

Full Length Research Paper

Effect of simplified licensing on registration and formalizing of start-ups in Mozambique

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The Mozambican Government has long realized that the only way to solve the unemployment problem is by encouraging entrepreneurship amongst the youths through the formation of small enterprises. Legally operating enterprises will also contribute to the government's coffers through taxations, exercise duties and contributions to the provident fund. The government introduced two accessible licenses for small firms namely the convenience license and the simplified license with the hope that more enterprises will start-up and those operating informally will register and legalize their activities. A study was carried out in Greater Maputo representing Mozambique as a whole to determine if these simplified licenses actually ease the registration of start-ups and informal firms. A sample of 485 small firms was drawn from the population of firms in Greater Maputo, using stratified random sampling method. Face to face interviews were conducted using structured, close-ended questionnaires to collect primary data. The study employed the quantitative methodology, and data were analyzed by the use of descriptive statistics that generated frequencies and percentages results. The study found that although a lot of red tapes and hindrances to firms licensing were eased, the new measures were still inadequate to bring about more small firms registration, and attract those operating informally to become formal. It was suggested that more reforms in the licensing structures be implemented, including the removal of registration fees for the first years of operation and allowing tax exemptions of up to five years for newly formed small firms.

Key words: Convenience license, provident fund, simplified license, small firms, taxation, youth unemployment.

INTRODUCTION

Previously, the Mozambican Government implemented licensing schemes for start-up entrepreneurs that required lots of paperwork and long bureaucratic procedures. In recent times the Mozambican State has

enacted two types of less austere licenses in order to facilitate the registration of start-up firms and encourage the numerous small firms operating informally in the country to formalize their activities and contribute to the

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fiscal coffers of the state. The convenience and simplified licenses were therefore conceived as the solution to speed and ease the registration process. This study carried in Greater Maputo, scrutinized the nature, the arrangement and requirements of the two licensing structures, and determine from the small firms' perspective if they found the licenses ideal for the promotion of more start-ups or registration of informal firms. The study found that the procedures towards acquiring the licenses were still burdensome to many small firms, especially those whose owner managers had to scratch their meager funds to start their enterprises. Considerable numbers of informal firms were weary of the taxation implications and registration requirements and preferred to remain informal. To this extent, the study recommended that the licensing structures be reformulated to make them more easily accessible and affordable to start-up firms and more encouraging for those firms operating informally to register and become formal.

REVIEW OF RELATED LITERATURE

In describing a small firm, the assumption is that a small firm exists as an entity that has very few workers, very limited production or trade activities and very limited turnover (Berisha and Pula, 2015). Scholars such as Tommaso and Dubbine (2000) separate the characterization of a small firm by examining the approach in which economic theory demarcates the case of the small firm. The authors explain that there are four main approaches that explain the size of the firm, namely the technical efficiency approach founded on the concepts of technical and locative efficiency; the institutional efficiency approach where the crucial aspect is the relationship between efficiency and transaction costs; the imperfect competition approach which is based on market power; and lastly the dynamic approach consisting of dynamic models of the life-cycle of the firm (Tommaso and Dubbine, 2000). All these have ramifications on the welfare, the evolution, the competitive advantage and the survivability of the firm in the marketplace.

Growth is a vital observable fact in small firms according to (Rauch and Rijskik, 2013). There is little consensus in the existing literature on how to determine a firm's growth, and researchers have used a variety of different procedures. These measures include for example, increase of sales, workers, assets, profit, equity and other related factors (Douglas, 2013). In addition, the period over which growth is scrutinized in the literature changes significantly, normally stretching from one to several years. Furthermore, growth has been determined in absolute or relative terms. Perhaps the most common means of investigating an enterprise's growth is through relatively objective and measurable characteristics

(Mateev and Anastasov, 2010).

The small firm's survivability depends on the small firm's ability to compete in the market with other small firms and larger firms (Machado, 2016). As a confirmation, McKelvie and Wiklund (2010) reckon that expanding decreases the likelihood of demise of the small firm. Brush et al. (2009) however claim that some enterprises do not aspire for growth but others yearn for slow expansion even though they are successful as much as those that grow speedily. The reality is that a considerable number of new firms do not expand beyond the phase when they began their activities with the exception of the so-called "gazelles", or young enterprises with very fast growth (Machado, 2016).

Definition of micro, small and medium firms

Each country has a different way of definition when it comes to the small firm concept. There are classifications which are based on the number of employees, turnover or the industrial branch of the company (Robu, 2013). Storey (2008) mentions that size, referring to the number of employees may be the most suitable defining term, given the heterogeneity of enterprises operating in this division. Nkuah et al. (2013) assert that the main factors determining whether a company is a small firm include number of employees and either turnover or balance sheet total. On the other hand, Okpara (2011) and Doe (2014) describe small firms as non-subsidiary, independent firms, which employ less than a given number of employees. Compared to larger enterprises, small firms tend to use less capital per worker and generally have the tendency to use capital productively. According to Hussain et al. (2012), small firms have significantly higher value-added to fixed assets ratios. Small firm's choice of techniques is thus coherent with factor availability especially for a labor-abundant economy (Jones and Tarp, 2012).

