

Business Registration in Malawi: An Impact Evaluation

Featuring a study by Francisco Campos, Markus Goldstein, and David McKenzie (World Bank)

Kym Cole
Research Manager, Innovations for Poverty Action



In brief

- A study in Malawi offered free business registration certifications and found a scalable, replicable model to increase registration among male and female-owned businesses.
- Very few businesses wanted to register for taxes.
- Combining registration with a bank information session was a good way to increase use of financial services by both men and women.
 - This had positive impacts on business performance, especially for women.



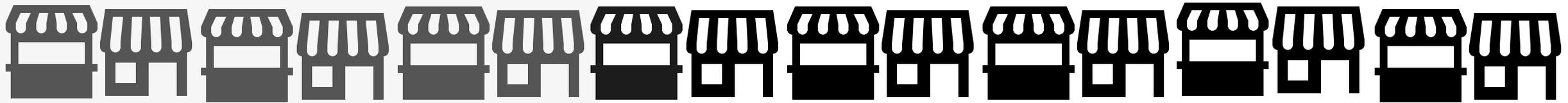
Informality is pervasive in developing economies

30-40%

Economic activity in the informal sector in the poorest countries

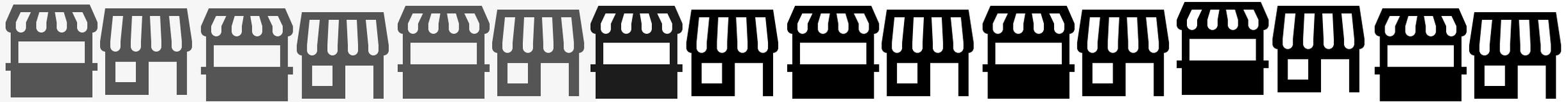
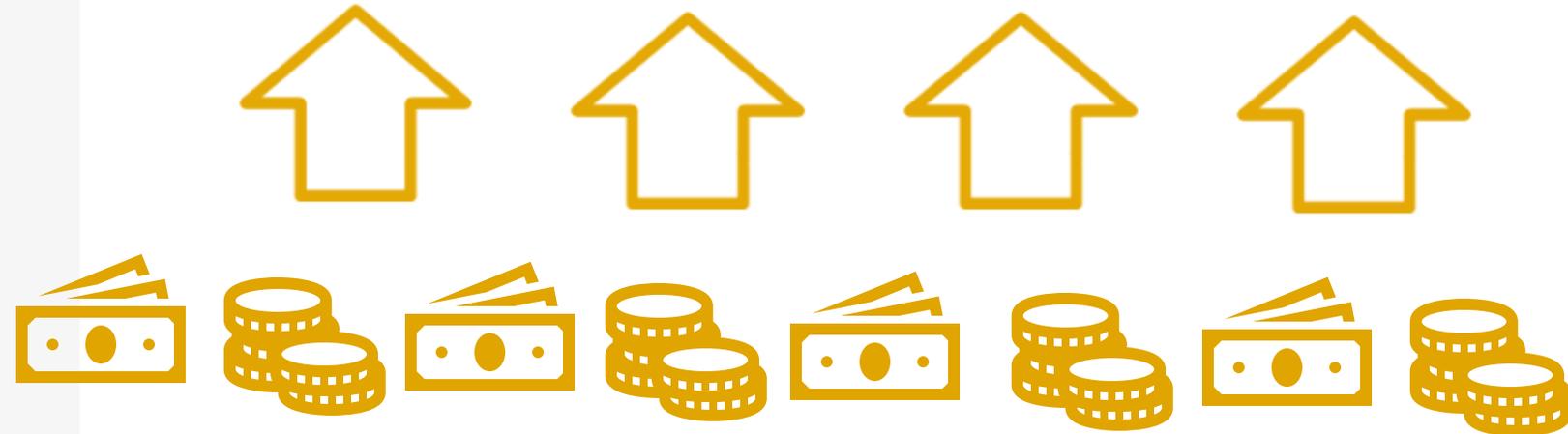


"Typically grow more slowly, have poorer access to credit and employ fewer workers."¹



Formalization has costs too

From registration fees to taxes



Governments have tried to lessen the barriers for firm formalization...



