambique. These differences are partly related to the organisation of the state and to the availability and quality of infrastructure. With respect to land transportation the Zambezi River virtually cuts off the North from the Centre and the South.

Given the administrative structure of the Mozambican state (see section 5.3), (i) the regulations and (ii) the implementation of regulations and sanction procedures vary from province to province and from city (*municipalidade*) to city. The central region has a reputation for being less business-friendly. The level of bureaucratic burdens (215 days to register a company) is higher than in the Maputo region (172 days) and the north (167 days; World Bank / IFC 2003: 52ff). Furthermore, the investment climate varies in terms of infrastructure conditions as well as education, energy supply or health conditions (HIV/AIDS).

The choice of the geographical location of the enterprises surveyed was based on the following rationale. On the one hand we wanted to capture the expected variability between regions concerning the investment climate. On the other hand we wanted locations to be comparable in terms of size and administrative structures in order to not to introduce to many sources of variability. Therefore we chose the cities of Beira, the second largest city of Mozambique, which represents the central region (Sofala province), and Nampula, the third largest city of Mozambique, which represents the Nampula Province and the northern region of Mozambique (see map in annex 6). These cities are suited for comparison, since both have the same administrative structure – both are municipalities with elected governments (*autarquías*) – and have a similar number of inhabitants (Beira: 530.000; Nampula: 390.000).

Within our sample the cities Beira and Nampula are distributed as follows:



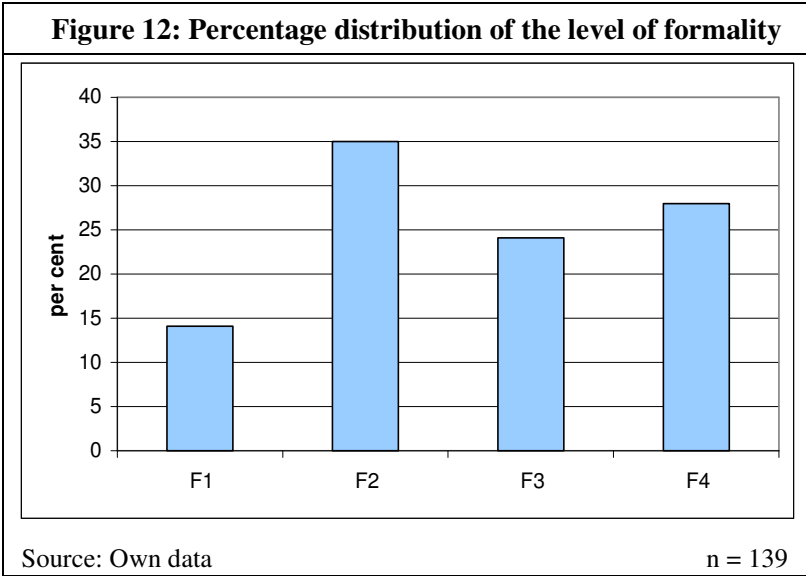
6.2 Results on formalisation

The objective of our research is to identify factors that influence the owner of a MSME in his or her decision about either acting formally or staying informal with his or her business. This section presents our findings regarding such factors structured as follows:

- Correlation between level of formality and business size
- Barriers to formalisation
 - Inspections
 - Dismissal protection
 - Other barriers
- Factors that determine formality
- Incentives to formalise

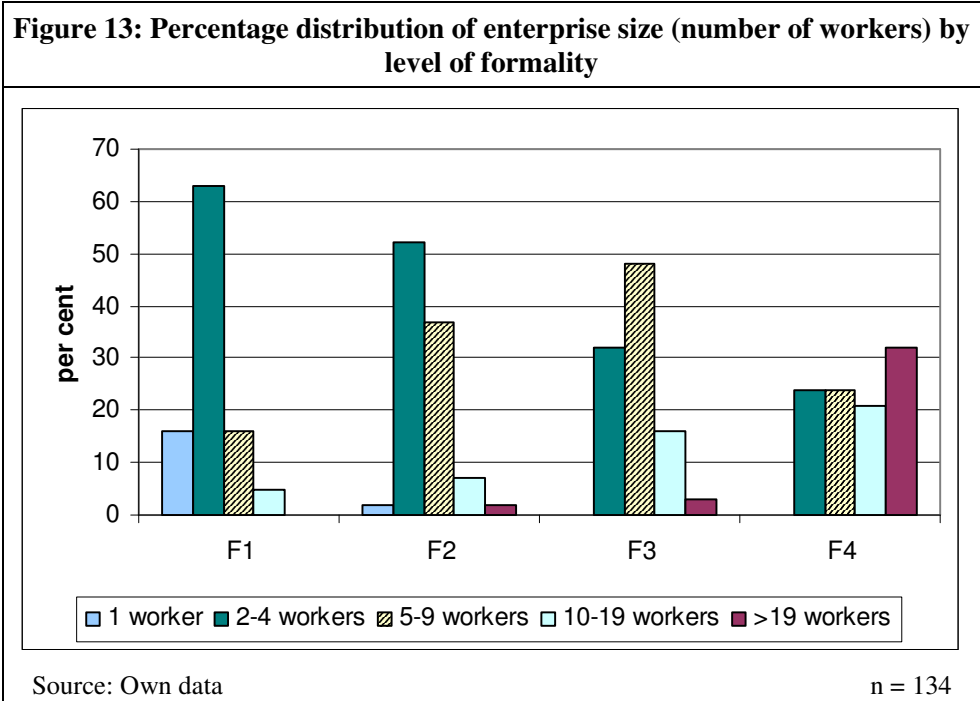
6.2.1 Level of formality and business size

A significant proportion of the enterprises that we interviewed (35%) belong to level 2 of formality, as they just hold a municipal licence or an *alvará* for their businesses (see figure 12). Only a small group of our interviewees (14%) belong to level 1 and, according to our definition, are completely informal. 24% of the enterprises belong to level 3 and 28% to level 4.



The fact that only 14% of the enterprises of our sample are informal and do not comply with any of the criteria of the definition of formality (see section 5.5), does not necessarily mean that these enterprises represent a minority in the cities we investigated. One reason for the small number we found might be that it is generally more difficult to trace them. Often those informal businesses are part of the survival economy that usually operate from home. Typically, they have only few or no employees and are less visible. Therefore it is harder to find them, both for inspectors and for researchers.

In our sample there is a clear correlation between the level of formality and business size. The more workers a business employs the higher its level of formality. As we can see in figure 13, the majority of enterprises with one to four workers belong to level 1 or 2. The enterprises with 20 or more workers are mostly completely formal, as per our definition of formality.

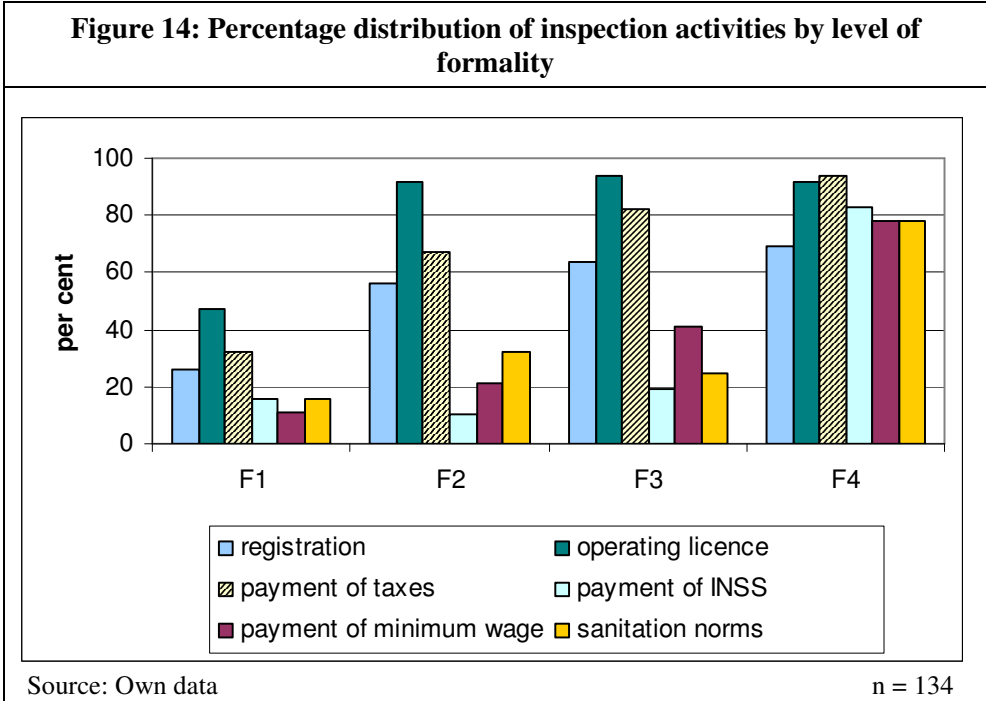


6.2.2 Barriers to formalisation

Inspections

The results of our quantitative interviews show that enterprises with a higher level of formality suffer more inspections than those with a lower level (see figure 14). For example, a business that is registered with the Mozambican Revenue Authority (*Autoridade Tributária de Moçambique*, ATM) and the National Institute for Social Security (*Instituto Nacional de Segurança Social*, INSS) is controlled with a higher probability by all kinds of inspections asked in the survey than a business that only holds a licence. This leads to higher

administrative burden and penalty costs for completely formal enterprises, and generates a disincentive for informal businesses to become formal. The issue most frequently controlled by inspectors is the operating licence which is already heavily inspected from level 2 of formality on.



We observed an insufficient cooperation between the municipality and the provincial government in terms of the identification of businesses that are bound to obtain a provincial licence. When enterprises that are registered with the municipality reach a certain business size or dimension, they need to obtain an *alvará*. Municipalities typically do not report this to the provincial government. The lack of cooperation between those institutions reduces the incentive of the business owner to do this step on his own initiative.

In this regard, there seems to be a difference between Beira and Nampula. In Nampula, the municipal authorities are represented in the one-stop shop (*Balcão de Atendimento Único, BAU*). This proves a relatively close cooperation between the municipality and the provincial government. Moreover, in Nampula the municipality and the provincial government cooperate in licensing industrial micro enterprises (*certidão de registos*). However, in Beira cooperation between the institutions is poorly managed. One reason for this finding can be the fact that in Beira the municipality is governed by RENAMO, the opposition party, while the provincial government is headed by FRELIMO, Mozambique’s governing party.²⁴

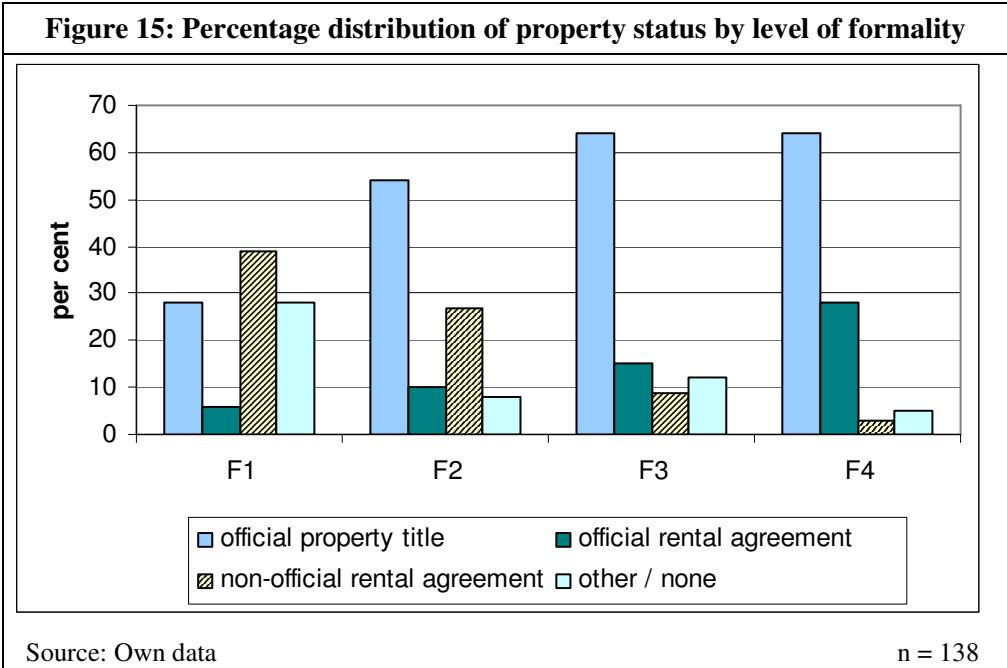
²⁴ In Nampula, both the municipality and the provincial government are ruled by FRELIMO.

Dismissal protection

According to our qualitative interviews, only bigger enterprises with a higher level of formality complain about protection of workers stated by the national labour law. For them, this regulation creates an obstacle for their businesses. Some of the managers of these enterprises stated that they would like to employ more workers but that they are reluctant to do so because of the relative high costs and lengthy procedures in case of future dismissals. Smaller enterprises with a level 1 or 2 of formality are generally in favour of the dismissal protection. One interpretation for this finding is that smaller informal enterprises avoid regulations (and thus costs of compliance) more easily because they are less inspected in this matter (see above). Another explanation for this finding is the fact that they often employ family members.