Other than these, there are some more indicators, of smaller importance, like social capital or accessed credit (Robu, 2013). The definition of micro, small and medium firms in Mozambique according to United States Agency for International Development (USAID) is: micro, having between 1 to 3 employees; small having 4 to 49 employees; and medium enterprises having between 50 and 100 employees (USAID, 2014). This study will be confined to micro and small firms in Mozambique; those at start-up and informal firms already in existence.

Formal and informal small firms

Mozambique is characterised by informal businesses. According to the USAID (2014) report, 77% of the labour force is involved in informal activities. Workers in the informal sector are not recognized by the department of

labour, and are not registered with the provident fund. Some revisions in the labour laws have been made in recent times with the enacting of the labour law of 2007 (Law No. 4/2007; USAID, 2014). Among other things, the law broadened social security coverage to the informal sector to allow employees in this sector to be covered by social security programs. According to Cheema and Atta (2014) when the economy is overwhelmed with informal business activities reflects the prevalence of disguised unemployment. Erdogan and Bauer (2009) and Olubukola (2013) describe disguised unemployment to the situation where surplus manpower is employed in an activity out of which some individuals have zero or almost zero marginal productivity such that even if they are removed the level of output remains unchanged. In Mozambique, disguised unemployment is present in both formal and informal businesses, but it is mainly concentrated in the informal sector. The labour market remains overshadowed by low productivity. Put differently, Jones and Tarp (2012) assert that the economy fails to generate sufficient high quality jobs that effectively translate macroeconomic growth into welfare gains. Jones and Tarp (2012) assert that despite the fact that most of the youth population is economically active only a minority is fully employed and 75% of these youths are engaged in petty informal activities, such as selling merchandize on street pavements. The reasons that so many youths enter into informal unemployment originate from the simple fact that there is no formal employment available, and the government is not doing enough to turn informal ventures into formal businesses (Yeh and Santos, 2009). The scenario in Mozambique where start-ups are funded almost entirely from personal funds tends to keep the small firms in the shadows of informal sector where business activity remains unknown (Sawaya and Bhero, 2017). This may encourage tax evasion because one may feel that no assistance came from the state, hence there is no obligation to be rendered to the state.

The role of small firms in the economy

Small firms are foundations of new ideas, a basis for employment creation and economic growth (Berisha and Pula, 2015). Consequently, small firms are a stepping stone to the world of entrepreneurs, and although only a few small firms would grow to be large enterprises, it is also true that only a few large enterprises did not begin as a small firm. Small firms are a product of entrepreneurship, and are endowed with the prospect of generating direct and indirect employment especially for young people. Small firms are recognized as an engine of growth in Mozambique. Micro and small firms are not only the fastest growing sectors in Africa and Mozambique, they are also considered an outlet for indigenous entrepreneurship (Vletter, 1996; cited in Kauffman and Parlmeyer, 2000). In his assessment of the

small firm sector in Mozambique, Zimba (2015) reveals that although small firms represented a larger portion of all registered businesses in Mozambique employing close to 70% of all working population, they contributed to a modest 24.1% of the national income. Fox and Sohnesen (2013) mention that a lot of new jobs came about from start-up micro, small and medium enterprises rather than hiring within the existing small firms. According to Fox and Sohnesen (2013) out of all registered small firms in Mozambique, ninety-six percent are run by a single person with or without family help, while only 4% of the small firms reported hiring any worker outside the family.

The challenges of small firms

Etuk et al. (2014) and Abubakar et al. (2015) have listed the challenges facing small firms as lack of finance, markets, lack of trained manpower, inadequate infrastructure, low capacity of research and development in technology, globalization and unfriendly government regulations and policies. For example, Abubakar et al. (2015) lament on small firms inability to source marketing opportunities in Nigeria arguing that the problems of small firms in Nigeria are loose fiscal and monetary policies, multiple taxation, poor implementation of high interest rates, unstable foreign exchange regimes as well as high inflation rates. Etuk et al. (2014) reaffirm that these conditions make small firms the major victim so that not only are their competitive abilities reduced, but their mere existence becomes a struggle.

