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Formalisation and Business Development in Mozambique

How important are regulations?

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The German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) is a multidisciplinary research, consultancy and training institute for Germany's bilateral and for multilateral development co-operation. On the basis of independent research, it acts as consultant to public institutions in Germany and abroad on current issues of co-operation between developed and developing countries. Through its 9-months training course, the German Development Institute prepares German and European University graduates for a career in the field of development policy.

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Abbreviations

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)
EIU	The Economist Intelligence Unit
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
IEG	World Bank Independent Evaluation Group
IFC	International Finance Corporation
INE	Instituto Nacional de Estatística (National Statistical Institute)

INSS	Instituto Nacional de Segurança Social (National Institute of Social Security)
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 enterprise
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)
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 enterprise
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
USAID	United States Agency for International Development
VAT	Value-added tax

Summary

Within the debate among researchers and policy makers about how to support private sector development in developing countries, the Doing Business reports from the World Bank and the International Finance Corporation have received a lot of attention in recent years. In the most recent 2010 issue of the report, 183 economies are compared by means of quantitative indicators that characterise the regulatory business environment. These indicators typically include the number of procedures, the time and the official costs related to regulations concerning core activities of private businesses. In a nutshell, the Doing Business reports advocate prioritising reforms of the regulatory business environment in order to promote the formalisation and development of small and medium enterprises. From the perspective of the Doing Business reports, reforming the regulatory business environment basically means lessening business regulations – among other things regarding registration, licensing, taxation of businesses and employment – as well as strengthening private property rights and contract enforcement.

This position has been a matter of controversial debate. Critics, for instance, have argued that the Doing Business approach ignores social benefits from regulations (e.g. environmental, health and social security benefits or provision of public goods thanks to tax revenues) and that it leaves out important determinants of business development and formality beyond the regulatory business environment (e.g. managerial and labour skills, access to good quality infrastructure and business development services). All in all there is a lack of conclusive empirical evidence for the supposed effects of regulatory reforms along the lines of the Doing Business reports on small and medium enterprises, particularly in the context of Sub-Saharan Africa (see below). It was this research gap that generated the motivation for the present study.

This study analyses the influence of the regulatory business environment on the formalisation and development of micro, small and medium enterprises (MSMEs) in Mozambique – with particular emphasis on the issue of formalisation. Although we devote a lot of attention to understanding the effects of the regulatory business environment, we also take into account further factors (we call them “X-factors”) that are likely to have an effect on formalisation and business development. This helps us to assess the

relevance of reforming the regulatory business environment in relation to other policy measures aiming at private sector development. Mozambique is a suitable example for our research question. On the one hand the economy is characterised by a large number of MSMEs and widespread informality, and on the other hand business regulations are considered a major burden for the development of the private sector in Mozambique. Our main sources of primary data are an enterprise survey and expert interviews carried out between February and April 2008.

Formalisation, business development and evidence regarding their determinants

Despite the widespread use of the term *(in)formal sector*, to date the research community has not come up with a clear definition. Commonly, one or more of the following three criteria are used to define the formality of a business: size (more than a certain number of employees), legal status (formal registration, permit, license etc.) and (human) capital intensity of the technology used (more than a certain threshold amount of physical and/or human capital per worker). For our study we use a definition based on the legal status of the business and adapted to the reality of Mozambican business regulations (see below).

The costs and benefits of formalisation are plausible determinants of the formality status of an enterprise. Among typical costs are the time and money spent to comply with regulations concerning the start-up (e.g. registration, licensing) and the operation of a business (e.g. taxes, social security contributions). Typical benefits include more certainty regarding the prospects of the enterprise, less harassment by inspectors and fewer fines to pay, access to police and court services to enforce contractual rights, no restrictions on growth and acquiring visibility for the public and the authorities. Thus formality status would appear to be the result of a cost-benefit calculus of the entrepreneur with respect to these costs and benefits. However, particularly in the case of “necessity entrepreneurs”, the status of informality may also be a reflection of the low capacity (e.g. illiteracy of the owner) and the poor economic performance of the business (low and irregular cash flow), which make it virtually impossible to comply with (even simple and cheap) legal requirements.

Business development is often conceived as growth at the level of the individual enterprise in terms of change over time of turnover, profit or number of workers. However, there are also other indicators for the development of a business, for example if a business moves to a better location or improves its conditions through investments in machines, buildings or the know-how of its workers or if the business increases its market share. We assume that there is an interrelation between the concepts of business development and formalisation. E.g. if a business develops well and grows, say, beyond a certain number of workers, it will become very difficult for it to remain concealed from the authorities. On the other hand the formal status of the enterprise is likely to induce positive development of the business, e.g. if formality eases access to credit.

The evidence in the empirical literature for an impact of the regulatory business environment on the *formality* of enterprises is mixed. Several studies using cross-country regressions report significant positive correlations between the cost or rigidity of regulations and the size of the informal economy. By contrast, other studies, using for instance enterprise-level data, do not find that simplifying business regulations has significant effects on the formalisation of enterprises or on formal start-up rates. Moreover, the empirical research literature presents evidence that X-factors beyond the regulatory business environment have an influence on the formality of the firm. Important factors reported in the literature include, among other things, the level of education and ethnicity of owners and managers, the age of the business and level of corruption.

In addition, we reviewed the empirical literature analysing the determinants of *business development*. The evidence is also mixed regarding the impact of the regulatory business environment on business development. Several cross-country regressions find significant negative correlations between the cost and rigidity of business regulations (as measured by the Doing Business indicators) and some aggregate measures of development, like GDP growth or investment rates. However, other econometric studies do not find such significant correlations. There is an ongoing methodological discussion on this issue, and several scholars have underlined the need to do more research with microeconomic data in order to get more robust results. With respect to the relevance of X-factors, in our review of the empirical literature we found evidence that the following factors are

likely to have an impact on business development and growth: quality of institutions (rule of law, security of property rights), infrastructure, education, Human immunodeficiency virus / acquired immune deficiency syndrome (HIV/AIDS), access to business networks, exports, as well as financial, crime and political stability issues.

The Mozambican context

The recent (economic) history of Mozambique has been marked by Portuguese colonialism until independence in 1975, the shift to a centrally planned economy system after independence, a protracted civil war (1977 to 1992), and again a shift to a market economy system from the late 1980s on. In spite of frequent natural disasters and economic shocks, Mozambique has been able to achieve stable macroeconomic growth rates since 1996. Nevertheless, growth in Mozambique has not been broad-based and the country remains one of the poorest in the world. Moreover, the country is extremely dependent on foreign aid: official development assistance covered more than half of government expenditure in 2008. Therefore, a crucial challenge for the country is to expand growth dynamics to the MSME sector to achieve a more broad-based growth pattern.

According to the available statistics, MSMEs – defined as enterprises with 1 to 99 workers – represent 98.6% of the total number of enterprises in Mozambique, contribute 52.1% to Gross domestic product (GDP) and employ 42.9% of persons working in the formal sector. The informal sector is considered to be large in Mozambique: approximately 75% of the population is engaged in an informal economic activity. Close to 80% of the working population works in agriculture. The level of education is low: 57% of the Mozambican population is illiterate and more than 80% of the work force is unskilled.

As far as the regulatory business environment at the aggregate level is concerned, the most recent Doing Business report ranks Mozambique 135th out of 183 countries. The rating varies for the various indicators between rank 41 for “protecting investors” and rank 159 for “dealing with construction permits”. The indicators that measure the cost and effort necessary to open a formal business have improved significantly over the last years thanks to reforms carried out by the government (e.g. in 2004 the related procedures took 153 days, while in 2009 they took 26 days).

Regulations regarding dismissals of formal workers are strict: the cost of dismissing a redundant worker for the employer (expressed in weeks of salary) is the tenth highest amongst the countries included in the Doing Business ranking. In the Global Competitiveness Index 2007/2008, which covers a broader range of issues than the Doing Business reports (among several other pillars, it includes e.g. infrastructure, health, education, technology, financial market sophistication), Mozambique ranks at the very end (128th out of 131 countries). Moreover, a recent country assessment of the business climate for Mozambique states that small enterprises face particular constraints, including lack of access to capital, labour and management skills and modern technologies as well as higher costs of complying with the tax system as compared to bigger enterprises.

The relevant business regulations for MSMEs in Mozambique are quite complex and vary in accordance with various factors such as type of economic activity, size, location and legal form of an enterprise. Both the central government, mainly through its provincial government levels, as well as the country's partly autonomous (politically decentralised) municipal governments bear responsibilities in the area of business regulation.

For the purpose of our empirical investigation we defined the following criteria to characterise the level of formality of an enterprise: (A) the enterprise possesses an operating license, (B) the enterprise is registered with tax authorities, (C) the enterprise is registered with the National Institute for Social Security. This yields four levels of formality:

- F1: The enterprise does not meet any of the criteria (completely informal)
- F2: The enterprise meets criterion A
- F3: The enterprise meets criteria A and B
- F4: The enterprise meets criteria A, B and C (completely formal)

Results of the empirical investigation

In our empirical investigation we combined quantitative and qualitative techniques. During our field stay 204 interviews were conducted: 146 quantitative interviews with entrepreneurs (standardised questionnaire), 28 qualitative interviews with entrepreneurs (semi-structured questionnaire) and 30 guideline-based interviews with experts. Our enterprise survey concentrated on the cities of Nampula and Beira (the second and third largest city of Mozambique, respectively) and on the sectors trade and manufacturing.

Results on formalisation

In our quantitative sample we found a clear positive association between level of formality and enterprise size in terms of number of workers. Further factors associated with level of formality (but not with enterprise size) in our sample are: owner level of education (for higher levels of formality the average level of education is higher), owner age (the higher the level of formality, the older the owner), owner nationality or origin (businesses owned by Mozambicans are likely to show lower levels of formality than those with owners of non-Mozambican nationality or origin). In addition, we found that the factors having a bank account and being a member of a business association were associated with both level of formality and size of enterprise in our sample.

Moreover, we had a closer look at potential disincentives and barriers and incentives to formalise: As far as *disincentives linked to regulation* are concerned, licensing procedures are perceived as burdensome (although interview partners acknowledged improvements) and inspections are perceived as being carried out in many cases in a non-cooperative manner with the objective of detecting infractions at all costs, possibly with the ulterior motive of applying pressure on firms in order to be offered a bribe (this was stated particularly by owners of bigger and formal enterprises). The results of our quantitative interviews show that enterprises with higher levels of formality are checked more frequently than those with lower levels of formality. Hence those enterprises that have room for manoeuvre in choosing their level of formality, and that anticipate the costs of formality, have an incentive to stay informal in order to avoid or reduce not only the costs of compliance with regulations but also the costs of inspections.

As far as *further barriers* are concerned, our finding that formality and owner level of education are associated supports the view that poor education constitutes a barrier to formalisation (due to the greater difficulty involved in complying with the in part complex registration, licensing and taxation procedures). This problem is exacerbated by a lack of easily understandable and consistent information on the formal requirements businesses have to comply with, depending on their branch of business, size, location etc. Finally, we found evidence that enterprises with very low and irregular cash flows have difficulties in bearing the costs of formality.

Concerning *incentives to formalise linked with the regulatory business environment*, negative incentives (i.e. to avoid sanctions) seem to be much more important than positive incentives (e.g. access to public institutions and services). “To respect the law”, and thus to avoid sanctions by inspectors, is the most important reason to formalise mentioned by entrepreneurs in our quantitative survey. Although we gained evidence that it is relatively common to bribe inspectors to avoid sanctions for operating an informal business, for some business types this is not a feasible option due to their size and visibility (see below). By contrast, being able to use public institutions and services, for instance the courts, does not constitute an incentive to formalise, since the courts are perceived as ineffective and slow and costly, and they are not commonly used by private enterprises to enforce contractual rights.

Concerning factors beyond the regulatory business environment, we conclude from our data that getting easier access to credit from commercial banks and dealing with formal clients, like big private enterprises or the government, constitute incentives for enterprises to formalise.

Results on business development

In our analysis we mainly focused on identifying obstacles for business development, as perceived by the entrepreneurs interviewed, including obstacles in the area of the regulatory business environment – for instance the burden for enterprises complying with regulations – as well as various other obstacles (X-factors). Interestingly, respondents in Beira perceive obstacles for business development in general as more severe than those in Nampula (moreover, entrepreneurs from Beira rate the actual situation of their business as compared to the past worse than their counterparts from Nampula). This result points to important differences in the investment climate between regions.

The costs of compliance with business regulations – for instance the administrative burden of dealing with licensing and registration as well as the costs of dismissing formal workers – are perceived by entrepreneurs as relevant obstacles to business development, but not as the most pressing ones. Taking together the information from the quantitative and qualitative interviews, we conclude that the most important obstacles in the view of our interviewees

are: Access to and cost of credit, transport infrastructure, access to a location for business operation, and availability of skilled labour.

Conclusions and recommendations

As a conclusion and synthesis from our findings regarding *formalisation*, we propose the following typology of MSMEs for Mozambique with respect to their propensity or ability to formalise:

1. *Enterprises that have room for manoeuvre in choosing their level of formality, trading off the benefits of formalisation against the costs of staying informal (type I).* If they remain informal, enterprises of this type cannot exceed a certain size or degree of visibility. Typical benefits of formality that tend to induce formalisation are: access to certain formal clients like the government, state-owned companies or multinational companies, access to external finance through commercial banks, the possibility to use advertising or a location that is visible to the public. On the other hand, the fixed costs of getting an official licence, 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 disincentives for enterprises to formalise.
2. *Enterprises that are obliged to operate formally because formality is necessary for their economic activity and because it is impossible for them to evade inspections (type II).* This is the case for businesses that are founded at or have reached a certain size in terms of number of workers, operate with public visibility due to the kind of activity in which they engage, are run by foreigners or have certain groups of clients or suppliers that require formal documentation. Enterprises of this type do not have the option of operating on an informal basis.
3. *Enterprises that do not have the conditions necessary to operate formally and therefore stay informal (type III).* Enterprises of this type are characterised by small business size, lack of regular cash flow, owners with low educational levels and/ or lacking in experience in running their business. These entrepreneurs are typically not able to comply with the in part complex and costly Mozambican business regulations (moreover, prospects for their development and growth are typically not good).

A simplified regulatory business environment, with straightforward legal and regulatory requirements for micro and small enterprises, could thus contribute to the formalisation of type I and III enterprises (though not so for type II). Nevertheless, poor education of owners and irregular cash flows may still hinder compliance of type III enterprises with simplified regulations.

Moreover, in order to promote formalisation it is important to improve the information available on business regulations, to apply the latter in a more consistent way and to increase the value of public institutions and services (like the courts) for the private sector. Reasons for deficiencies are various, such as a self-interested attitude on the part of state inspectors and a general attitude that tolerates corruption, poor information and qualification of public servants, lack of cooperation and of clear allocation of responsibilities and duties among public institutions. Therefore, what is needed, apart from a simplification of overly cumbersome regulations, is investment in personnel and organisational capacities as well as in the integrity of the public service.

Regarding *business development*, the burden of complying with regulations, although mentioned as a relevant obstacle, is not perceived by our interview partners as the most important constraint for enterprise development. The most pressing issues are: Access to and cost of credit, transport infrastructure, access to a location for business operation, and availability of skilled labour. As a consequence, policies seeking to deregulate and to reduce the administrative burden seem not to be sufficient to support business development in Mozambique. Our results call for more comprehensive approaches that go beyond the narrow focus on business regulations and that in addition include measures to address, for instance, the shortage of skilled labour, flaws in the transport infrastructure and in real estate markets as well as in the availability and affordability of financial services.

1 Introduction

Productive and competitive enterprises are of utmost importance for achieving broad-based economic growth and reducing poverty. This is especially true for Sub-Saharan Africa, which has lagged behind other world regions with respect to growth performance.¹

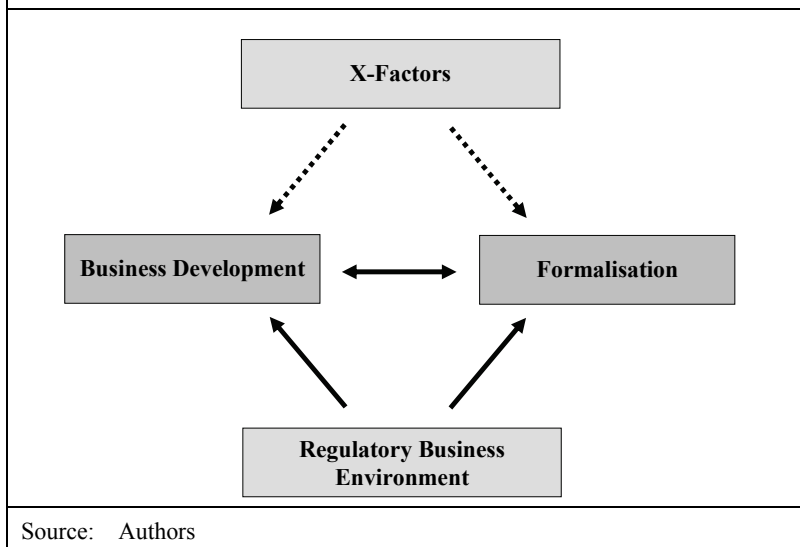
Within the current debate among researchers and policy makers about how to support private sector development, there are two main approaches: the neo-structuralist and the neo-classical.² From the neo-classical perspective, the priority for governments is not to engage in selective support measures for certain economic sectors (as would argue an advocate of neo-structuralism) but to provide adequate rules and regulations for the whole of the 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 2004; 2005; 2006a; 2006b; 2007a; 2008; 2009). The report series assesses laws and regulations affecting private enterprises for a huge number of countries (183 in the most recent issue) and has a special focus on small and medium enterprises (SMEs)³. Its main postulates are that the nature of the RBE is a key determinant of enterprise development and that lessening regulation and strengthening private property rights and contract enforcement will lead to a dynamic private sector and growth of the economy. Regarding SMEs – that in many cases operate on an informal basis in Sub-Saharan African countries – one key assumption is that it is the cost associated with regulations that pushes firms into informality. Hence it is argued that lessening regulations will foster the formalisation and subsequently the growth of these firms (Djankov et al. 2002b).