Other barriers

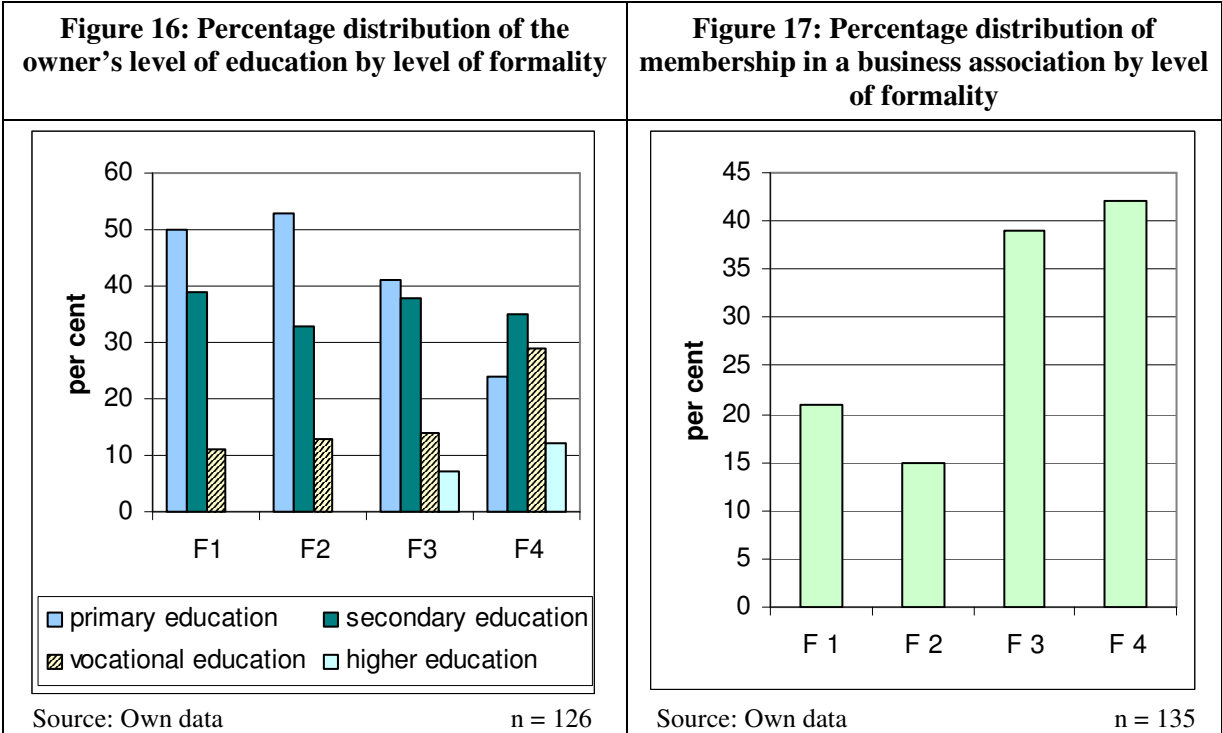
To apply for an *alvará* it is required to present a property title or an official rental agreement. The quantitative data of our research shows that the share of enterprises that hold these documents increases with the level of formality. The share of enterprises with non-official rental agreement decreases with the level of formality (see figure 15). This suggests that the lack of official documents among entrepreneurs to prove property or rental agreements is a reason for a low level of formality.



The results from our quantitative enquiry also show that the level of education of the business owner is connected with the level of formality of his or her business. Enterprises with a lower level of formality tend to be directed by owners with a lower level of education, i.e. primary or secondary education. As can be seen in figure 16, entrepreneurs with higher education only

were found amongst businesses with level 3 or 4 of formality. This suggests that the level of education has an impact on the decision, motivation or capacity of an entrepreneur to formalise.

Furthermore, the level of formality of most of our interviewed enterprises correlates with their connection to a business association. Enterprises with level 1 or 2 of formality are less likely to be member of a business association (see figure 17). Their membership quota is around 20% or less. The membership quota of enterprises of level 3 or 4 of formality is much higher (about 40%).



A further barrier to formalisation that we identified from our qualitative interviews is a low and irregular cash flow. As we learned in previous chapters, formality is associated with several costs, especially with regard to licence, tax and labour regulations. Enterprises without a regular cash flow cannot afford these additional expenditures that are necessary to obtain a higher level of formality.

6.2.3 Factors that determine formality

We identified several factors that hamper certain enterprises from acting informally.

For some enterprises it is impossible to operate informally because formality is a necessary step for their business activity. A relatively big size (in terms of number of workers or amount

of turnover), or a location visible to the public and inspectors can inhibit an informal economic activity. Another aspect that inhibits informal activities can be a certain group of clients or suppliers. For example, to supply to the government or to import and export, a business needs to have formal documentation. Moreover, nationality seems to be relevant in this context. Among the foreign residents that we interviewed nobody ran an informal business. It looks as if it was more difficult for them to hide from inspections.

6.2.4 Incentives to formalise

In our quantitative questionnaire, we asked entrepreneurs about their main reasons to formalise. From a list of ten possible reasons, most of the interviewees chose the answer “to respect the law” as their main motivation (see the whole list in annex 3).

Through our qualitative interviews, we found out that many of the entrepreneurs – when formalising – perceive the necessary licensing requirements and government regulations as high. This rather constitutes a disincentive for formalising. At the same time, public services like infrastructure and services of courts are perceived as of low quality. As a consequence, entrepreneurs do not see the access to public services as an incentive to formalise. This is corroborated by the observation that the use of public services like infrastructure or the services of the courts seems not to depend on the formality status.

The lack of positive incentives for enterprises to formalise might explain the fact that relatively few enterprises formalise even if they have the necessary preconditions to do so. Also, the legal and regulatory requirements for micro and small enterprises are not transparent and clear.

In addition, several formal entrepreneurs we interviewed talked about a competitive disadvantage of formal enterprises compared to informal businesses because the government does not implement rules consistently (“unfair competition”). This harms formally registered businesses that follow the rules, and favours informal businesses that avoid the costs associated with formality.

To sum up, enterprises do not perceive strong public benefits from the fact of being formal (like better access to public services) but rather perceive high costs associated with formality.

6.2.5 Summary of findings and interpretation

As a conclusion and synthesis from our findings regarding formalisation, we propose the following typification of enterprises with respect to their propensity or ability to formalise:

- 1. Enterprises that formalise if this brings (economic) benefits or if there are (economic) costs of not formalising (Type I).** This type of enterprises has the choice to be formal or informal and decide based on a cost-benefit calculus. Typical benefits

of formality (avoided costs of informality) that motivate formalisation are: access to certain clients and suppliers, access to external finance by commercial banks or to government support programmes. On the other hand, the costs of compliance with regulations once formal and the possibility to bribe inspectors in order to avoid fines for not complying with formal regulations constitute a disincentive for enterprises to become formal.

2. **Enterprises that are obliged to be formally registered because it is necessary for their economic activity (Type II).** This is often the case for businesses that have reached a certain business size, operate publicly visible or have certain groups of clients or suppliers that require formal documentation. This type of enterprises does not have the choice of being informal.
3. **Enterprises that do not have the necessary conditions to operate formally and therefore stay informal (Type III).** This often has to do with a small business size, a lack of regular cash flow, or a low educational level of the business owner. This type of enterprises is not able to comply with formal requirements.

A simplified RBE, with clear legal and regulatory requirements for micro and small enterprises, could contribute to the formalisation of the enterprises of type I and III.

6.3 Results on business development

Our findings concerning business development will be structured as follows:

- Findings from our quantitative survey
 - Major obstacles to business development
 - Most frequently mentioned obstacles to business development
- Complementary findings from our qualitative survey

6.3.1 Quantitative survey

Chapter 4.2.1 mentioned growth as the most objectively measurable indicator for business development. In our interviews with entrepreneurs of MSMEs, however, we felt that it was rather unrealistic to get reliable data on enterprise growth in terms of turnover and employment. This might be due to the sensitive character of this kind of data. It is well-conceivable that especially entrepreneurs that do not fully comply with tax and labour regulations might try to modify or even hide real numbers. Moreover, micro and small enterprises, in particular, often do not have professional accountancy and therefore lack reliable records of turnover and employment.

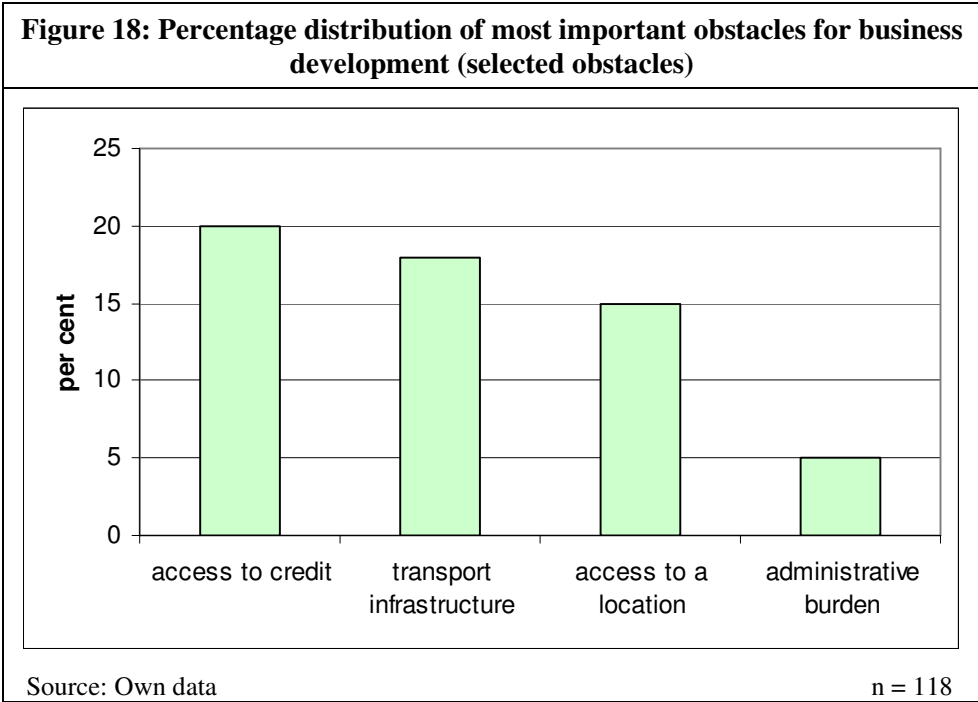
To solve this operational problem, we opted for asking the entrepreneurs' perception regarding obstacles to business development in our quantitative questionnaire. Entrepreneurs were offered a list of potential obstacles and asked to select the one which constitutes the major obstacle for the development of their business. According to the relevant factors identified in chapter 4.2.3, the following aspects were included in the list: infrastructure (telecommunication, electricity, water and transport), qualification and education of available workers, access to and costs of credit, administrative burden to register or to get a licence, competitive situation, corruption, legal system concerning the resolution of conflicts, access to a location for business operation, and HIV/AIDS (see question number 21 in our quantitative questionnaire, in annex 3).

Major obstacles to business development

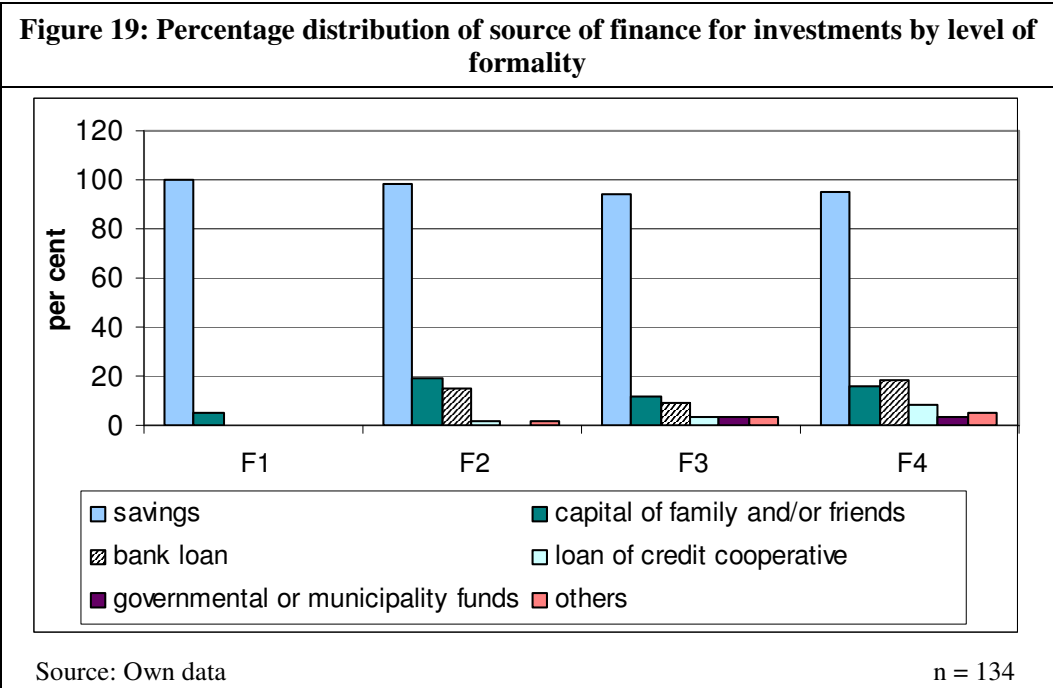
According to the entrepreneurs interviewed for this study, the RBE – in terms of administrative burden – does not represent the major obstacle for business development. Only 5% of our interview partners ranked it as their most important obstacle (see question 21.15., annex 3).