Small firms encounter a lot of challenges from start-up, during the nurturing phase and in later years of growth. Small firms on their own cannot wither the strains and challenges of development without support. One major area that can offer support to small firms is from the governments. Government policy on business development of small firms is one important factor determining their survival and growth. There is little scope for a common set of policies either from governments or the private sector, and logical tools to be successfully deployed in addressing the small firms issue including challenges that directly face this sector (Ong'olo and Awino, 2013). Statistics gathered by Doe (2014) in Ghana for example indicate that 70 percent of micro and small firms registered in that country do not start at all and 80 percent of those that start end up not being registered.

The theory of licensing and registration

For any business entity to operate in any country they require a license issued by a government authority. A licence is a permission granted to someone upon application to a controlling authority to perform a certain

activity in a prescribed manner, normally after satisfying certain conditions including payment of a determined fee (Gellhorn, 1956). The Kampala City Council Authority (KCCA, 2017) defines a trading license as an authorization given by government organizations that permit potential entrepreneurs or organizations to carry out business within the government's jurisdictional zone. There are often many licenses, registrations and certifications required to conduct a business in a particular area depending on the type of activities. Normally a potential licensee provides details of his activities and location of the business. Other determining aspects may include the number of workers, the configuration of the business setup, its members and shares (if applicable) such as sole proprietor or corporation (Antoniak, 1995). Under normal circumstances, a business or any other functioning activity may be censured by the government if it is found to be carrying its activities without a legal license. Therefore licenses are vital and indispensable features of contemporary economies.

Governments depend on licenses to regulate a wide range of human activities, from commercial entities and professional endeavours to dangerous and environmental sensitive operations (Dreschler, 2001). According to Antoniak (1995) an organization dealing with hazardous chemicals for example, will have stricter license requirements than a trading firm selling clothes and shoes. Governments impose licenses in order to track business revenue, and in some cases protect the public from activities that could be of moral or physical predicament to them. Applicants for licenses are obliged to fall under scrutiny of the issuing authorities to determine if they are fit to engage in the particular activity. Before the granting of a license, the applicant is obliged to meet certain criterion, for example a road license requires the applicant to be over 18 years of age, must have passed the driving exams and having paid the stipulated licence charges (Dreschler, 2001). Having a license ensures that all stake holders in the business scene are subjected to regulations and payments of their tax dues to the government without exemptions (Ighobor, 2013). Having unregistered business operators trading in anonymity without a license creates unfairness to those having a valid license and are recognized by the authorities. As Vletter (1995) mentions, in the case of Mozambique formal and licensed sector shopkeepers and licensed traders complain that unlicensed vendors undercut their profits because of unfair competition (selling illegally local and imported goods and avoiding income tax).

The prohibitive nature of launching small firms

The facts presented in the literature review demonstrate that lack of funding is the main hindrance for small firm

start-up and sustainability. Even if entrepreneurs eventually use their personal meager funds or gifts from families to start small firms, they encounter challenges in launching the enterprises as a result of prohibitive and numerous procedures during registration. Some of the hindrances include high fees to pay for the licenses, lots of paper work in formalizing the processes; and soon after launching the enterprises they face unfriendly taxation regimes, and payment to provident fund as contribution for their workers' safeguarding. Roberts (2003) reveals that the more cumbersome procedures for small firm registration in Mozambique include emission of licenses, which entail publishing articles of association, registering with the chamber of commerce, registering for taxes at the finance ministry, inspections and notarizing certificates. According to Jones and Tarp (2012) the vast majority of Mozambican youth are forced into the informal sector, characterized with few support programs. Jones and Tarp (2012) affirm that informal activity is usually difficult to quantify. The National Institute of Statistics (INE) affirms that a firm is formal only if it complies with the following conditions: (i) if it is registered at the provincial level with the commerce department, or the finance department; or (ii) if it is in possession of an official document, either a license or a registration record (INE, 2006).

The other obstacle for start-ups and informal firms attempting to formalize, are the fiscal requirements imposed on them at the nascent stage and at the very early phase of firm's growth. The taxation regime has not been restructured to favor small firms that are vital for employment creation especially for the youths in Mozambique. According to Roberts (2003) until the last decade (a fact that is still unresolved up to the present moment; IPEME, 2018) government policy on taxation and duties to small firms was not well defined. Roberts (2003) revealed that corporate income tax of 30 percent is the same for all businesses regardless of size. Import duties on consumer goods are at 20% and between 0-7.5% on raw materials; fuel, equipment and intermediate goods. Social security is 7% of the employee's wage of which 3% comes from the contributor's wage and 4% is paid by the business.

The Mozambican Government has recently established more flexible registration licenses for start-ups and informal small firms in order to attract the registration of new enterprises and formalization of existing informal businesses. Only recently, according to Zitamar News (2016) has the government of Mozambique begun implementing measures to extend tax exemption to small registered miners who were on the verge of closing their operations and turn into illegal mining activities due to very high taxation. In another turn, the government has attempted to relieve the tax burden to small firms by passing the new Municipal Finance Act to alleviate the tax burden on small vendors by enacting the Simplified Tax Regime for small businesses.

