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**ADMINISTRATIVE BARRIERS TO ENTRY AND ITS  
ECONOMIC IMPACT ON SOFALA PROVINCE**

**Degree of Master of Arts (MA) in Economics, Management and Administration, in  
the Faculty of Economics and Management, Catholic University of Mozambique -  
Beira**

**By:**

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**Declaration**

The work contained in this dissertation was carried out by the author at the Catholic University of Mozambique in the year 2004. It is the original work except where due references are provided. It has never been nor will it ever be submitted for the award of any other university. No part of this work shall be reproduced without prior permission from the author or the Catholic University of Mozambique.

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**Abstract**

This dissertation may be a pioneer study in using the level of giving up from the licensing process as an indicator of administrative barriers to start a business in Sofala province. The implication in using such an indicator is the explanation that it can be given to the absence of a positive reaction of the private investment, in terms of limited-liability company's establishments, to the fall in the number of days to start a business.

From 1999 to 2002, the number of new limited-liability companies that registered its statutes in Sofala province decreased 15%, compared to the period 1995 to 1998. On average, 57% of the limited-liability companies that register its statutes give up before completing all the procedures each year. The level of giving up is high for small companies and also for companies that do not contact CPI. Sixty percent of limited-liability companies that register its statutes in Sofala province with social capital inferior to US\$7,500 give up before completing the process, while the level of giving up of those with social capital higher than US\$50,000 is only 41%. The level of giving up is 33.3% and 65.7% for those limited-liability companies that contact and do not contact CPI, respectively.

The findings of this dissertation show that the administrative barriers to start a business cause economic losses to Sofala province, which has increased gradually year after year. Measuring the administrative barriers for the next five years from today, the estimation shows that Sofala province loses more than twenty million US dollars in tax revenue, 2.6 million US dollars in investment and 1785 work places.

Therefore, creation of a "one-stop-shop" responsible of all stages of the registration process, combined with computerization of the process, training of the officials, and procedural changes is recommended.

**Acknowledgments**

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**Dedication**

To my family, especially my father, mother, sisters, grand-mother and my girl friend.

**Acronyms**

ACB	Associação Comercial da Beira
ACIS	Associação Comercial e Industria de Sofala
CPI	Centro de Promoção de Investimentos
CTA	Confederation of Trade Associations
FDI	Foreign Direct Investment
INE	Instituto Nacional de Estatisticas
IRPC	Collective Personal Revenue Tax
IRPS	Single Personal Revenue Tax
Ltd	Limited Liability Company
NUIT	Unique Identification Number of Tax
SADC	Southern African Development Community
VAT	Value Added Tax

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## **CHAPTER I: INTRODUCTION AND OVERVIEW OF THE STUDY**

### **1.1. Introduction**

Mozambique is a country with a large informal sector. Approximately forty percent of economic activity is in the informal sector (Schneider 2002). Besides the huge amount of economic activity that is not recorded in the national account, there is high tax evasion from those who operate in the informal sector.

Roughly speaking, Mozambique government expenditure is supported by tax and non-tax revenue in less than 50% of cases. The other share comes from donors and debts. The tax revenue is contributed in almost 95% by corporations and only 5% by individual tax. As only 60% of economic activity occurs in the formal sector, this sector suffers a strong pressure in supporting the expenditure of the entire nation.

A shift of economic activity from the informal to the formal sector, “*ceteris paribus*”, increases tax collections and reduces the tax pressure on those operators of the formal sector. It seems that instead of facilitating such a shift, the competition perceived as unfair and the administrative barriers to entry in the formal sector are contributing to an increase of the informal sector.

Administrative barriers are defined as the registering business procedures, import and export procedures, labour market regulation and land-use right. The registering business barriers are usually measured through the number of procedures, time and money required to start a new business.

Studies show that administrative barriers are one of the key factors contributing to a strong informal sector in Mozambique. Fifteen procedures are required to open a business, which, on average, is completed in one hundred and fifty three days, spending 99.6% of national income per capita in administrative costs, besides the non official costs, such as bribery, corruption, and consultant assistance (co-publication of World Bank and Oxford University Press). In contrast, there is no bureaucratic requirement to start in the informal sector.

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Such administrative barriers affect the investment decision of domestic and foreign investors: invest or cancel the investment, invest in Mozambique or outside, in the formal or informal sector. Through negative investment decisions, administrative barriers affect adversely factors like employment, size of formal sector, tax collection, competitiveness and economic growth.

Investment can also be affected by other factors. John Nasir, et al (2003) considered four key constraints to investment in Mozambique: lack of access to and the high cost of finance, uncertain policy environment, regulatory/administrative barriers and inadequate infrastructure.

To overcome the situation, Governments concerned about the benefits of the entry of new firms in a country can remove some unjustifiable bureaucratic procedures. However, that cannot be done without taking into consideration the benefits and costs of such reform.

This paper is going to focus only in one of the four key constraints to investment in Mozambique: administrative barriers. The analysis will be limited to the registration of limited-liability companies, with a focus on Sofala province. The level of administrative barriers will be analysed through a different indicator – the level of giving up.

## **1.2. Objective of the study**

The objective is to analyse to what extent economic variables, such as employment, investment and tax revenue are affected by administrative barriers in Sofala Province. Therefore the economic losses caused by such barriers, in terms of those economic variables will be quantified. The level of administrative barriers to entry in Maputo area and Manica province will also be studied for comparison purposes.<sup>1</sup>

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<sup>1</sup> When comparing administrative barriers level between Sofala and Maputo or Manica, the measure to consider is the time an entrepreneur takes to register a company.

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### **1.3. Significance of the Study**

There are at least two reasons that make this study of prominent importance. First, the study intends to estimate what Sofala province loses by having the current level of administrative barriers to entry, raising the notion of changing what is not being done well. Second, the analysis based on a new indicator to measure administrative barriers to entry (level of giving up) and also to calculate the economic impact in Sofala is an important contribution to the scarce literature about administrative barriers in Mozambique in general and in Sofala in particular. As to the author's knowledge, this is a pioneer study that measures the economic impact of administrative barriers to entry in Sofala province.

### **1.4. Reasons for Choosing Sofala Province**

In 2000, very good growth of the Sofala private sector was forecast for the middle and long term due to the location of the port, the transport and communication infrastructure along the Beira corridor and also the potential exploration of natural gas. However, a survey published in 2000 by KPMG to measure the business environment index considered Sofala province as the worst place to do business in the country. Some of the reasons for that are the barriers to entry, expansion and competition (Alan Harding, November 2000). The fact of considering Sofala province as a bad place to invest due to barriers to entry is the main reason to choose this province as a target area for this dissertation.

Another reason is the poor economic performance of Sofala province between 1996 and 2000, as illustrated in chapter IV.

The third reason concerns the fact that the author of this dissertation has some experience in starting a business in Sofala. Of particular relevance is the limited-liability construction company that the author opened in Sofala province in 2002, for which he had to follow all the bureaucratic procedures.

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### **1.5. Hypotheses**

The hypothesis to be analysed in this study is: Administrative barriers to entry in the formal sector in Sofala province limit economic development in terms of employment, investment and tax revenue collection.

### **1.6. Study Limitations**

The main limitation was the fact that some government institutions contacted showed little interest in speaking about this topic. The influence of persons personally known by the author was necessary to get appointments in some institutions.

Some government institutions, such as Fiscal Departments, Public Construction and Habitation Directorate and Business and Industry Directorates argued that data was unavailable concerning particular years required by the author.

### **1.7. Structure of the study**

To fulfill the proposed analysis, the paper has been divided into 6 chapters. Chapter II, the literature review, explains indicators of administrative barriers to entry. Therefore, the economic impact of having such barriers is assessed. In chapter III, the author explains the methodology used. There is explained how the data were collected, processed and analysed. In chapter IV is measured the Administrative Barriers to Entry in Sofala Province. There is a brief comparison of some social and economic performance of Sofala and Mozambique. Investment of Limited-liability companies, time to start a business and the level of giving up for Sofala province are other issues contained in this chapter, which ends with a brief analogy with Maputo and Manica. Chapter V calculates the Economic Impact of Administrative Barriers to Entry in Sofala Province. Before calculating the economic impact, some economic indicators of limited-liability companies that completed the process of starting a business are presented. On that basis, the direct economic impact on investment, employment and tax revenue is estimated.

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Finally, chapter VI comprises the conclusion and also suggests recommendations to reduce administrative barriers to entry.

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## **CHAPTER II: LITERATURE REVIEW**

### **2.1. Administrative Barriers to Entry**

#### **2.1.1. Definition and Origins**

“Administrative barriers are the obstacles encountered by entrepreneurs in the course of business activity which are created by public officers of executive bodies.” (Russian SME Resource Center). These obstacles can be faced in the starting up, during the investment and in the exit of companies.

In the process of starting up a business in the formal sector, the entrepreneurs face some constraints related to the regulations, bureaucracy, unskilled officials and corruption that imposes to follow some procedures, waste of time, spend some money and, if in excess, canceling the investment.

Emery and Spence (2000) argue that administrative barriers in many African countries have their origins in colonial regimes, which with the intension of protecting the home country firms position imposed complex regulations. They also argue that these administrative barriers were spread in the era of State control over private investment. The origins of administrative barriers in Mozambique can be partially explained by the same reasons given by Emery and Spence for Africa.