As figure 18 shows, the three most frequently mentioned major obstacles were:

- Access to credit
- Transport infrastructure
- Access to a location for business operation



For our interview partners, access to credit represents the major obstacle. It was stated by 20% of the respondents. From qualitative interviews we learned that high interest rates are one of the most important reasons for not using or not getting a credit. Besides that, micro and small enterprises state that the lack of a regular income is what hinders them from using or getting credit. Savings were mentioned as being the major source of finance for the entrepreneurs, independent from the formality status (see figure 19). The lack of access to external finance leads to a lack of material stocks and reduces the possibilities for investments (vehicles, machines etc.).



Infrastructure with regard to transport of material and products forms the major obstacle for 18% of the entrepreneurs we interviewed. Relevant aspects in this context are the poor quality of streets and roads as well as the rise of the fuel price that provokes a general increase of living and material costs. Another issue that has a negative effect on business development is the lack or irregularity of public transport.

Access to a location for business operation was mentioned as major obstacle by 15% of our interview partners. It is a difficult aspect for both informal and formal firms. On the one hand, it was reported that it was very hard to get a territory or property. On the other hand, it is very expensive to rent a location as prices are very elevated.

In the hierarchy of major obstacles, the following factors were also ranked before the administrative burden (5%):

- Electricity supply (7%)
- Costs of credit (7%)

- Competition (7%)
- Crime, theft and disorder (6%)

According to the UNAIDS Report on the global AIDS epidemic (2006: 412), 16.1% of adults between 15 and 49 years of age are HIV positive in Mozambique. Based on the high prevalence rate, we may assume an impact of the virus on business development (see chapter 4.2.3). Within our empirical work, however, the topic turned out to be difficult to deal with. As HIV/AIDS is a very sensitive issue, we sometimes decided to skip the question, especially when interviewing enterprises with only two or three workers. As a consequence, the base for the HIV/AIDS question is significantly lower than the one for the other aspects and therefore can not be evaluated.

The ranking above relates to major obstacles. That means that entrepreneurs were asked to choose just one factor from our list, namely the one that they perceive as most threatening for the development of their business.

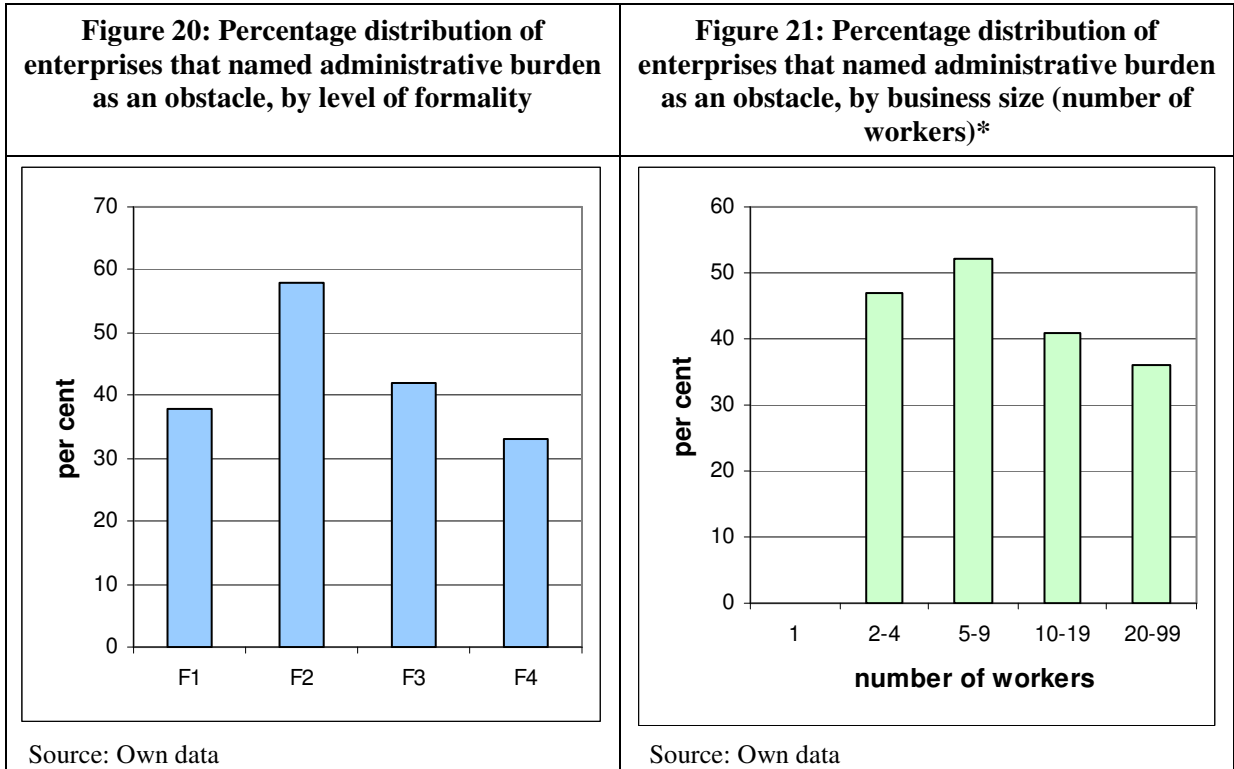
Most frequently mentioned obstacles to business development

When allowing multiple answers, the results are slightly different (see 21.1-14, annex 3). Most frequently stated were:

- Transport infrastructure (54%)
- Costs of credit (53%)
- Access to credit (50%)
- Crime, theft and disorder (50%)

Although administrative burden is still not ranked highest, as many as 44% of the entrepreneurs mentioned it as one of the obstacles they face. Thus, in contrast to the version where we just asked for the major obstacle, entrepreneurs mentioned administrative burden more often than competition or access to a location for business operation, when multiple answers were allowed.

Our data show that in particular administrative burden is frequently reported by enterprises of the level 2 of formality and enterprises with a number of five to nine workers. At the same time, enterprises that are completely formal according to our definition or enterprises with 20 or more workers have a much lower perception of administrative burden as an obstacle for their business performance (see figures 20 and 21). The low number in figure 21 of one-man-businesses that perceive administrative burden as an obstacle should be interpreted with caution due to a low number of respondents (n=5).

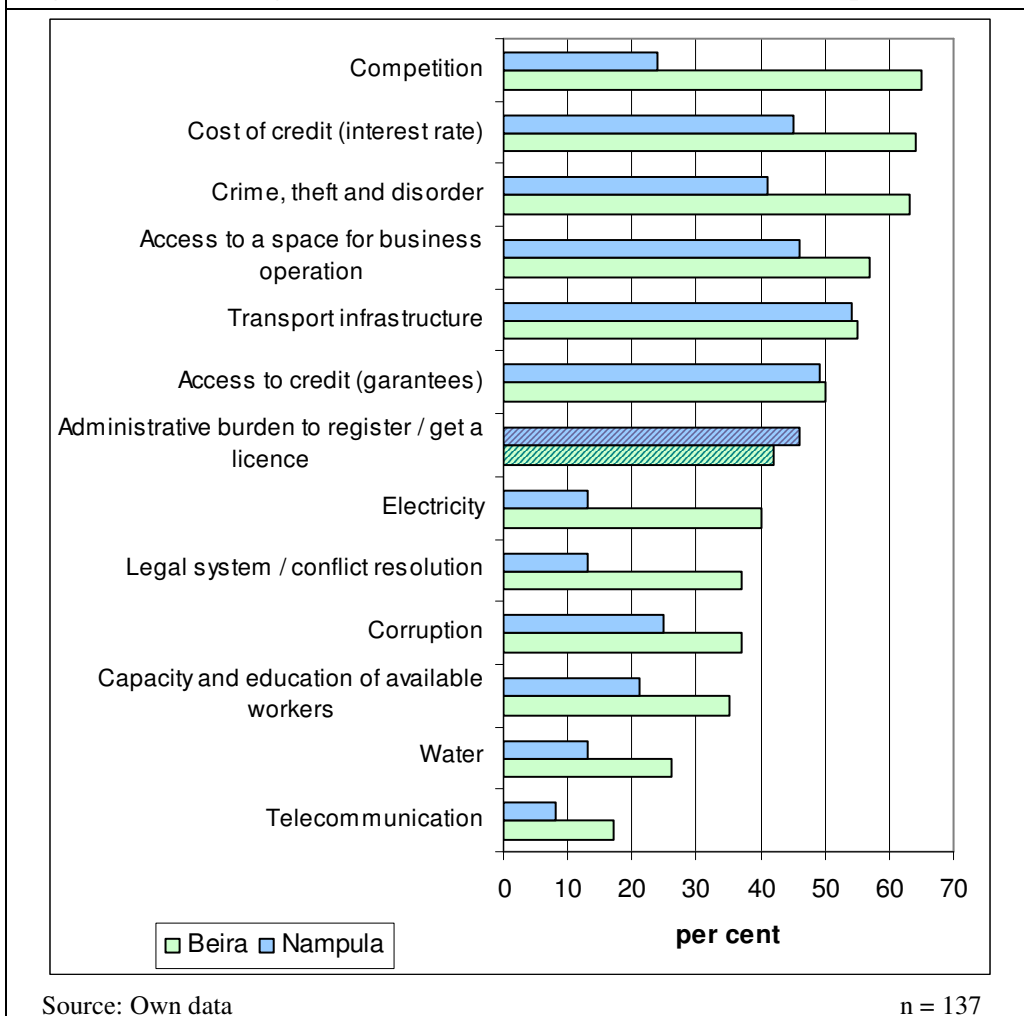


*Number of respondents for enterprises with 1 worker (n=5), 2-4 workers (n= 56), 5-9 workers (n=46), 10-19 workers (n=16), and 20-99 workers (n=14).

More enterprises of the trade sector perceive administrative burden as a major obstacle than enterprises from the manufacturing sector: It was mentioned by 50% of the interviewed trade firms, but only by 37% of the interviewed manufacturing firms.

Comparing the city of Beira with the city of Nampula with regard to potential obstacles for business development, our data show a clear difference. Entrepreneurs in Beira perceive all the obstacles for business development as more urgent than the entrepreneurs we interviewed in Nampula, with the exception of administrative burden (see figure 22).

Figure 22: Percentage distribution of obstacles for business development by city



6.3.2 Qualitative survey

Besides the above mentioned obstacles that refer to our quantitative survey, we identified other relevant obstacles and findings concerning business development through the analysis of our qualitative interviews:

Entrepreneurs and experts from business associations or donor institutions stress the poor availability of skilled workers for MSMEs. Some experts said that competition with international organisations, mega projects and some government organisations regarding recruitment was a reason for the poor availability of skilled workers. International organisations and other institutions are able to pay higher salaries than MSMEs. Thus, MSMEs stay with less qualified workers.

Many entrepreneurs complained about a lack of discipline among workers. Some steal, others do not appear at work or do not work efficiently or responsibly. This creates additional costs for the business, especially because entrepreneurs face difficulties in dismissing workers due

to the dismissal protection. As a consequence, some entrepreneurs claimed not to hire more workers simply to avoid this risk, even if he or she might need more personnel.

When asked about their objectives for the future, a couple of entrepreneurs told us that they would like to start a secondary business, mostly in a different sector. These entrepreneurs seem to favour diversification of business activities over enterprise growth.

6.3.3 Summary of findings and interpretation

The entrepreneurs we interviewed do perceive the administrative burden as an obstacle for the development of their businesses, but not as the most important one. They rather mention shortcomings regarding the broader investment climate (or X-factors, see above). Taking together the information from the quantitative and the qualitative survey it can be stated that the most important obstacles for our interviewees are:

- Transport infrastructure
- Access to credit
- Access to a location for business operation
- Human capital / manpower

These shortcomings clearly reduce the enterprises' competitiveness. Thus, MSMEs face difficulties in accessing new markets and new groups of clients. Their products do not offer an attractive price-performance ratio and are exposed to a strong competition with imported products. Consequently, these enterprises neither compete in "high end" urban nor in international markets.

6.4 Reciprocity between formalisation and business development

Chapter 4.3 dealt with the interplay between formalisation and business development as described in literature. The current chapter presents and interprets our results regarding this reciprocity. These results are based on both quantitative and qualitative data analysis.

In our business survey, almost all of the entrepreneurs, irrespective of their level of formality, assumed that the general situation for doing business was worse for informal enterprises. Thus, our interview partners seem to consider a high level of formality to be a precondition for a favourable business development.