Table 1. The convenience License: acquisitions and requirements.

Issuing authority	License duration	Requirements to obtain the license	Costs of acquiring License	Taxations and fiscal requirements
Local municipal district offices	One year (renewable)	(i) Presentation of identification papers. (ii) Tax identification number. (iii) Receipt of Municipal Tax. (iv) Registration of title of Occupation of the operating space/land (if space is declared). (v) Declaration of the neighborhood where the applicant exercises the activity. (vi) Inspection by Municipal Police (in case the licensee has premises).	(i) Documentation and license authorization: Between 200 -1500 MT (if a premise exists).	(i) Payment of VAT of 17% for products sold with respective receipts. (ii) Contribution to the Provident Fund for workers employed (in case the business has employees) at 7%.

Source: Ministry of Commerce and Industries (MIC, 2017; Ministério da Indústria e Comércio).

METHODOLOGY

The strategy for carrying out the study postulated on the premises of the existing enterprises registration procedures in Mozambique by determining how the construe of the current licensing and registration regime is being enforced at present with the introduction of the two most accessible licensing structures designed for start-up enterprises and the legalization of informal firms.

The objective of the current study

The objective of this study is to compare and contrast the current registration and licensing requirements for small firms, and the taxation procedures applicable to small firms in Mozambique. After scrutinizing the licensing methods, the study will determine the shortfalls of the current schemes, determine if the system supports small firms at start-up and during the nascent stage, and suggest counter proposals for the registration requirements and taxation regime that will enable more small firms to register at start-up, and allow informal operating small firms to formalize.

There are several licensing formats in Mozambique depending on the nature of the business and the size of the enterprise. Out of these two main licenses are relevant to start-ups, nascent small firms and informal firms intending to become formal. These are the Convenience License (*Licença Precária*) and the Simplified License (*Licenciamento Simplificado*; Ministério da Indústria e Comércio (MIC); 2017).

Convenience license

This is the simplest type of license in force in Mozambique aimed at individual business activities, micro enterprises, and petty businesses especially those operating informally. The requirements for obtaining the license are detailed in Table 1.

The convenience license was conceived to enable petty traders and individuals with miniature concerns to register their activities. It

is also aimed at assisting start-up enterprises that start at very diminutive levels to be registered instead of taking the informal route (MIC, 2017). The government instituted this license with the expectation of updating its data base on the numbers, forms and types of business concerns that exist in the country. The second and perhaps the most important motive was to get businesses formalized in order to benefit from tax receipts in the form of Value Added Tax (VAT) that could be collected from business transactions of these enterprises. The hope was to encourage petty and micro firms to declare and register their workers (even if it is a single employee) to the provident fund so as to benefit from their contributions. The contribution to the provident fund is 7% of the gross salary. In the case of a self employed or single proprietor, the contribution to the provident fund is paid entirely by the proprietor (INSS, 2018).

Depending on the issuing municipal district, the convenience license does not come free of charge. Documentation and authorization fee of between 200 to 1500 MT is spent during the registration process. Sometime premises inspection is carried out by the municipal police, for those entities or sole proprietors operating from recognized establishment.

The simplified license

The second accessible license established by the Mozambican government to assist small firms is the simplified license. The convenience license is designed mainly for petty businesses, individual concerns or sole proprietors who are carrying out very small businesses, operating on very miniature scales; concerns that would normally function informally and in many cases without a secure operating establishments. The simplified license could also be applied to sole proprietors, but whose business entities are more organized and obligatorily, and operate in established premises. The nature and requirements for pursuing a simplified license are listed in Table 2.

Acquiring the simplified license involves more procedures than the convenience license. The issuing authorities are different, but the advantage of the simplified license is that it has no time limit.

Table 2. The simplified license: acquisitions and requirements.

Issuing authority	License duration	Requirements to obtain the license	Costs of acquiring license	Taxations and fiscal requirements
Single Attendance Desk (BAÚ); Municipal Councils within its area of jurisdiction (where there are no BAÚs); District Governments-District Services for Economic Activities (SDAEs), where there are neither BAÚs nor Municipalities.	Without limit	(i) Presentation of identification documents. (ii) Tax identification number. (iii) Receipt of Municipal Tax. (iv) Presentation of title of occupation of the operating space / land. (v) Declaration of the neighborhood where the applicant will exercise the activity. (vi) Declaration in the form of Terms of Commitment, by the applicant (undertaking to assume all conditions imposed in the occupation of the land where the applicant will carry out the activity). (vii) Inspection on business premises to be carried out by: (a) Representative of the local administrative authority; (b) Representative of the local health agency; (c) Representative of the fire services; (d) Other entities by reason of the matter.	(i) Inspection 3152 MT; (ii) License to exercise activity of trading and services sector 50% minimum wage (2128MT) (iii) For industrial sector, fixed rate of 4728,00MT.	(i) Payment of VAT of 17% for products sold with respective receipts. (ii) Contribution of 7% of worker's wages to the Provident Fund: 3% from workers' wages and 4% from the company. (iii) Simplified tax for small enterprises: (iiia) Annual fixed tax of 75 000MT. (iiib) Or a tax rate of 3% over yearly sales. (iiic) For first year of operation a deduction of 50% on tax is offered.