The Commercial Code in use in Mozambique dates back to 1886. Besides the fact of being created in colonial era (another reality), it is very old. Mozambique took a long time to start updating the regulations created in the colonial era. Besides that, the introduction of centrally planned economy imposed more administrative barriers to entry, by centralizing the licensing decisions in Maputo.

#### **2.1.2. Regulatory Barriers**

Usually regulatory barriers are measured in three ways: number of procedures, official time required and its official cost. (Nasir et al 2003, Djankov et al 2001, Emery and Spence 2000, Morisset and Neso 2002). Some authors include the minimum social



capital<sup>2</sup> required by law (co-publication of World Bank and Oxford University Press, 2004).

Table 2.1 presents the first three indicators for SADC countries and also for high-income countries to allow an analogy with Mozambique.

Table 2.1. Indicators of Administrative Barriers to Entry for SADC and Highest Income Countries.

Countries	Number of Procedures	Time (Days)	Cost (% of income per capita)
<b>SADC member states</b>			
Angola	14	146	838
Botswana	10	97	36.1
Congo, Dem. Rep.	13	215	871.9
Lesotho	9	92	67.4
Malawi	11	45	125.4
Mauritius	-	-	-
Mozambique	15	153	99.6
Namibia	10	85	18.7
Seychelles	-	-	-
South Africa	9	38	8.7
Swaziland	-	-	-
Tanzania	13	35	199
Zambia	6	40	24.1
Zimbabwe	10	122	285.3
<b>Highest income countries</b>	7	<30	
Australia	2	2	2
Belgium	7	56	11.3
Canada	2	3	0.6
Denmark	4	4	0
Japan	11	31	10.5
Sweden	3	16	0.8
United States	5	4	0.6

Source: Co-publication of World Bank and Oxford University Press (2004).

In the SADC region, Mozambique is the country with the highest number of procedures to start a business. Mozambique, after the Democratic Republic of Congo, is the country

<sup>2</sup> Social capital is the initial contribution of the stakeholders, in goods and money, to constitute a company.

member of SADC where an entrepreneur needs more time to start a business than anywhere else.

### 2.1.2.1. Procedures

“A separate activity in the start-up process is a procedure only if it requires the entrepreneur to interact with outside entities: State and local government offices, lawyers, auditors, company seal manufactures, notaries, etc” (Djankov et al 2001). The procedures mentioned in this section are those required by law to start a business.

Table 2.2 presents the procedures that an entrepreneur has to follow to open a limited-liability company in Mozambique.

Table 2.2. The Procedures Required to Start a Business in Mozambique

Procedures	Steps to complete the procedure	Expected output of the procedure
Registration of the company name	Submit a letter (with recognized signatures) of request to Commercial Registry. Pay fee to Commercial Registry.	“Negative Certificate”
Recording the Articles of Association at notary department.	Drawing up the handwriting of the Articles of Association.	“Notarised Statutes”
	Submit the handwriting and notarised copy of identification document of the shareholders to notary departments.	
	Pay fee to notary department according to the social capital declared.	
Publication of the statutes in Government Gazette.	Send a notarised statutes copy to government Gazette in Maputo.	Copy of republic bulletin containing the statutes.
	Pay fee to Government Gazette according to the social capital declared.	
	Buy a copy of the Republic Bulletin in which the statutes were published.	
Definitive Registration	Submit a request letter and a notarised copy of the republic bulletin containing the published status to Commercial Registry. Pay the fee according to the declared social capital	“Definitive Registry”

Request the licensing* at the respective institution	Submit a request letter with recognized signatures to the respective institution, and a notarised copy of republic bulletin containing the statutes. Present the project, infrastructures rent contract or its respective propriety rights.	Pre-inspection date set
Pre-inspection and the Final Inspections	Prepare the required issues that are going to be inspected: <ul style="list-style-type: none"> <li>• Work schedule (request the approval).</li> <li>• Sanitary control of the workers.</li> <li>• Registered list of workers.</li> </ul> Contact and transport the inspectors from health, safety, labor and fire departments.	“Alvará”
Request Tax Number	Submit permit and a notarised copy of republic bulletin containing the statutes. Fill a model paper and submit to the nearest Financial Department to the headquarter of the company.	NUIT (Tax Number)

Source: adapted from [www.acisofala.com](http://www.acisofala.com) , Macamo (2002) and Nasir et al (2003).

The procedures illustrated above are summarized for the sake of simplicity. The procedures differ according to the nature of economic activity of a company, the type of permit (alvará) required and the company export and import needs (Balcão Único de Zambeze). For instance, besides the already mentioned steps, a construction company must attach a list of equipments, organizational structure, exclusiveness declaration of the engineers, and curriculum vitae of the shareholders, at the permit request level. Appendix 1 and 2 presents number of steps and institutions in setting up a new company in Mozambique and Appendix 3 presents the steps to obtain an industrial license<sup>3</sup>.

A limited-liability company is considered legally constituted when it gets the definitive registry. A firm that gets the permit is legally registered. At the moment, when a firm gets tax number it is legally allowed to trade and invoice in the formal market ([www.acisofala.com](http://www.acisofala.com)).

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\* A construction company request in “Public Construction and Habitation Provincial Directorate”, or “Public Construction and Habitation National Directorate”, depending whether the class of requested “alvara” is bellow or higher to 3. A business or industrial alvara is approved at provincial level if the company does not require import and export licensing, or an “alvara” of class I.

<sup>3</sup> The data presented there are not updated, but give an image of how costly and delay is the process of opening a company in Mozambique.

Djankov et al (2001) grouped the procedures of starting up a business in five groups: screen procedures, tax-related requirements, labor/social security-related requirements, safety and health requirements, and environmental-related requirements. According to Djankov et al (2001) an entrepreneur has to complete 19 procedures to start a business in Mozambique. A more recently study co-published by World Bank and Oxford University Press (2004) indicates fewer numbers of procedures than the previous mentioned. There are 15 procedures, which is more than the average for the poor countries. The average for the poor countries is 11 procedures. According to the same source, the richer countries have fewer procedures, and the middle-income countries have more procedures, a median of 7 and 12 procedures, respectively.

Table 2.3. Indicators of Administrative Barriers to Entry for Countries with Less and High number of procedures.

Countries	Number of Procedures	Time (Days)	Cost (% of income per capita)
<b>Countries with less Nr. of procedures</b>			
Australia	2	2	2
Canada	2	3	0.6
New Zealand	3	3	0.2
Sweden	3	16	0.8
Ireland	3	12	10.4
Denmark	4	4	0
Finland	4	33	3.1
Norway	4	24	3.9
USA	5	4	0.6
Hong Kong, China	5	11	2.3
<b>Countries with highest Nr. Of procedures</b>			
Algeria	18	29	31.9
Belarus	19	118	27.1
Bolivia	18	67	166.6
Chad	19	73	395.3
Colombia	19	60	27.2
Paraguay	18	73	160.9
Greece	16	45	69.6
Argentina	15	68	8
Mozambique	15	153	99.6
Madagascar	15	67	62.8

Source: Co-publication of World Bank and Oxford University Press (2004).

These procedures are deficient, inconsistent, and wrongly applied. Some of the possible reasons are: lack of coordination among government institutions, lack of office

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equipments, lack of information, low level of education, professional training and wage of government workers (“Balcão Único de Zambeze”, 2001).

The procedures to start a business in Mozambique, including those to register the statutes, get the certificate and publish the statutes, are the same as those used in 19th century. The statutes are registered in handwriting and the certificate is also processed in handwriting (FIAS and USAID). The three institutions in charge for constituting a limited-liability company do not work in coordination and therefore the investor has to go from one to another to complete the constitution process.

#### **2.1.2.2. Time**

The pattern of time needed to register a formal business in rich and poor countries is almost contrary to that of the procedures pattern. Exceptions are low-middle-income countries with the highest number of procedures and low-income countries with the highest amount of time needed. In the richest countries an entrepreneur takes a shorter time to start up a company than in the poorest countries, on average less than 30 days and 63 days respectively. In Mozambique, an entrepreneur takes 153 days to start a business (co-publication of World Bank and Oxford University Press 2004).

Nazir et al (2003) estimated for Mozambique a median time of 138 business days that a limited-liability company of group “A” needed to complete the registration process. They also estimated the time for some procedures. In their analysis, the procedures which last longer are: work schedule (30 days), publication of statutes (30 days), recording the articles of association in notary (30 days for foreign investors and 21 for domestic investors) and the definitive registration (20 days).

“Balcão Único de Zambezia” (2001) mentioned deficient communication among sectors and the lack of coordination among government institutions as the main causes of the excessive delays.

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### **2.1.2.3. Cost**

The costs for the whole process of opening a formal business are usually reported in two ways: in terms of percentage of income per capita and in terms of its value in US\$.

There is a huge difference in costs, when measured in terms of percentage of income per capita, between high-income countries and low-income countries, 10% and 120% of income per capita, respectively. In Africa it is around 190%. This average is higher than the average for Mozambique (99.6% of income per capita).

Entrepreneurs' perceptions about the efficiency of the regulation process differ from one region to another (co-publication of World Bank and Oxford University Press 2004). Djankov et al (2001) states that regulations to entry vary across regions within a country, across industries and across firm size. This raises the possibility of barriers to entry in Sofala province being different from those of the other provinces of the country.