Moreover, we realised that there are some factors that interlink the process of formalisation and the business development of MSMEs. We identified the following factors that are associated with both formalisation and business development:

- Enterprise size
- Location
- Level of education of owner or manager
- Cash flow
- Creditworthiness

As mentioned in chapter 6.2, we detected a positive correlation between level of formality and enterprise size in terms of number of workers. Enterprise size is also closely linked to business development. These interrelations can be interpreted in two directions.

- 1) The first interpretation uses business development as its starting point. An enterprise with a stable and positive development is likely to employ more workers and thus grow in size. Once it has grown above a certain level, it will be visible to the public and to inspectors. That makes it impossible for the enterprise to operate without being registered according to the law. Thus, enterprise growth, which is influenced by the positive development of the respective enterprise, might bring about a higher level of formality. Accordingly, undynamic enterprises are not likely to expand, remain small and invisible and therefore do not necessarily have an incentive to formalise.
- 2) The second interpretation uses the level of formality as its starting point. A high formality status legally allows enterprises to employ a considerable number of workers. This workforce facilitates the further development of the business. Accordingly, a low level of formality hinders enterprises from employing a big number of workers. To remain invisible for inspectors, those enterprises inevitably have to remain small. This also hampers the further development of the business.

We also discovered a positive correlation between an enterprise's level of formality, its development and the quality of its location. Basically all the enterprises we interviewed in locations that are beneficial for business activities, e.g. main roads or city centres, comply with all legal requirements and consequently have a high level of formality. The impact of the location on an enterprise's level of formality and on its development is very similar to the above described impact of enterprise size, and can be interpreted in the same manner:

- 1) A good location is costly and requires a stable and positive business development. Furthermore, a good location makes a business more visible to inspectors, just as its size does. Thus, the compliance with legal requirements is essential for the continuity of the business.
- 2) Completely formal enterprises do not have to fear inspectors and can operate at very visible places. These locations are beneficial for the business development, as customers are attracted more easily. Accordingly, a low level of formality is often connected with an inadequate or less attractive location for business operation.

Despite some exceptions we observed that the owner's or manager's level of education correlates with the enterprise's development and its level of formality respectively. The former correlation could be explained by the capabilities that are required to run and administrate a business successfully, keep the books accurately, and apply sound business strategies. The latter correlation could be explained by the capabilities that are required to fulfil legal requirements regarding formalisation correctly. Due to the complex nature of the Mozambican legislation, this aspect should not be underestimated.

Cash flow is obviously linked to business development and formality status. Starting point for this interrelation is business development in terms of economic performance. A positive cash flow is both precondition for and consequence of business development: On the one hand, a stable and positive cash flow is needed to make investments that are essential for the development of the respective enterprise. On the other hand, a well-performing enterprise with a certain level of development by definition creates a higher cash flow than a poorly-performing enterprise. As being formal and fulfilling all the legal requirements regarding formality imposes regular costs on a business, a stable and positive cash flow is indispensable. We interviewed some entrepreneurs that are not in the condition to formalise simply because they cannot cover the costs of formality. This is especially the case for entrepreneurs that work for subsistence only.

Last but not least, creditworthiness is determined both by the level of development and by the level of formality of an enterprise. Before issuing a credit, banks check the economic performance of the applying business and search for collaterals. Beyond that, particularly commercial banks, but also certain microfinance institutions we spoke to, require the formal status of the credit user. That means on the one hand that formal enterprises enjoy a better access to credit and are thus in a better position to make investments and grow. On the other hand, one can argue that access to a commercial credit can be an incentive for informal or not completely formal but well-performing enterprises to formalise, especially because commercial banks charge considerably less interest rates than microfinance institutions.

7 Conclusions

This study focuses on the regulatory business environment (RBE) in Mozambique. The main purpose is to analyse the influences of the RBE on formalisation and development of MSMEs. This analysis is relevant as identifying and understanding obstacles for formalisation and business development in Mozambique contributes to the wider discussion of broad-based economic growth.

In which way or to which extent the RBE supports or even hampers formalisation and business development depends on the specific content of the regulations and the quality of their implementation as well as on the specific nature of the enterprise.

Summing up the results concerning **formalisation** we come to the following conclusions with respect to our research question:

The higher the enterprise's level of formality, the more it is frequented by inspectors. Thus, a higher level of formality implies higher absolute compliance costs in terms of administrative burden, fines etc. This result can somehow be interpreted as an affirmation of the postulate made in the Doing Business reports: If an enterprise anticipates this increase in compliance costs (without simultaneously associating more benefits with a higher level of formality), it will prefer to remain at a lower level of formality. This is true for those enterprises that choose their level of formality based on a cost-benefit calculus (type I, see chapter 6.2.5).

However, there are obviously other factors that are linked to the level of formality, among others the enterprise's size, the regularity of cash flow, the owner's level of education and the location of the enterprise. This result suggests that factors other than the RBE have to be taken into account in order to explain the phenomenon of informality. When considering these factors, it becomes evident that for certain types of enterprises the level of formality is not really a choice. It is rather determined by the characteristics of the owner or of the enterprise. Enterprises with a certain size (in terms of workers or structure), located at visible places (city centre or main roads) and with a foreign owner simply cannot be informal because they are right in the focus of inspectors (enterprises of type II). On the other hand, there are enterprises that – given the level of regulations – are not in the conditions to fulfil formal requirements. This might be due to low and irregular cash flow (this refers to the compliance costs associated with formality) or low level of education of the owner (this refers to complicated documentation procedures) (enterprises of type III).

Taking these findings into consideration we can conclude that the explanation of formalisation given by the Doing Business reports is only relevant for types of enterprises I and III. Changing regulations in the sense of simplifying processes or lowering the tax burden would probably encourage these types of enterprises to formalise but would probably not affect the level of formality of enterprises of type II.

A further conclusion we can draw is that the entrepreneurs interviewed do not seem to perceive public services as a benefit of formalisation. As presented in chapter 6.2, the entrepreneurs mentioned several factors that inhibit them to formalise. At the same time, they hardly named any benefits of formalisation. A major reason for the entrepreneurs to formalise is “to respect the law” and therefore to avoid penalties. Regarding public services, entrepreneurs claimed that infrastructure is poorly developed and thus represents an obstacle for business development. Also, we learned that entrepreneurs hardly use the legal system / courts in case of conflicts. Thus, we can conclude that public services do not represent an incentive for the entrepreneurs to formalise.

Summing up the results concerning **business development** we come to the following conclusions with respect to our research question:

Although perceived as one of several obstacles by our interview partners, the administrative burden related to regulations and inspections is not perceived as the most important constraint for the development of their businesses. The obstacles perceived as most important are access to credit, transport infrastructure, access to a location for business operation and availability of human capital.

These results emphasise the importance of the broader concept of the investment climate and suggest not restricting the attention to the RBE when searching for adequate measures to promote business development. As a consequence, policies that seek to reduce the administrative burden, i.e. cut and simplify bureaucratic processes and procedures, seem not to be sufficient for supporting business development. In order to improve the competitiveness of MSMEs, such policies should be accompanied by other measures that address shortcomings beyond the RBE.

Summing up the relevance of the **Doing Business recommendations** for formalisation and development of MSMEs in Mozambique, we can draw the following conclusions:

The global Doing Business ranking plays a prominent role on the political agenda of the current Mozambican government. Therefore, Mozambican policy makers orientate themselves particularly towards the Doing Business recommendations concerning formalisation and business development. Some representatives of international organisations fear that several private sector reforms might take place just to improve Mozambique's ranking.

However, the promotion of formalisation and business development through cutting burdensome regulations should be treated with caution. Regulations should not be generally depreciated because some of them support the business performance and competitiveness of MSMEs. Examples to name here are rules that guarantee property rights or that protect consumers concerning health issues, safety or competition. Some of our interview partners told us that inspectors come to control expiry dates of products and calibration of scales. Abolishing those regulations would rather hinder the MSMEs' development (see chapter 3.4).

Moreover, the effects of regulations on formalisation and business development do not only depend on their content. To a large extent, they depend on the capacities of the public administration to implement regulations properly and apply them consistently (see chapter 3.4). One of the main problems of private sector development (PSD) in Mozambique is the poor and inconsistent implementation of several regulations. This finding is in line with the results reported by FIAS (2006: 89). Existing regulations are often not implemented in a uniform and transparent manner. Reasons for these inconvenient circumstances are various, such as a self-interested attitude of state inspectors, information deficit among public authorities, lack of cooperation and of clear allocation of responsibilities and duties among public institutions. As a consequence of this inconsistent implementation, enterprises that respect the rules concerning licensing, taxes, labour etc. are exposed to an unfair competition with enterprises that do not respect these rules (e.g. through tax evasion).

We come to the following conclusion regarding the role of the RBE for formalisation and business development in Mozambique:

As long as “bad” regulations are abolished, “good” regulations preserved and consistently and appropriately implemented, the corresponding improvements of the RBE will contribute to formalisation and development of MSMEs. However, measures concerning the RBE have to be complemented by measures that tackle other obstacles of formalisation and business development.

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Annex 1: Preliminary findings in Portuguese

Ambiente de investimento e desenvolvimento económico em Moçambique: Qual é a importância do ambiente regulatório para impulsionar a formalização e o desenvolvimento das micro, pequenas e médias empresas?

- Resultados Preliminares -

Maputo, 29 de Abril de 2008

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Prefácio

O presente documento resume os resultados preliminares de um projecto de pesquisa realizado pelo Instituto Alemão de Desenvolvimento (DIE) em parceria com a Direcção Nacional de Estudos e Análise de Políticas (DNEAP) do Ministério da Planificação e Desenvolvimento e com o Instituto de Investigação para o Desenvolvimento José Negrão (Cruzeiro do Sul). O DIE com sede em Bonn (Alemanha) dedica-se às actividades de consultoria, pesquisa independente e formação profissional na área de desenvolvimento. Este projecto de pesquisa faz parte integral do 43º curso de pós-graduação do DIE.

1. Relevância do tema

Em Moçambique, o desenvolvimento dinâmico das micro, pequenas e médias empresas (MPMEs) pode ser considerado um elemento chave para a criação de emprego, visto que as MPMEs concentram a maioria da força de trabalho do país. A abordagem para a promoção das empresas privadas que tem recebido a maior atenção a nível nacional e internacional, é a abordagem difundida pelo Banco Mundial nos seus relatórios *Doing Business*. Essa abordagem prioriza a política para reformar o ambiente regulatório e postula que a sobre-regulação e os processos burocráticos complicados tendem a conduzir as MPMEs para a informalidade ao mesmo tempo que inibem o seu desenvolvimento.

O estudo do DIE investiga a base empírica deste postulado no contexto moçambicano, olhando para o ambiente regulatório, mas também para o conceito mais amplo do ambiente de investimento. O ambiente regulatório refere-se às regulações e processos burocráticos nas áreas de registo e licenciamento de empresas, impostos, assuntos laborais e propriedade privada, entre outros. O ambiente de investimento inclui, além dos factores acima mencionados, outros factores relevantes para o desenvolvimento das MPMEs, tais como as condições de infra-estrutura, educação, saúde, acesso a crédito, entre outros.

Um aspecto chave do estudo é a análise dos factores que contribuem à formalização das MPMEs. Vários analistas acreditam que o carácter informal de muitas MPMEs impede o seu desenvolvimento dinâmico e que a informalidade deve-se a um ambiente regulatório caracterizado por sobre-regulação e burocracia excessiva. Por conseguinte, o estudo compara a

situação das MPMEs formais com as informais frente ao quadro legal moçambicano, a fim de identificar factores que favorecem ou que impedem a decisão de um empresário a tornar-se formal, isto é, adquirir uma licença para o seu negócio, registar-se, pagar impostos, respeitar a lei de trabalho, etc. (veja a nossa definição de formalidade abaixo na tabela 2).

Em seguida descrevemos a nossa metodologia empírica (2), esboçamos o quadro legal para as MPMEs e definimos o conceito de formalidade usado neste estudo (3). Depois apresentamos uma seleção dos resultados preliminares mais destacados acerca da formalização e do desenvolvimento empresarial (4) e algumas conclusões (5).

2. Metodologia empírica e amostra do estudo

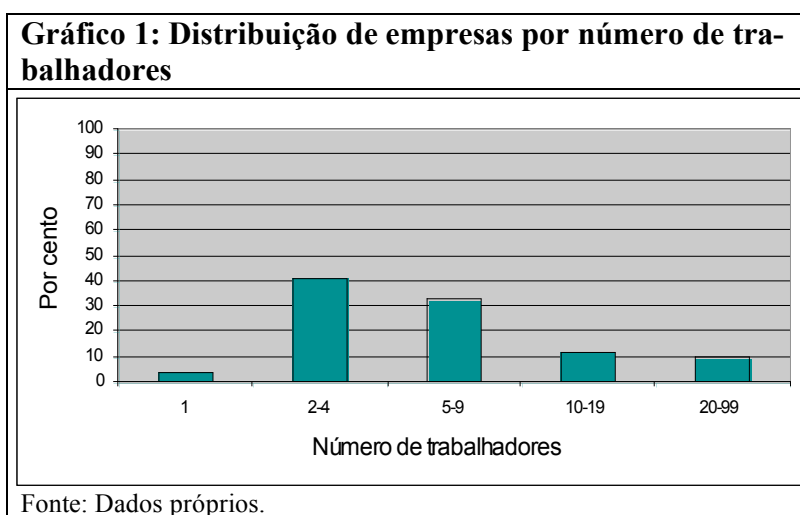
Para analisar a pergunta de pesquisa acima explicada foram levantados dados e informações sobre (i) a qualidade do ambiente regulatório, (ii) outros factores que fazem parte do ambiente de investimento (infra-estrutura, nível de educação dos trabalhadores, acesso a crédito, etc.), (iii) o nível de formalidade das MPMEs e (iv) o seu desenvolvimento recente. A fonte de informação mais importante são as 200 entrevistas efectuadas entre 20 de Fevereiro e 8 de Abril de 2008. Os dados obtidos nestas entrevistas foram complementados por informações extraídas através de pesquisas de textos oficiais, legais e académicos relevantes para o tema.