Source: Government Gazette (Bulletin da República, 2017).

The applicant needs to prove ownership of the establishment where the business will be carried out, or a rental agreement arranged with the owner of the property. Once it starts operating, the business establishment is subject to inspection by representatives of the local administrative authority, health agency, fire services and other relevant entities. The inspection fees are charged at a flat rate of 3,152 MT. There is an additional licensing fee of 4728,00 MT charged for simplified licenses of industrial or mining nature (MIC, 2017).

Simplified licensing is subject to more taxation procedures compared to convenience licensing. Besides the payment of the compulsory VAT on all goods or services sold, there is the so called simplified tax for small enterprises rated at 3 % on goods sold, or services rendered, or an annual flat tax rate of 75000 MT. A consolatory discount of 50 % on the tax rates is sometimes rendered to start-up firms. Simplified license holders are obliged to contribute to the provident fund for the workers they employ. The disbursement is at the rate of 7 %, where the firm pays 4 % and the employees contribute the remaining 3% of the amount.

The design of the study

After scrutinizing the two most basic licensing options the study proceeded to answer the study problem whether the licensing schemes were supportive and accommodating for small firms' registration and formalization in Mozambique. The research problem was analyzed in conformity with the following suppositions.

- (i) If the small firms found the license issuing authorities accessible.
- (ii) Whether the small firms could effortlessly gather the required

documents for registration.

(iii) Finding out if the small firms could afford payment of the registration fees.

(iv) Determining if the small firms could meet the taxation and provident fund requirements.

To answer the research problem based on the premises of these four questions, a study was carried out in Greater Maputo representing Mozambique as a whole involving a sample of 485 SMEs chosen from a population of small firms based on stratified random sampling. This method of random sampling was chosen in order to give fair representation of the views of both license holders. The samples were divided into two portions whereby convenience license holders were represented by 243 firms and the remaining 242 samples came from simplified license holders. Data were collected through interviews carried out on face-to-face approach, using structured, closed ended questionnaires. Data were processed using the SPSS program, with the assumption that it was non-parametric data that entail less theoretical efforts resulting in the process being faster and more user-friendly. The quantitative approach was used, whereby the study employed descriptive statistics, involving frequencies and percentages.

FINDINGS AND DISCUSSION

The following sections review the findings of the research problem presented in this study. The findings are discussed on the basis of divergence of views as per the following sections.

Table 3. Accessibility to license issuing authorities.

Factors of Impediments	Convenience licensing		Simplified licensing	
	Frequency	Percent	Frequency	Percent
Distance to the registration	28	11.5	26	10.8
Waiting time to be attended	143	58.9	148	61.2
Lack of registration material	2	0.8	2	0.8
Inadequate information	46	18.9	17	7
Not having all requirements	24	9.9	49	20.2
Total	243	100	242	100

Accessibility to the licence issuing agencies

Concerning the convenience licence, there were no significant complaints about accessing the municipal district offices. In the case of simplified licence, applications could be processed at the Single Attendance Desks (BAÚ). In the absence of these bureaus, applicants had the option of going to the municipal councils within their areas of jurisdiction. In few remote areas where both facilities were not available, potential entrepreneurs could approach district governments or district services for economic activities. Accessibility was thus not reported as a major hindrance for small firms' registration. The problem cited by an average of 60% of surveyed entrepreneurs (58.9 and 61.2%) as shown in Table 3 was the waiting time to be attended and unscrupulous officials who implanted unethical practises in the registration process (Appendix 1).

Corruption in all forms is a problem in exercising the smooth running of public activities. In their studies in several African countries, Ihua (2009) and Umar (2010) lamented that bureaucracy and corruption hindered and disarrayed the disbursement of government support to small firms. Corruption is usually ranked just behind lack of collateral and overall bad business climate as factors that obstruct small firms' progress in most African countries

The challenge of gathering documentations and other registration requirements

Acquiring the convenience license requires the entrepreneur to present personal documents, a letter from the community where the potential business owner lives and proof of payment of the municipal tax. In the case of a business entity operating from a fixed premise, the owner is required to disclose the location of enterprise, the nature of activities to be carried out, prepare the premise for inspection and make a commitment of fulfilling all conditions imposed in the occupation of the premise or land where the applicant operates.