The perspective taken and the policy recommendations derived by the Doing Business reports are a matter of controversial debate. Critics argue that the Doing Business approach ignores potential social benefits of busi-

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- 1 See Ndulu et al. (2007) for a recent analysis of African growth performance and a diagnosis of underlying causes.
 - 2 For a brief discussion of these two approaches, see Section 3.1. Cf. also Altenburg and Drachenfels (2006), who 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.

ness regulations and that it leaves out important determinants of enterprise development beyond the RBE – like entrepreneurial capacity, quality of the labour force, access to finance, infrastructure, political governance, business networks and business development services (Altenburg / Drachenfels 2006; 2008a; Arruñada 2007; IEG 2008). Regarding the statement that deregulation will translate into formalisation and development of SMEs, it can be objected that many small informal firms in developing countries are driven more by necessity than by opportunity (Mead 1994; Altenburg / Eckhardt 2006, 19–22). These businesses are typically trapped in a vicious circle in which low skills, low capital formation, low productivity and low returns on investment reinforce one another. Given such conditions, it can be questioned whether merely easing formal registration of firms through regulatory simplification will have the supposed catalytic effect on enterprise development. All in all, at present there is a lack of empirical evidence for the supposed effects of regulatory reforms along the lines of the Doing Business reports on businesses. This research gap generated the motivation for the present study.

Figure 1: RBE, X-factors, formalisation and business development



The purpose of this study is to analyse the influences of the RBE on the formalisation and development of businesses – with a particular emphasis on the issue of formalisation. We conceive the relation between these three elements as a triangular relation (see Figure 1). We attempt to disentangle the effects of the quality of the RBE on the level of formality of businesses on the one hand and directly on business development on the other hand. Moreover, we seek to explore the (mutual) relation between formalisation and development of businesses in order to assess the potential contribution of reforms that ease the formal registration of firms to their development. Last but not least, we ask whether there are other key factors beyond the RBE (“X-factors”) that constitute obstacles to business formalisation and development.

Our approach differs from the Doing Business approach in two ways: Firstly, we additionally include micro enterprises in our investigation – and thus analyse micro, small and medium enterprises⁴ (MSMEs) – a choice in keeping with the economic reality of Mozambique (see below). Secondly, our main sources of data are (i) the relevant laws and regulations affecting MSMEs in Mozambique, (ii) interviews with experts for private sector development and government authorities responsible for regulating MSMEs, and (iii) a business survey that brings in the entrepreneurs’ perspective. This allows us, for instance, not only to assess the influence of the *de jure* situation of regulations on firms but, in addition, to address issues of implementation of regulations in practice (*de facto* regulations) and to identify obstacles to business development beyond the RBE. By contrast, the Doing Business data is restricted to analyses of the *de jure* situations of laws and regulations and is based on surveys of lawyers.

Like most literature on enterprise development in developing countries, the present study targets relatively small businesses. Even though some authors question the potential of small firms to contribute to economic development (e.g. Naudé / Krugell 2002), most researchers broadly agree upon the important role of the MSME sector. This is mainly due to its contribution to employment creation (Esselaar et al. 2007, 87). Since a large share of employees work in MSMEs, a dynamic MSME sector is, thanks to its contribution to income generation, of major importance for

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

the economy.⁵ Moreover, from a policy perspective, focusing on smaller rather than larger firms “may contribute to rendering the industrial structure more balanced and reduce[ing] income inequality” (Altenburg / Eckhardt 2006, 7). 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).

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 small 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 are engaged in an informal activity (2006b, 84). On the other hand, business regulations are considered a major burden for the development of the private sector in Mozambique (World Bank / IFC 2007b).

Moreover, recent economic growth in Mozambique has not been broad-based. It is a fact that since the end of the civil war in 1992, the country has shown remarkable macro-economic growth. However, despite this positive growth performance, Mozambique remains one of the poorest countries in the world. So far growth has been driven by only a few, though large, capital-intensive investment projects (e. g. the aluminium smelter MOZAL close to Maputo) 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 to the MSME sector in order to achieve a more broad-based growth pattern. Hence analysing empirically the role of the RBE for supporting the development of MSMEs is a highly relevant research subject for Mozambique and we hope that our results prove useful in informing policy makers about the relative importance of reforming the RBE versus taking other measures to support private sector development.

The remainder of this study is organised as follows. Chapter 2 outlines the methodological approach used in the study. Chapter 3 discusses the term

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

regulatory business environment within the context of the neo-classical approach to private sector development. Chapter 4 reviews the literature regarding the relationship between the RBE, formalisation and enterprise development. Chapter 5 gives an introduction to the Mozambican context, specifically to the country's 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, the fruit of an 11-week field stay of the research team in Mozambique. Chapter 7 draws conclusions referring to our research question and presents some recommendations.

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 decisions and the development of micro, small and medium enterprises (MSMEs) as compared to other relevant factors ("X-factors", see Chapter 4) such as management capacities, labour skills, infrastructure etc., and
- explore and analyse the triangular relation pattern between the RBE, formalisation and development of MSMEs (see Figure 1).

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 a 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 mainly of academic papers encompassing both theoretical and empirical studies. Furthermore, we 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. To collect this data, we conducted interviews with the following actor groups:

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

The **entrepreneurs** constituted the main actor group (for detailed information, see sample description in Section 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

The data collection strategy and the collection instruments were developed on the basis of the literature review. The data collection strategy consisted of a mix of quantitative and qualitative instruments.

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

- the use of statistics 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 (the 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 interview assistants. 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 guideline-based 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 MSMEs. 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 infra-structure, level of education of the owner, labour skills, etc. (termed “X-factors” in the present study, see Chapter 4),
- the level of formality of the enterprise, and
- recent enterprise development.

Both questionnaires are attached in the annex of this study (see Annexes 1 and 2). The interviews with the entrepreneurs took roughly 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 micro-finance institutions (see list of institutions in Annex 3).

The expert interviews took roughly 30 to 90 minutes. The interview guidelines were designed 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 “recorder”. In the case of the qualitative interviews the recorder’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 a computer programme, Excel.

2.3 Data analysis

The data consists of 146 completed enterprise 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 analysis. During the collection phase, data sets were checked cursorily with regard to the sampling strategy and the validity of the information obtained. For the analysis, data sets were transferred to two computer programmes. The computer programme Atlas.ti was used to facilitate analysis of the qualitative data. Atlas.ti permits systematic coding and theoretical sampling procedures as well as systematisation and comparison of data pieces. The quantitative data set was analysed by means of the computer software STATA, and this consisted mainly in calculating

descriptive statistics like frequencies, percentage distributions as well as measures of association between two variables like the Spearman correlation coefficient and Pearson's chi-squared (see Chapter 6).

As stated at 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 some evidence on their relevance and on the strength of associations between factors.

The results (see Chapter 6) were presented to and discussed with researchers, representatives of government authorities and representatives of development agencies at two workshops in Maputo, Mozambique (25 April 2008 at Direção Nacional de Estudos e Análise de Políticas (DNEAP), 29 April at Hotel Avenida) and one workshop in Bonn, Germany (23 May 2008 at the DIE).

3 Private sector development and the concept of the regulatory business environment

During the past years the international donor community has devoted substantial resources to support private sector development in developing countries. Many of these support measures have followed a neo-structuralist philosophy in targeting specific industries or classes of businesses. E. g. in 2002 alone, the World Bank Group approved 1.5 billion US-dollars for SME support programmes (Beck / Demirgüç-Kunt / Levine 2003, 1). In recent years, this neo-structuralist policy approach has been criticised from a neo-classical perspective for leading to favouritism, market distortion and a wasteful allocation of resources in the economy. For instance, the Doing Business reports follow a sort of "new minimalist approach" to private sector development (Altenburg / Drachenfels 2006), recommending concentration on creating an enabling RBE by lessening business regulations and strengthening private property rights and contract enforcement.

The present chapter characterises the main policy approaches to private sector development and defines the concept of the regulatory business environment (RBE) (3.1). Moreover, it briefly presents operational categories for the RBE as defined in the Doing Business reports of the World Bank (3.2). Section 3.3 critically assesses the neo-structuralist and the Doing Business approach to private sector development. Finally, Section 3.4 draws conclusions on the RBE.

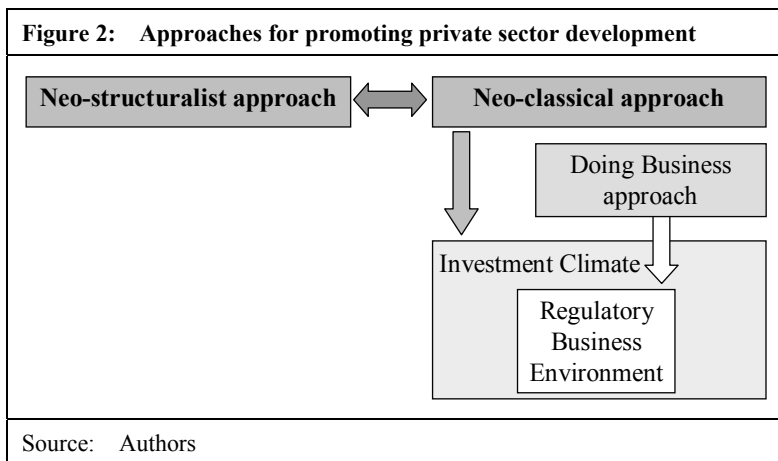
3.1 Neo-structuralist approach, Doing Business approach and the regulatory business environment

According to Altenburg and Drachenfels (2008b, 5–11), one can distinguish two broad policy approaches for promoting private sector development:

- Neo-structuralist approach
- Neo-classical approach

According to the terminology proposed by Altenburg and Drachenfels (2008b), the different approaches to private sector development can be illustrated as in Figure 2. The RBE is a concept used in the Doing Business approach – which can be classified as being one important strand within the neo-classical approach.

The **neo-structuralist approach** emphasises the presence of market failures and the need for corrective policies (Altenburg / Drachenfels 2008b, 8–11). 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 dynamic development. Market failures in two areas seem particularly important: (i) Market failures that hinder the materialisation of knowledge spillovers and dynamic scale economies and thus impede the creation of competitive advantages in knowledge-intensive markets. (ii) Highly asymmetric markets (e. g. informal versus formal firms; national micro firms with low productivity versus productive big transnational firms) that prevent economic growth trickling down to the sectors and industries where the majority of people work. From a neo-



structuralist perspective, governments need to enhance the competitiveness of the private sector, and particularly of SMEs, by addressing such market failures, by strengthening the management capacity of firms and by encouraging the supply of business development services. They are supposed to do this by means of a broad range of – mostly subsidy-based – selective support measures.

The **neo-classical approach** does not focus on SMEs but addresses the private sector as a whole (Altenburg / Drachenfels 2008b, 6–8; Beck / Demirgüç-Kunt / Levine 2003, 3). Although it does not deny market failure in the area of private sector development, it is more concerned with government failure and postulates that inappropriate or burdensome regulations are one key barrier for private sector development. Accordingly, the approach is sceptical regarding the ability of governments to promote private sector development 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, ensure the security of private property rights and create a stable macro-economic environment.

Within this neo-classical 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 in the literature, Alten-

burg and Drachenfels (2008b) 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 2008b, 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 3.2). The analysis made in the Doing Business report series by World Bank and International Finance Corporation (IFC) focuses on the RBE and, in a nutshell, recommends deregulating bureaucratic procedures and strengthening private property rights and contract enforcement. According to this ‘**Doing Business approach**’, over-regulation and cumbersome bureaucracy (often referred to as ‘red tape’) is seen as the major constraint for private sector development.

The term **investment climate** refers to a set of enabling factors broader than the RBE. It comprises all the elements of the RBE, but includes 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.⁶ The World Development Report 2005, “A Better Investment Climate for Everyone” (World Bank 2004), is a prominent example for the application of such a concept.

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

6 In the context of Sub-Saharan Africa, the major challenges for private sector development are good governance, a lack of adequate infrastructure, low levels of education and underfunded health sectors (especially due to the high prevalence of HIV; cf. Altenburg / Drachenfels 2008b, 38).

3.2 Categories of the regulatory business environment according to the Doing Business reports

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. In the most recent issue, of 2010, 183 economies are compared by means of quantitative indicators on business regulations and 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. From time to time, new categories are added in the new editions of the Doing Business report.

The operational categories for assessing the quality of the RBE according to the Doing Business report 2008 are listed in the following table (for the methodological details see World Bank / IFC 2007a, 67–81):

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 (2007a)	

The Doing Business reports provide vivid examples for overly bureaucratic administrative procedures ('red tape') in those areas which substantially increase the cost of doing business for firms and therefore stifle economic activity. For example, in 2004 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).

3.3 Assessment of the neo-structuralist and the Doing Business approach

Both approaches have come in for substantial criticism, which is summarised in what follows.

Neo-structuralist approach

The government-driven and subsidy-based support programmes within the neo-structuralist approach are generally said to encourage favouritism, to distort markets, to give improper incentives and therefore to result in an inefficient use of resources. Critics of this approach, typically do not deny the existence of market failures put forward by its proponents (see above). However, they contend that government interventions are typically not suited to address market failures, and argue, on the contrary, that government interventions typically make things worse.

Pack and Saggi (2006, 280-2) emphasise that governments face severe information constraints when e.g. targeting subsidies to certain industries, classes of enterprises (e.g. SMEs) or regional clusters with the objective of enhancing knowledge spillovers and dynamic scale economies or when deciding on other supportive measures. This information constraint makes it nearly impossible to base policy decisions on objective facts and therefore increases the probability of measures being based on other grounds, like favouritism, short-term political goals of government (e.g. re-election) etc. According to Pack and Saggi (2006) and several other analysts, there is no evidence that successful examples of industrialisation in developing countries during the last decades have occurred thanks to selective government support. Although more positive towards the justifications of neo-structuralist policies, Altenburg and Drachenfels (2006, 406) corroborate that, in practice, traditional government- or donor-driven private sector support programmes often fail and provide inappropriate incentives. Moreover, Beck, Demirgüç-Kunt and Levine (2003, 1-3) indicate that microeconomic evidence from several country studies does not support the view that SMEs are crucial players that drive private sector development.⁷

7 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.

Doing Business approach

The Doing Business approach has been criticised for (i) limiting its analytical focus to the private costs of *de jure* business regulations, disregarding potential social benefits of regulations as well as the quality of implementation of regulations, and for (ii) leaving out important determinants of private sector development beyond the RBE (Altenburg / Drachenfels 2006; 2008a; Arruñada 2007; IEG 2008). Moreover, it is argued that so far there is no conclusive empirical evidence that deregulation is sufficient to unleash private sector development and economic growth (Commander / Tinn 2007; Commander / Svejnar 2007).

With regard to the first point, the Doing Business approach concentrates on capturing the private costs of bureaucratic procedures and government regulation (see 3.2). However, from a long-term social perspective it is important to emphasise that not all regulations that come at a private cost for firms in the short term are detrimental for society. On the contrary, some regulations are even necessary for economic and social development. This argument is clearest in the case of taxes paid by enterprises.⁸ Without tax revenues the state cannot provide the kind of institutions and public services that are a necessary condition for the functioning of market economies, like e.g. courts and business registers or infrastructure (see also Nelson / De Bruijn 2005, 578). Moreover, in many areas, such as health, safety and the environment, regulations are desirable if they contribute to protecting consumers and future generations. Therefore, one should distinguish conceptually between such desirable regulations that entail benefits for society as whole on the one hand and unnecessary cumbersome bureaucratic procedures that cause nothing but private costs to enterprises on the other hand (Drachenfels/ Krause/ Altenburg 2008). Or, to put it differently, the challenge for governments is to strive for optimal levels of business regulation, not for minimum levels (Te Velde 2006, 1).

Still with regard to the first point, the Doing Business approach has been criticised for limiting its focus to *de jure* regulations, overstating the role of formal rules. The way regulations are implemented *de facto* is important. Even “good” *de jure* regulations – in the aforementioned sense – can become a burden if they are implemented in a unnecessarily lengthy and costly way or put into practice by a corrupt bureaucracy. And, in contrast,

8 A higher tax rate leads to a lower ranking in the Ease-of-Doing-Business Index.

cumbersome and costly official regulations may be easily avoided by paying a small bribe. Moreover, the inconsistent and fragmentary application of regulations can lead to distortions and unfair competition between businesses, industries, and locations. Hence, it is essential that state authorities are capable and willing to enforce regulations properly and in a transparent manner. According to Altenburg and Drachenfels (2008b, 29), entrepreneurs in Sub-Saharan Africa complain more about the inconsistent application of regulations than about the number of regulations as such.

With regard to the second point, critics argue that the focus on the RBE is too narrow to capture those factors that generally contribute to fostering private sector development and economic growth. For many countries, improvements to the RBE will make no difference, or at best just a marginal one, if their binding constraints to private sector development lie in another field, such as human capital, infrastructure or – highly asymmetric – access to business development and financial services (IEG 2008; Drachenfels/ Krause/ Altenburg 2008). Unfortunately, there is not much empirical evidence on this matter. The present study tries to contribute to this question by investigating the relative importance of the RBE as compared to further factors for the case of Mozambique.

Finally, the evidence from the econometric research regarding the effect of Doing Business-style reforms of the RBE on private sector development and growth is inconclusive (for a more thorough discussion, including papers that find a positive relation between the RBE and private sector development or economic growth, see Section 4.2.2). E.g. Commander and Svejnar (2007) do not find much robust evidence that the Doing Business indicators have an influence on firm performance, and Commander and Tinn (2007) do not find any evidence that the Doing Business indicators are robustly related to GDP growth. Moreover, in their review of the empirical case study literature, Altenburg and Drachenfels (2006) find little support for the claim that deregulation enhances private sector development.

Conclusion

Both approaches have their strengths and weaknesses. Altenburg and Drachenfels (2008b, 53) therefore recommend an integrated approach to private sector development in Sub-Saharan Africa, which corresponds to

the advice given in United Nations Economic Commission for Africa's (UNECA) report "Unleashing the Private Sector in Africa" (UNECA 2005). Such an integrated approach combines the neo-classical creation of an enabling environment for *all* businesses with the aid of 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.