Do total das entrevistas, a grande maioria foi feita com empresários. Estas dividem-se num inquérito *quantitativo* a 146 MPMEs e num inquérito *qualitativo* a 28 empresários (na Beira e em Nampula). Optamos por combinar questionários quantitativos e qualitativos para poder aproveitar as vantagens de ambos instrumentos: Usar métodos estatísticos para a análise das respostas, no primeiro caso, e dar um espaço para respostas “inesperadas” que situam-se fora do foco da atenção do pesquisador, mas que podem ser relevantes para o tema do estudo, no segundo caso. Além de empresários, entrevistamos representantes de autoridades do governo e dos municípios, a seguir “autoridades”, e representantes de associações de empresas, doadores e instituições financeiras, a seguir “especialistas” (30 entrevistas nas cidades da Beira, Nampula e Maputo).

O foco geográfico da pesquisa são as cidades da Beira e de Nampula. Essas cidades foram escolhidas por dois motivos. Primeiro, o estudo quer contribuir ao conhecimento sobre o desenvolvimento das MPMEs nas regiões centro e norte do país, regiões que têm sido menos pesquisadas em relação a Maputo na região sul. Segundo, devido ao tamanho (Beira: 530.000 habitantes; Nampula: 390.000 habitantes) e à estrutura administrativa similares (ambas cidades são municípios autárquicos), estas cidades prestam-se bem para uma comparação (veja tabela 1 para a distribuição das empresas por cidade).

	Comércio	Indústria transformadora	Total
Beira	43	23	66
Nampula	41	39	80
Total	84	62	146

O critério principal para seleccionar as empresas por entrevistar foi o objetivo de incorporar tanto empresas informais como formais na amostra. Dessa forma é possível comparar empresas de diferentes graus de formalidade e tirar conclusões sobre os factores que contribuem à formalização e ao desenvolvimento empresarial. Consequentemente a pesquisa concentrou-se em empresas no escalão de 2 a 19 trabalhadores (aprox. 86 % das empresas entrevistadas), visto que é improvável achar empresas informais acima deste escalão. A distribuição das empresas por número de trabalhadores está descrita no gráfico 1. Os sectores económicos representados na amostra são de indústria transformadora (secção D da Classificação das Actividades Económicas – CAE) e o comércio (secção G das CAE) (compare a tabela 1 acima).



3. Quadro legal e definição de formalidade

O quadro das regulações relevantes para a actividade empresarial em Moçambique é complexo e varia dependendo do tipo de actividade económica exercida, tamanho, área de actuação e tipo de entidade legal da empresa. Em seguida esboçamos brevemente as regulações mais importantes na área de licenciamento e registo comercial, de impostos e na área laboral para as MPMEs que exercem uma actividade industrial transformadora ou comercial. Depois apresentamos a nossa definição de formalidade.

Licenciamento e registo comercial

Por regra geral, todo tipo de actividade económica exige uma licença. Na área de licenciamento existe uma divisão de competências entre o governo municipal e o governo provincial (ou nacional). De acordo com a legislação, compete aos municípios licenciar e fiscalizar

- as actividades industriais em estabelecimentos de micro dimensão, e
- as actividades comerciais em barracas, tendas, bancas, feiras e de vendedores ambulantes.

Os valores que as empresas devem pagar pelo direito de exercer a sua actividade são estabelecidos nos códigos de postura dos respectivos municípios e dependem do tipo de actividade.

Compete aos governos provinciais (ou ao governo nacional) licenciar e fiscalizar todas as actividades industriais transformadoras e comerciais, além das acima mencionadas. A licença provincial tipicamente é denominada de “alvará”. Para obter um alvará, uma empresa deve passar por um processo de vistoria no qual controlam-se as condições técnico-funcionais próprias da actividade, as condições de salubridade, higiene, comodidade e segurança dos trabalhadores.

Compete às conservatórias dos registos das entidades legais, fazer o registo comercial das empresas (tanto de sociedades como de empresas a nome individual). O registo é obrigatório para as empresas licenciadas pelo governo provincial (empresas que precisam de alvará).

Impostos

A Autoridade Tributária de Moçambique (ATM) é o órgão competente para receber os impostos nacionais e para fiscalizar o pagamento deles. Os impostos mais relevantes para as MPMEs são o imposto sobre o rendimento das pessoas singulares (IRPS), o imposto sobre o rendimento das pessoas colectivas (IRPC) e o imposto sobre o valor acrescentado (IVA). O pagamento destes impostos por parte das empresas exige registar-se na Direcção de Impostos através de um número único de identificação tributária (NUIT).

Os rendimentos empresariais das pessoas singulares são sujeitos a IRPS (segunda categoria), com taxas que variam de 10% a 32% dependendo dos rendimentos totais da pessoa. Os lucros das sociedades e de outras pessoas colectivas são sujeitos a IRPC (taxa de 32%). De modo geral, a legislação tributária exige que as empresas possuam um sistema de contabilidade para determinar os rendimentos ou lucros tributáveis (IRPS ou IRPC).¹

Por regra geral, todas as transmissões de bens e prestações de serviços efectuadas por empresas são sujeitas a IVA (taxa normal de 17%). O valor dos bens e serviços que lhes tiver sido facturado na aquisição é deductível da base tributável. São isentos do IVA as empresas com um volume total anual de negócios não superior a 100.000 MTN.² São sujeitos a um regime simplificado de IVA as empresas com um volume total anual de vendas entre 100.000 MTN e 250.000 MTN³ (taxa de 5 %).

Além dos impostos nacionais, no contexto do processo de descentralização foram introduzidos impostos autárquicos e diversas taxas que são fiscalizados directamente pelos municípios autárquicos. As taxas e impostos mais importantes são as taxas por actividade económica, o imposto predial autárquico e o imposto a letreiros e publicidade, entre outros.

¹ Empresas com um volume total anual de negócios não superior a 1.500.000 MTN, não são obrigadas a dispor de contabilidade organizada, mas podem optar pela escrituração simplificada. Além disso, nestes casos pode-se aplicar um regime simplificado de determinação do rendimento colectável.

² E que não importem ou exportem.

³ E que não estejam obrigadas a possuir uma contabilidade organizada e que não importem ou exportem.

Legislação laboral e segurança social

No âmbito da lei laboral destacamos apenas três pontos que são particularmente relevantes: Primeiro, a protecção dos trabalhadores por conta de outrem contra o despedimento (direito a indemnização em caso de rescisão do contrato por parte do empregador sem justa causa; direito de impugnar a rescisão por iniciativa do empregador). Segundo, a obrigação do empregador de pagar pelo menos o salário mínimo. Terceiro, as empresas pequenas (até 10 trabalhadores de acordo com a definição da lei laboral) e as empresas médias (10 a 100 trabalhadores) têm a liberdade de celebrar contratos a prazo certo durante os 10 primeiros anos da sua actividade (as empresas grandes com acima de 100 trabalhadores tem mais restrições a este respeito).

Com respeito à segurança social destacamos que os empregadores são obrigados a inscrever os trabalhadores ao seu serviço ao Instituto Nacional de Segurança Social (INSS) e de pagar mensalmente as contribuições correspondentes.

Definição de formalidade

A definição de formalidade usada neste estudo orienta-se nas três áreas do quadro legal acima descrito. Os seguintes três critérios foram seleccionados para representar estas áreas:

- A. a empresa tem uma licença municipal ou um alvará,
- B. a empresa tem um NUIT,
- C. a empresa está registada no INSS.

A cumulação destes critérios define quatro níveis de formalidade:

- 1. a empresa cumpre com nenhum dos critérios (ou seja ela é completamente informal),
- 2. a empresa cumpre com o critério A,
- 3. a empresa cumpre com os critérios A e B,
- 4. a empresa cumpre com os criterios A, B e C (ou seja ela é completamente formal).

Tabela 2: A nossa definição de formalidade				
Categorias de formalidade	1	2	3	4
A empresa está registada no INSS				X
A empresa tem NUIT			X	X
A empresa tem Licença municipal ou Alvará		X	X	X

4. Resultados preliminares

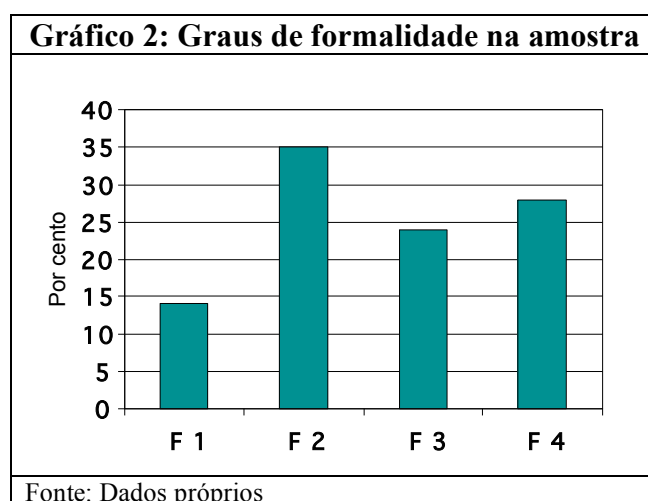
Os seguintes achados são resultados preliminares do nosso estudo. Representam algumas das observações mais destacadas que fizemos durante a nossa primeira análise dos dados levantados, e que achamos valiosas para apresentar neste contexto.

A primeira parte trata de barreiras e incentivos para a formalização de MPMEs. A segunda parte trata do desenvolvimento empresarial, e mostra os maiores obstáculos para a operação e dinâmica das MPMEs.

a. Formalização

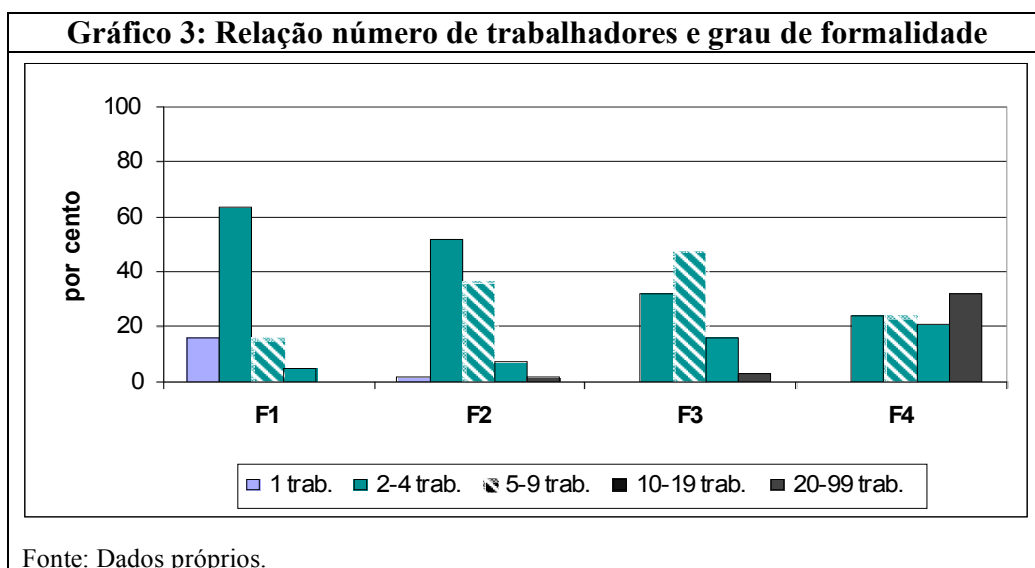
Tamanho e grau de formalidade das MPMEs

O grupo maior das empresas que entrevistamos tem o grau de formalidade 2, ou seja, tem somente uma licença ou um alvará para o seu negócio (35%). Só uma minoria das empresas pertence ao grau de formalidade 1, que segundo a nossa definição são completamente informais (14%). 24 % das empresas tem o grau 3 e 28% o grau 4 (veja gráfico 2).