Findings from the study as shown in Table 4 indicated

that nearly three quarters of convenience license applicants concealed that they operated from established premises to avoid presenting titles of occupation, thus avoiding inspectors from municipal council and paying inspection fees. The only convenience license holders who adhered to these requirements were those who wished to benefit from focused amenities such as internet connections, insurance coverage or bank loans.

Conversely, simplified license holders had to obligatorily adhere to the license requirement. They had to prepare for compulsory premises inspection from licensing authorities, health authorities and fire department. Simplified license holders are coerced to register with the finance department for tax purposes and to submit employees' register to the provident fund. As evidently portrayed in Table 4, around 40.1% of the surveyed simplified license owner-managers complained about the difficulties of accessing documents including the licensing bureaucracy besides the assurance from the issuing authorities that the licenses were easily accessible (Appendix 2).

Ability to meet the costs of registration and inspection

The cost of acquiring the convenience license is supposed to be free of charge; however there are hidden costs for example of acquiring application forms, notarizing certificates and preparation of supplementary supporting documents. In addition there is a fixed fee of 200 MT to pay for premises inspection for those having fixed trading or manufacturing zones. The amounts might appear to be small, but for petty traders who were accustomed to operating informally without paying any dues to the government, it is an issue for contemplation. From the study, Table 5 demonstrates that 75.3% of convenience license holders complained of hidden costs that were burdensome to them (Appendix 3).

The simplified license fees are set in two categories: sectors involved with trading and services and small scale manufacturing are charged at 50% of the minimum wage. The current monthly minimum wage for public administration workers is placed at 4255 MT (Wage-

Table 4. Ability to meet costs and requirements for registration.

Factors of impediments	Convenience licensing		Simplified licensing	
	Frequency	Percent	Frequency	Percent
Not operating in premisses	182	74.9	90	37.2
Hard to access documents	29	11.9	97	40.1
Not having funds at all	32	13.2	55	22.7
Total	243	100	242	100

Table 5. Registration costs and documentations.

Factors of impediments	Convenience licensing		Simplified licensing	
	Frequency	Percent	Frequency	Percent
High cost of registration	57	23.5	122	50.4
Hidden costs and documentations	183	75.3	117	48.3
Sub-total	240	98.8	239	98.7
Missing	3	1.2	3	1.3
Total	243	100	242	100

Indicator, 2018). Therefore 50% of this value amounts to a round figure of 2128 MT which needs to be paid to acquire the license. Enterprises that wish to set up activities categorized as industries, even at the micro stage are charged a flat rate of 4728 MT to acquire the license (MIC, 2017). The payment for premises inspection for simplified licensing is set at 3152 MT (Bulletin da República, 2017). From Table 5, half of the simplified license holders surveyed (50.4%), most of whom had dedicated their meager personal funds to launch their enterprises, found such fees exorbitant and cautioned that potential entrepreneurs might be discouraged from acquiring formal license unless they had other posterior motive, such as applying for bank loans, or benefiting from incubation programs aiming at upgrading trading and business management skills.

Determining the taxation and the provident fund requirements

VAT payments

Both the convenience and simplified license holders are required to meet the payment of VAT of 17% for products sold with respective receipts, although in reality the tax collection regimen is not rigorously enforced for the convenience licensees.

Under existing circumstances where petty traders are selling goods from home, or in the streets, it is challenging to collect the due VAT proceedings for those holding convenience licenses. Convenience license holders are not obliged to have fixed trading or services premises and not compelled to have organized accounts.

The study deduced that 80.2% of convenience license holders as exposed in Table 6, did not submit themselves to tax requirements, and even if they did, the amounts declared for VAT were minimal; a token to show that they traded along the year to qualify for renewal of the licenses for subsequent years.

Value added tax is effectively enforced to the simplified license holders because by law, they are required to present declarations of VAT payments after every three months and a financial report at the end of the financial year. The study found that it was a burden for firms at the nascent phase to comply with these fiscal requirements such that 60.3% of small firms surveyed under the simplified license category, complained that the taxation requisites were burdensome (Table 6). A majority of these firms were not making profits at the initial stages and most of them were still paying debts accumulated from friends, family members or informal lending arrangements such as the Xitique schemes (Cunha, 2014). Consequently the study suspected that a considerable number of previously registered firms had to close down or opted to continue their businesses on informal bases (Appendix 4).

Contribution of 7% of worker's wages to the provident fund

Table 7 shows that nearly 70% of start-ups and newly formed small firms (73.7% of convenience and 68.6% of simplified license holders) avoided hiring workers on permanent bases and preferred to use casual workers to avoid complying with provident fund requirements (Appendix 5).

The employer contribution of 4% of the workers' wages

Table 6. Submission of tax returns and implications.