3.4 Conclusions regarding the regulatory business environment

The quality of the RBE lies in the focus of the recently dominant Doing Business approach to private sector development. The key postulates of the Doing Business approach can be summarised as follows:

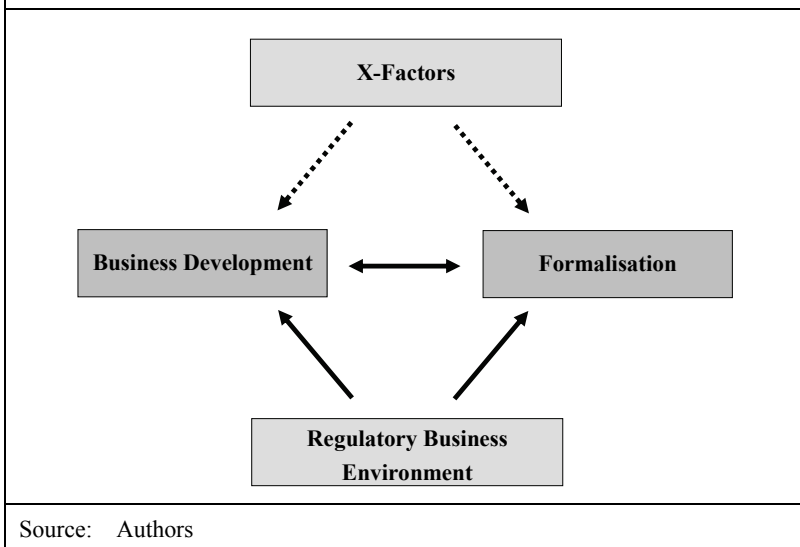
- Extensive government regulations hamper the formation, registration and development of private enterprises and therefore reduce rather than increase economic development and welfare.
- The key role of the state is to shape the RBE in a way that formal business regulations (including taxation) entail a minimum of private costs for enterprises and a maximum of security of formal private property and contractual rights.
- Selective policy interventions distort markets and often harm economic development.

The two main criticisms of the Doing Business approach are that (i) apart from regulations aiming at securing and enforcing private property rights, it does not account for the social benefits of business regulations, and that (ii) the focus on the RBE is too narrow to capture all those factors that together make up an environment conducive to private sector development and inclusive growth.

4 Literature review on formalisation and business development

There are plenty of scientific studies that provide empirical evidence about factors that influence the performance of the private sector. The 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 (which we call “X-factors” in the following). The reciprocal relationship between formalisation and business development has also been discussed in literature.

Figure 3: RBE, X-factors, formalisation and business development



This chapter reviews the existing empirical literature on the following relationships (see Figure 3):

- The relationship between the RBE and formalisation (Section 4.1)
- The relationship between X-factors and formalisation (also Section 4.1)
- The relationship between the RBE and business development (Section 4.2)

- The relationship between X-factors and business development (also 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-chapters. 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 section first discusses the meaning of the term “formalisation”. It then goes on to review the existing empirical literature, especially about Sub-Saharan Africa, regarding the relationship between the RBE and formalisation and between X-factors and formalisation of enterprises.

4.1.1 The term “formalisation”

The issue of formalisation is quite complex, and 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-Khasnabis / Kanbur / Ostrom 2006, 9).

The term “formalisation” is closely related to the term “informal sector”. Therefore, we discuss the phenomenon of the informal sector in the first place. There are many different concepts and definitions of the “informal sector”. According to Chen (2004, 5), the term was coined at the beginning of the 1970s by Hart (1973). However, until today the research community has not come up with a clear definition of what exactly the term 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 economy”,⁹ which are summarised in Table 2.

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

Table 2: Old and new views of the informal economy	
Old view	New view
The informal sector is the traditional economy, which 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 small-scale producers.	It is made up of a wide range of informal occupations – both ‘resilient old forms’ such as casual day labour in construction and agriculture and ‘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.

Table 2 (cont.): Old and new views of the informal economy	
Old view	New view
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 one or more of the following characteristics is typically attributed to the “informal sector”:

The informal sector consists of self-employed persons and enterprises that

- employ a small number of employees, who are often family members and have a low level of schooling,
- use simple production technologies and techniques,
- perform labour intensive activities,
- are exposed to strong competition,
- lack any form of social security, and / or
- do not possess a formal registration, permit or licence for their business activity and/or generally evade business 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 (formal registration, permit, license etc.) and (human) capital intensity of the technology used (more than a certain threshold amount of physical and/or human capital per worker) (Bigsten / Kimuyu / Lundvall 2004, 704).

For the purpose of the empirical investigation in Mozambique reported in this study, **we use a definition of formality based on the legal status of the enterprise** with respect to the areas (i) registration/ licence, (ii) labour regulation, (iii) tax regulation (see Chapter 5.5). Hence “formalisation” for

us means the process through which an enterprise becomes compliant with the laws and regulations in the aforementioned areas. Kenyon (2007a, 3), too, prefers a legalist definition when he states 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”.

Mirroring the different views on what the defining elements of the informal sector are, there are different views on what determines formalisation. According to Djankov et al. (2002b, 1), enterprises formalise when benefits outweigh the costs of formalisation. Table 3 gives a general overview of costs and benefits of formalisation from the entrepreneur’s perspective.¹⁰ The Doing Business approach puts emphasis on the costs associated with business regulations as the main obstacle for formalisation of businesses. 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).

From a neo-structuralist perspective, the fact that many small enterprises and self-employed people in developing countries do not formalise is just a reflex of the structural handicaps these mostly “necessity-entrepreneurs” are faced with (Mead 1994; Altenburg / Eckhardt 2006, 19–22). They are typically trapped in a vicious circle in which low skills, low capital formation, low productivity and low returns on investment reinforce one another and in which the cost of red tape may not be the most relevant obstacle for formalisation. Taking such a perspective, one would argue that the examples for costs and benefits listed in Table 3 will be more or less relevant for real-world formalisation decisions, depending on the informal firm’s characteristics, like education of the manager, connection with business networks, profitability etc., and depending on the quality and accessibility of public and business development services.

10 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, above all, from a stable legal environment, whereas an agricultural producer would particularly benefit from market information, certification that he meets certain quality standards, and branding (Kenyon 2007b, 2).

Table 3: Costs and benefits of formalisation from the entrepreneur's perspective	
Costs	Benefits
<p>Burdensome government regulations and monetary costs related to starting a business: Time and money spent on the company's registration, obtaining permits and licenses, minimum capital requirements etc.</p> <p>Burdensome government regulations related to the operation of the business: Formal entrepreneurs need to spend much time on fulfilling requirements and submitting documents.</p> <p>Monetary costs related to the operation of the business: Enterprises need to pay taxes (income or corporate tax, Value-added tax (VAT), public services tax etc.) and contributions to social security for their employees.</p>	<p>Enterprises can grow without being afraid to become a target of government inspections</p> <p>Less vulnerable to harassment/ corruption</p> <p>More certainty in the prospects of the enterprise (secure property rights etc.)</p> <p>Access to police and court services in order to enforce contractual rights etc.</p> <p>Easier access to financial services and markets</p> <p>Easier to obtain export permits</p> <p>Participation in SME assistance programmes etc.</p>
Source: Authors. Inspired in Djankov et al. (2002b, 4–9)	

For instance, the cost of a license fee may be negligible for a profitable small informal business but too high for a self-employed street vendor with poor sales. Regarding the benefits of formalisation, these are most obvious when we assume a well-governed state with effective institutions and public services (courts, police) but much less palpable in the context of badly governed states with weak institutions and public services. Moreover, gaining access to the formal financial sector is a plausible incentive for formalisation, given the bankability of the business: Informal money-lenders often take high interest rates, and finance from friends may be unreliable (Djankov et al. 2002b, 9). However, access to a formal bank credit may remain beyond the reach of an illiterate entrepreneur without accounting skills, even though he possesses an official permit. On the other hand, the existence of other sources of finance (e. g. from ethnic or business networks) can reduce the need to apply for bank credit.

4.1.2 Regulatory business environment and formalisation: Empirical evidence

What is the empirical evidence on how the RBE influences the level of formality or the process of formalisation?

One strand of econometric research has been inspired by the “cost-and-benefit model” of formalisation briefly outlined above, although it has very much centred on the costs of regulation rather than on the benefits of formalisation. These studies – mostly authored by scholars linked to the Doing Business team of the World Bank – typically perform cross-country regressions with variables measuring the costs of formality on the one hand (start-up costs, taxes, costs associated with complying with employment regulations etc., such as measured in the Ease-of-Doing-Business-Index), and the level of informality in an economy on the other hand. For instance, the Doing Business project reports a strong correlation between the value of the Ease-of-Doing-Business Index and the size of the informal economy (World Bank / IFC 2006a, 5–6) as well as between the Employment-Law Index and the size of the informal economy (World Bank / IFC 2004, xii). Similarly, Djankov et al. (2002a) find in their cross-country regression analysis that heavier regulation of business entry is associated with a larger unofficial economy, and Botero et al. (2004) find some evidence that more protective laws regarding the collective relations between labour unions and associations of employers are correlated with a larger unofficial economy. Finally, Djankov et al. (2008) report that corporate tax rates are positively associated with the size of the informal economy (negatively associated with economic growth).

These studies provide some evidence for an association between the cost of regulation and the level of informality. However, one should be careful when interpreting these results as supporting the hypothesis of a causal relation. Most of the aforementioned papers use macroeconomic indicators and pure cross-country regressions that cannot provide much support for causal inference due to their omission of variable and simultaneity problems (Eifert 2008, Section 5.3).

There is less evidence for a strong influence of regulatory costs on formalisation from papers using enterprise-level data and from the case study literature. Using enterprise-level data, Stel, Storey, and Thurik (2007) find no evidence that the number of procedures or the time and cost needed to

start a business have a significant effect on start-up rates. Bruhn (2008) analyses the impact of reforms that simplify business registrations in Mexico. Although she reports several positive effects, like an increase in business registrations and employment as well as a drop in consumer prices (as a consequence of an increase in competition), the author finds no evidence that the simplified registration procedures induced informal firms to formalise. Altenburg and Drachenfels (2008b, 24–26) review the case study literature on Sub-Saharan Africa and state that measures to simplify business regulations in several African countries have so far not been shown to induce formalisation. In their case study, Lund and Skinner (2003, 10) analyse the informal economy in South Africa. One of their main findings is that regulation indeed matters for formalisation and that it needs to be transparent and simple to encourage informal enterprises formalisation.

4.1.3 Other relevant factors and formalisation: Empirical evidence

Empirical evidence substantiates the assumption that besides the RBE, additional “X-factors” play a role for the formalisation of businesses. These factors include:

- Education
- Information
- Ethnicity
- Age
- Corruption

Using results from enterprise surveys, Bigsten / Kimuyu / Lundvall (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 business case studies from Zimbabwe, the transition from an informal to a formal business seems to “depend on the ability and character of the owners”, including e.g. “the ability to forge links with larger firms and governments departments” or the “ambition and vision” of the owner.

Moreover, it seems to be important not only how high 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).

In the aforementioned article, Bigsten / Kimuyu / Lundvall (2004, 711) find that “*ethnicity [...] has a strong influence on the choice of formality status*” in the Kenyan manufacturing sector. 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 / Kimuyu / Lundvall 2004, 711). Besides, owners and managers of formal firms were usually older than those of the informal firms.

In addition, corruption is seen as a major factor that hampers formalisation. There is a link between “*decreases in corruption and increases in the size of the formal economy*” (Organisation for Economic Co-operation and Development [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, considerably less empirical research has been done on the determinants of formalisation than on the determinants of business development.

4.2 Business development

This section first explains the meaning of the term “business development”. It then goes on to review available empirical literature (especially on Sub-Saharan Africa) regarding the relationship between the RBE and business development as well as the impact of X-factors on business development.

4.2.1 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 ones are certainly enterprise growth in terms of turnover and employment. The bulk of the available empirical investigations focus 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 whether the business has moved to a better location, extended its work space or improved its working conditions through investments in building. Moreover, there are subjective factors that individual entrepreneurs may perceive as signs of positive business development, including e. g. higher-quality services or a more favourable work-life balance. Those factors can not be specified, as they may differ from entrepreneur to entrepreneur.

Before reviewing the empirical literature on the influence of the RBE and other factors on (enterprise) growth, the term “growth” will be discussed briefly. Within the literature on private sector development one has to distinguish between two very different conceptualisations:

- 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 drive the growth of individual enterprises in terms of turnover and employment.

With regard to our research question, which looks at the development of MSMEs, the second conceptualisation is the relevant one. However, literature focusing on GDP growth is also useful, as it adds to our understanding regarding the influence of the RBE and X-factors.

Why do some enterprises grow while others do not? This question is at the core of business growth theories. 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 a non-growth orientation may 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	I	II
There are different size levels and types of SMEs. There is no automatic "passing through" from level 1 to level 2 and further.	There are external reasons that support or hamper the transformation from a "level 1"- to a "level 2"-type company.	There are internal reasons that may explain why a company remains on "level 1", while the environment would permit it to pass on to "level 2".
Dynamic approach	III	IV
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.	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.	During the growth process, 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 Doing Business approach for private sector development, and thus focuses on the influence of external factors on the development of MSMEs, fields I and III are particularly interesting for us. The factors addressed in fields II and IV are more in line with the neo-structuralist approach that recommends targeted interventions to overcome internal shortcomings (see Chapter 3.1).

4.2.2 Regulatory business environment and business development: Empirical evidence

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 (see also the review in 4.1.2). As growth is a crucial indicator for business development, most of the literature reviewed analyses the relationship between business regulations and GDP or enterprise 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 give an overview of the literature that finds evidence for a positive impact of institutions (including the RBE) on growth. Analysing a large sample of 80 to 140 countries, Rodrik, Subramanian and Trebbi (2004) 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 level of rule of law promotes growth but also the quality of democratic institutions.¹¹

The authors of the Doing Business reports affirm that the categories included in the Ease-of-Doing-Business Index have a significant impact on the performance of the private sector. Djankov, McLiesh and Ramalho (2006) use the Doing Business data base to perform a cross-country regression analysis, and they find a significant negative effect of level of business regulations on GDP growth. The authors conclude that lessening business regulations is a powerful tool to boost economic growth.

11 Butkiewicz / Yanikkaya (2004) refer to existing empirical evidence that suggests that 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 estimation technique.

Beck, Demirgüç-Kunt and Levine (2003) use similar core categories as indicators for the business environment. In their cross-country regressions with enterprise-level 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).¹²

Eifert (2008) uses panel data and applies a more sophisticated estimation technique in order to deal with some of the typical methodological problems of the aforementioned cross-country regressions (omitted variables, simultaneity – see also 4.1.2). The author finds little or no significant effect of the Doing Business indicators on investment and economic growth rates when the entire sample of 94 countries is used. When the sample is split up into poorer and richer countries and into better governed and less well governed countries, he reports fairly robust significant positive impacts of Doing-Business-style regulatory reforms in relatively poor countries (conditional on governance) and relatively well-governed countries (conditional on income) (Eifert 2008, Section 5).

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 private sector development in five post-communist countries. They find that secure property rights are fundamental for reinvestment of profits and thus for enterprise growth. Moreover, in their sample weak property rights discourage firms from investment, even when bank loans are available. Djankov et al. (2008) analyse the effect of the effective tax rate paid by a model company on the aggregate investment rate of the economy and on entrepreneurship (number of businesses and rate of new business registration) and find a statistically significant negative effect of the tax rate.

Other authors question the importance of the RBE for growth and thus the significance and accuracy of the above mentioned literature.

Commander and Svejnar (2007), for example, analyse a large sample of firms with a view to the severity of business environment constraints faced

12 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.

by them. They criticise that much of the empirical literature on business regulations has not adequately addressed the methodological challenge this issue poses (see above). They conclude that few of the factors making up the RBE retain explanatory power once the methodology is adjusted. Commander and Tinn (2007) test the explanatory power of the Doing Business indicators for set of variables of interest (GDP growth and sales per worker among others). They do not find robust evidence for a significant correlation of the performance variables with the Doing Business indicators with the expected sign.

Altenburg and Drachenfels (2008b) are sceptical about the potential of RBE reforms to promote private sector development. Based on the available case study literature on 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 entirely 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 note that property titling programmes have only had a minor positive impact on access to credit.

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 involved in 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”.¹³ 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.

13 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.

Last but not least, Nyamu-Musembi (2006) scrutinises the link between secure property rights and economic productivity. At least for the African context, she questions the claim that secure property rights improve entrepreneurs' access to credit¹⁴ and argues that empirical studies in Africa have not found evidence on this correlation.

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

4.2.3 Other relevant factors and business development: Empirical evidence

A lot of research has been done 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 in Mozambique. 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 (e.g. Calderón / Servén 2004). This includes bad transportation assets, unreliable electricity and water supply, and the lack of adequate telecommunication services. According to the study by Altenburg and Drachenfels (2008b, 37), the lack of adequate infrastructure is one of the major challenges for private sector development in Sub-Saharan Africa.

Level of education is another factor that is frequently mentioned as a significant determinant of enterprise performance. Biggs and Shah (2006) reveal, in their analysis of the role of private support institutions on SME

14 See for example de Soto (2000).

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).¹⁵ Yet how strong the impact of education is compared to the impact of the RBE is a matter of it is controversy. Djankov, McLiesh and Ramalho (2006), on the one hand, do not deny the positive influence of education on growth. Their cross-country analysis shows that both improvements in primary school enrolment and improvements in secondary education increase growth rates. According to the authors, however, the impact of improving the RBE is stronger (Djankov / McLiesh / Ramalho 2006, 4). Altenburg and Drachenfels (2008b, 36), on the other hand, identify shortage of skilled workforce as a 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, while the two statements are not necessarily totally contrary, they do indicate a certain degree of controversy.

In addition, HIV/AIDS is a serious challenge to private sector development, 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 et al. 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, 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 et al. (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-

15 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 with a focus on manufacturing enterprises in Sub-Saharan Africa.

Saharan Africa, and in fact they find 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. The work of Fafchamps (2004) on the role of business networks in Sub-Saharan Africa corroborates these findings.

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 domestic markets. Moreover, there is some empirical evidence from developing countries that indicates that learning-by-exporting may lead to increased productivity (Wolf 2007, 392). Thus it is conceivable that export diversification leads not only to growth of per capita GDP but also to 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 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.

Finally, in their econometric analysis with firm-level data from 80 countries, Ayyagari, Demirgüç-Kunt and Maksimovic (2006) find that the most binding constraints for enterprise growth are not business regulations but rather obstacles related to financial as well as political instability and crime.

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 two sets of factors are relevant for the development of MSMEs.