The market entry barrier is not limited to formal procedures. Some of the other barriers that an investor can face during the process of starting a business are corruption and a certain degree of negligence in handling the papers and providing the necessary information to the investors by some government officials.

## **2.2. Economic Impact**

Administrative barriers to entry are mentioned sometimes as beneficial. The advocates of this ideology argue that the market failures, such as monopoly power and negative externalities are corrected through the regulations (Co-publication of World Bank and Oxford University Press 2004). Public Interest Theory, which was developed by Pigou in 1939, postulates that a high number of procedures shall be associated with social superior outcomes. The social superior outcomes should come from the possibility of regulation allowing government to screen the entry of new firms to ensure that consumers buy high quality products once there will not be fly-by-night operators.

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Through regulation to entry, government allows the entry of companies that meet the minimum standards to provide a good or service (Djankov et al 2001).

Morisset and Neso (2002) mentioned some arguments given by authorities to explain the presence of procedures to entry: security, protection of the environment, health protection and also the already mentioned quality control.

Empirical evidences do not show such effects of administrative barriers to entry. Djankov et al (2001) contradicted the Public Interest Theory, giving reason to Public Choice Theory<sup>4</sup>, by concluding in his study that stricter regulation of entry is associated with higher levels of corruption and an informal market than with social superior outcomes. Supporting the same theory, the co-publication of World Bank and Oxford University Press (2004) considers that there are no benefits in terms of improving product quality or reducing externalities.

Although some sound economists, such as Pigout<sup>5</sup> admit the importance of administrative barriers to entry, it cannot be beneficial when they are in excess as in the case of Mozambique. While in Australia on average an entrepreneur has to follow two procedures that can be completed in just two days, in Mozambique he needs to follow 15 procedures during 153 days and spend in official cost US\$209, equivalent to 99,6% of income per capita (co-publication of World Bank and Oxford University Press 2004).

### **2.2.1. Adverse Economic Impacts of Excessive Administrative Barriers**

Relevant adverse economic impacts of excessive administrative barriers to entry mentioned in some studies include:

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<sup>4</sup> Public Choice Theory holds that regulation is social inefficient. The 2 main supporters of this theory are: Stigler's (1971) theory of regulatory capture, which defends that regulation, is a booster of incumbent firms' profit, and Tollbooth view (MaCesney 1987) holds that regulation is pursued for the benefit of politicians and bureaucratic.

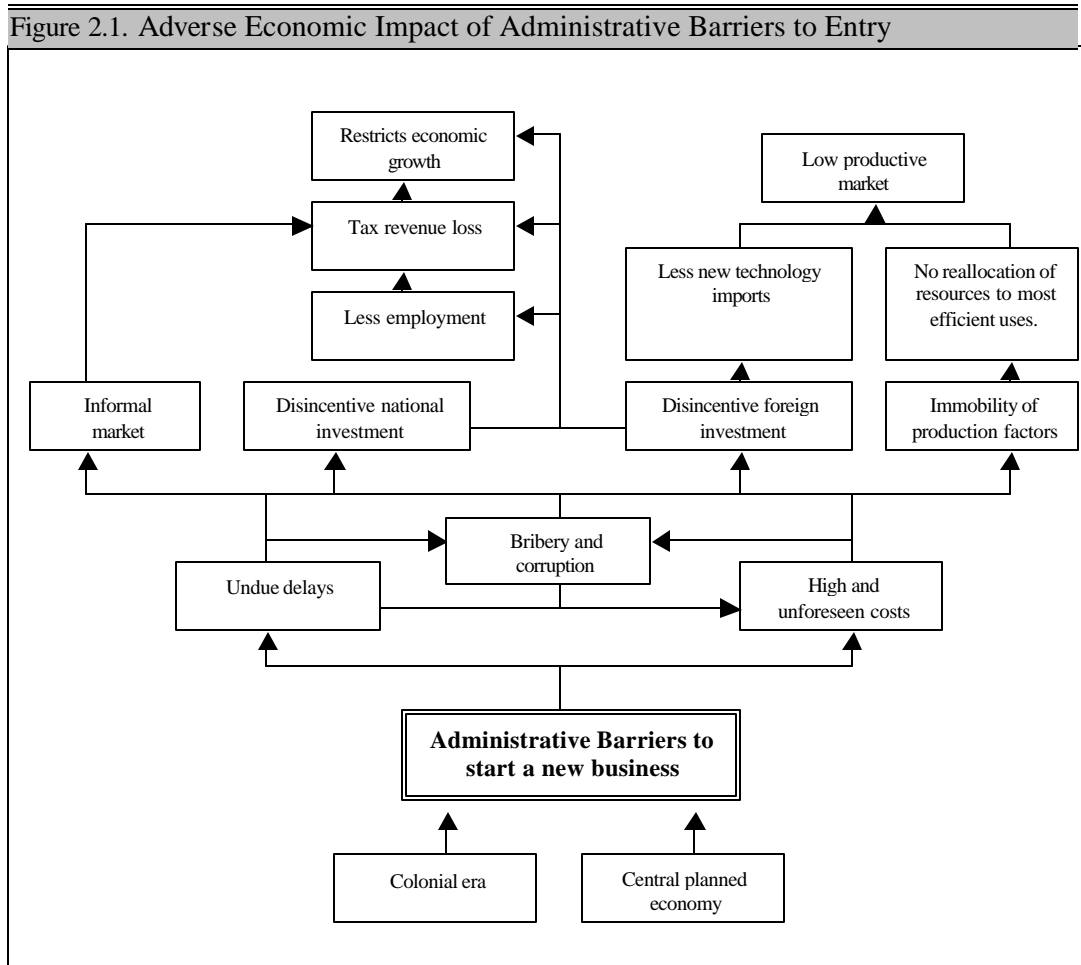
<sup>5</sup> Pigout was the first economist writing about Private Interest Theory

- 
- i. *Undue delays* (Morisset and Neso, 2002). To complete the procedures required by law, the entrepreneurs spend a lot of time understanding the complex and non-well divulged regulations, submitting some documents to some institutions and recognizing the signature.
  - ii. *Unforeseen costs*. As there are problems of handing the papers the time becomes unforeseen (Nasir et al, 2003).
  - iii. *Encourage bribery and corruption*. Morisset and Neso (2002) refer to corruption as both cause and consequence of high administrative barriers to entry. The unwished delays and costs encourage the investors to offer money to public officers in order to accelerate the process.
  - iv. *Discourage investment* (Morisset and Neso 2002). Foreign investor can decide to cancel the investment or invest elsewhere. National investors can decide to cancel the investment, operate in the informal market, or even invest in a foreign country, due to excessive delays, unforeseen costs and corruption.
  - v. *Informal market increase*. “A one -point increase of the regulation index (ranging from 1 to 5, with 5 being the most regulation in a country), *ceteris paribus*, is associated with an 8.1 percentage point increase in the share of the informal economy, when controlled for GDP per capita” (Schneider 2002).
  - vi. *Costly reallocation of resources to most efficient uses*. (Nasir et al, 2003, Bolaky and Freund, 2004). As there are some unwished procedures, costs and time spending to open a new firm, entrepreneurs do not reallocate easily their resources to avoid costs and time spending.
  - vii. *Creates a market with low productive firms*. The fact of not having an efficient reallocation of resources, combined with the possibility of having low foreign investment, creates a market with low productive firms, because there is less new technology importation and the incumbent firms do not feel foster to increase the productive to compete, once there cannot be considerable competition in the market (Nasir et al, 2003).



As small and median companies have few human and financial resources, they become more vulnerable to administrative barriers than large companies (Balcão Único de Zambeze, 2001).

Figure 2.1 summarizes the adverse impact of administrative barriers to entry.



Source: Author's own assessment.

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## **CHAPTER III: METHODOLOGY**

### **3.1. Introduction**

Given the relevance of the study the author felt forced to apply some resources to collect data, make several contacts and some trips.

### **3.2. Sampling**

The estimation of time needed to open a limited-liability company and the level of giving up was based on data of all limited-liability companies constituted in Sofala Province between 1995 and 2004, while the estimation of the lost for the province was based on samples.

Information on Tax and Employment was derived from a total of 109 limited-liability companies, of which 39 of them are clients of Contabil<sup>6</sup>. Additional information was gathered from the Government Fiscal Department. In this last case files from enterprises were picked randomly from the shelves. The ones that represented limited-liability companies were used and the others were returned immediately. A total of 70 enterprises represented the end sample in two Government Fiscal Departments.

Sampling on publication date and certificate acquisition date information was gathered from all the enterprises of Sofala, Maputo and Manica that published their statutes in Government Gazette in 2000.

The companies assessed in this dissertation are only limited-liability companies, because, according to the co-publication of World Bank and Oxford University Press (2004), these companies are the “most prevalent business form around the world”, and according to INE (2003), limited-liability Company is the second most prevalent business form in Mozambique.

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<sup>6</sup> Accounting, audit and administration company in Beira.

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### **3.3. Data Collection**

Besides the list of companies registered in First, Second and Special Fiscal Departments<sup>7</sup>, which did not have the date of registration, the author spent some time in computing from the books and files provided by the relevant institutions. The data was computed in a Microsoft Excel worksheet for a posterior analysis. Various interviews with relevant players in business licensing were conducted.