Status of tax compliance	Convenience Licensing		Simplified licensing	
	Frequency	Percent	Frequency	Percent
Did not submit to Tax regime	195	80.2	36	14.9
I did submit to Taxation	15	6.2	57	23.6
Tax requirements Burdensome	30	12.4	146	60.3
Sub -Total	240	98.8	239	98.8
Missing	3	1.2	3	1.2
Total	243	100	242	100

Table 7. The Hiring of workers and contribution to provident fund.

Action taken	Convenience licensing		Simplified licensing	
	Frequency	Percent	Frequency	Percent
Not hired permanent workers	179	73.7	166	68.6
I hired permanent workers	62	25.5	75	31
Sub-total	241	99.2	241	99.6
Missing	2	0.8	1	0.4
Total	243	100	242	100

Table 8. Firms that received government Support.

Government support	Convenience Licensing		Simplified Licensing	
	Frequency	Percent	Frequency	Percent
Received government support	58	23.9	62	25.6
Never received government support	185	76.1	180	74.4
Total	243	100	242	100

to the provident fund was seen as an additional unnecessary cost to the nascent small firms. According to Table 8, an average of 75.3% of small firms (76.1% of convenience and 74.4% of simplified license holders), even those that had been in existence for more than three years complained of not receiving any type of support from the government in tax relief or exemptions (Appendix 6).

The feeling of being forsaken by the main stake holders, especially by the government gave the license holders the conviction that they were under no obligation to contribute to the coffers of the government.

CONCLUSIONS AND RECOMMENDATIONS

The government in Mozambique has attempted through various streamlined licensing schemes to solve the problems facing start-up firms in registering their enterprises and enabling those operating informally to become formal. Two main licenses have been constituted by the government including the convenience license,

issued by municipal districts aiming at petty business holders or those running very small operations mostly involving a single person, and the simplified license aimed at micro enterprises and other types of small business entities. By enacting these two licenses the government was convinced that the measures would go far enough to speed the registration and formalization of small firms and offloading the taxation burden imposed on small firms.

This study in Greater Maputo ascertained that even though the licenses were made simpler and convenient, and the taxation arrangements reviewed, the measures were inadequate to attract new start-ups, encourage informal enterprises to formalize and preclude already registered small firms from deregistering and resorting back to informality.

Based on these findings the following recommendations are suggested

The convenience license

(i) Issuing of the convenience license: The issuing

authorities may remain the same as they are at present, except that they should be staffed with more attendants especially in busy areas such as the city of Maputo to ensure that there are more registration centers in all the seven administrative districts. The same should be implemented to other major provincial capitals of the country.

(ii) License duration: The convenience license duration is valid for one year. The government should increase the duration to three years so as to give formalized petty traders and start-ups time to establish themselves and consolidate their activities. Having a one year renewable license may coerce some start-up firms especially those facing operational difficulties at the nascent stage to desist from renewing their licenses and move into informality.

(iii) Requirements for attaining licenses: The requirement for obtaining the convenience license should be further simplified. The exigencies for registration for the first two years of operation should be limited to presentation of personal identification, the tax identification number and the receipt of Municipal Tax. Towards the third year of operation the business owners could be required to present more documentation including the title of occupation of the operating space/land (for firms operating in an established space), and allow for inspection from public authorities.

(iv) Fees, taxation and fiscal requirements: The government should make the acquisition of documentations and registration for the convenience license completely free of all charges for the first operating year. Such actions would encourage more start-up enterprises and attract firms in the informal sector to formalize their activities. For the first year of operation small enterprises should be exempted from any VAT returns or contribution to the provident fund. Firms should start abiding by the requirements of the provident fund from the third year of existence and be encouraged to begin paying VAT after five years of operation. Assenting relief from taxation would inspire nascent firms to remain formal and become more financially stable in anticipation of meeting fiscal obligations when they grow and mature.

The simplified license

Soliciting a simplified license requires more procedures than obtaining the convenience license. In order to encourage more adherence to this form of licensing the following amendments to the issuing procedures are suggested.

(i) Requirements for obtaining the licenses: The requirements for handing out the simplified licensing

seem to be too exigent for a small firm, especially those at the nascent stage. All simplified license holders are required to present a title of occupation of the operating area, or sometimes the rental agreement. This exigency can remain in place, but it should only be enforced to the license holder after one year of operation. The inspection of the premises should be carried on the locations after two years of operation. This allowance would give start-up firms enough time to organize themselves so as to get their premises and supporting documents in order. The exigencies of inspections right at the beginning of operation and subsequent payment of inspection fees of 3152 MT may be burdensome to some new entrepreneurs, especially those operating informally and wishing to formalize their activities. An allowance should be given for the fees to be paid after two years of existence, and if possible in two installments.