4.3 Interrelation between formalisation and business development

We assume that there is a link between the two key elements formalisation and business development themselves. Some researchers see formalisation as necessary for businesses to grow and succeed (Kaufmann / Parlmeyer 2000, 11). The researchers of the Doing Business team of the World Bank argue that lessening regulations will foster the formalisation and subsequently the growth of these firms (Djankov et al. 2002b). For example, thanks to formalisation entrepreneurs gain better access to finance (e.g. lower interest rates), which allows them to invest, attract more clients and increase turnover and profits.

But the opposite relation – an enterprise will formalise because it has reached a certain size and a certain turnover – is also entirely 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). Moreover, an enterprise with a certain size will no longer be able to hide 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 general level of economic development and formalisation.

From a national perspective, the informal economy implies both benefits and costs for society. On the one hand, the informal economy offers job opportunities in particular for the poorer population and enables businesses to operate 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). In this context it is important to keep in mind that – even if the government were striving to reduce the cost of formality to a supposed “optimal level” – the cost of formality in such an optimum would not equal zero for two reasons. First, a certain (private) cost of regulation is necessary to enhance social welfare (e. g. taxes to finance the courts etc.). Second, certain costs of formality are rooted in poorly developed capabilities on the part of

entrepreneurs (filling in even a simple form may constitute a [prohibitively] high cost for an illiterate entrepreneur; see also discussion in 4.1.1).

On the other hand, the informal economy also has negative implications for the overall economy. The tax evasion associated with informality 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 / Kimuyu / Lundvall 2004, 713). As a consequence, lack of resources and of public goods negatively affects 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 needs a business-friendly environment for development.

However, sufficient tax revenues do not guarantee that governments will use them effectively and wisely to provide the public goods needed for business environments that support private sector development. Kenyon (2007b, 1) sees the informal economy as a reaction to state failure. From his point of view, “informalisation” becomes a “coping mechanism” in response to a corrupt public service 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 and working hypotheses

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, ethnic and business networks, corruption). Our intention was to gain by this means evidence on the relative importance of the RBE and the X-factors in Mozambique.

In the following we formulate some working hypotheses based on the main arguments and evidence regarding the links of the triangular relation of our research question:

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

Ad 1. It is assumed that the RBE constitutes one key determinant for the formalisation of enterprises; it can foster or hamper it. If the costs associated with compliance with formal regulations regarding “starting and closing a (formal) business”, “employing workers”, “paying taxes” etc. 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” etc., firms will 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 as well as government effectiveness and corruption, are likely to 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-factors 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. We assume that there is a reciprocal relation between formalisation and MSME development. On the one hand, it is assumed that formalisation is a consequence of the size and the growth dynamics of an enterprise. The first argument is that 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 for-

malise may 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. the courts) than small enterprises do.

On the other hand, it is plausible that formalisation is a necessary precondition for business development. As discussed in Section 4.1, informal enterprises do not develop as easily as formal enterprises do. For example, 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 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 continuous 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

- outline the historical background for private sector development in Mozambique (5.1),
- briefly characterise the MSME sector and the informal sector (5.2),
- provide an overview of studies and indicators that assess the RBE and the 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 by dramatic political changes and armed conflicts. After twelve years of guerrilla war, the Portuguese colonial government ended formally with the independence of Mozambique in 1975, and the former liberation movement FRELIMO (Frente da Libertação de Moçambique) took over government. During the post-independence period, FRELIMO adopted a centrally planned economic system. Only two years after independence a long-lasting civil war started in 1977 between RENAMO (Resistência Nacional Moçambicana – sponsored first by the Rhodesian and later and the South African government) and FRELIMO. Reforms during the 1980s and the signing of the peace treaty in 1992 created the basis for Mozambique's transformation into a market-driven economy and multi-party democracy. The quotation in Box 1, taken from a World Bank report, provides a brief overview of the economic history from independence to 1995.

**Box 1: Overview of the economic history of Mozambique:
From independence to 1995**

“1.1 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.

1.2 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 [sic!], chemicals, and textiles), industrial

**Box 1 (cont.): Overview of the economic history of Mozambique:
From independence to 1995**

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. [...]

1.3 The Economic and Social Rehabilitation Program [.] 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. [...]

1.6 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.”

Source: World Bank (1995, 1–2)

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, Mozambique has been able to achieve stable economic growth averaging 8.5% per year between 1996 and 2005 (EIU 2008, 33). Table 5 gives an overview of important macroeconomic indicators for the period 2002 to 2008.

Table 5: Macroeconomic indicators of Mozambique									
Year	2002	2003	2004	2005	2006	2007	2008*		
Nominal GDP (US\$ bn)	4.1	4.8	5.9	6.6	7.0	7.8	11.9		
GDP per capita (US\$ at PPP)	n.a.	n.a.	630	683	749*	807*	871		
Real GDP growth (%)	8.2	7.8	7.5	7.7	8.5*	7.0*	6.5		
Consumer prices (end-period; %)	16.8	13.4	9.1	11.9	9.4	10.2	6.2		
Population (m)	18.7	19.1	20.1	20.5	21.0	21.4	21.8		
Exports of goods fob (US\$ m)	809.8	1,043.9	1,503.9	1,745.3	2,381	2,412	2,466		
Imports of goods fob (US\$ m)	1,476.5	1,648.1	1,849.7	2,242.3	2,649	2,811	3,061		
Current-account balance (US\$ m)	-869.1	-816.5	-607.4	-760.6	-773	-795	-1,022		
*) EIU estimates; n.a. = not available									
Source: EIU (2007; 2009)									

In 2008, the state budget showed a deficit of 129% (Assembleia da República 2007b, 3). According to the African Economic Outlook 2008, official development assistance (ODA) covered 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 recognise that the level of human development is still very low. For 2007, the country achieved a Human Development Index value of 0.402, occupying rank 172 out of 182 countries (United Nations Development Programme [UNDP] 2009; life expectancy at birth is 47.8 years and the adult literacy rate is 44.4%).

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) and the Ministry of Industry and Commerce (Ministério da Indústria e Comércio 2007) – which is based on enterprise size. According to this definition, MSMEs employ between one and 99 employees, with enterprises between one and four employees being 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 the GDP and employ 42.9% of employees in the formal sector (Ministério da Indústria e Comércio 2007, 34–35). These numbers emphasise the high economic relevance of MSMEs (see table 6).

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).

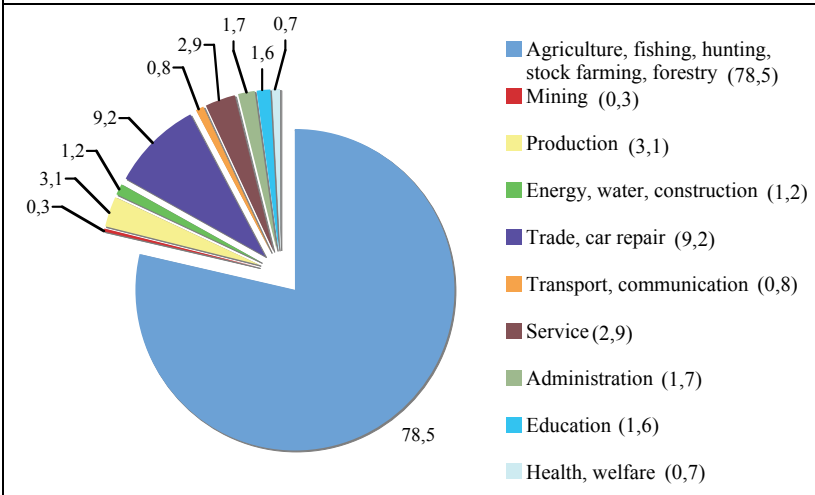
Table 6: Relevance of micro, small and medium enterprises			
	% of total enterprises	Share of GDP in %	Employees in %
Micro (1 to 4 workers)	79.9	40.1	14.1
Small (5 to 9 workers)	9.6		5.8
Medium (10 to 99 workers)	9.1	12	22.9
Large (> 99 workers)	1.4	16.5	57.1
Source: Ministério da Indústria e Comércio (2007, 34–35), based on data from the Enterprise Census (INE 2004a)			

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 [Foreign direct investment], economic activity in the rest of the private sector is well below potential*” (EIU 2007, 6).

The economically active population encompasses 91.8% of the population above 15 years of age (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).

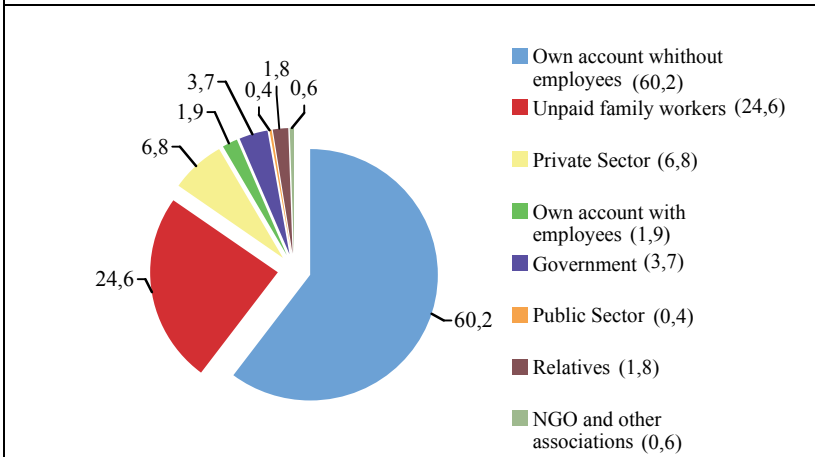
Informal working conditions dominate the labour market. Only 10.9% of the economically active population is formally employed, 6.8% by the private sector and 4.1% by the government and the public sector, respectively. 60.2% of the economically active population is self-employed and 24.6% are unpaid family 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).

Figure 4: Distribution of the working population by economic sub-sector 2004/05 (%)

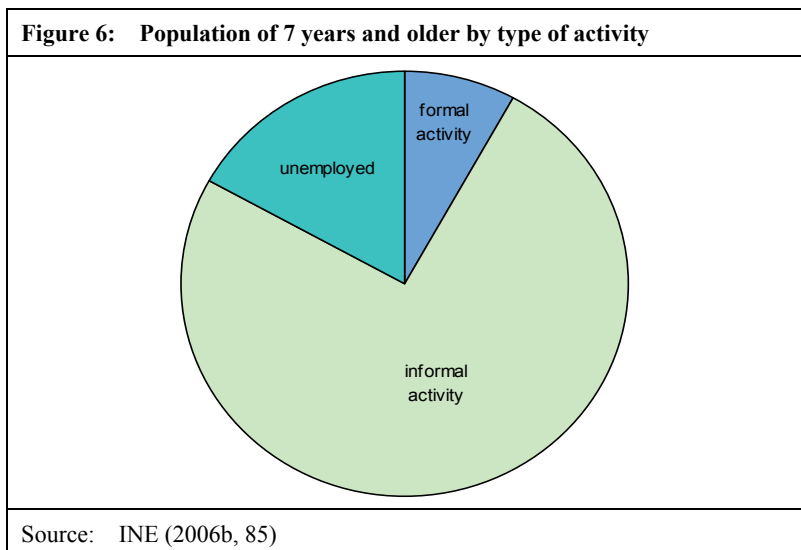


Source: INE (2006a, 28)

Figure 5: Distribution of the working population by position 2004/05 (%)



Source: INE (2006a, 26)



According to a survey carried out by INE (2006b, 85) 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). In 1997, 28% of children between the age of seven and fourteen years were working (INE s. a.).

5.3 Investment climate and regulatory business environment in 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.

Overall, Mozambique's international competitiveness is very low. On the Global Competitiveness Index (GCI) 2007/2008 Mozambique ranks 128th out of 131 countries (World Economic Forum 2008). Furthermore, Mozambique is classified as a factor-driven economy. The GCI highlights

three of the most problematic factors for doing business: lack of access to finance, burdensome bureaucracy and corruption.

The results concerning the assessment of the narrower concept of RBE paint a more optimistic picture than the competitiveness assessment. The Doing Business report 2010 benchmarks Mozambique at rank 135 out of 183 countries. The rating varies between rank 41 for “protecting investors” and rank 159 for “dealing with construction permits” (formerly “dealing with licences”). Since 2004 the indicators that measure the cost and effort necessary to open a formal business according to *de jure* regulations have improved significantly: e.g. in 2004 the related procedures took 153 days, while in 2009 they take 26 days (World Bank / IFC 2004; 2009).

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 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). As regards business regulations, the report states that during the period from 1996–2006 little progress was made in reducing administrative barriers. The authors found that most problems with licensing occurred at the central government level, not at the municipal government level (FIAS 2006a, 87; for more details on the responsibilities of government levels see 5.4.3), 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, including missing legislation regarding the use of fees and fines and missing administrative provisions to govern a uniform and detailed application of the decrees,
- the legal framework was poorly implemented,
- the inspection regime was inappropriate.

The authors conclude that many of the key constraints identified in past surveys of manufacturing firms are still in place: lack of access to and high cost of finance, uncertain policy environment and regulatory as well as

administrative barriers, inadequate infrastructure (electricity, transportation) (FIAS 2006a, 35).

A business climate survey undertaken in 2006 shows that governance factors (e. g. policy stability, quality of 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 Development Cooperation (KPMG et al. 2007). Building on this survey data, Kaufmann and Krause (2008) find that there are important sub-national differences in the quality of the investment climate, when comparing the provinces of Manica, Sofala, and Inhambane.

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 3: Publications on the investment climate and RBE in Mozambique	
Publication	Basic information provided
Games, D. (2007): Mozambique: the business view: results of a survey on the business environment and investment climate, Johannesburg: Business Leadership South Africa; online: 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 (2007b): Doing Business 2008: Mozambique: A Project Benchmarking the Regulatory Cost of Doing Business in 178 Economies, 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

Table 7 (cont.): Publications on the investment climate and RBE in Mozambique	
Publication	Basic information provided
	<ul style="list-style-type: none"> - 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, Washington, DC; 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

Table 7 (cont.): Publications on the investment climate and RBE in Mozambique	
Publication	Basic information provided
<p>Borgarello, A., D. Marignani, Z. Mavura (2004): What hinders small and medium entrepreneurs in Mozambique?, Maputo: Ambasciata d'Italia; 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>Nasir et al. (2003): Mozambique Industrial Performance and Investment Climate 2003, Maputo, Washington, DC: CTA, World Bank</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 to and 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, Washington, DC: World Bank; 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 burdens/ administration
<p>Source: Authors</p>	

5.4 The policy and regulatory framework for MSMEs

In order to contextualise the existing regulations for MSMEs in Mozambique, in what follows we first outline Mozambique's overall economic policy strategy and the role of regulatory reform and SME promotion in this context, as stated in the relevant official policy documents (5.4.1). We then go on to outline, very briefly, the public administration system (5.4.2) and to describe the specific regulations for MSMEs (5.4.3).

5.4.1 The strategic economic policy framework

The Mozambican government operates on the basis of a mid-term planning period of five years. The **Poverty Reduction Strategy Paper 2006-2009** (PARPA II) sets the mid-term framework for subsequent policies, including e.g. Strategic Sector Plans and the Mid Term Budget Strategy (República de Moçambique 2006). Annual operation is based on the Economic and Social Plan (PES) and the state budget. Whereas the first Poverty Reduction Strategy (2001-2006; PARPA I) put strong emphasis on social policies and social expenditure, PARPA II acknowledges the importance of economic growth for poverty reduction and contains some reference to economic policy areas, in addition to social policies. Both PARPA II and the PES 2007 emphasise improvements to the RBE, as shown by 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 2006, 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 companies ● 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, 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 set incentives for a transition from the informal to the formal sector;
- Registration and licensing services offered by the state for symbolic fees;
- Facilitation of credit access;
- Integration of the informal sector in dialogue forums between the public sector and the private sector.

As part of the **Employment Strategy** (Conselho de Ministros 2006b), in 2006 the Government of Mozambique defined the objective of supporting the informal sector with the aim of enhancing:

- infrastructural support for businesses development;
- access to productive resources;
- business development services and training;
- social protection for informal sector operators and employees;
- preparation of a study on the behaviour and the relevance of the informal sector for employment and the national economy.

Finally, 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 implementation of the strategy is the planned creation of an institute for the promotion of SMEs. Figure 7 provides an overview of the SME strategy.

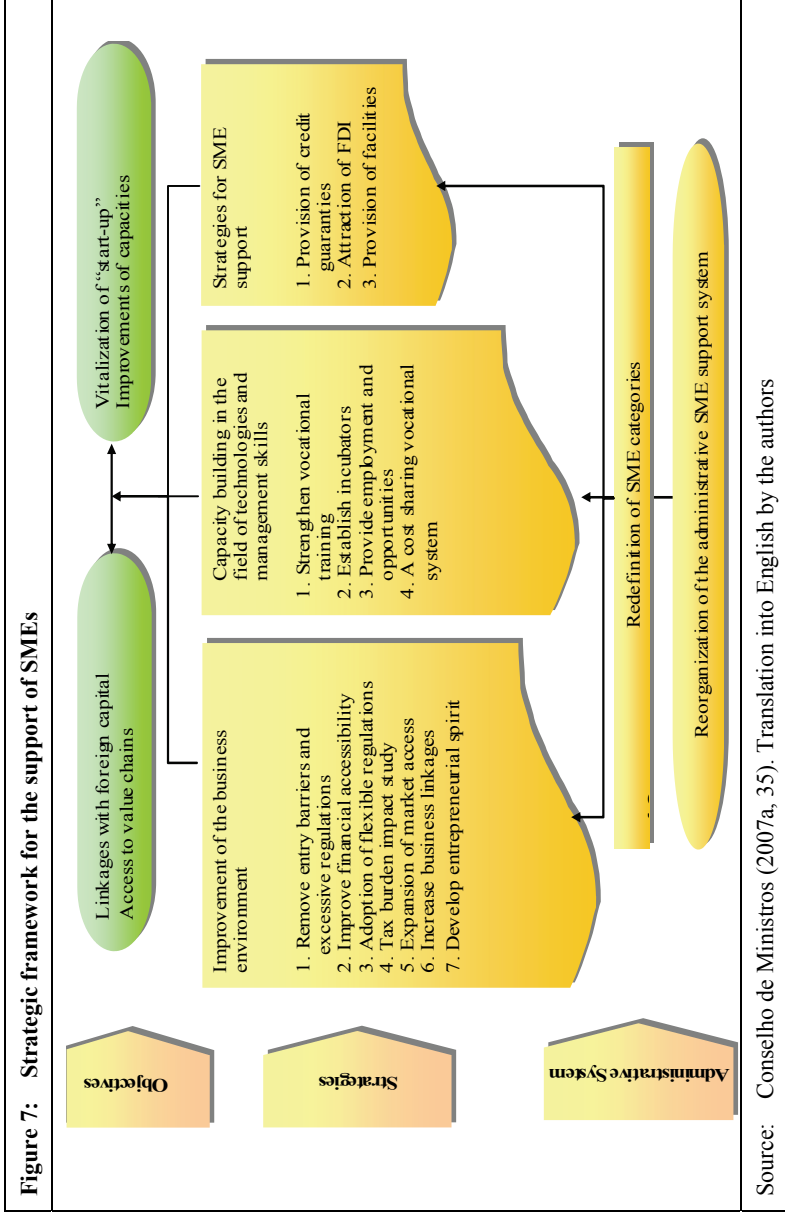
The three strategies described (Business Environment, Employment, SME) are all relatively recent. Most measures are still to be implemented and, therefore, it is difficult to assess their practical relevance today.