#### **3.3.1. Governmental Institutions Contacted and the Data Collected**

Several government institutions were contacted to collect data about the limited-liability company registration. A travel to Maputo was also made to contact the institutions that do not have a representing office in Beira, or whose representing officials were not available at a given time in Beira.

The Government institutions contacted includes: First and Second Notary Registries in Sofala Province, Government Gazette in Maputo, Commercial and Industrial, Public Construction and Habitation, and Tourism Provincial Directorates, First, Second and Special Fiscal Departments, Labor Provincial and National Directorates, and National Commercial and Fiscal Directorates in Maputo.

The data collected included: designation of all limited-liability company's constituted between 1995 and 2003, its respective social capital and date of constitution<sup>8</sup>; designation of 743 limited-liability companies of Sofala, Manica and Maputo that publicized their statutes in 2000, the date they registered it and acquired the certificate, and their social capital<sup>9</sup>; designation and date of licensing for limited-liability companies that obtained permit; designation and date of 189 limited-liability companies that obtained the tax number (finished the process) from 1999 to March 2004, the

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<sup>7</sup> It did not contain the date that the firms were legally allowed to operate. To acquire the date was necessary to check in the respective books.

<sup>8</sup> There were constituted 434 limited-liability companies in First Notary Registry and 484 in Second Notary Registry. This process was completed in six days.

<sup>9</sup> Republic Bulletin: Série III, 2000.

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amount of tax revenue collected by the Fiscal Department of some type of tax and the number of workers employed by a sample of firms.

### **3.3.2. Business Agents Contacted**

Some business associations were contacted to get help in terms of data, literatures and background about administrative barriers in Sofala. The commercial associations contacted are: CTA in Maputo (Trade Association Confederation), ACIS (Associação Comercial e Industrial de Sofala) and ACB (Associação Comercial da Beira).

Contabil and a consultant from Austral Consultoria e Projectos in Maputo were contacted.

### **3.4. Data Processing and Analyses**

The data collected about the constitution was computed in a Microsoft Excel Worksheet. All the other data<sup>10</sup> were included in the same worksheet according to the designation of constituted limited-liability company. The use of “Pivot Table”, automatic filters, combination of several formulas and Data Analysis<sup>11</sup> tools of Microsoft Excel allowed a certain degree of data analysis.

#### **3.4.1. Calculation of Time**

The formula used (days360) “returns the number of days between 2 dates based on a 360-day year (twelve 30-day months)”<sup>12</sup>.

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<sup>10</sup> Excepting data about the publication of limited-liability companies constituted in Maputo and Manica.

<sup>11</sup> Data Analysis tool is provided by Microsoft Excel when activated in Add In.

<sup>12</sup> Microsoft Excel XP explanation of the formula.

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As consequence of the limitation explained in chapter I, the analysis of time taken by limited-liability companies to complete the process was done for a period of five years (1998-2002).

### **3.4.2. Analyses of the Level of Giving-up**

It was assumed that the limited-liability companies which were not registered in the files of the 3 fiscal Departments of Sofala, gave up from the process. From the total number of firms constituted yearly, between 1998 and 2002, the share of those that gave up from the process was calculated.

Although the data about the acquisition of the tax number is from 1999 to March 2004, the analysis includes firms constituted in 1998. This inclusion is due to the fact that before 2000, the full licensing procedures used to take more than one year. Further, the inclusion of 1998 provides the extension of the period of analysis. The year 2003 was excluded because some limited-liability companies, constituted in 2003, mainly in second semester, could still be in the process, by March 2004.

It was assumed that the companies that gave up from the process did that as a consequence of administrative barriers to entry.

### **3.4.3. Economic Impact Analysis**

The calculation of losses was based on the gains that the province obtained from the firms that opened around the same timeframe, after completing all the licensing formalities. It was calculated the share of average social capital of the firms that gave up over of the firms that completed the process. This share is the percentage of investment not realized due to the existence of administrative barriers to entry in Sofala province. The same share was used to estimate the losses in terms of employment and tax revenue. It was assumed that the share of losses in terms of employment and tax revenue is equal to share of losses in investment.

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### **3.4.3.1. VAT revenue/losses Analysis**

The VAT (Value Added Tax) revenue considered was the liquidized VAT (account 443), which, in a simple business transaction, is the sum of Payable VAT (account 447) and the Supported VAT (accounts 1441-1443). See ‘Resolução 13/84’.

The payable VAT is that one, which the firm has to pay directly to the Fiscal Department. The supported tax is the one the firm paid to its suppliers.

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## **CHAPTER IV: ADMINISTRATIVE BARRIERS TO ENTRY IN SOFALA**

### **4.1. Some Social and Economic Performance Data**

Mozambique's economic growth has been appointed as satisfactory. In 1998 and also 2002 Mozambique was one of the fastest growing countries in the world. The rehabilitations of infrastructures and Foreign Direct Investment (FDI) inflow of mega projects has been appointed as the main factors of the spectacular growth of Mozambique.

The FDI inflow share of Mozambique in Developing countries increased from 0.039% in 1995 to 0.17% in 1999 and its FDI inflow growth rate was higher than the average for the world, 53% and 26% respectively (UNCTAD 2003).

Relative to that, Sofala's economic performance between 1996 and 2000 was not good. The provincial Gross Domestic Product (GDP) growth rate was ranked in the second worst place, with 3.6%. Manica had the second best economic growth rate (12.7%), after Maputo province (22.4%). In terms of provincial contribution to national GDP, in 1998 Sofala contributed with 11%, Manica with 5% and Maputo city with 34%. In 2000 Sofala's contribution had fallen to 8.6%, Manica's contribution maintained the same and Maputo city's contribution increased to 36.9%.

The good economic performance of Maputo city, results in a GPD per capita 5 and 7 times greater than that of Sofala and Manica provinces respectively.

According to INE, Sofala was considered the province with highest poverty incidence rate (87.9%) in 1997.

### **4.2. Investment of Limited-Liability Companies**

A total of 95 limited-liability companies were constituted in 1995 in Sofala, 10 more than in 2002. The number of constitutions increased from 1995 to 1997. 1997 was the peak (143 constitutions). However, for the subsequent 6 years the number of constitutions fell almost steadily, as can be seen from table 4.1.

Year of Constitution	Nr of Constitutions	Total Inicial Social Capital (USD)
1995	95	\$631.416,32
1996	131	\$2.420.322,08
1997	143	\$1.432.426,94
1998	128	\$1.750.858,35
1999	123	\$2.475.691,09
2000	105	\$1.146.527,68
2001	108	\$577.269,29
2002	85	\$2.705.425,77
<b>Total geral</b>	<b>918</b>	<b>\$13.139.937,52</b>

Source: First and Second Notary Department

As illustrated by figure 4.1, from 1995 to 2002 a total of 918 limited-liability companies were established in Sofala. It is interesting to note that the first four years accounted for 54.1% of the total number of companies established, while the balance of 45.9% were constituted in the last 4 years. 2002 was the year with the fewest number of new limited-liability companies constituted (less than in 1995).

Figure 4.1. Share of Limited-Liability Companies Constituted



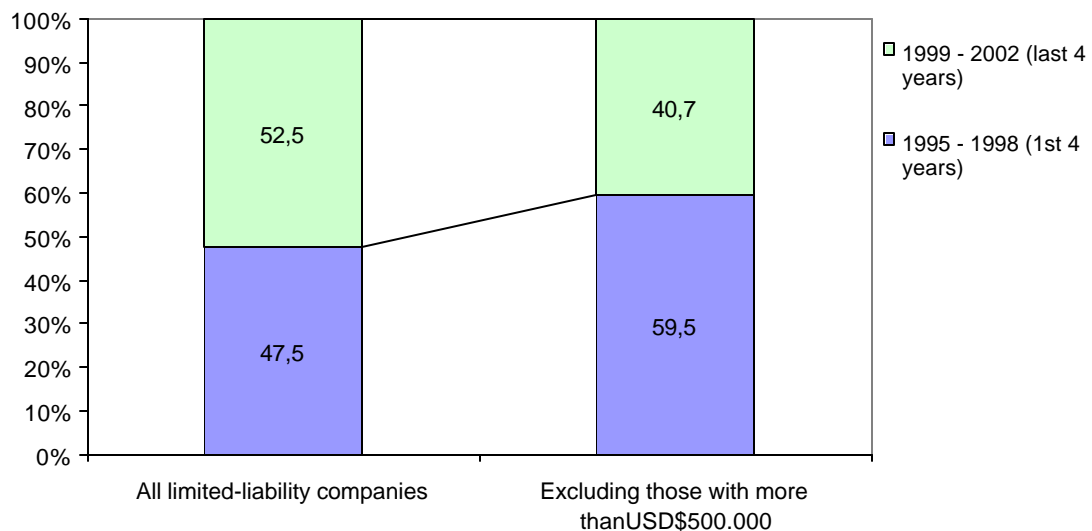
Source: First and Second Notary Department (Unpublished data).



The 918 limited-liability companies constituted during the 8 years declared a total social capital of US\$13,139,937.52<sup>13</sup>. Although in 2002 fewer companies were constituted than any other year, that year recorded the highest total capital declared in constitution of companies in Sofala. This is explained by the fact that 2 of the 4 largest limited-liability companies constituted in the last 8 years in Sofala (Promac, Lda and União Trabalhadores de África, Lda)<sup>14</sup> were established in 2002. If these 2 constitutions had not occurred, 2002 would have become the third lowest capital declared year of the period.