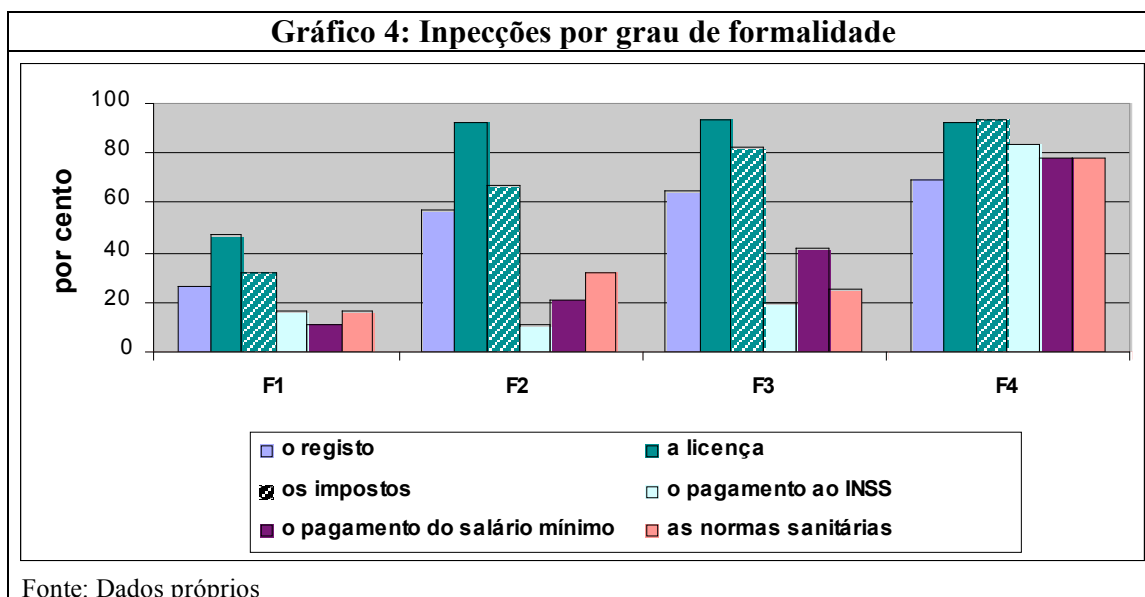
O facto de somente 14 % das empresas na amostra serem informais e não cumprirem com nenhum dos critérios acima mencionados, não significa necessariamente que estas empresas representam uma minoria nas cidades pesquisadas. Isto também pode resultar da dificuldade de encontrá-las. Em muitos casos trata-se de um negócio de sobrevivência que geralmente é exercido nas casas. Este tem poucos trabalhadores, é mais escondido e assim mais difícil de encontrar.

Uma observação que fizemos trata da relação entre o tamanho da empresa e o grau da formalidade. Quanto mais trabalhadores uma empresa tem maior o seu grau de formalidade. Como mostra o gráfico 3, a grande maioria das empresas com um a quatro trabalhadores tem o grau de formalidade 1 ou 2. As empresas com 20 ou mais trabalhadores quase sempre são completamente formais, segundo a nossa definição.



Barreiras de formalização: Inspeções

Os dados obtidos nas entrevistas quantitativas mostram que as inspeções nas empresas são mais frequentes com maior grau de formalidade das MPMEs (compare gráfico 4). Uma empresa que além de ter uma licença está registada na ATM e no INSS sofre mais controles por inspectores do que as empresas que somente têm uma licença. Além disso, os dados mostram que as empresas que têm um alvará do governo provincial são mais controladas que as empresas que somente têm uma licença municipal. Isto aumenta o esforço burocrático e o custo de revisões e multas para as empresas registadas, e cria um desincentivo para as empresas informais a tornar-se formal.



Observamos que não há muita cooperação entre o município e a província para detectar as empresas que por lei deviam passar a ser licenciadas pela província ou pagar impostos nacionais. Isso diminui o incentivo por parte do empresário de fazer este passo. Neste aspecto,

parece ter uma diferença entre a Beira e Nampula. Em Nampula o conselho municipal está represtado no balcão de atendimento único (BAU) o que significa um grau de coordenação relativamente alto entre o conselho municipal e o governo provincial. Além disso, em Nampula o conselho municipal e o governo provincial cooperam no licenciamento das microempresas industriais (certidão de registos), enquanto na Beira mostra-se difícil a cooperação entre as entidades. Isso pode resultar do facto de que o município é governado pelo partido RENAMO enquanto a província é governada pelo partido FRELIMO.

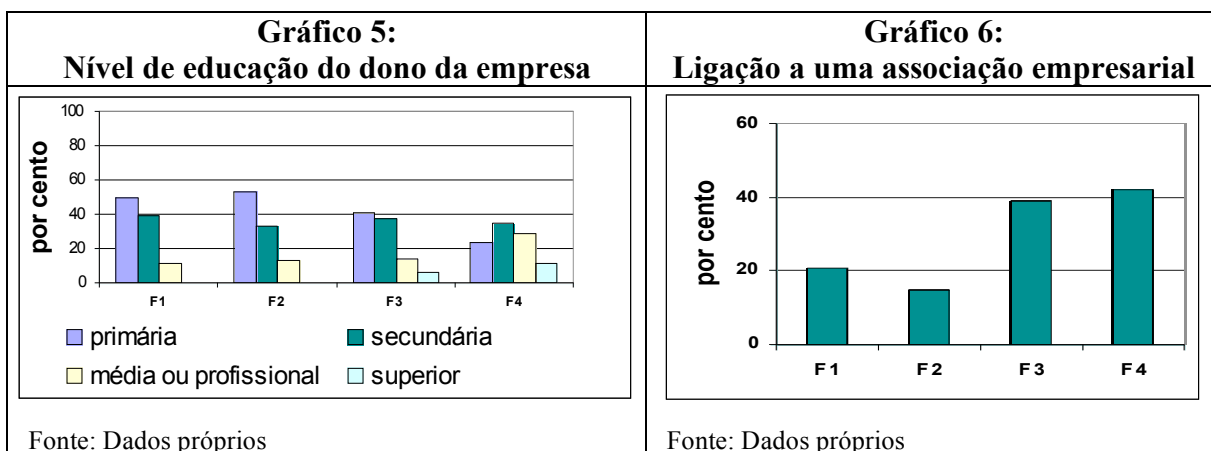
Barreiras de formalização: Protecção contra o despedimento dos trabalhadores

Segundo a nossa amostra, só as empresas grandes ou seja com maior grau de formalidade percebem a protecção contra o despedimento de trabalhadores como um obstáculo. A maioria das pequenas empresas com um grau de formalidade menor (nível 1 ou 2) apoiam esta regulação. Interpretamos esta observação como evidência de que as pequenas empresas informais têm mais facilidade de escapar desta lei por serem menos controladas neste aspecto (veja também acima). Uma outra explicação para este resultado poderia ser que muitas destas empresas empreguem membros da família.

Outras barreiras

Para receber um alvará comercial é necessário apresentar um documento oficial de propriedade ou aluguer. Porém, segundo a nossa amostra muitas empresas do grau de formalidade 1 e 2 somente têm acordos inoficiais de aluguer. Desta observação pode-se deduzir que a falta de documentos oficiais de propriedade ou aluguer pode ser uma causa de um nível de formalidade baixo.

Os resultados do inquérito quantitativo mostram que o nível de educação do proprietário está relacionado com o grau de formalidade do seu negócio. Empresas com um grau de formalidade menor são dirigidas por donos com um nível de educação mais baixo, como mostra o gráfico 5. Empresários com formação superior muitas vezes são donos de empresas do grau de formalidade 4. Concluimos que o nível de educação tem uma influência na decisão, motivação ou capacidade do empresário a tornar-se formal.



O grau da formalidade das empresas entrevistadas coincide com a ligação das mesmas com uma associação empresarial. A maioria das empresas que são membros de uma associação empresarial têm o grau de formalidade 3 ou 4 (veja gráfico 6). Supomos que o acesso à associações empresariais está reservado só para as empresas mais formais.

Factores que determinam a formalidade

Para algumas empresas é impossível actuar na informalidade. Um tamanho maior da empresa (em termos de número de trabalhadores ou volume de vendas), uma localização muito visível ao público e aos inspectores também impedem uma actividade económica informal. Outro aspecto que inibe actuar na informalidade é o grupo de clientes e fornecedores. Por exemplo, para fornecer ao governo tem que ter uma documentação formalizada. Dos residentes estrangeiros que entrevistamos nenhum tem um negócio informal. Para eles constitui-se mais difícil actuar no escondido.

Outro factor que determina a formalidade é o rendimento da empresa. Para obter um grau maior de formalidade, uma empresa precisa de um rendimento positivo constante para cobrir os custos ligados às regulações de licenciamento, de impostos e laborais.

Quase todos os empresários entrevistados dizem que o motivo maior para formalizar-se é para respeitar a lei. Eles não percebem vantagens da formalidade com respeito aos serviços do estado. A imposição do estado é percebido maior que a eficiência dos seus serviços. Por exemplo, o grau da formalidade da empresa não determina a qualidade dos seguintes aspectos, ou seja a qualidade destes serviços do estado é igual para as formais e as informais:

- Sistema legal / resolução de conflicto
- Acesso a infra-estrutura
- Acesso a crédito

Além disso, os empresários formais percebem uma concorrência desleal com empresários informais, por causa de uma implementação não uniforme de regras por parte do estado. Isso prejudica os empresários formalizados que seguem as regras, e favorece as empresas informais que evitam os custos da formalidade.

Resumo formalização

O custo associado com regulações e inspecções é um factor que dificulta alcançar maiores graus de formalidade. Além disso, tem outros factores que influenciam o nível de formalidade: tamanho, nível de rendimento, e nível de educação. A influência do ambiente regulatório ao processo da formalização é maior quando

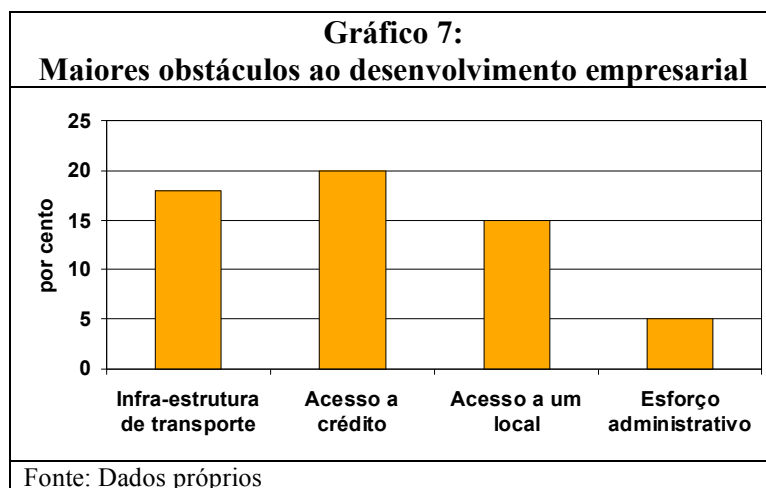
- a empresa é pequena ou
- a empresa tem pouco rendimento ou
- o dono da empresa tem um nível de educação baixo.

Um ambiente regulatório simplificado pode impulsionar a formalização destas empresas. Além disso, constatamos uma falta de incentivos para os empresários a tornar-se formal, mesmo tendo as condições necessárias.

b. Obstáculos para o desenvolvimento empresarial

Segundo os empresários entrevistados o ambiente regulatório em termos de esforço administrativo não representa o maior obstáculo para o desenvolvimento da sua empresa. Como mostra o gráfico 7, os obstáculos mencionados com maior frequência são:

- infra-estrutura de transporte,
- acesso a crédito,
- acesso a um local.

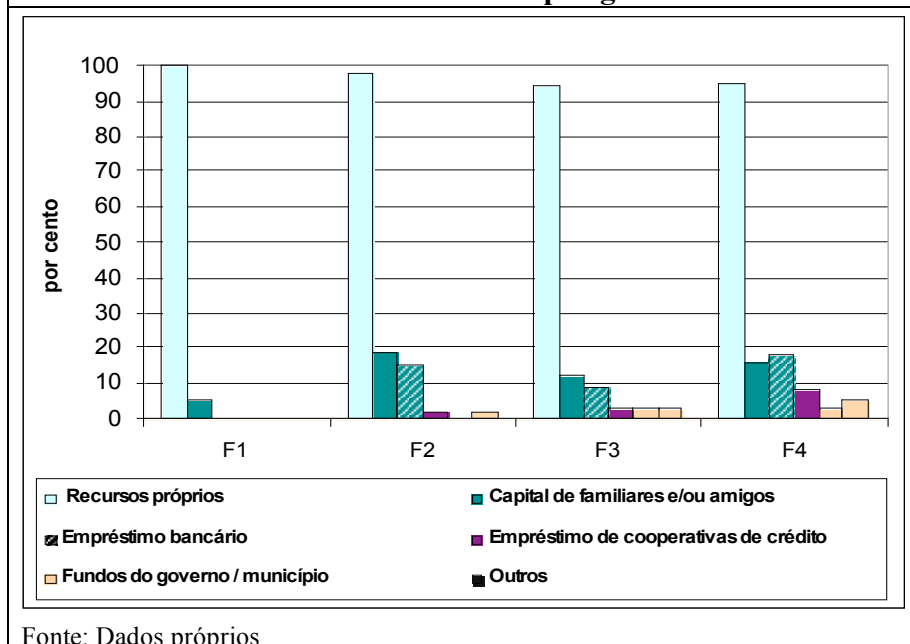


A infra-estrutura cria um obstáculo para a maioria dos empresários quanto ao transporte do seu material. Aspectos relevantes neste contexto são as condições limitadas das ruas e estradas e o aumento constante do preço do combustível, que provoca uma subida geral de custo de vida e de material. A irregularidade e falta de confiabilidade do transporte público representa outro aspecto desfavorável para as empresas.