5.4.2 The administrative framework

The Mozambican state is rather highly centralised. The actual political-administrative structure goes back to 1978 and was reaffirmed by the Constitution of 1990 (Massuanganhe 2005, 12). The territory of Mozambique is structured into 11 provinces (*províncias*) and 128 counties (*distritos*). The latter are further subdivided into districts (*postos administrativos*), localities (*localidades*) and district capitals (*povoações*). Moreover, urban areas consist of cities (*idades*) and towns (*vilas*) (Assambleia da República 2004, art. 7).

In a somewhat simplified manner, we can distinguish between two types of sub-national government bodies. First, there are the deconcentrated bodies of the national government. Here the national government and public administration are represented hierarchically in each territorial unit as local state bodies (Conselho de Ministros 2005, art. 3). The national president, the national ministers and representatives of the next higher levels appoint the members of local state bodies. The most important layers of government are provinces and counties.

Second, since the start of political decentralisation in 1997, sub-national government bodies with elected representatives have been introduced (Assambleia da República 1997). Actually, there are 43 decentralised government bodies, the so-called municipalities (*conselhos municipais*), which are mainly confined to the urban areas of Mozambique (they include all cities and some towns). Municipalities have elected local



parliaments (*assembleias municipais*) and elected mayors (*presidentes do conselho municipal*).

What follows will explain how and in what respects business regulations, the central government (mainly the national and provincial levels) and municipal governments bear important responsibilities.

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 type of economic activity and the size, location and legal form of an enterprise. In the following we outline the most important regulations for MSMEs located in municipalities and carrying out an activity in the trade or manufacturing sector. The reason why we focus on the trade and the manufacturing sectors is that the empirical investigation concentrates on these sectors. Moreover, we restrict the review of business regulations to 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.

Licensing

In general, any person carrying out a business activity is bound by law to apply for a licence. Responsibilities regarding licensing of enterprises located in municipalities are divided between the municipal government and the provincial (or national) government. Concerning manufacturing activities, the division of responsibilities is defined with reference to the size of an enterprise. Concerning trade activities, the division of responsibilities is keyed to 18 classified types of trade firms (Conselho de Ministros 2003, 475, art. 1).

According to legislation, the municipalities are responsible for licensing:

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

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

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 issued by a provincial government is usually referred to as *alvará*. To obtain an *alvará*, the enterprise must pass a technical inspection, referred to as *vistoria*, that examines whether specific technico-functional conditions and norms concerning sanitation, health, industrial safety, and environment have been met (see Box 2).

Box 2: Steps required to obtain an <i>alvará</i>	
1. Application for licensing	For manufacturing enterprises additional-documentation is required: <ul style="list-style-type: none"> – 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)	

Registration

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

Enterprise registration was simplified on the basis of an update of the Commercial Code and Commercial Registration Code in December 2006 (Conselho de Ministros 2006a; GTZ–APSP et al. 2007). The main improvements are:

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

The registration of a company encompasses the following four steps (Centro de Promoção de Investimentos 2006):

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.

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 for collecting national taxes and checking and

verifying 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*).

Fiscal legalisation on business activities requires entrepreneurs to apply for a tax identification number (*Número único de identificação tributária*, NUIT). 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).

Income of individuals from business activities is subject to IRPS, with increasing rates from 10% up to 32%, depending on the total income of the person concerned.¹⁶ Incomes below the value of two minimum wages are exempt from IRPS payment. Profits of companies and other corporate bodies are subject to IRPC at a rate of 32%.¹⁷ There are simplified procedures for calculating taxes due for IRPS and IRPC.

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

- Exemption from IVA payment is applicable for enterprises that have an annual turnover below 100.000 MTn, that, in addition, are exempt from the need to keep official accounting records (*contabilidade organizada*) and that do not export or import. Invoices issued by enterprises exempt from IVA are not deductible for enterprises operating 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 exempt keeping official accounting records. These enterprises are levied with a tax of 5% on their sales. Invoices issued by enterprises un-

16 Legislation IPRS: Conselho de Ministros (2002a)

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

der the simplified regime are not deductible for enterprises operating under the normal regime.

- The normal IVA regime, with a tax rate of 17%, is compulsory for enterprises with an annual turnover above 250.000 MTn; it allows them to deduct the IVA paid for the purchase of good and services.¹⁸

Official accounting is compulsory for any enterprise with a turnover of more than 1.500.00 MTn per year (Conselho de Ministros 2002b).

Municipal taxes

Municipal taxes have been introduced in the context of decentralisation and apply to the country's 43 municipalities (see above). 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 regulations

Labour legislation in Mozambique is quite complex. For the purpose of this study we would like to highlight the following legal aspects that apply to formal labour contracts:¹⁹

- 1) Protection of employees against dismissal, consisting of the right for compensation in case of dismissal by an employer without just cause.
- 2) A compulsory minimum wage. The Consultative Labour Committee defines the minimum wages for various professional groups (Assambleia da República 2007a, 484).
- 3) Greater flexibility for MSMEs: while heavily restricted for large enterprises, small²⁰ and medium²¹ enterprises may offer fixed-term contracts during the 10 first years of their activity.

18 Legislation of IVA: Conselho de Ministros (1998).

19 Only 10.9% of the economically active population is formally employed (see 5.2).

20 Under labour law a small enterprise consists of max. 10 employees.

- 4) Employers are bound by law to register all employees with the National Institute for Social Security (*Instituto Nacional de Segurança Social*, INSS) and pay a monthly social security contribution.

Responsibility for the application of labour law, and the controls associated with it, rests with the central government (Ministry of Labour) and its deconcentrated state bodies.

One-stop shops

With the purpose of simplifying the bureaucratic procedures faced by enterprises, one-stop shops were introduced in provincial capitals in 2007 (Conselho de Ministros 2007b). Once they are fully installed, these one-stop shops are to 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 for the future. Inspections by the authorities responsible for licensing may be announced, in the case of an “educative purpose”, or unannounced in the case of regular inspections, complaints or detected irregularities (Ministério da Indústria e Comércio 2004, 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).

Municipalities have their own system of inspections with respect to the licences issued and taxes collected by municipal governments. According to FIAS (2006a, 86), municipalities concentrate on the revenue aspect and mainly limit themselves to collecting license fees and taxes.

21 Under labour law a medium enterprise consists of 10 to 100 employees.

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	n.a.			10 MW
	Not-fulfilment of norms concerning sanitation, health, security and environment	n.a.			10 MW
Trade	Commercial activity without authorisation	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 n.a. = not available					
Source: Authors, based on Conselho de Ministros (2003, 14; 2004, 480)					

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 licensing, tax and labour regulations. The following criteria or indicators 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 with 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)

		Levels of formality			
		1	2	3	4
Criteria	The enterprise is registered with the INSS				X
	The enterprise has a NUIT			X	X
	The enterprise has a municipal licence or alvará		X	X	X
Source: Authors					

6 Empirical results: The role of the RBE for formalisation and development of MSMEs in Mozambique

This chapter presents the results of our empirical research with regard to the role of the RBE for the formalisation and development of MSMEs in Mozambique. The basis of these results is the quantitative and qualitative enterprise survey as well as expert interviews carried out between 18 February and 8 April 2008 (see also Chapter 2 for a description of our methodology). 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 interplay of formalisation and business development within the Mozambican context (6.4).

6.1 Sample

6.1.1 Sampling strategy

Given the limited time and financial resources of the research project, and given the limited quantity and quality of information available on the total universe of MSMEs (including both informal and formal) in Mozambique,

we opted for a purposive sampling procedure (nonprobability sampling – this implies that our sample is not representative, in the sense of probability theory, for the universe of MSMEs in Mozambique).²² The purposive sampling strategy followed four main objectives:

1. To allow the cases contained in the sample to show variability with respect to the two phenomena of interest: level of formality and business development.
2. To include cases representing the whole spectrum of enterprise sizes within the group of MSMEs.
3. To limit the variability of the sectoral composition of the sample to two typical sectors: trade and manufacturing.
4. To enlarge the body of knowledge on the situation of MSMEs in Mozambique in urban centres outside the capital of Maputo.

As far as the first objective is concerned, variability of cases with respect to our two phenomena of interest is essential in order to explore factors that are associated with different levels of formality or business development and that thus can contribute to explaining these phenomena. Since especially (in)formality cannot easily be observed *ex-ante*, we used the following two basic strategies to allow for a variability of cases: First, we included enterprises based on their size (number of workers), making sure that different size classes were represented (see below for the figures) and, particularly, that enough micro and small enterprises were included. This automatically served the second purpose of the sampling strategy. At the same time, we expected that this procedure would allow us to achieve variability with regard to level of formality, as level of formality is likely to vary with enterprise size. Second, we used specific sources of information²³ to identify firms that were likely to be informal in order to compensate for a selection bias towards formal firms – which is common for enterprise surveys that rely (only) on official enterprise censuses for selecting cases.

22 For an overview of probability and nonprobability sampling techniques, see Trochim (2006).

23 (i) Data set of the survey of the informal economy INFOR (INE 2006b); (ii) information given by local business associations on those parts of the town where informal entrepreneurs were to be found.

Trade and manufacturing are typical sectors of activity for MSMEs (see below for more details). We did not want to include additional sectors (like e. g. services) in order to keep variability with respect to this “independent variable” to a minimum. Nevertheless, we wanted to explore whether sectoral affiliation is associated with a firm’s level of formality (or development). For instance, 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.

With regard to geographical location, we focused on Mozambique’s two largest cities, after Maputo: Beira, in the central part of Mozambique (Sofala Province), and Nampula, in the northern part of the country (Nampula Province; see map in annex 4).

The enterprises to be interviewed were chosen using the following sources of information:

- Firstly, we used two data sets of the National Statistical Institute of Mozambique (INE). The first was compiled based on the 2004 census of formal enterprises (CEMPRE; INE 2004a). The second was compiled based on the 2004 survey of the informal economy (INFOR; INE 2006b).
- 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, particularly in the case of informal entrepreneurs, we in addition used snowball sampling, asking entrepreneurs that met the criteria for being included in the sample to recommend others they knew that might also meet the criteria.

As explained in Chapter 2, our enterprise survey used both a standardised quantitative questionnaire with closed questions and a semi-structured qualitative questionnaire with a series of open questions. The same sampling strategy was used for both instruments. In total, 146 usable quantitative interviews and 28 usable qualitative interviews with entrepreneurs were concluded.

6.1.2 Sample composition

This sub-section describes the composition of the *quantitative* sample with respect to the selection criteria enterprise size, sector of economic activity and geographical location as well as with respect to the two phenomena of interest: formality and business development.

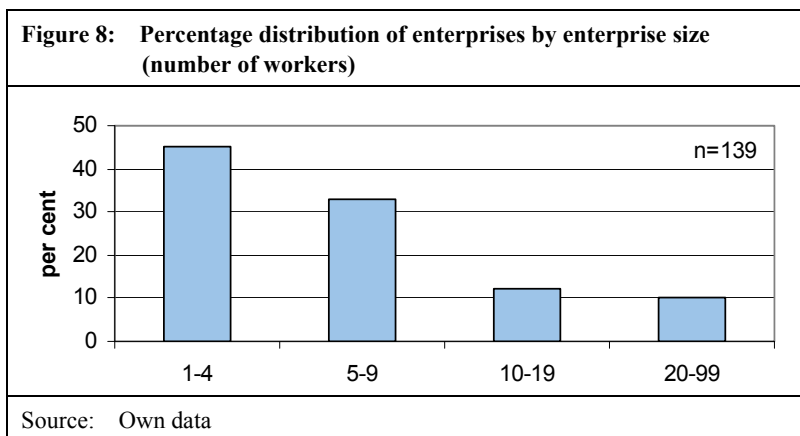
Enterprise size

The rationale for including enterprises from all relevant size classes in the sample – with a focus on the lower end of the spectrum – has already been explained in the preceding sub-section. According to the Mozambican definition, enterprises with 1 to 4 workers are classified as micro enterprises, those with 5 to 9 workers as small enterprises and those with 10 to 99 workers as medium enterprises (see Section 5.2). In order to get a somewhat more differentiated picture, we decided to subdivide “medium” enterprises into those with 10 to 19 workers (smaller medium enterprises) and those with 20 to 99 workers (larger medium enterprises). The following Figure 8 shows the percentage distribution of enterprises contained in our quantitative sample by size class. Micro enterprises are the most widespread enterprise class in the sample (62 cases, making up 45 %), followed by small enterprises (46 cases, making up 33%), smaller medium enterprises (17 cases, or 12%), and larger medium enterprises (14 cases, or 10%).²⁴

Sector

Our research focused on the two sectors trade and manufacturing. Trade is the most important sector in Mozambique in terms of the number of MSMEs: nearly 60% of MSMEs in Mozambique are in the trade sector (INE 2004a). However, the sector is less important when looking at value added: the MSMEs in the trade sector account for merely 23% of the

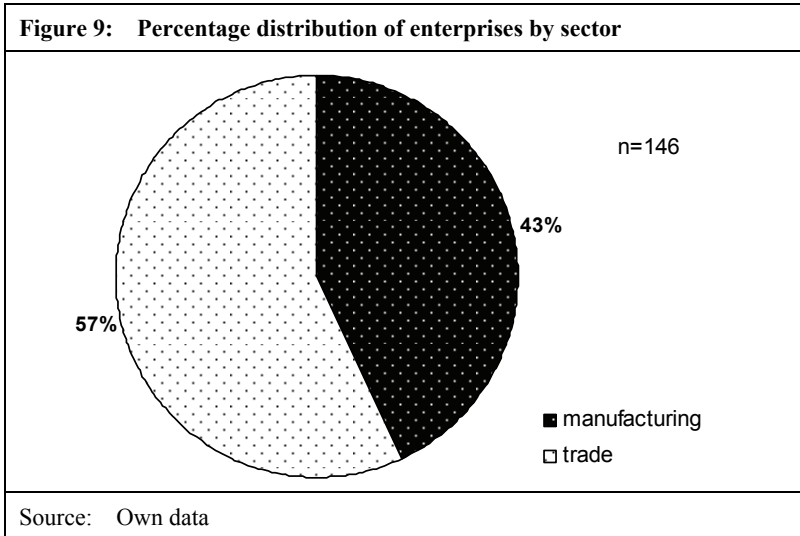
24 Not all interviewees answered all questions, and this generated missing values for some of the variables. This is why the statistics presented for some variables are based on less than the 146 cases contained in the sample. In order to make this transparent, in the respective figures we always report the number of cases underlying the percentage distribution shown.



MSME contribution to GDP (INE 2004a). This is in part due to 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 in spare parts for cars”.

The other sector analysed is manufacturing. On the one hand, the manufacturing sector is smaller than the trade sector in terms of the number of firms: merely ca. 10% of the MSMEs in Mozambique are in the manufacturing sector. But – on the other hand – manufacturing contributes more to value addition: the MSMEs in the manufacturing sector account for almost 40% of the MSME contribution to GDP (INE 2004a). Besides a higher GDP contribution, enterprises from the manufacturing sector show higher investment rates. Within the manufacturing sector, we focused on the sub-sectors “furniture” and “bakery”.

As mentioned above, we expected the level of formality to be higher amongst manufacturing firms than amongst trade firms since the typically fixed nature of production processes as well as the machinery necessary imply that it is more difficult for firms to hide away from inspectors (however, our results do not support this – see below). Within our sample the sectors trade and manufacturing are distributed as follows:



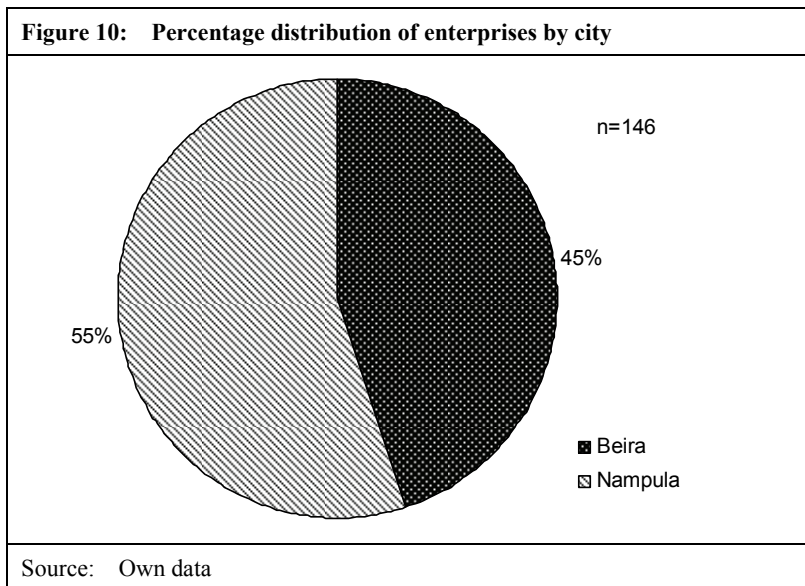
Geographical location

There are remarkable regional differences between the northern, the central, and the southern parts 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, until the very recent inauguration (August 2009) of a bridge over the Zambezi River, the river virtually cut off the north from the centre and the south of the country.