(ii) Fees, taxation and fiscal requirements: Simplified license holders should be totally exempted from declaration of VAT proceedings for the first two years of operations. The requirements of VAT declarations should be gradually imposed to those firms that survive to the third year of existence. A five years exemption from the simplified tax declarations for small enterprises should be granted to this category of license holder to allow them ample opportunity of recovering their initial investments. It should be reminded that an overwhelming majority of the owner-managers of these enterprises started their businesses from personal funds, money borrowed from friends or relatives or from informal lending schemes. Only an insignificant proportion got assistance from banks or other formal financial institutions. Firms that survive for five years would be mature enough and feel obliged to start making fiscal contributing to the government.

With these measures in place, enterprises that have persevered in business for three to five years, and have established themselves as stable small firms, are unlikely to resort back to informality. After five years of survivability the businesses would have hired workers, made reputable commitments with clients and suppliers; some would have entered into financial commitment with banks and insurance firms. In summary, the small firms would be in a position to contribute to the provident fund, file VAT returns for goods or services rendered, and pay simplified or corporate taxes to the government at the end of financial years.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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Appendix 1: Summary of selected SPSS Extracts

Factors that made it difficult to access the licenses

Appendix 1 Accessibility to the license issuing agencies.

Licesite		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
Valid	Distance to the registration	28	11.5	11.5	11.5
	Waiting time to be attended	143	58.9	58.8	70.3
	Lack of registration material	2	.8	.9	71.2
	Inadequate information	46	18.9	18.9	90.1
	Not having all requirements	24	9.9	9.9	100.0
	Total	243	100.0	100.0	-
Simplified license holders					
Valid	Distance to the registration	26	10.8	10.7	10.7
	Waiting time to be attended	148	61.2	61.2	71.9
	Lack of registration material	2	.8	.8	72.7
	Inadequate information	17	7.0	7.1	79.8
	Not having all requirements	49	20.2	20.2	100.0
	Total	242	100.0	100.0	-

Appendix 2. Ability to meet the cost and requirements for registration.

Ability		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
Valid	Not operating in premises	182	74.9	74.8	74.8
	Hard to access documents	29	11.9	11.9	86.7
	Not having funds at all	32	13.2	13.3	100.0
	Total	243	100.0	100.0	-
Simplified license holders					
Valid	Not operating in premises	90	37.2	37.2	37.2
	Hard to access documents	97	40.1	40.0	77.2
	Not having funds at all	55	22.7	22.8	100.0
	Total	242	100.0	100.0	-

Appendix 3. Registration costs and documentations.

Hide cost		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
Valid	High cost of registration	57	23.5	24.1	24.1
	Hidden costs and documentations	183	75.3	75.9	100.0
	Total	240	98.8	100.0	-
Missing	99	3	1.2	-	-
Total		243	100.0	-	-
Simplified license holders					
Valid	High cost of Registration	122	50.4	50.9	50.9
	Hidden costs & Documentations	117	48.3	49.1	100.0
	Total	239	98.7	100.0	-
Missing	99	3	1.3	-	-
Total		242	100.0	-	-

Appendix 4. Submission of taxation requirements and tax impact.

TaxRequ		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
Valid	Did not submit to Tax regime	195	80.2	80.2	80.2
	I did submit to Taxation	15	6.2	6.9	87.1
	Tax requirements Burdensome	30	12.4	12.9	100.0
	Total				
Missing	99	3	1.2	-	-
Total		243	100.0	-	-
Simplified license holders					
Valid	Did not submit to Tax regime	36	14.9	15.4	15.4
	I did submit to Taxation	57	23.6	23.9	39.3
	Tax requirements Burdensome	146	60.3	60.7	100.0
	Total				
Missing	99	3	1.2	-	-
Total		242	100.0	-	-

Appendix 5. Hiring of workers and contribution to provident fund.

HireWork		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
Valid	I did not hire perm. workers	179	73.7	74.1	74.1
	I hired perm. workers	62	25.5	25.9	100.0
	Total	241	99.2	100.0	-
Missing	99	2	0.8	-	-
Total		243	100.0	-	-
Simplified license holders					
Valid	I did not hire perm. workers	166	68.6	69.0	69.0
	I hired perm. workers	75	31.0	31.0	100.0
	Total	241	99.6	100.0	-
Missing	99	1	0.4	-	-
Total		242	100.0	-	-

Appendix 6. Finding whether firms received government support.

GovSuprt		Frequency	Percent	Valid (%)	Cumulative (%)
Convenience license holders					
Valid	Received Gov. support	58	23.9	23.9	23.9
	Never received Gov. support	185	76.1	76.1	100.0
Total		243	100.0	100.0	-
Simplified license holders					
Valid	Received Gov. support	62	25.6	25.6	25.6
	Never received Gov. support	180	74.4	74.4	100.0
Total		242	100.0	100.0	-