Figure 4.2 illustrates the investment trend in limited-liability companies for two phases (first 4 years and last 4 years), taking into account two different situations (considering all limited-liability companies constituted and excluding those limited-liability companies with a social capital declared at the moment of registering the statutes higher than US\$500.000).

Figure 4.2. Investment Trend in Limited-Liability Companies



Source: First and Second Notary Department (Unpublished data).

<sup>13</sup> The top 4 limited-liability companies, in term of capital, accounts for 35,5% of this amount.

<sup>14</sup> The capital declared by these 2 limited-liability companies sum \$1.875.000,00. This corresponds to 70% of total capital declared in limited-liability companies constituted in 2002.

The last four years show relatively good performance because of the four limited-liability companies with capital higher than US\$500,000, because excluding them, the last four years performed “less well” than the first in terms of number of limited-liability companies and in term of total capital declared by them.

### 4.3. Time

The average time taken by limited-liability companies to follow the procedures from constitution to tax number acquisition in a sample of 168 limited-liability companies has fallen from 462 days for firms constituted in 1998 to 185 days for those established in 2002. (See table 4.2).

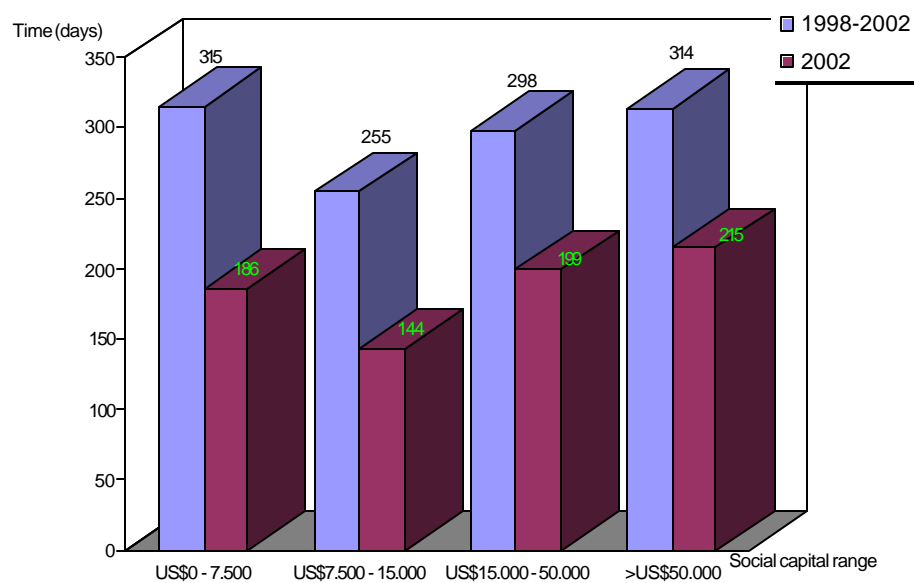
Ano Const. ▼	Average time	Nr of observation
1998	462	27
1999	335	41
2000	344	35
2001	216	34
2002	185	31
Total geral	305	168

Source: First and Second Notary Department.

The number of days in the table above refers to the average period of time, between the date on which the articles of a limited-liability company are recorded at a notary department and the date on which it is allowed to trade and invoice (Tax number acquisition).

Figure 4.3 illustrates that from 1998 to 2002 the average time taken by each limited-liability company to complete the licensing process was 305 days. Limited-liability companies with little capital (less than US\$7.500) and large capital (more than US\$50.000) are the 2 groups of firms which took more time to start a business, 315 and 314 days respectively. Limited-liability companies with social capital between US\$7.500 and US\$15.000 spent less time (255 days).

Figure 4.3. Time to Start a Business by Firms with Different Social Capital



Source: First and Second Notary and Fiscal Departments.

The reasons for the firms with little social capital taking more time for licensing can be related to the fact that these entrepreneurs have fewer human and material resources to accelerate the process. Companies with large social capital normally import some materials needed or export some or all of their production, and so the licensing is authorized in Maputo, which takes more time.

The average time taken by firms of the 4 groups illustrated in figure 4.3 and constituted in 2002 fell significantly, in relation to the time taken in period 1998-2002. The time needed for the group of limited-liability companies with social capital between US\$0 and US\$7.500 improved in such a way that they are no longer the most time deficient category. In fact, this group now faces the second shortest time for business implementation.

From a sample of all 30 limited-liability companies, that published its statutes in 2000, was estimated the time that an entrepreneur need to publish the statutes after doing the registration in notary department. From all the time an entrepreneur needs to start a

business, 64% is spent in these first procedures. To proceed, the entrepreneur needs a notarised copy of Government gazette containing the statutes of the firm.

The institutions that an entrepreneur has to contact are located in different places. This fact delays the licensing process, makes it costly and has influence in the level of giving up. Sofala province does not have an “one-stop-shop”, where could be placed all the relevant institutions that an entrepreneur has to contact (FIAS and USAID, 2001).

#### 4.4. Level of Giving up

The table below shows the share of firms constituted in each year that gave up from the process before getting the tax number.

Table 4.3. Trend of the Level of Giving up

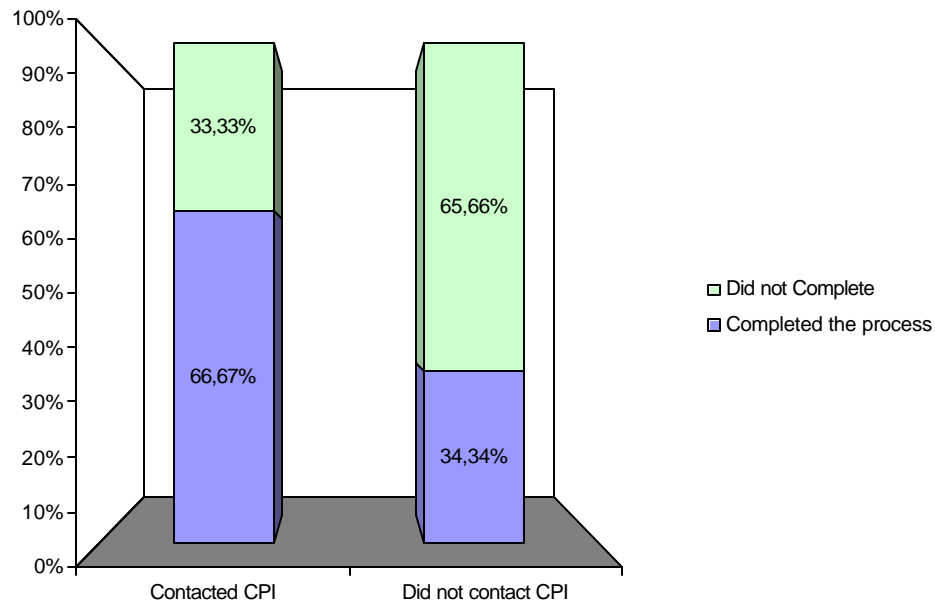
Share in the year	Const year				
Process Finishing	1999	2000	2001	2002	Grand Total
Completed	42,28%	43,81%	39,81%	47,06%	42,99%
Gave up	57,72%	56,19%	60,19%	52,94%	57,01%
<b>Grand Total</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>

Source: First and Second Notary and Fiscal Departments.

More than half of limited-liability companies that started the legal process of opening a company between 1999 and 2002 did not finish the process. That leads to the hypotheses that Sofala province did not gain what it could have gained with the entry of all companies.

Figure 4.4 analyzes the limited-liability companies that contact “Centro de Promoção de Investimento” (CPI) and if they are more likely to complete the process or not.

Figure 4.4. Level of Giving up Depending on the Contact of CPI



Source: CPI, First and Second Notary and Fiscal Departments

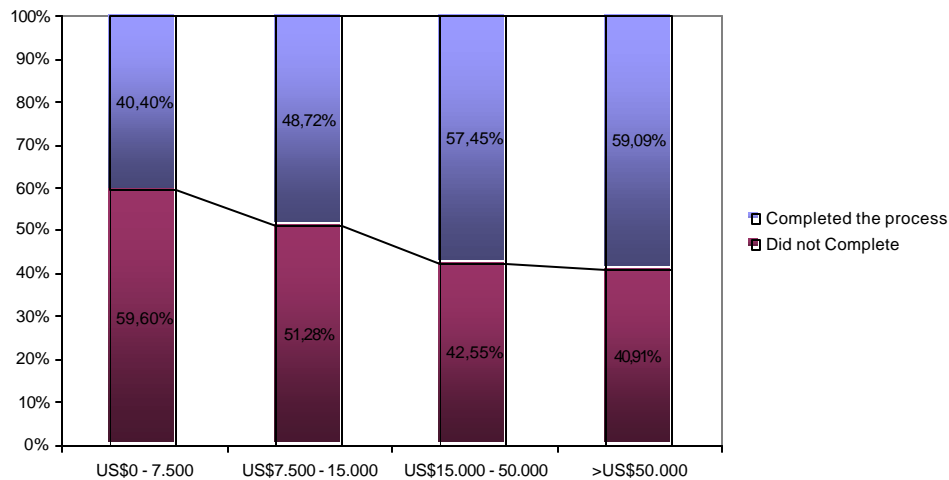
Some factors influence a successful process of registration: (1) contacting CPI prior to registering the company and (2) the company's size, as shown below.