Given the administrative structure of the Mozambican state (see Section 5.4.3), (i) regulations and (ii) the implementation of regulations and sanction procedures may vary from province to province and from municipality to municipality. The central region has a reputation for being less business-friendly. According to an investment climate assessment from 2003, the level of the bureaucratic burden is higher in the centre (e. g. 215 days to register a company) than in the Maputo region (172 days) and the north (167 days; Nasir et al. 2003, 53ff). 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 introduce too many sources of variability. Therefore we chose the cities of Beira, the third largest city of Mozambique, which represents the central region (Sofala province), and Nampula, the second largest city of Mozambique, which represents the northern region (Nampula Province) of Mozambique. These cities are suited for comparison, since both have the same administrative structure – both are municipalities with elected governments (*autarquias*) – and have a similar number of inhabitants (Beira: 436,240; Nampula: 477,900).²⁵

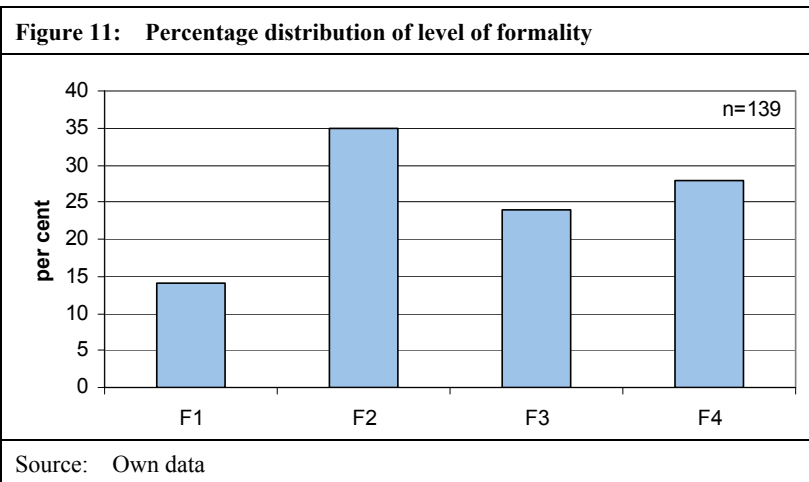
Within our sample cases from the cities Beira and Nampula are distributed as follows:



²⁵ The figures refer to the year 2007 (provisional figures of the 2007 population census). Source: INE, <http://www.ine.gov.mz/censo2007/> (accessed 10 Dec. 2009).

Level of formality

Based on the information given by interviewees on the status of their enterprise with respect to the three criteria of formality explained above (license, registration with the tax authority, registration with INSS), we grouped the cases into four levels of formality – F1 to F4 (see Section 5.5). Of the 139 enterprises that provided information on this matter, 19 were completely *informal* (F1), 39 were completely formal (F4), whereas the remaining cases showed intermediate levels of formality (48 cases F2, and 33 cases F3). The corresponding percentage distribution is shown in Figure 11.



The fact that “only” 14% of the enterprises in our sample are completely informal and do not comply with any of the criteria of formality 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, and these usually operate from home. Typically, they have few to no employees and are less visible. Therefore it is harder to find them, both for inspectors and for researchers. The following section, 6.2, goes further into the analysis of formality.

Business development

In the quantitative questionnaire we sought to capture the development dynamics of businesses by asking interviewees to assess the situation of their business in the present, comparing it to the past (see question 3 in Annex 2). Of the 143 enterprises that provided information on this matter 75 (53%) assessed their present situation as “better”, 16 (11%) as “constant” and 52 (36%) as “worse” as compared to the past. Moreover, we collected information on number of workers and turnover over the past five years (see questions 5 and 7 in Annex 2). However, just as in various other surveys of micro and small businesses, many enterprises did not or could not provide information on their turnover, and information given on number of workers for past years was also scanty – for which reason we decided not to use this information for the analysis. This might be due to the sensitive character of this kind of data. It is quite conceivable that especially entrepreneurs that do not fully comply with tax and labour regulations may be reluctant to provide information on these issues. Moreover, micro and small enterprises, in particular, often do not have professional accounting and therefore lack reliable records on turnover and employment. Section 6.3 enters more into the details of barriers for business development – including both the RBE and X-factors – as perceived by entrepreneurs.

6.2 Results on formalisation

In what follows we first describe the association between the level of formality and certain characteristics of the enterprise or the owner for our sample, based on the data from our quantitative enterprise survey (6.2.1). Then, using in addition the information from the qualitative survey and expert interviews we analyse and interpret the data with respect to barriers to formalisation (6.2.2) as well as incentives to formalise (6.2.3). Finally, we sum up the results and present some conclusions (6.2.4).

6.2.1 Level of formality and business characteristics

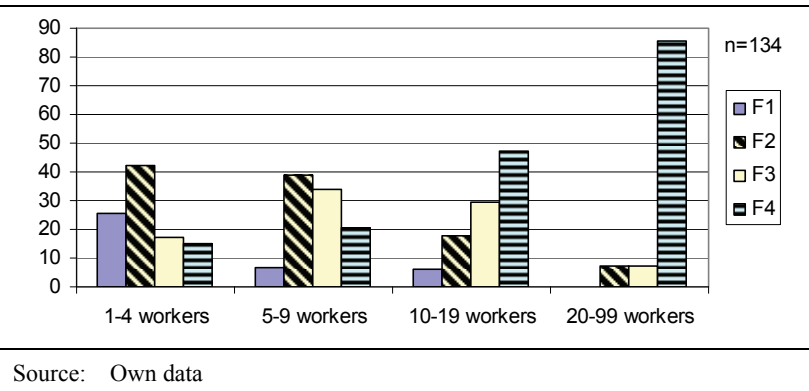
In the present sub-section – which draws on information from our *quantitative* survey – we describe the evidence found on associations between level of formality and some characteristics of the businesses or their owners.

In our quantitative sample there is clear evidence for an association between level of formality and *enterprise size* in terms of number of workers. The more workers a business employs, the more frequently are higher

levels of formality found. As we can see from Figure 12, around one quarter of enterprises with one to four workers are completely informal (F1). This share decreases with an increase in the number of workers, and completely informal firms are even absent in the class of enterprises above 19 workers. Something similar happens with F2, which, while the most frequent level of formality among micro and small enterprises, is much less important among medium enterprises. By contrast, almost 50% of enterprises with 10 to 19 workers and more than 80% of those with 20 to 99 workers are completely formal (F4). The convenient statistical measure of association confirms this picture: the Spearman rank correlation coefficient between business size class and level of formality shows a relatively high value 0.46 and is statistically significant ($p < 0.01$).²⁶

In addition, as is evident from Figure 14, there is a clear association between the fact of having or not having a bank account and level of formality of the firm. While more than 90% of F4-type enterprises have a bank account, the same holds for merely 25% of F1-type enterprises. The available statistical measure for the respective contingency table (Pearson's chi-square: 27.05; $p < 0.01$)²⁷ confirms a strong association of the two

Figure 12: Percentage distribution of level of formality by enterprise size (number of workers)

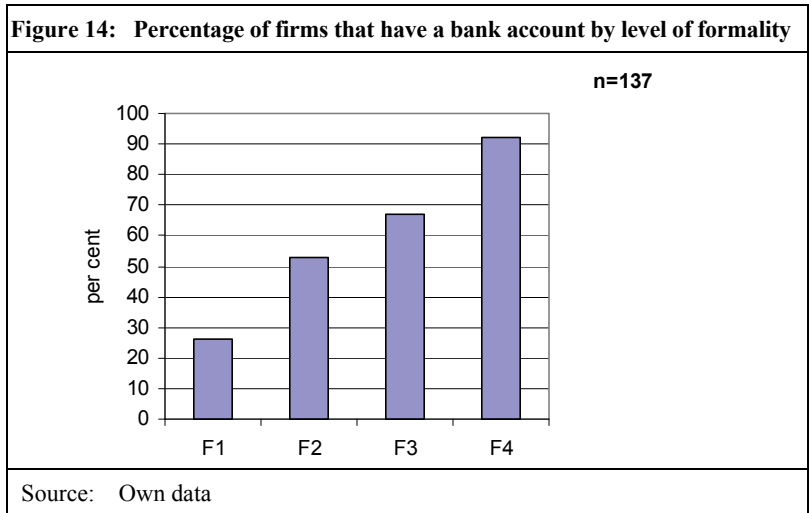
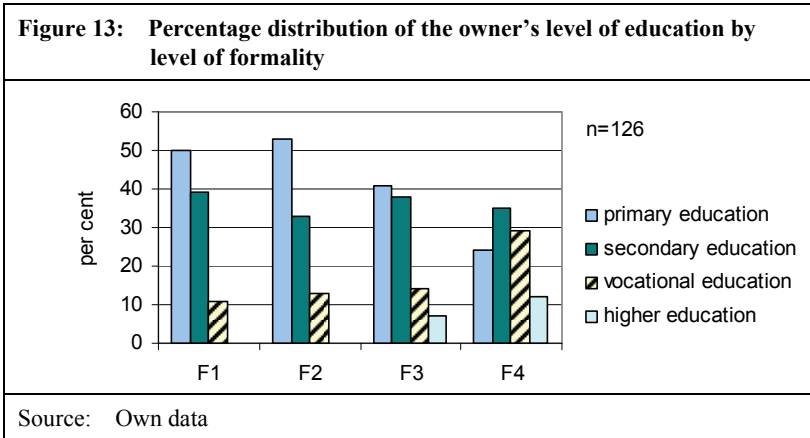


26 Here statistical significance means that the probability of rejecting the null hypothesis of no association wrongly is lower than 0.01. For a technical discussion of the Spearman rank correlation coefficient, see Field (2009, 179).

27 Pearson's chi-square test is conceived for categorical data. For a technical discussion, see Field (2009, 688).

variables. The association is less strong – but still statistically significant – when we replace level of informality with business size class (Pearson’s chi-square: 14.44; $p < 0.01$), suggesting that the fact of having or not having a bank account has more to do with degree of formality than with size of the business as measured by number of workers.

Moreover, in our sample *level of education of the owner* is associated with level of formality of the business (see Figure 13). This is most evident



when we look at the share of enterprises run by owners with a vocational degree (which rises from around 10% for enterprises with level F1 to almost 30% for enterprises with level F4) and at the share of firms run by owners with a higher education degree (while a small portion of the owners of F3- and F4-type enterprises hold such degrees, none of the owners of F1- and F2-type enterprises do). For F1-, F2- and F3-type enterprises the most frequent educational level of the owner is primary education – for F4-type enterprises the most frequent level is secondary education. The Spearman rank correlation coefficient for the two respective variables is 0.29 ($p < 0.01$). Replacing level of informality with business size class yields a coefficient of 0.13, which is not statistically significant. All in all, this indicates that level of education seems to influence the motivation or the capacity of an entrepreneur to formalise (see also below).

Furthermore, we found evidence for an association between *age of the business owner* and level of formality in our sample. Firms owned by older proprietors are more likely to show a higher level of formality than those owned by younger proprietors (the respective correlation coefficient is 0.35; $p > 0.01$). Moreover, we gained some weaker statistical evidence that the *nationality or origin of the owner* (question 29 in annex 2) is linked to the level of formality. Businesses owned by Mozambicans are likely to show lower levels of formality than those with owners of non-Mozambican nationality or origin (Pearson's chi-square: 7.8; $p < 0.05$; this is corroborated by findings from our qualitative survey, according to which it is harder for foreigners to hide away their business from the Mozambican authorities – see below). By contrast, we found no statistically significant association between age of the business owner or nationality/origin of the owner and size of business in our sample.

Finally, we also found some evidence for an association between holding or not holding *membership of a business association* and level of formality (the value for Pearson's chi-square is 9.74; $p < 0.05$), although this evidence was stronger when level of formality was replaced with business size class (Pearson's chi-square: 15.1; $p < 0.01$).

Contrary to what we expected, we did not find an association between economic sector (i.e. trade versus manufacturing) and level of formality for the enterprises in our sample. Moreover, there is no statistical evidence that geographical location (Beira versus Nampula) matters for the issue of formality.

6.2.2 Barriers to formalisation

Some of the characteristics of business (owner) which we found to be associated with level of formality can be interpreted as constituting a barrier to formalisation – e. g. a low educational level of the owner (see more below). In the present sub-section we further explore obstacles to becoming a formal business, looking first at factors related to the RBE and after at other factors. In the following we use information gained in our quantitative and qualitative enterprise surveys as well as information from the expert interviews.

RBE

Licensing

Through our *qualitative* interviews, we found that many entrepreneurs state that the process of getting a licence today is easier and faster than in the past, thanks to reforms enacted by the government, but that, nevertheless, entrepreneurs still perceive the necessary bureaucratic procedures and duties as burdensome. The associated time and monetary cost rather constitute a disincentive to formalisation, and thus businesses with certain characteristics may choose to stay informal in order to avoid this cost (see also 6.2.4). There is also some support from our *quantitative* survey for this interpretation. Question 20 (Annex 2) aims at firms that are *not* registered. Interviewees were asked to choose reasons for not registering from a list of 11 options (multiple answers were allowed). Among completed cases (26),²⁸ the rate of approval “high monetary and time cost for obtaining a licence” was 50% – the second highest rate of approval after “other reasons” (60%), and together with “high taxes and complicated procedures” (50% as well).

Inspections

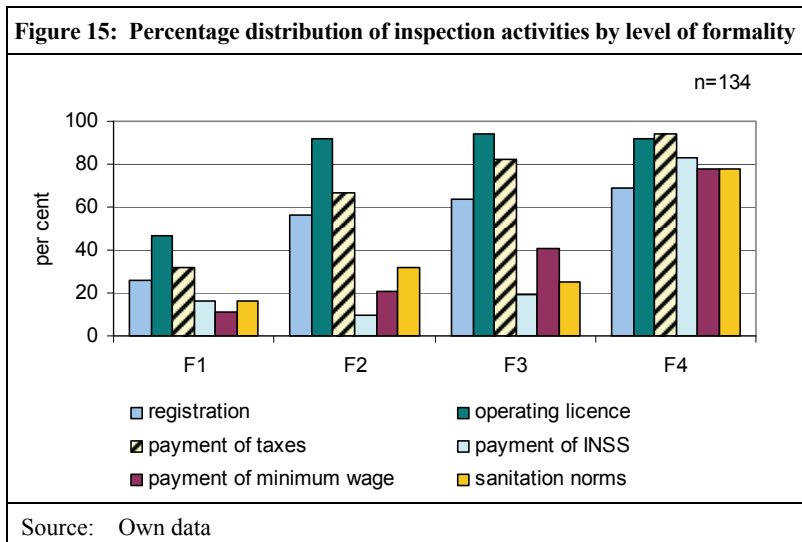
While getting a license mostly means incurring a fixed up-front time and monetary cost,²⁹ the inspections carried out by the respective authorities

28 Since question Q20 aimed at non registered firms only, very few cases (26) completed this question. Due to the small number of respondents, this result has to be interpreted very carefully.

29 This applies above all for licenses granted by the central government (alvará). By contrast, several of the municipal licenses are paid for recurrently (e.g. weekly, monthly or yearly).

result in a recurrent cost for enterprises in terms of time and effort, duties, possibly fines, and in some cases bribes.³⁰ The results of our *qualitative* interviews show that several entrepreneurs – particularly owners of formal and bigger firms – perceive inspections as being carried out in a non-cooperative manner with the objective of detecting an infraction at all costs (which is facilitated by the lack of transparency concerning regulations in place), and, in some cases, with the ulterior motive of applying pressure on firms in order to be offered a bribe. Several of our interview partners reported relatively high frequencies of inspections: every one to two months.

The results of our *quantitative* interviews show that enterprises with higher levels of formality are inspected more frequently than those with lower levels (see Figure 15). For example, an F4-type business that, in addition to holding a licence, is registered with the Mozambican Revenue Authority (ATM) and the National Institute for Social Security (INSS), is more likely to be inspected by all authorities asked for in the survey than an F2-type business that only holds a licence. Thus authorities seem to concentrate on inspecting those enterprises that are registered with them. The issue most frequently checked for by inspectors is the operating licence.



30 In our quantitative survey 23 out of 138 respondents (17%) who provided information on this matter reported that inspectors had at least once in the past asked for a bribe.

It is remarkable that even among completely informal businesses more than 40% report that inspectors have come in the past to check their license. This indicates that bribery may be involved in these cases³¹ – however, we found no statistical evidence for an association between incidence of bribery and level of formality in our sample. From our *qualitative* survey we gained some evidence that bribery is not uncommon – be it to avoid a fine or another penalty for not having a license (being an informal firm) or to avoid a fine for some other irregularity detected by inspectors (being a formal firm).

In a way similar to the issue of licensing, we interpret our findings on inspections as follows: firms that are not yet formalised and that anticipate the recurrent cost associated with inspections may prefer to stay informal – provided they have the option to do so (see 6.2.4). For those firms that are already completely formal, inspections add to the cost of doing business.

Property title or rental agreement

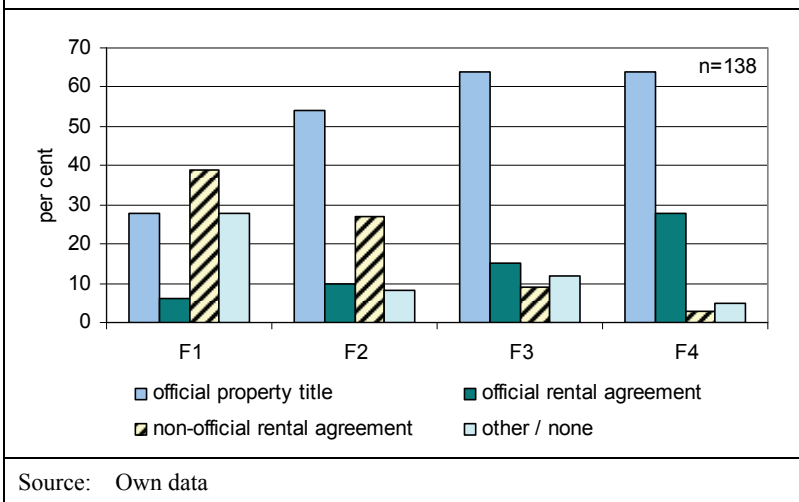
In order to apply for an *alvará*, the applicant is required to present a property title or an official rental agreement. Therefore, the lack of these documents could be one obstacle for formalising an enterprise. The *quantitative* data from our research shows that the share of enterprises that hold these documents (property title, official rental agreement) increases with level of formality while the share of enterprises with non-official rental agreement decreases with level of formality (see Figure 16).³² Nevertheless, lack of a property title or an official rental agreement must not necessarily be causally linked to formality status. Plausible further underlying reasons include e.g. lack of financial capital or cash flow to purchase a property or to rent a place.