O acesso a crédito constitui o maior obstáculo entre os empresários entrevistados. A razão mais importante pela qual empresários não usam ou não recebem crédito bancário são as altas taxas de juros. Micro e pequenas empresas constam, além disso, a falta de rendimento regular para a amortização do crédito. A maior fonte de financiamento são recursos próprios do empresário independentemente do seu grau de formalidade (veja gráfico 8). A falta de acesso a financiamento externo resulta numa ausência de abastamento de material e de possibilidades para investimentos (viaturas, máquinas, etc.).

Acesso a um local para exercer o negócio não só é difícil para as empresas informais como também para as empresas formais. Por um lado é muito difícil obter um terreno ou propriedade. Pelo outro é muito caro obter um sítio alugado por causa de preços de aluguer muito elevados.

Gráfico 8: Fontes de financiamento por grau de formalidade



Além dos três pontos mencionados, segundo os empresários e especialistas, a disponibilidade da mão de obra qualificada para as MPMEs é baixa, e cria também um grande obstáculo para o desenvolvimento empresarial. Alguns dizem que é por causa da grande concorrência por parte das organizações internacionais, megaprojectos e instituições políticas na aquisição de pessoal qualificado, que pagam salários elevados. As MPMEs não têm as mesmas condições e ficam com o pessoal menos qualificado.

Muitos empresários também se queixam da falta de disciplina por parte dos seus trabalhadores. Alguns roubam, outros não aparecem ao trabalho ou não trabalham eficientemente e com responsabilidade. Isso cria um custo adicional para o empresário que, por causa da protecção contra o despedimento, tem dificuldade de despedir trabalhadores. Isto significa um risco que impede os empresários empregar mais pessoas, mesmo quando precisam.

Resumo desenvolvimento empresarial

O esforço administrativo não é o obstáculo maior para as empresas entrevistadas. Portanto, são factores do ambiente de investimento que têm um impacto maior ao desenvolvimento empresarial, sobre tudo nas áreas de:

- infra-estrutura de transporte,
- acesso e custo de crédito,
- acesso a um local,
- mão de obra.

Essas dificuldades reduzem a competitividade das empresas. Isto resulta numa falta de acesso a novos mercados e novos grupos de clientes. Os seus produtos não oferecem uma boa relação de preço e qualidade, e sofrem uma concorrência forte de produtos importados. Assim as empresas não competem nos mercados urbanos, nem a nível internacional.

5. Conclusões

Resumindo os resultados com respeito ao aspecto de **formalização** chegamos às seguintes conclusões em relação à pergunta da pesquisa:

- É um facto de que com um maior grau de formalidade da empresa as inspecções aumentam e por conseguinte o custo absoluto em termos de esforço administrativo, multas etc. Este resultado pode ser interpretado de certa forma como afirmação do postulado do relatório *Doing Business*: Se as empresas anteciparem este custo maior (e ao mesmo tempo não relacionarem um benefício maior com um maior grau de formalidade) elas preferirão ficar num nível de formalidade mais baixo.
- Porém, é muito claro que existem outros factores relacionados estreitamente com o grau de formalidade, entre outros: tamanho da empresa, nível de educação do proprietário e nível de rendimento da empresa. Este resultado sugere tomar em conta abordagens mais amplas para explicar o fenómeno de informalidade.
- Olhando para ambos pontos em conjunto pode-se chegar à conclusão que a explicação oferecida pelo relatório *Doing Business* só é relevante para certos tipos de empresas, tipicamente muito pequenas, com proprietários de um nível de educação relativamente baixo e com rendimentos baixos.

Resumindo os resultados para o **desenvolvimento empresarial** destacamos o seguinte:

- Na percepção dos empresários entrevistados, o esforço administrativo ligado às regulações e inspecções não constitui um dos obstáculos maiores para o desenvolvimento das suas empresas.
- Os obstáculos mencionados com mais frequência são: (i) acesso a crédito, (ii) infraestrutura de transporte e (iii) acesso a um local para o exercício da actividade económica.
- Além disso, na percepção dos entrevistados a falta de disponibilidade de mão de obra qualificada é um factor importante que dificulta o desenvolvimento empresarial.
- Estas fraquezas do ambiente de investimento contribuem a que as MPMEs não sejam competitivas, ou seja não estejam em condições de conquistar mercados urbanos “high-end” ou mercados internacionais.

Dos resultados preliminares acima resumidos deduzimos as seguintes **recomendações**:

- Continuar a reduzir as barreiras à formalização para as empresas mais pequenas, sobretudo na área laboral e de impostos. O projecto de imposto simplificado para pequenos contribuintes que está em andamento aponta nessa direcção.
- Melhorar a informação sobre as obrigações legais para as empresas, sobretudo para as micro e pequenas empresas (“informar e apoiar antes de multar”)
- Implementar as regulações existentes de forma uniforme e transparente para evitar que as empresas que respeitam as regras nas áreas de licenciamento, impostos, laboral etc. sejam prejudicadas pela concorrência desleal de aquelas empresas que não respeitam as regras (por exemplo a evasão fiscal).
- Investir na competitividade das MPMEs, o que inclui, entre outras coisas, as seguintes medidas:

- Melhorar a infra-estrutura de transporte
- Criar capacidade adequadas de formação profissional
- Apoiar a certificação de qualidade das MPMEs
- Tomar medidas que ajudem a reduzir o custo do crédito para assim facilitar o acesso a crédito

Para receber mais informações com respeito à nossa pesquisa, para obter uma cópia do relatório final que vai ser publicado no final do ano de 2008, ou para dar comentários por favor contacte:

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Annex 2: Qualitative Questionnaire

Cidade	Data	Entrevistador e secretário	Número

1. Qual é a actividade do seu negócio?
2. Em que ano começou com o seu negócio?
3. Como descreveria a situação do seu negócio hoje comparado com o passado? Como desenvolveu? (área de actividade, volume de vendas)

OBSERVE O GRAU DA INFORMALIDADE!

- a. Quantos trabalhadores permanentes teve quando começou e quantos tem hoje?
4. Quais factores têm contribuído positivamente ao seu negócio?
(TANTO FACTORES INTERNOS COMO EXTERNOS)
 5. Quais factores têm contribuído negativamente ao seu negócio?
(TANTO FACTORES INTERNOS COMO EXTERNOS)
 6. Quais são os planos e as metas que o/a senhor/a tem para o seu negócio nos próximos anos?
 7. A realização destas metas depende de quê?
 8. O/A senhor/a acha que no futuro o seu negócio vai crescer?

CASO NÃO	CASO SIM
a. Por que não?	b.1. Acha que este crescimento também pode trazer dificuldades para o seu negócio? b.2. Acha que este crescimento pode aumentar o esforço administrativo? (CASO SIM) De que maneira? b.3. Acha que este crescimento pode aumentar os custos administrativos? (CASO SIM) Que tipo de custos?

9. Quanto paga aos seus trabalhadores?
10. Quanto é o salário mínimo?
11. O que é necessário para despedir trabalhadores?
12. O que o/a senhor/a pensa sobre a protecção contra o despedimento de trabalhadores?
13. Já considerou alguma vez fechar o seu negócio?
 - a. (CASO SIM) Por quê?

Annex 2: Qualitative Questionnaire

14. Tem uma licença para o seu negócio?

CASO <u>NÃO</u>	CASO <u>SIM</u>
<p>a.1. Por que não?</p> <p>a.2. O que acha que seriam as vantagens e desvantagens duma licença para a sua empresa?</p> <p>a.3. É necessário pagar impostos se não tiver licença?</p>	<p>b.1. Que tipo de licença tem?</p> <p>b.2. Por que pediu uma licença?</p> <p>b.3. Onde pediu a sua licença?</p> <p>b.4. Como foi o processo do licenciamento? (FÁCIL / DIFÍCIL?)</p> <p>b.5. Que vantagens e desvantagens trouxe o licenciamento para o seu negócio?</p> <p>b.6. Ter uma licença implica pagar impostos?</p>

SE NÃO TIVER UMA LICENÇA MUNICIPAL, NEM UM ESTABLECIMENTO FIXO E MENOS DE CINCO TRABALHADORES, IGNORE 15!

15. O seu negócio é registado na Conservatória de Registos?

CASO <u>NÃO</u>	CASO <u>SIM</u>
<p>a.1. Por que não?</p> <p>a.2. O que acha que seriam as vantagens e desvantagens dum registo?</p>	<p>b.1. Por quê?</p> <p>b.2. Onde registou o seu negócio?</p> <p>b.3. Como foi o processo do registo? (FÁCIL / DIFÍCIL?)</p> <p>b.4. Que vantagens e desvantagens trouxe o registo para o seu negócio?</p>

16. Em quais situações a sua empresa tem contacto com agentes inspetores ou fiscalizadores do governo?

- a. O que acontece quando um inspetor passa? O que faz o inspetor?
- b. As inspeções criam algum custo?
 - i. (SE SIM) Que tipo de custo?

17. Como o/a senhor/a financia gastos maiores / investimentos?

- a. (CASO FUNDOS PRIVADOS) Estes fundos estão numa conta bancária?

18. O/A senhor/a tem acesso a crédito?

CASO <u>NÃO</u>	CASO <u>SIM</u>
<p>a.1. Por que não?</p> <p>a.2. Já pediu alguma vez um crédito?</p> <p>a.3. (SE JÁ PEDIU UM CRÉDITO) Por que razões não obteve crédito?</p>	<p>b.1. Onde obteve o crédito?</p> <p>b.2. Que volumen tem?</p> <p>b.3. Quanto tempo tem para devolver o crédito?</p> <p>b.4. Qual é a taxa de juros?</p> <p>b.5. Usa o crédito para que?</p>

Annex 2: Qualitative Questionnaire

19.

CASO INSTALAÇÃO FIXA	CASO AMBULANTE
a.1. Para obter uma instalação fixa para exercer um negócio: é fácil ou difícil?	b.1. Por que não tem uma instalação fixa? b.2. Gostaria de ter uma instalação fixa?

20. O/A senhor/a vende a clientes a crédito?

21. Como assegura que os seus clientes pagam ?

22. O/A senhor/a paga os fornecedores antes de receber a mercadoria?

23. Como assegura que o fornecedor realmente fornece?

24. O que pode fazer se um fornecedor / um cliente não fornece / paga?

25. Acha que o facto de ser mulher / homem tem vantagens ou desvantagens para exercer o negócio?

a. (SE SIM) Quais são?

26. Acha que empresários que são membros dum partido político tem mais sucesso no seu negócio?

a. (SE SIM) É importante de qual partido?

b. (SE SIM) Por quê?

27. O/A senhor/a coopera com outros empresários em termos de troca de informação ou contactos?

a. O/A senhor/a é membro de alguma associação empresária?

28. Acha que o governo apoia actividades de negócio?

a. CASO NÃO	b. CASO SIM
a.1. Acha que o governo atrapalha a sua actividade de negócio? a.2. (CASO SIM) Como?	b.1. Como o governo apoia a sua actividade de negócio?