As can be seen from the chart above limited-liability companies that contact CPI are more likely to complete the process than those which do not contact. Sixty seven percent of limited-liability companies that contacted CPI between 1999 and 2002 completed the process.

CPI is the national institution in charge for facilitating the establishment and operation of companies in Mozambique. According to FIAS and USAID (2001) many companies, mainly small and medium companies, showed satisfaction with CPI assistance in facilitating the licensing process.

A statement of the co-publication of the World Bank and Oxford University Press which argues that administrative barriers vary across firm size is mentioned in chapter II. That argument is supported by figure 4.6.

Figure 4.5. Level of Giving up According to the Capital Range



Source: First and Secondary Notary and Fiscal Departments.

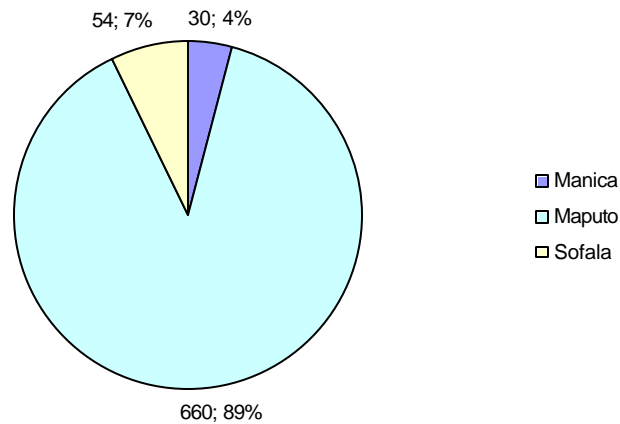
The larger social capital a company has the lowest is the probability of giving up from the licensing process. Limited-liability companies with a social capital less than US\$7,500 have a level of giving up of 59.6% while those with a social capital higher than US\$50,000 have a level of giving up of 40.91% (18.7 percentage points less).

#### 4.5. A Brief Analogy with Maputo area and Manica Province

Maputo, Sofala and Manica published 744 limited-liability companies' statutes in 2000. Maputo publications, with 89% of the total largely dominated the other two provinces. In the same year, 54 limited-liability companies that were constituted in Sofala, published their statutes. This refers to 7% of the total published by the 3 provinces.

The proportion of limited-liability companies that published their statutes by province of constitution is presented in figure 4.6.

Figure 4.6. Share of Limited-Liability Companies Publication in 2000.

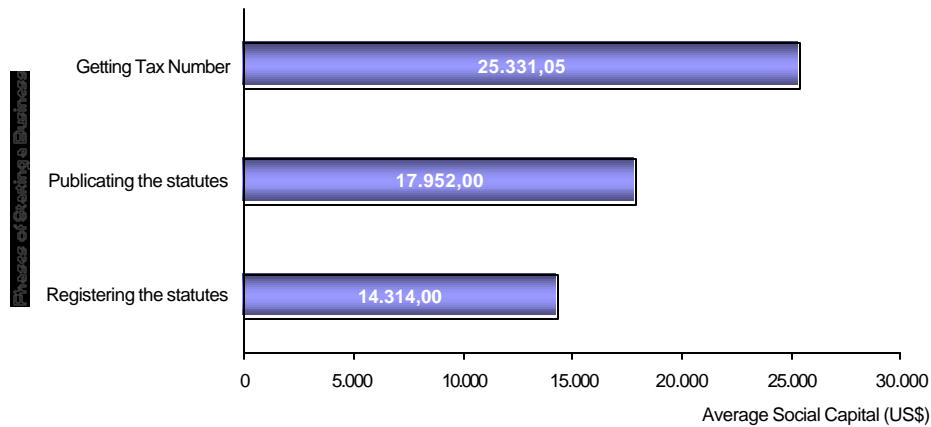


Source: Government Gazette, Series III, 2000.

In the constitution phase the average initial social capital for a company in Sofala is US\$14,314. Given the fact of low social capital firms give up at a higher rate than the high capital firms, in publication the average social capital for Sofala is US\$17,952. In tax number acquisition phase, the average initial social capital is US\$25,331 (79% higher than the average in constitution).

The figure below presents the average social capital per firm for those limited-liability companies constituted in Sofala that completed the procedures mentioned.

Figure 4.7. Initial Capital of Firms When Finishing Some Phases



Source: Notary and Fiscal Departments and National Bulletin.

In Maputo, at the moment of publication, average initial social capital for a limited-liability company is \$38.100 (112% higher than Sofala).

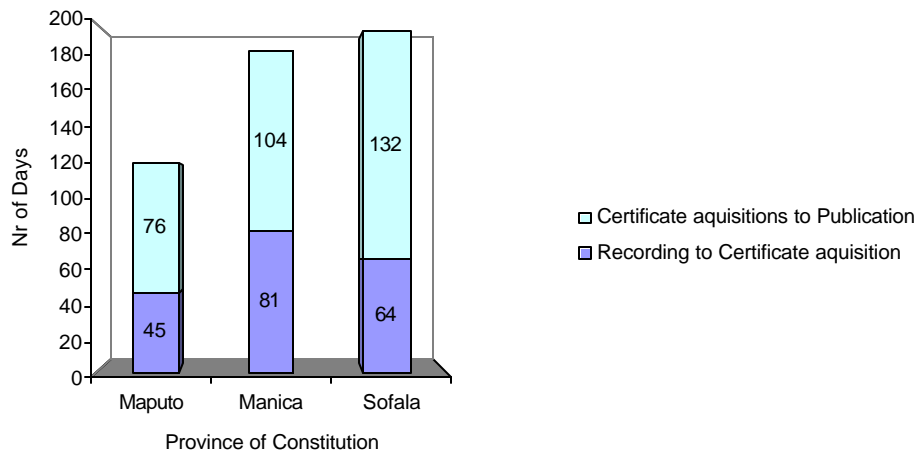
As the level of giving up is higher for firms with little social capital, it is more likely that the level of giving up in Sofala is higher than in Maputo.

On average, the difference of dates from statutes recording and publication of companies established in Sofala and Manica differs largely from those constituted in Maputo. In Sofala, 64% of the time to start a business is spent in recording the statutes, getting the certificate and publishing the statutes. That is explained by the fact of the entrepreneur being required to publish the statutes in Maputo.

Figure 4.8 presents the time taken by entrepreneurs from the registering of statutes to the certificate acquisition, and from there to publication of statutes, in 3 different areas: Sofala and Manica province and Maputo area.



Figure 4.8. Time to Publish the Statutes for Sofala, Manica and Maputo Firms.



Source: National Press

In Maputo the entrepreneurs take much less time at these two points of starting up a business than any of the 2 provinces referred to. This is understandable since National Press is located in Maputo. In Sofala, the certificate for publication is acquired in 64 days, which is less time than Manica. However the publication occurs after 132 days, which is much more than Manica (104 days). In 2000, from constitution to publication of statutes, an entrepreneur, used to spend 196 days in Sofala (6% and 62% higher than Manica and Maputo, respectively), 185 days in Manica and 121 days in Maputo.

## CHAPTER V: ECONOMIC IMPACT ON SOFALA PROVINCE

### 5.1. Some Economic Indicators

The average initial social capital for a company in Sofala is US\$14,314<sup>15</sup> (in constitution phase). A limited-liability company employs on average 17 workers (during normal operations), pays US\$ 9,680 of Collective Personal Revenue Tax (IRPC) and US\$7,987 of VAT in one year. The workers of a limited-liability company pay an average US\$2,130 of Singular Personal Revenue Tax (IRPS) in one year.

Table 5.1 summarizes some economic indicators of limited-liability companies.

Table 5.1. Some Economic Indicators for Ltd

	Average per firm
Investment	\$14.314,00
Employment	17
Tax Revenue	\$63.537,92
IRPC	\$9.680,17
IRPS	\$2.130,08
Liquidized VAT	\$51.727,67

Source: Notary and Fiscal Departments and Contabil

### 5.2. Direct Economic Impact on Investment, Employment and Tax Revenue

On average the number of limited-liability companies constituted per year is 115. From this number 65 companies give up before the end of the process, while only 50 complete the process. (See next table).

<sup>15</sup> Average for all firms constituted between 1995 and 2002.

Table 5.2. Average Level of Giving up in Sofala Province

Nr of firms that registered its statutes. (1995-2002)	Average nr of registries per year.	Average Nr of firms that completed.	Average nr of firms that gave up.	Average Level of giving up per year
918	115	50	65	57%

Source: Notary and Fiscal Departments

If there were no administrative barriers to entry in Sofala, the 115 new limited-liability companies that would start operating per year in Sofala would increase investment by US\$1,646,110, VAT payment by US\$5,948,682, Collective Personal Revenue Tax (IRPC) by US\$1,113,220 and employ 1955 workers, which would increase Singular Personal Revenue Tax (IRPS) in US\$244,959, in the first year. The derivation of these data is illustrated in table below.