"At least one reform making it easier to start a business in ~95% of economies." ¹



Sri Lanka: no impact of information and free registration costs on registration with tax authority ³



Benin: only 9.6% register for tax status with explanation of the benefits of registration and paperwork assistance ²

1 Doing Business (2017), page 25.

2. Benhassine et al. (2018)

3. de Mel et al. (2013)



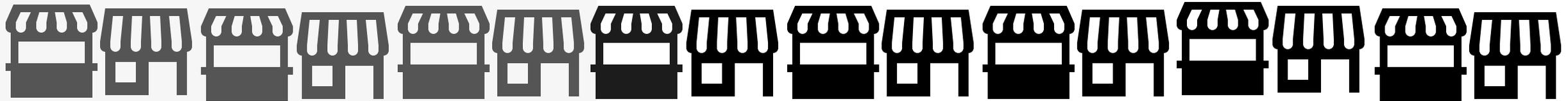
How to encourage firms to formalize?



Would like to be formal but **can't afford costs** and regulations



Rationally stays out of formal sector, seeing few benefits from becoming formal



Informality in Malawi

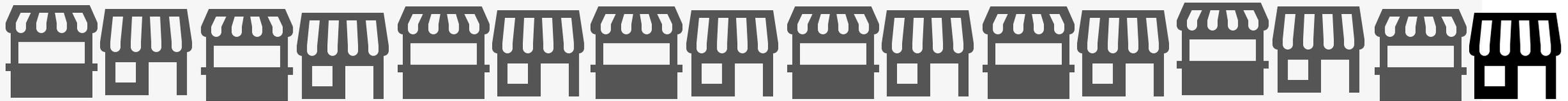
93%

Firms not registered



Women-owned firms:

- Prone to informality
- 40% smaller than men-owned
- 23% depend on spouse saving to start business



Business registration process in Malawi (2011)



Business
registration
certificate
(BRC)



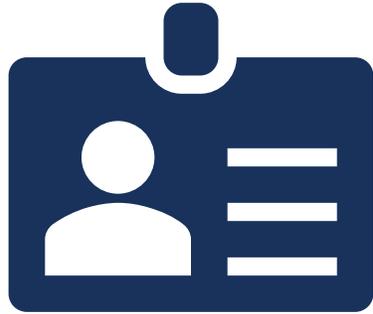
Taxpayer
Identification
(TPIN)



City Assembly
License



Potential Benefits of Formalization in Malawi



BRC

- ✓ Open business bank account
- ✓ Apply to bank loan for business
- ✓ Export license
- ✓ Access to government contracts



TPIN

- ✓ Access to procurement system
- ✓ Provide invoices to customers for tax purposes



Evaluation

3,000
Firms



BRC

745
firms



BRC

 + 

TPIN

293
firms



BRC

 + 

Bank info

1,207
firms

(Control: 757 firms)



Sample characteristics

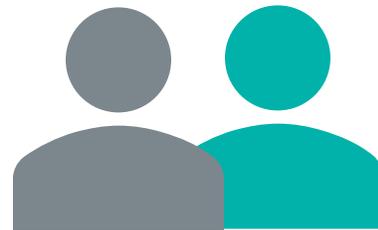
(2012)