29. O que o/a senhor/a espera do governo para melhorar o ambiente de negócios?

30. Informação adicional

1: Posição do entrevistado na empresa				
2: Género do entrevistado	1: Feminino	O	2: Masculino	O
3: Idade do entrevistado				
4: Género do proprietário maioritário	1: Feminino	O	2: Masculino	O
5: Idade do proprietário maioritário				
6: Sede da empresa: cidade				
7: Sede da empresa: bairro				
8: Sede da empresa: localização	1: Centro urbano	O	2: Estrada	O
	3: Mercado	O	4. Sub urbano	O

Annex 3: Quantitative Questionnaire

Cidade	Data	Entrevistador e secretário	Número

1: Qual é a actividade económica principal da sua empresa?	
a) _____	

2: Quando o/a senhor/a (ou proprietário) começou com esta actividade?	(ano)
--	-------

3: Por favor, compare a situação da empresa no passado (máximo cinco anos atrás) com a situação actual. Hoje é:	4: Imagine a situação da empresa no futuro em comparação com hoje. Acha que no futuro vai ser:
1: melhor <input type="radio"/> 2: igual <input type="radio"/> 3: pior <input type="radio"/>	1: melhor <input type="radio"/> 2: igual <input type="radio"/> 3: pior <input type="radio"/>

5: Quantas pessoas trabalharam regularmente na sua empresa em ...?	a)	b)	c)	d)	e)
	2007	2006	2005	2004	2003
1: Mulheres					
2: Homens					

6: Quantos dos trabalhos são membros da família do/s proprietário/s?	(número)
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7: Qual foi o volume anual de vendas da empresa em metcais novos em ...?	a)	b)	c)	d)	e)
	2007	2006	2005	2004	2003
Volume anual de vendas					

8: O/A senhor/a pode nos dizer em que nível, geograficamente, actua a sua empresa?			
1: Ao nível local	<input type="radio"/>	4: Ao nível nacional	<input type="radio"/>
2: Ao nível local e nos distritos vizinhos	<input type="radio"/>	5: Ao nível internacional	<input type="radio"/>
3: Ao nível provincial	<input type="radio"/>	6: Não sabe / não responde	<input type="radio"/>

9: Quantos concorrentes o/a senhor/a tem no território onde actua, tanto registados como não registados?	1: Nenhum	<input type="radio"/>	3: 3-10	<input type="radio"/>	5: Mais de 50	<input type="radio"/>
	2: 1-2	<input type="radio"/>	4: 11-50	<input type="radio"/>	6: Não sabe	<input type="radio"/>

10: Quantos deles acha que são registados?	1: Nenhum	<input type="radio"/>	3: Metade	<input type="radio"/>	5: Todos	<input type="radio"/>
	2: Minoria	<input type="radio"/>	4: Maioria	<input type="radio"/>	6: Não sabe	<input type="radio"/>

11: Como o/a senhor/a acha que é a situação das empresas não registadas na sua área de negócio em comparação com as registadas:		
1: Melhor	<input type="radio"/>	3: Pior <input type="radio"/>
2: Igual	<input type="radio"/>	

12: As empresas podem informar o Governo sobre a sua actividade económica a través de diferentes passos. Quais destes passos o/a senhor/a fez?			
1: Licença Municipal / Precária 1a: _____ (ano)	<input type="radio"/>	5: Instituto Nacional de Segurança Social (INSS)	<input type="radio"/>
2: Registo na Conservatória	<input type="radio"/>	6: Outros (por favor especificar) _____	<input type="radio"/>
3: Alvará 3a: _____ (ano)	<input type="radio"/>		
4: Número Único de Identificação Tributária (NUIT)	<input type="radio"/>	7: Não sabe / não responde	<input type="radio"/>

CASO A SUA EMPRESA TENHA ALVARÁ:	CASO A SUA EMPRESA NÃO TENHA ALVARÁ:
13: Pode me dizer quanto tempo demorou para obtê-lo?	14: Pode me dizer quanto tempo acha que é necessário para obtê-lo?
1: _____ (dias)	1: _____ (dias)
2: Não sabe / não responde <input type="radio"/>	2: Não sabe / não responde <input type="radio"/>

15: É comum que inspectores passam para controlar o cumprimento da empresa com ...?			
1: o registo	<input type="radio"/>	4: o pagamento ao INSS	<input type="radio"/>
2: a licença / o alvará	<input type="radio"/>	5: o pagamento do salário mínimo	<input type="radio"/>
3: o pagamento de impostos	<input type="radio"/>	6: as normas sanitárias	<input type="radio"/>

16: Quais dos seguintes inspectores já pediram “dinheiro adicional”?			
1: Inspectores do município	<input type="radio"/>	2: Inspectores do governo	<input type="radio"/>
		3: Nenhum	<input type="radio"/>

17: Quais das seguintes taxas o/a senhor/a paga?			
1: Imposto sobre o Rendimento das Pessoas Singulares (IRPS)	<input type="radio"/>	6: Taxa de água	<input type="radio"/>
2: Imposto Sobre o Rendimento das Pessoas Colectivas (IRPC)	<input type="radio"/>	7: Taxa de electricidade	<input type="radio"/>
3: Alfândega	<input type="radio"/>	8: IVA (Imposto sobre valor agregado)	<input type="radio"/>
4: Taxa por Actividade Económica	<input type="radio"/>	9: Não sabe / não responde	<input type="radio"/>
5: Taxa de lixo	<input type="radio"/>		

18: Tem algum dos seguintes documentos?			
1: Certificado oficial de propriedade	<input type="radio"/>	3: Acordo não oficial de aluguel	<input type="radio"/>
2: Contrato oficial de aluguel	<input type="radio"/>	4: Outro / Nenhum	<input type="radio"/>

CASO A SUA EMPRESA ESTEJA <u>REGISTADA</u>: (SENÃO ESTIVER REGISTRADA PASSE A 20)			
19: Por que empresas decidem registrar-se?	Sim	Não	Não sabe
1: Para respeitar a lei			
2: Para evitar multas das autoridades			
3: Para poder vender a clientes registados / ao governo			
4: Para poder comprar de fornecedores registados			
5: Para não ter que pagar dinheiro adicional a inspectores			
6: Para ter acesso a crédito			
7: Para ter acesso a associações / contactos de negócio			
8: É necessário para abrir o seu tipo de negócio			
9: Para contribuir ao desenvolvimento do país			
10: Para demonstrar uma alta qualidade de productos			
11: Outros (POR FAVOR ESPECIFICAR)			
12: Senhale o motivo mais importante com <input type="radio"/>			

CASO A SUA EMPRESA <u>NÃO ESTEJA</u> REGISTRADA:			
20: O que impede empresas a registar-se?	Sim	Não	Não sabe
1: Falta de informação sobre “o qué e como fazê-lo”			
2: Impostos altos e procedimentos complicados			
3: Custo alto (em termos de dinheiro e tempo) para receber licenças			
4: Regulamentos especialmente rígidos no seu sector			
5: Regras rígidas do mercado laboral: salário mínimo, protecção contra despedimento, segurança social			
6: Dificuldade para obter um local / espaço para exercer a actividade			
7: Dificuldade para abrir uma conta bancária			
8: Dificuldade para cumprir com as normas sanitárias			
9: Não tem penalidade			
10: Não vêm nenhum benefício em registar-se			
11: Outros (POR FAVOR ESPECIFICAR)			
12: Senhale o motivo mais importante com <input type="radio"/>			

21: Gostaríamos de saber se os seguintes assuntos representam um obstáculo para a operação e a dinâmica da sua empresa.	Sim	Não	Não sabe
1: Telecomunicações			
2: Electricidade			
3: Água			
4: Infraestrutura de transporte			
5: Capacidade e educação dos trabalhadores disponíveis			
6: Acesso a crédito (garantia)			
7: Custo de crédito (taxa de juros)			
8: Esforço administrativo para registar-se / obter licença			
9: Concorrência			
10: Corrupção			
11: Crime, roubo e desordem			
12: Sistema legal / resolução de conflito			
13: Acesso a um local / uma instalação para exercer o negócio			
14: Seroprevalência entre os empregados			
15: Senhale o obstáculo mais importante com <input type="radio"/>			

22: Que nível de educação tem o/a director/a gerente? (CASO IDÉNTICO AO PROPRIETÁRIO IGNORE 23)		23: Que nível de educação tem o/a proprietário/a?	
1: Educação primária	<input type="radio"/>	1: Educação primária	<input type="radio"/>
2: Educação secundária	<input type="radio"/>	2: Educação secundária	<input type="radio"/>
3: Educação média ou profissional	<input type="radio"/>	3: Educação média ou profissional	<input type="radio"/>
4: Educação superior	<input type="radio"/>	4: Educação superior	<input type="radio"/>

24: A sua empresa tem uma conta bancária?1: Sim 2: Não 3: Não sabe / não responde **25: Como financia gastos maiores / investimentos?**

1: Recursos próprios	<input type="radio"/>	5: Fundos do governo / município	<input type="radio"/>
2: Capital de familiares e/ou amigos	<input type="radio"/>	6: Outros (POR FAVOR ESPECIFICAR)	<input type="radio"/>
3: Empréstimo bancário	<input type="radio"/>	_____	<input type="radio"/>
4: Empréstimo de cooperativas de crédito	<input type="radio"/>	7: Não sabe / não responde	<input type="radio"/>

26: O/A senhor/a é membro de alguma associação de empresas?1: Sim 2: Não 3: Não sabe / não responde

27: Quais são os seus clientes principais?		28: Quais são os seus fornecedores principais?	
1: Empresas locais privadas	<input type="radio"/>	1: Empresas locais privadas	<input type="radio"/>
2: Empresas estrangeiras em Moçambique	<input type="radio"/>	2: Empresas estrangeiras em Moçambique	<input type="radio"/>
3: Empresas estrangeiras actuando fora	<input type="radio"/>	3: Empresas estrangeiras actuando fora	<input type="radio"/>
4: Empresas estatais	<input type="radio"/>	4: Empresas estatais	<input type="radio"/>
5: O Governo	<input type="radio"/>	5: Indivíduos	<input type="radio"/>
6: Indivíduos	<input type="radio"/>		

29: Qual é a origem dos proprietários?				30: Qual é a origem da maioria dos seus clientes e fornecedores?			
1: Moçambicana	<input type="radio"/>	5: Outra asiática	<input type="radio"/>	1: Moçambicana	<input type="radio"/>	5: Outra asiática	<input type="radio"/>
2: Sul africana	<input type="radio"/>	6: Européia	<input type="radio"/>	2: Sul africana	<input type="radio"/>	6: Européia	<input type="radio"/>
3: Outra africana	<input type="radio"/>	7: Outra	<input type="radio"/>	3: Outra africana	<input type="radio"/>	7: Outra	<input type="radio"/>
4: Indiana / Pakistanesa	<input type="radio"/>	_____	<input type="radio"/>	4: Indiana/ Pakistanesa	<input type="radio"/>	_____	<input type="radio"/>

31: Informação adicional

1: Posição do entrevistado na empresa								
2: Género do entrevistado	1: Feminino	<input type="radio"/>	2: Masculino	<input type="radio"/>				
3: Idade do entrevistado	(anos)							
4: Género do proprietário maioritário	1: Feminino	<input type="radio"/>	2: Masculino	<input type="radio"/>				
5: Idade do proprietário maioritário	(anos)							
6: Sede da empresa: cidade								
7: Sede da empresa: bairro								
8: Sede da empresa: localização	Centro urbano	<input type="radio"/>	Estrada	<input type="radio"/>	Mercado	<input type="radio"/>	Sub urbano	<input type="radio"/>

Muito obrigado pela sua cooperação!

Annex 4: List of interviewed institutions

Institution	City	Date
Deutscher Entwicklungsdienst (DED)	Maputo	20/02/08
Kreditanstalt für Wiederaufbau (KfW)	Maputo	21/02/08
Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)	Maputo	21/02/08
The World Bank	Maputo	22/02/08
Nacional Directorate of Registry and Notary	Maputo	22/02/08
SOCREMO (Microfinance Institution)	Maputo	23/02/08
Ministry of Finance	Maputo	25/02/08
CTA (Confederation of the Economic Associations)	Maputo	25/02/08
USAID	Maputo	26/02/08
European Commission	Maputo	26/02/08
Ministry of Labour	Maputo	28/02/08
Banco ProCredit (Finance Institution)	Maputo	29/02/08
Ministry of Industry and Commerce	Maputo	29/02/08
Konrad-Adenauer-Stiftung	Maputo	29/02/08
GAPI	Beira	05/03/08
ACB (Business Association Beira)	Beira	07/03/08
Mozambican Revenue Authority (Fiscal Area)	Beira	10/03/08
Municipality of Beira (Department of Industry and Trade)	Beira	11/03/08
Municipality of Beira (Department of Treasury)	Beira	12/03/08
Provincial Directorate of Industry and Commerce	Beira	12/03/08
ACB (Business Association of Beira)	Beira	06/03/08

Annex 4: List of interviewed institutions

ACIS (Business Association Sofala)	Beira	06/03/08
Mozambican Revenue Authority	Nampula	27/03/08
Provincial Directorate of Industry and Commerce (Department of Industry)	Nampula	01/04/08
Provincial Directorate of Industry and Commerce (Department of Industry)	Nampula	01/04/08
GAPI	Nampula	01/04/08
BUANA (One-stop-shop)	Nampula	01/04/08
Municipality of Nampula (Department of Treasury)	Nampula	03/04/08
ACIANA (Commercial, Industrial and Agricultural Association of Nampula)	Nampula	04/04/08
Provincial Directorate of Registry and Notary	Nampula	04/04/08
Municipality (Department of Commerce, Industry and Tourism)	Nampula	08/04/08

Annex 5: Time table

Operating schedule Mozambique		
Date	City	Activity
Week 1-2	Maputo	<ul style="list-style-type: none">▪ Expert-Interviews▪ Pre-Test Entrepreneur-Interviews▪ Adjustment of empirical instruments
Week 3-5	Beira	<ul style="list-style-type: none">▪ Adjustment of empirical instruments▪ Interviews with experts and entrepreneurs
Week 6-8	Nampula	<ul style="list-style-type: none">▪ Interviews with experts and entrepreneurs
Week 9-10	Inhambane	<ul style="list-style-type: none">▪ Data Evaluation▪ Preparation of presentation▪ Drafting of Result Paper
Week 11	Maputo	<ul style="list-style-type: none">▪ Workshop with Counterparts (Discussion of Results)▪ Public Presentation of Research Results

Annex 6: Map of Mozambique

Mozambique



Source: OECD 2008: 460.