Table 5.3. Direct Effect of New limited-liability companies in Sofala Economy if There Were No Administrative Barriers to Investment

	Nr. of new firms per year	Average value per firm	Effect in one year
Employment		<b>17</b>	<b>1955</b>
Tax revenue		<b>\$63.537,92</b>	<b>\$7.306.860,80</b>
IRPC	115	\$9.680,17	\$1.113.219,55
IRPS		\$2.130,08	\$244.959,20
VAT		\$51.727,67	\$5.948.682,05
Investment		<b>\$14.314,00</b>	<b>\$1.646.110,00</b>

Source: Authors` own calculations

As there are administrative barriers to entry, 57% of firms constituted give up each year<sup>16</sup>. Instead of having 115 new limited-liability companies per year, Sofala has only 50. It means that per year 65 constituted limited-liability companies give up from the process. As not all 115 constituted-limited liability companies complete the process, the increase in private investment, employment and tax revenue is less than that estimated in the table above.

<sup>16</sup> The assumption the reason for giving up is the existence of administrative barriers to entry.

It cannot be assumed that the loss of one firm that gives up is equal to the gain of one firm that completed the process. The table below shows that the number of firms that give up is higher than the number of firms that finish the process of starting a business. However, the social capital of firms that give up is smaller than that of those firms that finish the process.

The next table presents the trend in limited-liability companies' investment between 1998 and 2002, in terms of total and average social capital declared, the number of firms that gave up and of those that completed the process, and their respective proportions.

Table 5.4. Social Capital Share

Year of Constitution	Total Social Capital Invested (US\$)		Average of Social Capital (US\$)		Nr of Firms	
	Completed	Gave up	Completed	Gave up	Completed	Gave up
1998	774.091,86	976.766,49	14.886,38	12.852,19	52	76
1999	2.024.604,42	451.086,67	37.492,67	6.537,49	54	69
2000	641.875,77	504.651,92	13.099,51	9.011,64	49	56
2001	270.466,26	306.803,03	6.146,96	4.793,80	44	64
2002	2.415.548,75	289.877,02	57.513,07	6.741,33	42	43
<b>Total</b>	<b>6.126.587,06</b>	<b>2.529.185,13</b>	<b>25.421,52</b>	<b>8.211,64</b>	<b>241,00</b>	<b>308,00</b>
Share from total	70,78%	29,22%	75,58%	24,42%	43,90%	56,10%
Share of gave up from completed		41,28%		32,30%		

Source: Authors' own calculations

One firm that gives up would have invested, on average, 32.3% of the capital of one that completes the process. This means that, the benefit that the province would have gained by saving the firms that give up, in terms of investment, is 32.3% of the benefits from those that complete the process, on average. It is so because, on average, the firms that give up have less social capital than those that finish the process.

Instead of assuming that the losses of one firm that gives up is equal to the losses of one firm that completes the process, to correct for the distortions that the difference of size can bring, it is assumed that the losses in employment and tax revenue is of the same share as the losses in investment (32.3% of the gain from those that finished the process).

The economic impact in the first year is illustrated in table 5.4.

Table 5.5. Economic Impact of Administrative Barriers to Entry in the First Year

	Nr. of firms gave up	Value per firm	Share of loss	Losses	Nr of observations
Employment		17		357	73
Tax revenue		<b>\$63.537,92</b>		<b>\$1.333.979</b>	
IRPC	65	\$9.680,17	32,30%	\$203.235	39
IRPS		\$2.130,08		\$44.721	102
VAT		\$51.727,67		\$1.086.022	36
Investment		<b>\$25.421,52</b>		<b>\$533.725</b>	308

Source: Authors' own calculations

In the first year the province loses 357 work places, US\$1,333,979 in tax revenue and US\$533,725 in private investment. In the Second year, the economy loses the same amount by the giving up of new firms plus the tax lost by those that gave up in previous year. In the third year the loss is the same employment, tax revenue and investment of the first year (generated by the new firms) plus the tax that could be paid by those that gave up in the first year and by those who gave up in the second year.

Table 5.6. Economic Impact During 5 Years

	First year	Second year	Third Year	Fourth year	Fifth year	In 5 years
Employment	357	357	357	357	357	1785
Investment	\$533.725,00	\$533.725,00	\$533.725,00	\$533.725,00	\$533.725,00	\$2.668.625,00
Tax revenue	\$1.333.979,00	\$2.667.958,00	\$4.001.937,00	\$5.335.916,00	\$6.669.895,00	\$20.009.685,00
Of first give up	\$1.333.979,00	\$1.333.979,00	\$1.333.979,00	\$1.333.979,00	\$1.333.979,00	\$6.669.895,00
Of second give up		\$1.333.979,00	\$1.333.979,00	\$1.333.979,00	\$1.333.979,00	\$5.335.916,00
Of Third give up			\$1.333.979,00	\$1.333.979,00	\$1.333.979,00	\$4.001.937,00
Of fourth give up				\$1.333.979,00	\$1.333.979,00	\$2.667.958,00
Of fifth give up					\$1.333.979,00	\$1.333.979,00
Total	\$1.884.468,31	\$3.218.447,31	\$4.552.426,31	\$5.886.405,31	\$7.220.384,31	\$22.762.131,53

Source: Authors' own calculations

Employment was incorporated in total cost by the amount of wage expenditure that new limited-liability companies would spend, considering the minimum wage (US\$46.96). For a better understanding of tables 5.5 and 5.6 see appendix 4.

The result of this analysis shows that in five years Sofala loses more than twenty million US dollars in tax revenue, 2.6 million US dollars in investment and 1785 work places.

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## **CHAPTER VI: CONCLUSION AND RECOMMENDATIONS**

### **6.1. Conclusion**

The time to start a business has been falling in the last few years. While in 1998 the average time to start a business was 462 days, in 2002 the average was 185 days. However, administrative barriers to entry, when measured in terms of the level of giving up, are not falling. They are still very high. On average 57% of constituted limited-liability companies give up from the registration process.

Companies that most suffer from the high level of administrative barriers are the small companies. Small limited-liability companies have a higher level of giving up than limited-liability companies with large capital from the beginning to the end of the process. Thus, while the Province is not losing as much money from lost investment as might be perceived, it is still roughly 32% worse off as a percentage of the companies that completed the process.

An entrepreneur spends more time registering, getting the certificate and publishing the statutes when investing in Sofala province than in Manica or Maputo area. In terms of social capital, entrepreneurs that invest in Sofala have lower social capital than those that invest in Maputo.

The high level of administrative barriers in Sofala limits its economic growth, because the province loses in terms of private investment, employment and tax revenue. The study estimates that Sofala province loses more than twenty million US dollars in tax revenue, 2.6 million US dollars in investment and 1785 work places during five years (taking into consideration some assumptions). Sofala province cannot economically perform as well as the county does, while administrative barriers to entry persist.

As the entrepreneurs are not responding to the fall of the number of days to start a business, one can conclude that the number of days is still too high and that the decrease of time might not be enough to increase the formal market share. An additional conclusion could be that time is perhaps not the ideal indicator of administrative barriers to entry in Sofala province. It might be better to use the level of giving up as an

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indicator of administrative barriers to entry rather than simply the time factor, for the case of Sofala province.

Due to the obvious negative impact the administrative barriers to entry in Sofala province, leading to limited economic growth in Sofala province, it is important to reduce these barriers. The bottleneck found within the registration process sits in the phase of registration to publication of statutes. At this stage the entrepreneur spends 64% of all time to start a business. To proceed, the entrepreneur needs a notarised copy of Government gazette containing the statutes of the firm. To reduce the administrative barriers in Sofala it is important to take into account this bottleneck.

## **6.2. Recommendations**

The adoption of the following suggestions should be made in phases to allow adaptation and identification of any suggestion that might result in unwished effects. Before adopting any change the Government should contact the private sector to get their ideas on constraints, feelings, suggestions and commitment.

The suggestions are:

- creation of a “one-stop-shop” as a joint institution which is responsible for all stages of the registration process.
- computerization of the process,
- training of officials to give assistance to the entrepreneurs, and
- procedural changes, such as dropping out some procedures and postpone others for after the business starts.

“One-stop shop” is already a reality in the country. It was implemented in Zambeze and Tete provinces. According to the CTA logical matrix of activities for the year 2004, presented in its website, it is planned to simplify and accelerate the business licensing in Mozambique, through the creation of “one-stop-shop” in more provinces of the country.

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The implementation of this suggestion should consider the constraints that some countries faced when implementing such measures.

The implementation of “One-Stop-Shop” shall not be done by giving to one government agency all the authorities for all procedures, but by delegating staff from all licensing authorities, which shall establish their offices in the same locale. This is to minimize the possible resistance by some government agencies, once empirical evidences show that usually there is a significant resistance by the various government agencies responsible for different procedures.

The CPI agency should also be established around the country, because the level of giving up in Sofala is low for companies that contact CPI. To improve the benefits derived from the existence of CPI, this institution should provide licensing assistance.

“One-Stop-Shop” has to be computerized with easy manageable and efficient software, linking the institutions that an entrepreneur has to contact to start a new business. The officials have to be trained to manage it.

The officials shall be trained to handle the papers efficiently, assist the entrepreneurs politely and to provide them all with the necessary information about starting up a business. The trainings should be done frequently to keep the officials updated about the new legislations.

In conclusion, the present dissertation showed that barriers to start a business in Sofala are high and that they cause significant economic losses. To overcome this situation, Government and other stakeholders involved in the process should join their efforts to facilitate an easier process of formal business registration.



