

Facilitating Business Registration in Malawi



Millions of people in developing countries work in the informal sector, due in part to significant barriers to registering one's business and entering the formal sector. In this study, researchers carried out a randomized evaluation in Malawi, within the context of the World Bank Business Environment Strengthening Technical Assistance Project (BESTAP), to measure the impact of formalization on the business performance of micro-, small and medium enterprises (MSMEs). Initial results found that three programs, each providing different types of free assistance to formalize, had a large and significant impact on the likelihood that a firm obtained a business registration, varying from a 54-percentage point increase for the registration-only program, to 64-68 percentage point increase for the registration-assistance and bank information program. Researchers are currently investigating the mid-term and long-term impacts of the different interventions including impacts on access to markets and gender implications for female entrepreneurs.

Policy Issue

Formal business registrations allow firms to open a business bank account, acquire an export license, access business bank loans, and become eligible for government programs, among many other benefits. Unfortunately, developing economies are saddled with substantial numbers of informal businesses, which grow more slowly, have poorer access to credit, and employ fewer workers than their formally registered peers. Despite regulatory reforms aimed at simplifying the business registration process in developing countries, evidence has shown that informal businesses rarely make the transition to formality voluntarily. Government programs that successfully help firms *formalize* operations in a cost-effective way could help create a more robust and competitive business environment for local economies and for employees alike. In this evaluation, researchers studied whether assistance with business registration could help firms achieve greater levels of formality, and pinpoint what effects, if any, this had on business outcomes.

Evaluation Context

In Malawi, the informal sector represents 93 percent of the non-farm small-scale enterprises.¹ The Government of Malawi with support from the World Bank has introduced legislation to streamline the business registration process and increase formality rates among MSMEs. Like in many countries in Africa, as of 2011 the business registration process in Malawi included several steps. For one, firm



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owners must register for a Business Registration Certificate with the Department of the Registrar General (DRG). Second, to obtain a taxpayer identification number (TPIN), they must register with the country's revenue service. Lastly, to obtain a business license, they must also register with the city's council. Under the BESTAP project the government transitioned to an online-based electronic system of business registration reducing the time to register firms.

Given the varying levels of enforcement from the branches of government handling each type of registration, and the costs and time commitment associated with each of these steps, firm owners often choose which level of registration to seek, if at all. Providing firm owners with costless registration assistance could help the government raise firm formality rates, while providing evidence on any effects on firm performance in the long run. In the study, participants include informal MSMEs located in Blantyre and Lilongwe, the major commercial cities in Malawi.

Details of the Intervention

Researchers conducted a randomized evaluation over four years to evaluate the impact of the various interventions designed to facilitate formalization on business expansion, access to finance, and productivity of MSMEs, among other outcomes. Three-thousand and two firms were randomly assigned to one of four groups:

1. **Free assistance with business registration only** (745 firms) – These firms were offered free assistance with registration at the Department of the Registrar General (DRG) – which is the main step to firm formalization in Malawi.
2. **Free assistance with business registration and tax registration** (293 firms)- These firms were offered free assistance with registration at the DRG plus the opportunity to register for a tax identification number from the Malawian Tax Authority.
3. **Free assistance with business registration, information sessions about business savings accounts at a local bank and an offer of a business bank account** (1,207 firms) – These firms were offered free registration with the DRG and also invited to information sessions by a local bank on the benefits of separating business from household money and offered business banking accounts.
4. **Comparison group** – no intervention (757 firms)

The outcomes of interest included financial management indicators, as well as likelihood of registering a business.

Results and Policy Lessons

Likelihood of registering a business:

All three interventions had a large and significant impact on the likelihood that a firm obtained a business registration, varying from a 54-percentage point increase for the registration-only program, to 64- 68 percentage point increase for the registration-assistance and bank information program.

Regarding tax registration, the second program was less successful in promoting taxpayer registration. Among firms offered this program, the likelihood of having a tax registration was comparable to the comparison group, suggesting that firms receiving assistance with tax registration may have already

been considering getting the registration anyway, and that the interventions may have at best sped up that process.

Impact on financial management:

The program that coupled registration assistance with bank information and an offer of a business bank account increased both the likelihood that an individual would have any bank account (21 percentage points above the average of the comparison group of 63-66 percent), and especially the likelihood that they had a business bank account (46-48 percentage points above the control group mean of 2-4 percent). The impact of this program on separation of household and business money was also significant (6.6 percentage points) in the short-run but it dissipated sixteen months after the program ended.

Neither intervention showed any effects on the likelihood that a firm borrowed in the past six months. Firms in the program that provided registration assistance, bank information sessions and an offer of business bank accounts reported a higher awareness of financing options, with 59 percent of them saying they would borrow through a bank if in need, versus 46 percent in the control group, and they also reported higher access to insurance policies (9 percent vs. 1 percent among control firms).

These initial results show that take up of business registration can be high when there are no tax liabilities for the firm, and even higher when combined with treatments that empower firms to take advantage of the purported benefits of formalization, such as access to traditional financing.

Researchers are currently investigating the mid-term and long-term impacts of the different interventions including impacts on access to markets and gender implications for female entrepreneurs.

Sources

[1] National Statistics Office, Malawi. [“Malawi Second Integrated Household Survey 2004-2005.”](#)

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