Other barriers

As pointed out in 6.2.1, our *quantitative* analysis found that level of formality tends to rise with educational level of the owner. This result supports the view that a poor education constitutes a barrier to formalisation

31 Another explanation would be that some of the F1-type businesses that have been inspected in the past were in the process of getting a license at the time of the survey but had not yet received it.

32 Pearson's chi square: 29.09 (p<0.01).

Figure 16: Percentage distribution of property status by level of formality

because it makes it more difficult for owners to comply with the – in part – complex formalities linked to registration, licensing, tax and labour requirements etc. – which all require at least reading and writing skills and, in addition, some notion of legal and administrative procedures.

Moreover, in 6.2.1 we have reported that level of formality is associated with age of the business owner. This can be interpreted as follows: Young owners have less experience in running a business and in dealing with authorities and thus tend to comply with less formal requirements. This effect might be reinforced by the fact that in our sample young owners tend to run relatively new businesses that are still in the process of being established and thus are more likely to lack full documentation (the correlation coefficient between age of the business and age of the owner is 0.45; $p < 0.01$).³³ All in all, the evidence from our analysis supports the claim that lack of experience in running a business (using age of the owner as a proxy measure) constitutes a barrier to formalisation.

A further barrier that adds to the aforementioned factors is a lack of easily understandable and consistent information on the formal requirements

33 However, there is no strong statistical evidence for a direct association between age of the business and level of formality.

businesses have to comply with, depending on their branch of business, size, location etc. (information gained in *expert interviews*).

Finally, we gained evidence from our *qualitative* interviews that a low and irregular cash flow makes it hard for businesses to formalise. As we have learned in previous sections, formality is associated with several costs, especially with regard to licensing, taxes 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 Incentives to formalise

In our *quantitative* survey, registered firms were asked to choose reasons for registering from a list with 11 options (question 19 in Annex 2 – multiple answers were allowed). The five reasons most frequently mentioned by the 113 completed cases were “to respect the law” (rate of approval 100%) followed by “to avoid to be fined by authorities” and “to contribute to the development of the country” (both 94%), “registering is a necessary condition for my kind of business” (81%), and “to demonstrate the high quality of my product” (76%).

In what follows, we further explore the incentives of entrepreneurs to formalise, building in addition on the information gained in the qualitative and expert interviews and distinguishing between two classes of incentives: (i) sanctions for running an informal business and (ii) positive incentives for running a formal business.

Sanctions

To avoid the sanctions associated with not having an operating license or not complying with registration requirements is an obvious incentive to formalise that seems to be of practical relevance for many businesses (see the aforementioned rate of approval). Nevertheless, it appears that firms that are small or not very visible still have room for manoeuvre and can choose to stay informal. This is facilitated by the fact that it is possible to bribe inspectors who may detect the informal status of these firms. Nevertheless, we learned from our *qualitative* interviews that such a strategy of staying informal is hardly feasible for enterprises owned or run by for-

eigners, since foreigners are directly in the focus of authorities. The same is true for bigger and more visible firms.

We observed another kind of room for manoeuvre for maintaining a low level of formality – which is facilitated by insufficient cooperation between municipal and provincial governments in terms of identifying businesses required to obtain a provincial licence (information gained in *expert interviews*). When enterprises registered with the municipality reach a certain business size or dimension, they need by law to obtain an *alvará*. Municipalities typically do not report this to the provincial government. Lack of cooperation between these government levels reduces the incentive of the business owner to take 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 operated by the provincial government (*Balcão de Atendimento Único*, BAU). This shows that there is 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*). By contrast, in Beira cooperation between sub-national government layers is poor. One reason for this finding could be the fact that at the time of our field stay the municipality in Beira was governed by RENAMO, the opposition party, while the provincial government was headed by FRELIMO, Mozambique's ruling party. By contrast, in Nampula both the municipality and the provincial government were ruled by FRELIMO.

Positive incentives

Our enterprise surveys (both quantitative and qualitative) made it evident that positive incentives to formalise were less important to respondents than negative incentives or sanctions of the kind of discussed above.

The most frequently chosen “positive reason” in our *quantitative* survey was “to demonstrate the high quality of my product” (fifth most important reason, with a rate of approval of 76% – see the list of 11 options given in question 19 in Annex 2).³⁴ Further positive reasons from the list, such as like to have access to credit” (64%) and “to be able to sell to formal clients

34 The number of cases that completed question 19 – that refers only to registered firms – is 113.

or the government” (56%), ranked “only” seventh and eighth, respectively. Nevertheless, these latter two reasons (access to credit and selling to formal clients) were also spontaneously mentioned by some interviewees in our *qualitative* interviews when asked for the advantages of having a formal business – a fact that reinforces their relevance. This fits well with the information gained in expert and qualitative interviews that commercial banks (as opposed to some micro-credit institutions) require the presentation of formal business documentation (*alvará*, certificate of registration etc.) from credit applicants, just as government institutions do when choosing a supplier (moreover, formal enterprises typically will demand an invoice with specifying the value-added tax from their suppliers).

A finding that further corroborates the relevance of these positive incentives is that in our sample the fact of using or not credit to finance major expenditures or investments³⁵ is statistically associated with the level of formality of enterprises (Pearson’s chi-square of the respective contingency table is 15.2; $p < 0.01$). The same is true for selling or not selling mainly to formal firms,³⁶ i. e. enterprises with higher levels of formality are more likely to sell mainly to formal clients (Pearson’s chi-square is 18.2; $p < 0.01$).³⁷

A further set of factors that – at least in theory – could constitute a positive incentive to formalise, has to do with the ability to use certain public services designed to support the smooth functioning of the private sector, such as the courts or publicly sanctioned conflict resolution mechanisms, institutions that guarantee fair competition among firms (like anti-trust institutions) as well as public support programmes for the private sector.

However, one quite clear finding from our *qualitative* survey is that enterprises mostly perceive the respective public services, especially the courts, as being of low quality and of very limited practical use for them (e. g. most interviewees stated that they would not use the judicial system to try

35 To test this, we created a dummy variable derived from the information gained through question 25 in Annex 2.

36 To test this, we created a dummy variable derived from the information gained through question 27 in Annex 2.

37 Nevertheless, we should not interpret this evidence as supporting the claim that these positive incentives are linked to level of formality in a mono-causal way. For instance, there is a similarly strong association between these positive incentives and size of the business – a fact that suggests that it is likely that there are further intervening factors.

to recover a debt because this would take considerable time and lead to nothing in the end). In addition, several formal entrepreneurs even saw a competitive disadvantage in running formal businesses as compared to informal businesses, since the latter can avoid the costs associated with formality (see above). They complained that the government does not implement rules consistently, in this way opening up the opportunity for informal firms to engage in unfair competition and harming formally registered businesses that respect the rules.

6.2.4 Summary and conclusions

Based on our empirical data, we have, in the preceding sub-sections, identified several barriers and incentives to formalise as well as constraints for operating informally. E.g. for some enterprises it is impossible to operate informally because formality is a binding constraint for their type of business activity. A relatively big size (in terms of number of workers), or a location visible to the public and to inspectors can inhibit an informal business activity. Besides, it is impossible for informal enterprises to trade with a certain group of clients or suppliers. For example, to supply the government or to import and export, a business needs to have formal documentation. Moreover, for foreign residents it is very hard to run an informal business, as it is more difficult for them to hide from inspections.

As a conclusion and synthesis of our findings regarding formalisation, we propose the following typology of MSMEs for Mozambique with respect to their propensity or ability to formalise:

1. **Enterprises that have room for manoeuvre in choosing their level of formality, trading off the (economic) benefits of formalisation against the (economic) costs of staying informal (Type I).** If they remain informal, this type of enterprise cannot exceed a certain size or degree of visibility (see below). Typical benefits of formality that motivate formalisation are: access to certain formal clients like the government, state-owned companies or multi-national companies, access to external finance through commercial banks, the potential to use advertising or a location that is visible to the public. On the other hand, the fixed costs of getting an official licence, the costs of compliance with regulations once they are formal and the possibility to bribe in-

spectors in order to avoid fines for not complying with formal regulations constitute disincentives for enterprises to formalise.

2. **Enterprises that are obliged to operate formally because formality is necessary for their economic activity and because it is impossible for them evade inspections (Type II).** This is the case for businesses that are founded with or have reached a certain business size, operate publicly visibly due to their kind of activity, are run by foreigners or have certain groups of clients or suppliers that require formal documentation. This type of enterprise does not have the option to be informal.³⁸
3. **Enterprises that do not have the necessary conditions to operate formally and therefore stay informal (Type III).** This type of enterprise is characterised by a small business size, lack of regular cash flow, owners with a low educational level and/ or lack of experience in running their business. These entrepreneurs – who could be termed “necessity entrepreneurs” – are typically not able to comply with the in part complex and costly Mozambican business regulations.

A simplified RBE, with clear legal and regulatory requirements for micro and small enterprises, would contribute to the formalisation of type I and III enterprises. Nevertheless, poor education of owners and irregular cash flows may still hinder the compliance of type III enterprises with simplified regulations. Moreover, what seems important to promote formalisation is that the available information on business regulations be improved and that these regulations be applied in a more consistent way by authorities.

Finally, the issue of bribery will be discussed briefly. One incentive to formalise mentioned in the literature is that informal firms are more exposed than formal ones to inspectors that harass them and try to extract bribes (e. g. World Bank/ IFC 2004: 87). Although we gained evidence through our *qualitative* interviews that inspectors do take bribes in order to not denounce informal firms, we also gained evidence that inspectors at the same time exact bribes from formal firms through overly frequent controls and by trying to detect infractions at all costs (see 6.2.2). The statements of some interviewees may even create the impression that this sort of “harassment” is more pronounced in cases of formal than of infor-

38 Nevertheless, obviously they may still not comply with all regulations, e.g. concerning taxation or labour standards.

mal enterprises. One reason supporting this impression would be that formal enterprises are typically bigger and have much greater financial resources than informal firms and are therefore more “attractive” targets for inspectors seeking to exact bribes (this is not to say that all inspectors are corrupt and that checking enterprises’ compliance with working or product standards is not a useful thing, in principle). All in all, our survey did not indicate to us that formalisation in order to avoid the need to bribe inspectors is an important incentive for entrepreneurs.

6.3 Results on business development

In what follows we mainly focus on presenting our results on obstacles for business development as perceived by the entrepreneurs interviewed. In our interviews we covered obstacles lying in the realm of the RBE – for instance, the administrative burden for enterprises complying with regulations – as well as further obstacles (X-factors). Sub-section 6.3.1 presents the main findings of our *quantitative* enterprise survey (complemented in part by insights from the qualitative interviews), 6.3.2 concentrates on additional results from our *qualitative* survey, and 6.3.3 provides a summary.

6.3.1 Quantitative survey

Perception of the situation of the business

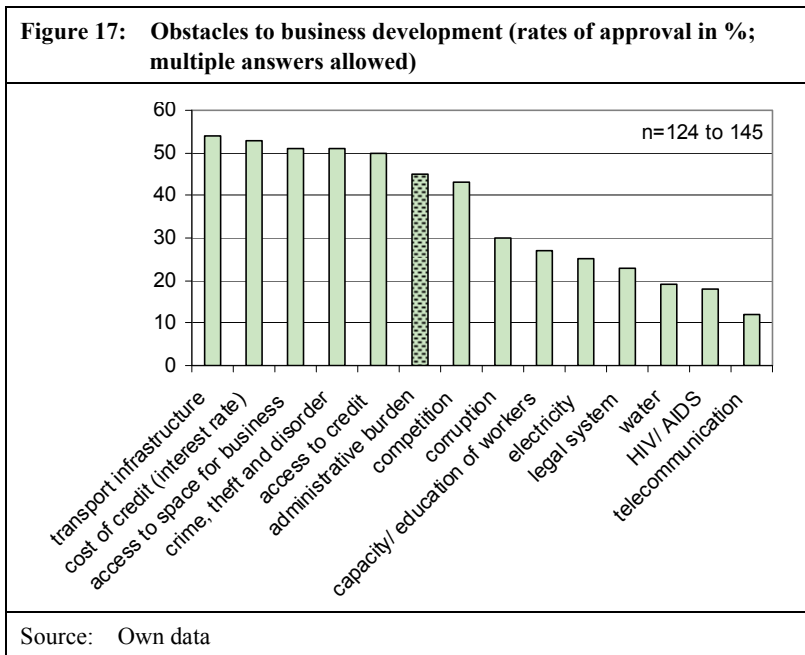
As noted in Section 6.1.2, 53% of the enterprises in our sample assess their present situation as “better”, 11% as “constant” and 36% as “worse” than in the past (see question 3 in Annex 2). There is a remarkable difference in this perception between Beira and Nampula. Interviewees in Beira assess their situation significantly³⁹ more negatively (42% “better”; 6% “constant”; 52% “worse”) than those in Nampula (61% “better”; 15% “constant”; 24% “worse”). This trend is corroborated by the results on the obstacles for business development presented below. Interviewees from Beira in general perceive obstacles as being more pronounced than those from Nampula (see below).

39 Pearson’s chi-square of the corresponding contingency table is 12.2 ($p < 0.01$).

Obstacles to business development

With a view to assessing flaws in the investment climate that hamper business development, entrepreneurs were offered a list of potential barriers and asked to select those that constitute an obstacle for the development of their business (multiple answers were allowed, see question 21 in Annex 2). In keeping with the relevant factors identified in Section 4.2, the following aspects were included in the list: administrative burden involved in registering or obtaining a licence (this factor represents the RBE in its notion of “red tape”) as well as infrastructure (telecommunication, electricity, water and transport), qualification and education of available workers, access to and cost of credit, competition, corruption, legal system concerning the resolution of conflicts, access to a location for business operation, and HIV/AIDS.

Figure 17 shows the rates of approval for the different obstacles. The obstacles perceived as most severe are: transport infrastructure (rate of approval 54%), cost of credit (53%), access to a space or location for business



operation as well as crime, theft and disorder (both 51%), and access to credit (50%). The administrative burden in dealing with licences etc. ranks sixth when multiple answers are allowed (rate of approval 44%).

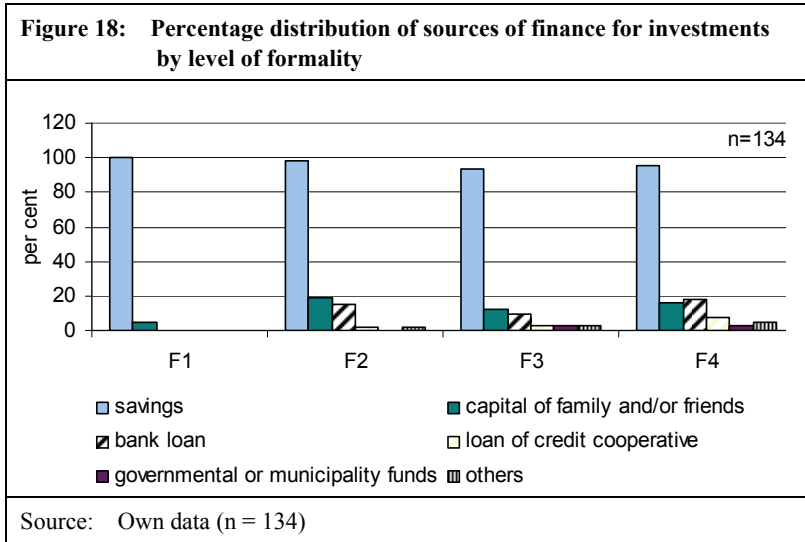
Moreover, interviewees were asked to select the single most important obstacle among the various obstacles chosen (see question 21.15 in Annex 2). Answers yielded a slightly different ranking with respect to the relevance of the obstacles. The five most important obstacles highlighted were (118 completed cases):

- Access to credit (19%)
- Transport infrastructure (18%)
- Access to a space or location for business operation (16%)
- Cost of credit (8%)
- Competition (8%)

Again, according to the entrepreneurs interviewed for this study, the RBE – in terms of administrative burden – is not among the most frequently named barriers. 7% of the completed cases ranked it as their most important obstacle (sixth most frequently named most important obstacle).

All in all, this exercise confirmed the importance of the issues of (i) credit, (ii) transport infrastructure and (iii) access to a space for business operation – which will be discussed in a little more detail in what follows.

Concerning *credit*, both difficult access to and the high cost of credit are very relevant for our interview partners. Information gained in our *qualitative* interviews confirmed that high interest rates are one of the most important reasons for not using or not getting credit. Besides that, micro and small enterprises state that lack of regular income and of collateral is what prevents them from using or getting credit. Consequently, savings were mentioned as being a major source of finance for investments for all types of entrepreneur (see Figure 18, multiple answers were allowed). Although use of credit increases with level of formality (see also the analysis in 6.2.3), even among enterprises with an F4 level of formality savings are by far the most frequently mentioned source of finance. Lack of access to external finance leads to a lack of material stocks and reduces the possibilities for investments (vehicles, machines etc.).



As pointed out above, infrastructure with regard to *transportation* of material and products constitutes the major obstacle for 18% of the entrepreneurs we interviewed. Relevant aspects in this context include the poor quality of streets and roads as well as increasing fuel prices that lead to a general increase of living and material costs. Another issue that has a negative effect on business development is lack or irregularity of public transport (information gained in our *qualitative* survey).

Access to a *location for business operation* was mentioned as a major obstacle by 16% of our interview partners. This 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 plot of land or real estate. On the other hand, it is very expensive to rent a location, as prices are high.

Finally, we would like to briefly discuss the issue of HIV/ AIDS. According to the UNAIDS report on the global AIDS epidemic (UNAIDS 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). In the context of our empirical work, however, the topic turned out to be difficult to deal with. HIV/AIDS is a very sensitive issue and several interviewees did not feel comfortable talking about it (in some cases we therefore decided

to skip the question, especially when interviewing enterprises with only two or three workers). As a consequence, only 124 cases completed the HIV/AIDS question – which is the lowest number of completed cases amongst the different obstacles to business development addressed in question 21, and for this reason we decided not to use this information for further analysis. These limitations should be considered in interpreting the relatively low rate of approval for this issue (18% when multiple answers were allowed, see Figure 17).