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## Appendices

### Appendix 1:

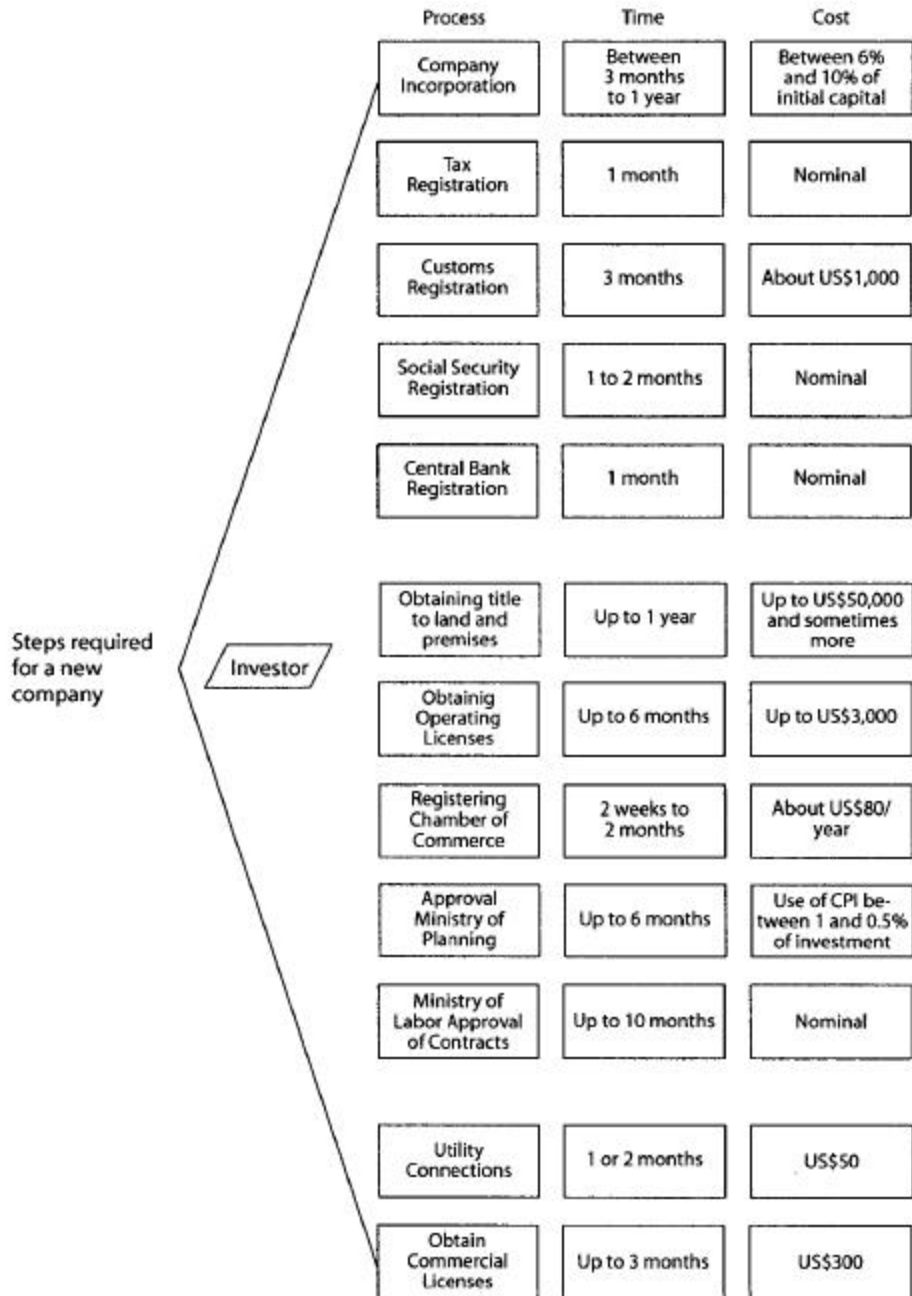
#### Mozambique: Setting Up a New Company

	Process	Approximate Number of Steps	Number of Institutions Involved
<p>Approximate number of steps and institutions in setting up a new company in Mozambique</p> <p>Investor →</p>	Company Incorporation	15 Steps	5 Institutions
	Tax Registration	10 Steps	3 Institutions
	Customs Registration	10 Steps	6 Institutions
	Social Security Registration	10 Steps	4 Institutions
	Central Bank Registration	4 Steps	4 Institutions
	Obtaining title to land and premises	25 Steps	7 Institutions
	Obtainig Operating Licenses	40 Steps	11 Institutions
	Registering Chamber of Commerce	4 Steps	3 Institutions
	CPI Approval Ministry of Planning	15 Steps	10 Institutions
	Ministry of Labor Approval of Contracts	3 Steps	4 Institutions (for foreign workers)
	Utility Connections	3 Steps	3 Institutions
	Obtain Commercial Licenses	10 Steps	9 or 10 Institutions

Source: Wells and Buehrer (2000).

Appendix 2:

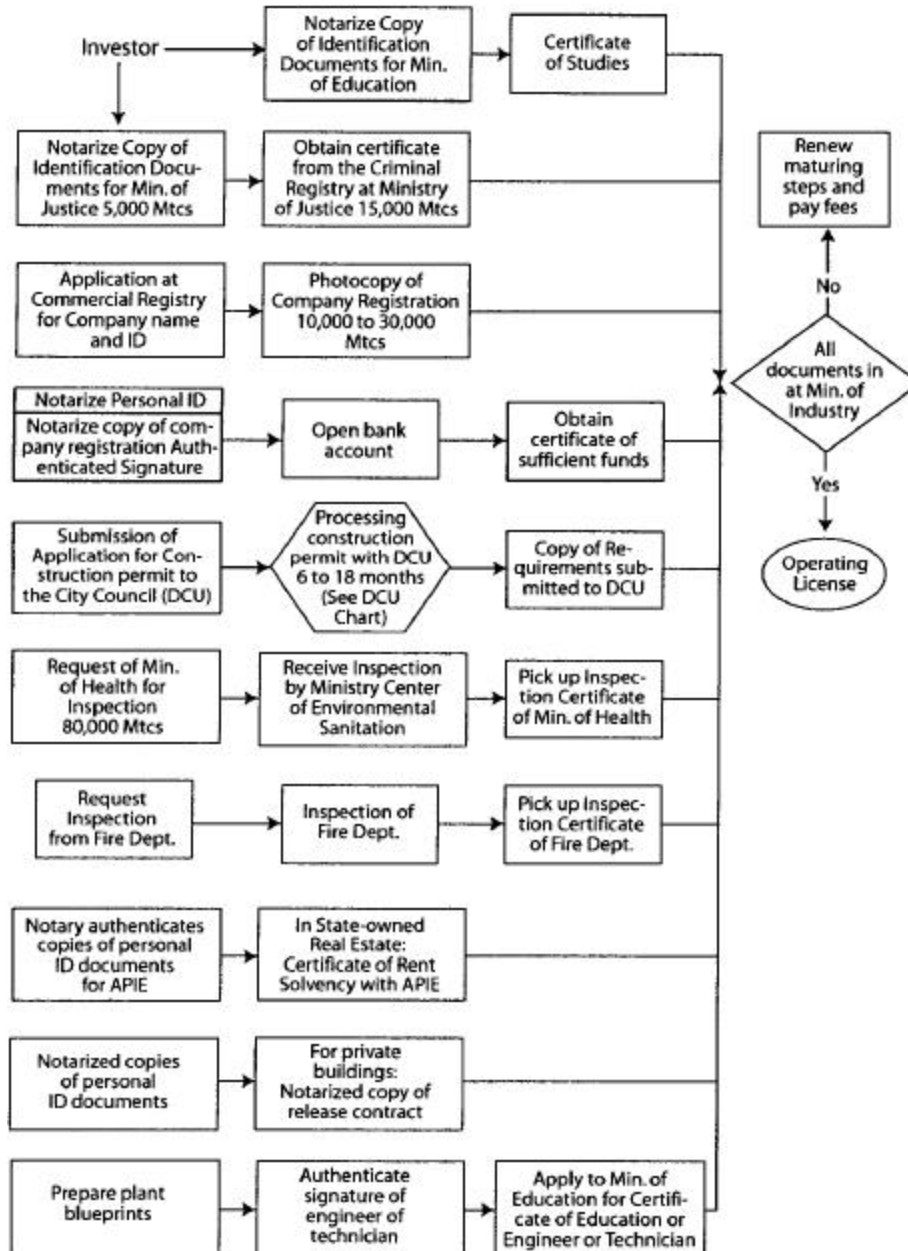
**Mozambique: Steps Required for a New Company**



Source: Wells and Buehrer (2000).

Appendix 3:

**Mozambique: Steps for Obtaining an Industrial License**  
(between 10 weeks to 1 year)



Source: Wells and Buehrer (2000).

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Appendix 4:

Formulas of Some Tables

Table 5.5:

Losses =

Nr of firms that gave up

x Value per firm

x Share of losses

Table 5.6:

Losses of year n =

n x revenue losses per year

+ Employment per year x minimum wage

+ Investment per year

Losses during n years =

(1 + 2+3+... n)

x revenue losses in year 1

+ [(employment per year x minimum wage) + investment per year] x n

Data used in table 5.6 are those of losses in table 5.3.