MSMEs



70% Retail

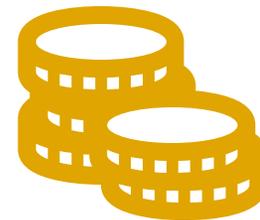


Average of 2 workers



40%

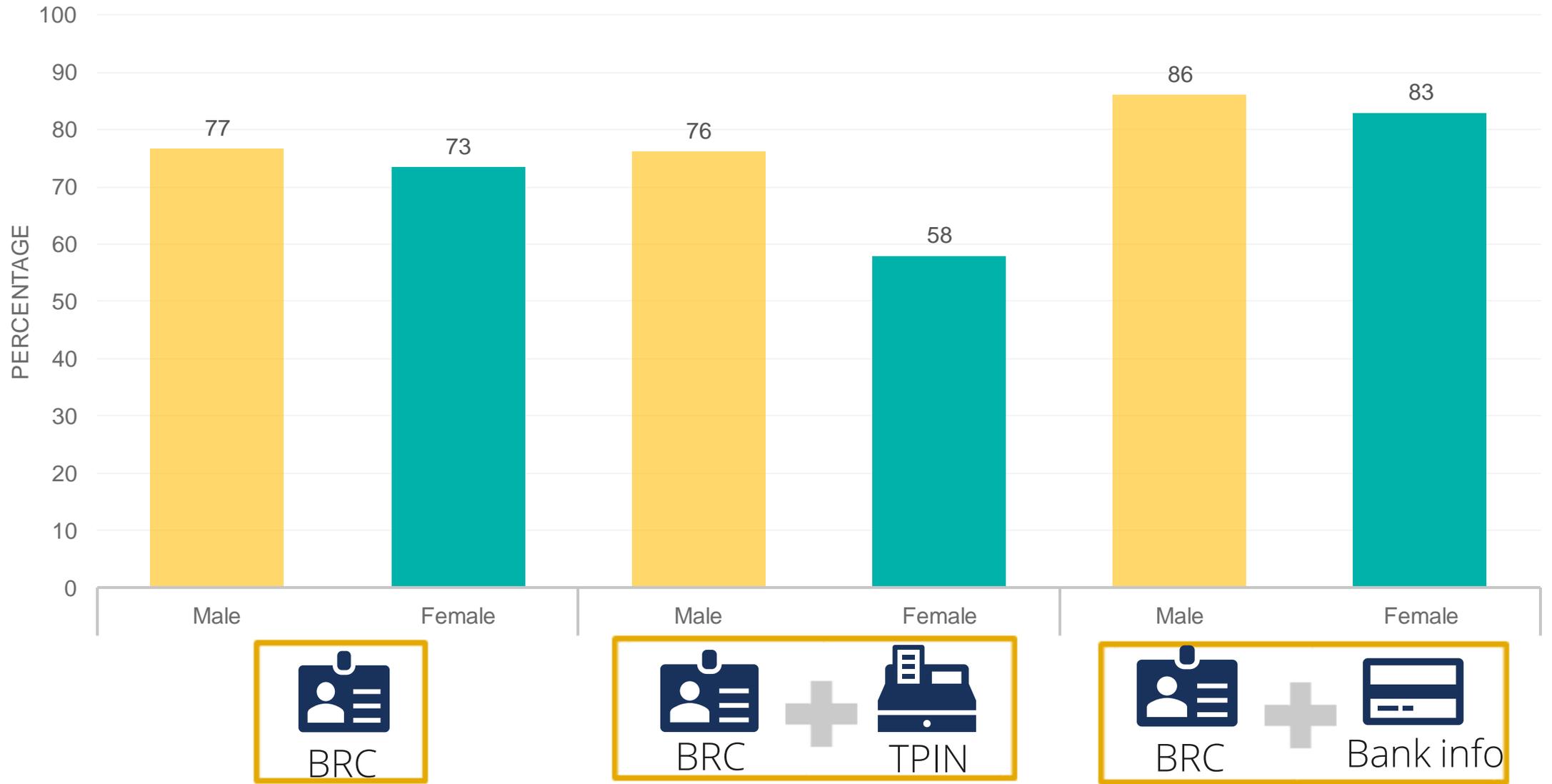
Women-
Owned



\$213 Profits



Registration rates were high...