Differences between subgroups

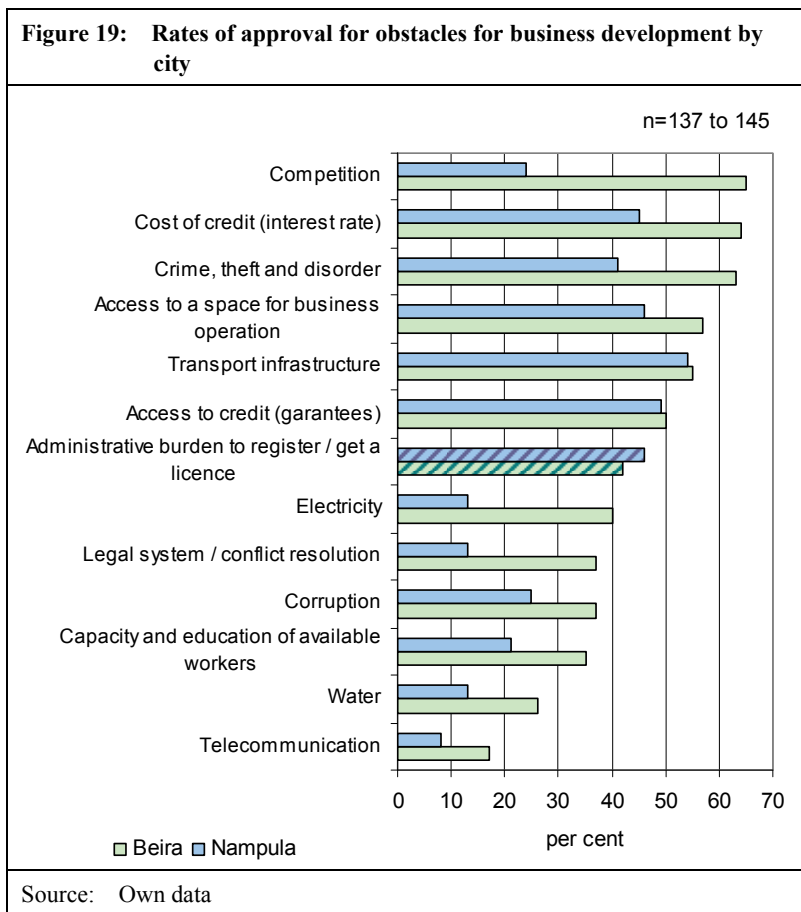
Comparing the city of Beira with the city of Nampula with regard to obstacles for business development, our data shows a clear difference. Entrepreneurs in Beira perceive all the obstacles for business development as more urgent than the entrepreneurs we interviewed in Nampula, with the exception of administrative burden (see Figure 19). This difference is statistically significant for the following obstacles:⁴⁰ Competition, electricity, legal system ($p < 0.01$) as well as crime, theft and disorder, cost of credit and water ($p < 0.05$). This result supports the finding of Kaufmann and Krause (2008), who emphasise that the investment climate in Mozambique varies considerably between regions.

In addition, we found some differences in the perception of the relevance of obstacles between enterprises with different levels of formality. The lower the level of formality, the more frequently enterprises mentioned access to and cost of credit as an obstacle for their business (Pearson's chi-squared 12.8 and 8.3 respectively; $p < 0.01$). This result confirms the association found between use of credit for financing investments and level of formality (see above).

6.3.2 Qualitative survey

In general, the information gained in the qualitative enterprise survey and in expert interviews is in line with the findings we present above. Nevertheless, it became evident that both availability of skilled labour and labour regulations are perceived as important obstacles for enterprises, and we therefore wish to highlight this issue here:

40 Using the measure of Pearson's chi-squared of the respective contingency table.



Entrepreneurs and experts from business associations or donor institutions stress the poor availability of skilled workers and managers. Some experts state that the labour demand of international organisations, donors, big private firms and some government organisations is one reason for the shortage of skilled workers and managers in Mozambique. International organisations and other institutions are able to pay much higher salaries than local MSMEs. Thus MSMEs are left with fewer qualified workers.

Many entrepreneurs complained about lack of discipline among workers. According to these statements, some workers steal, others do not appear for work or do not work efficiently or responsibly, creating additional costs for the business. One aspect that aggravates this problem is that entrepreneurs face difficulties in dismissing workers due to dismissal protection. Dismissing workers means incurring relatively high costs⁴¹ as well as lengthy and incalculable court proceedings, even in cases where there is just cause for dismissal. As a consequence, some entrepreneurs stated that they do not hire more workers simply to avoid this risk, even if they may actually need more personnel. This is particularly true for bigger enterprises with a higher level of formality. Smaller enterprises with low levels of formality are generally more in favour of dismissal protection. One interpretation for this finding is that informal enterprises avoid regulations (and thus costs of compliance) more easily because they are less subject to inspection in this matter (see above). Another explanation for this finding is the fact informal firms often employ family members.

6.3.3 Summary

The entrepreneurs we interviewed perceive administrative burden as an obstacle for the development of their businesses, but it is not among the most important ones. They rather rank highest shortcomings regarding the broader investment climate (or X-factors, see above). Moreover, dismissal protection is perceived as an obstacle by formal and bigger firms. Taking together the information from the quantitative and qualitative interviews, it can be stated that the most important obstacles for our interviewees are:

- Transport infrastructure
- Access to and cost of credit
- Access to a location for business operation
- Skilled labour

41 According to the Doing Business report 2010, dismissing a redundant worker with 20 years of service in Mozambique may entail costs for the employer in the range of 134 weeks of salary (equivalent to 2.57 years of salary; World Bank/ IFC 2009, 26).

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 strong competition from imported products. Consequently, these enterprises are able to compete neither in "high end" urban nor in international markets.

6.4 Interrelation between formalisation and business development

As pointed out in 4.3, one strand in the literature argues that heavy regulation induces informality and that informality hampers business development, i.e. that the level of development of a business is a consequence of its level of formality. Others argue that formalisation is the consequence of a positive business development, which in its turn is influenced by X-factors as well as business regulations.

Based on the data collected in our enterprise survey, we cannot make any assertions on the direction of the relation between business development and formalisation. In order to be able to do this, we would have needed panel data and more precise indicators of the concept of business development. However, what we can say based on our findings is that it is highly implausible that degree of formality is influenced only by the RBE: X-factors like level of education and nationality or origin of the owner also effect level of formality (see 6.2).

In general, it will be difficult to disentangle the direction of causality between business development and formality because it is very likely that there are third factors that influence both of these concepts at the same time. For instance, it is very plausible that a certain level of education is not only necessary to comply with Mozambican business regulations but also to manage a business successfully, e.g. in terms of planning investments and arranging financing, developing marketing strategies, hiring good employees and keeping track of revenues and expenditures. Similarly, cumbersome and costly regulation is likely to hamper both formalisation (of type I and III enterprises) and business development in general.

7 Conclusions and recommendations

The main purpose of this study was to analyse the influences of the RBE on formalisation and development of MSMEs in Mozambique. This is an especially relevant issue, as identifying and understanding obstacles for formalisation and business development in Mozambique contribute to the wider discussion on policies that promote broad-based economic growth.

Summing up the results concerning **formalisation**, we come to the following conclusions:

Beyond the RBE – in terms of costs of compliance with business regulations that constitute a disincentive for firms to formalise – we found further factors that are linked to the level of formality of firms, among others enterprise size, level and regularity of cash flow, use of commercial credit, owner level of education and experience, location of the enterprise and type of main clients. This result suggests that factors beyond the RBE have to be taken into account in order to explain the phenomenon of (in)formality in Mozambique. One can break down factors linked to the formality status of a firm into barriers (disincentives) to formalisation, incentives to formalise and “binding constraints” regarding formality status.

Based on the results of our enterprise survey and expert interviews, we conclude that the nature of the RBE and of public services in Mozambique – in terms (time and monetary cost) of compliance with business regulations and quality of public services and institutions provided – constitutes more a disincentive to formalise than vice versa. E.g. the higher the enterprise’s level of formality, the more likely it is to be frequented by inspectors. Thus a higher level of formality implies higher absolute compliance costs in terms of administrative burden, taxes and social security contributions, fines etc. (this is exacerbated by a lack of clear information regarding regulations in force and a somewhat inconsistent application of regulations by the authorities). Enterprises that anticipate this cost may opt to remain informal if they have the opportunity to do so. At the same time, the entrepreneurs interviewed do not seem to perceive access to public services and institutions as a benefit from formalisation. The most important reason to formalise mentioned by entrepreneurs is “to respect the law” and therefore to avoid penalties. Regarding public institutions, we learned that entrepreneurs hardly ever use the legal system in case of disputes or

conflicts, because the legal system is perceived as ineffective. Thus we can conclude that use of public services and access to public institutions does not represent a relevant incentive for entrepreneurs to formalise.

Beyond the RBE, there are further barriers to formalisation, for instance low level of education and experience of the business owner and low and irregular cash flows; and there are further incentives to formalise, for instance to deal with formal and bigger clients and to gain easier access to credit.⁴² As long as barriers to formalisation are not binding, enterprises that enjoy room for manoeuvre regarding their formality status will choose their level of formality based on a cost-benefit calculus, trading off the advantages against the disadvantages of running a(n) (in)formal business (enterprises of type I, see Chapter 6.2.4).

By contrast, there are enterprises for which formality status is not really a choice. Their formality status is instead determined by the characteristics of the enterprise or the owner, which in these cases constitute quasi “binding constraints”. E.g. 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 remain informal because they are directly in the focus of authorities and inspectors (type II enterprises). On the other hand, there are enterprises that – given the level of regulations – do not possess the conditions needed to fulfil formal requirements. This may be due to low and irregular cash flows (this refers to the compliance costs associated with formality) or a low level of education and experience on the part of the owner (this refers to capabilities needed to fulfil the in part complicated formal requirements) (type III enterprises, see Section 6.2.4).

We conclude that the explanation of formalisation given by the Doing Business reports is relevant for type I and III enterprises only. Changing regulations in the sense of simplifying bureaucratic processes or lowering administrative and tax burdens would probably encourage enterprises of these types to formalise (i.e. to get a licence and to register with tax and social security authorities), but would not affect the level of formality of type II enterprises. Nevertheless, very poor owner education as well as very low and irregular cash flows may still hinder compliance of type III enterprises with simplified regulations. Moreover, what seems important

42 Formalisation alone does not suffice to get access to credit. Additional requirements include e.g. collateralisable assets and a promising economic performance.

in order to promote formalisation is that the available information on business regulations be improved and that regulations be applied in a more consistent way by authorities. Finally, in order to increase the value of formality and eventually promote private sector development, investment is needed in public services and institutions to improve their functioning, effectiveness and integrity (particularly with respect to essential institutions like the courts, business registries and inspections).

Summing up the results concerning **business development**, we come to the following conclusions:

Although mentioned as one relevant obstacle by our interview partners, they do not perceive the administrative burden related to regulations as the most important constraint for the development of their businesses. Taking together the results from our quantitative and our qualitative enterprise survey, we conclude that the most important obstacles for the MSMEs interviewed are credit (both access to and cost of credit), transport infrastructure, access to a location for business operation and availability of skilled labour. The lack of availability of skilled labour is compounded by a dismissal protection regulation that means high costs for the employer in case of dismissal.

All in all, our results underline the importance of the broader concept of the investment climate and suggest that attention should not be restricted to the RBE when searching for adequate measures to promote private sector development. As a consequence, policies seeking to deregulate and to reduce the administrative burden seem not to be sufficient to support business development. In order to improve the competitiveness of MSMEs, such policies should be accompanied by other measures that address shortcomings beyond the RBE, particularly the shortage of skilled labour, flaws in the transport infrastructure, in the availability and affordability of financial services as well as in real estate markets.

Regarding the relevance of **Doing Business recommendations** for MSMEs in Mozambique, we come to the following conclusions:

The global Doing Business ranking plays quite a prominent role in the perception of the Mozambican government in terms of economic policy. Therefore, Mozambican policy makers seek orientation in particular in the recommendations contained in the Doing Business reports. Some of the experts from international organisations we interviewed even suspect that

some private sector reforms may be undertaken just to improve Mozambique's ranking in the Doing Business reports, and not so much to improve the situation for private enterprises on the ground.

Although this is one relevant issue among others, promotion of formalisation and business development by cutting burdensome regulations should be treated with some caution. Regulations of some type should definitely be maintained because they support business performance and competitiveness of MSMEs, for instance rules that guarantee property rights or that protect consumers concerning health issues, safety or competition. E.g. some interview partners reported that inspectors come to check expiry dates of products and calibration of scales. Abolishing regulations of this type would probably weaken consumer protection and could even hinder MSME development.

Moreover, the problem is sometimes not so much the content of the regulation itself but the capacity of public administration to implement it properly. This is quite evident for Mozambique, where we found that existing regulations are often not implemented in a uniform, transparent and consistent manner (see also FIAS 2006a, 89). Reasons for these inconvenient circumstances are various, such as a self-interested attitude on the part of state inspectors and a general attitude that tolerates corruption, poor information and qualification of public servants, lack of cooperation and clear allocation of responsibilities and duties among public institutions. As a consequence, enterprises that respect the rules concerning licensing, taxes, labour etc. are exposed to unfair competition by enterprises that do not respect these rules (e. g. tax evasion). Therefore, what is needed, apart from a simplification of overly cumbersome regulations, is investment in personnel and organisational capacities as well as in the integrity of the public service.

To sum up, as long as "bad" regulations are abolished, "good" regulations maintained and consistently implemented, the corresponding improvements of the RBE will contribute to formalisation and development of MSMEs. However, measures suited to increasing the competitiveness of MSMEs are needed to complement improvements in the RBE, and this means improving education and skills of workers and managers, infrastructure, financial services, the capacity of the public service as well as the effectiveness of public institutions.

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ANNEXES

Annex 1: 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?	<p>b.1. Acha que este crescimento também pode trazer dificuldades para o seu negócio?</p> <p>b.2. Acha que este crescimento pode aumentar o esforço administrativo? (CASO SIM) De que maneira?</p>

	b.3. Acha que este crescimento pode aumentar os custos administrativos? (CASO SIM) Que tipo de custos?
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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?
14. Tem uma licença para o seu negócio?

<u>CASO NÃO</u>	<u>CASO SIM</u>
<p>a.1. Por que não?</p> <p>a.2. O que acha que seriam as vantagens e desvantagens dum 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 inspectores ou fiscalizadores do governo?

- a. O que acontece quando um inspector passa? O que faz o inspector?**
- b. As inspecções 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>

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

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 2: 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)
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3: Por favor, compare a situação da empresa no passado (máximo cinco anos atrás) com a situação actual. Hoje é: 1: melhor O 2: igual O 3: pior O	4: Imagine a situação da empresa no futuro em comparação com hoje. Acha que no futuro vai ser: 1: melhor O 2: igual O 3: pior O
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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 trabalhadores são membros da família do/s proprietário/s?	(número)
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7: Qual foi o volume anual de vendas da empresa em meticais 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	O	4: Ao nível nacional	O		
2: Ao nível local e nos distritos vizinhos	O	5: Ao nível internacional	O		
3: Ao nível provincial	O	6: Não sabe / não responde	O		

9: Quantos concorrentes o/a senhor/a tem no território onde actua, tanto registados como não registados?	1: Nenhum	O	3: 3–10	O	5: Mais de 50	O
	2: 1–2	O	4: 11–50	O	6: Não sabe	O

10: Quantos deles acha que são registados?	1: Nenhum	O	3: Metade	O	5: Todos	O
	2: Minoria	O	4: Maioria	O	6: Não sabe	O

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	O	2: Igual	O	3: Pior	O

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="checkbox"/>	5: Instituto Nacional de Segurança Social (INSS)	<input type="checkbox"/>
2: Registo na Conservatória	<input type="checkbox"/>	6: Outros (por favor especificar) _____	<input type="checkbox"/>
3: Alvará 3a: _____ (ano)	<input type="checkbox"/>		
4: Número Único de Identificação Tributária (NUIT)	<input type="checkbox"/>	7: Não sabe / não responde	<input type="checkbox"/>

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

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

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 registar-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	<input type="radio"/>	2: Não	<input type="radio"/>
3: Não sabe / não responde		<input type="radio"/>	

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: Em-préstimo bancário	<input type="radio"/>		
4: Em-préstimo 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 / Paki-stanesa	<input type="radio"/>	_____	<input type="radio"/>	4: Indiana/ Paki-stanesa	<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"/>	Suburbano	<input type="radio"/>

Muito obrigado pela sua cooperação!

Annex 3: 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

Institution	City	Date
Provincial Directorate of Industry and Commerce	Beira	12/03/08
ACB (Business Association of Beira)	Beira	06/03/08
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
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 4: Map of Mozambique



Source: OECD/ AfDB (2008, 460)

Publications of the German Development Institute

Nomos Verlagsgesellschaft

Neubert, Susanne / Waltina Scheumann / Annette van Edig / Walter Huppert (eds.): Integriertes Wasserressourcen-Management (IWRM): Ein Konzept in die Praxis überführen, 314 p., Nomos, Baden-Baden 2004, ISBN 3-8329-1111-1

Messner, Dirk / Imme Scholz (eds.): Zukunftsfragen der Entwicklungspolitik, 410 p., Nomos, Baden-Baden 2004, ISBN 3-8329-1005-0

Brandt, Hartmut / Uwe Otzen: Armutsorientierte landwirtschaftliche und ländliche Entwicklung, 342 p., Nomos, Baden-Baden 2004, ISBN 3-8329-0555-3

Liebig, Klaus: Internationale Regulierung geistiger Eigentumsrechte und Wissenserwerb in Entwicklungsländern: Eine ökonomische Analyse, 233 p., Nomos, Baden-Baden 2007, ISBN 978-3-8329-2379-2 (Entwicklungstheorie und Entwicklungspolitik 1)

Schlumberger, Oliver: Autoritarismus in der arabischen Welt: Ursachen, Trends und internationale Demokratieförderung, 255 p., Nomos, Baden-Baden 2008, ISBN 978-3-8329-3114-8 (Entwicklungstheorie und Entwicklungspolitik 2)

Qualmann, Regine: South Africa's Reintegration into World and Regional Markets: Trade Liberalization and Emerging Patterns of Specialization in the Post-Apartheid Era, 206 p., Nomos, Baden-Baden 2008, ISBN 978-3-8329-2995-4 (Entwicklungstheorie und Entwicklungspolitik 3)

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