But no one likes taxes



4.1%

of firms took up
the offer

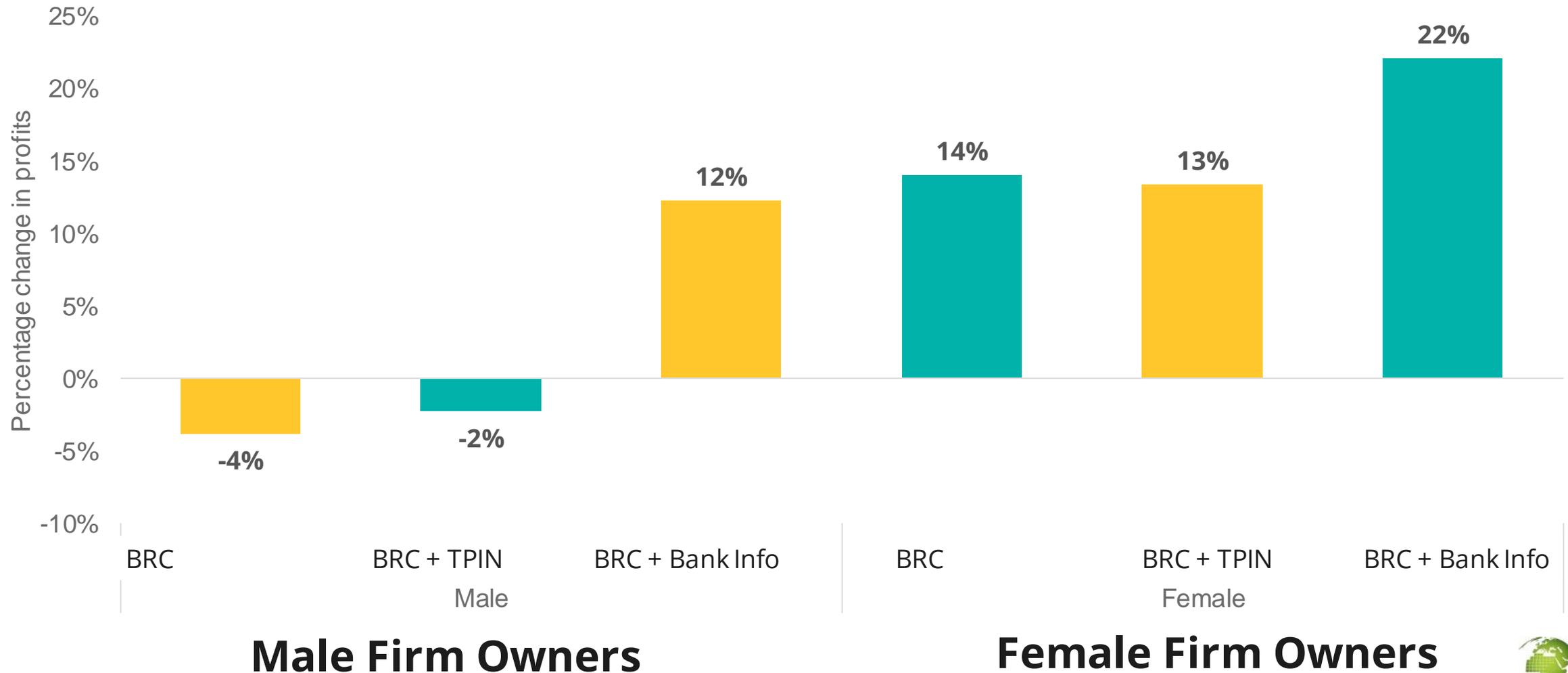
4.3%

of women could not
accept due to lack of
spouse approval



The Interventions Increased Monthly Profits for Women

Versus the Comparison Group



Financial services led to more bank accounts for women



13

Percentage points more likely to have a personal bank account

35

Percentage points more likely to have a business bank account

(8)

Percentage points less likely to save at home

Other Impacts of Business Registration

Compared to comparison group



BRC



More likely to identify the benefits of business registration



BRC



Less likely to have property or merchandise confiscated

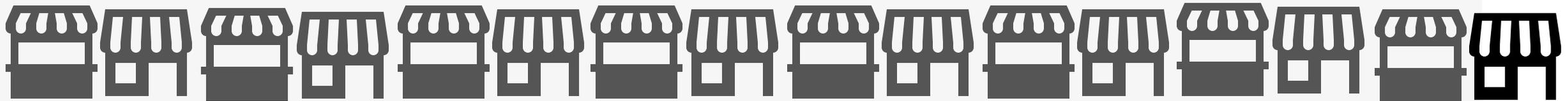


BRC

Bank info



More likely to have membership in Malawian Chamber of Commerce



Conclusions

- Offering free business registration certifications increased registration rates among male and female-owned businesses.
- Very few businesses wanted to register for taxes.
- Combining registration with a bank information session increased the use of financial services by both men and women.
 - Women especially improved business performance.



Policy Implications

- Campaigns to formalize can be effective for business registration.
- Formalization alone not sufficient for addressing gender inequality in entrepreneurship
- Complementary interventions like business bank accounts can increase opportunities for firms.
 - This combination may help improve firm performance, especially for women.
- However, firms may need stronger incentives to register to pay taxes.



How can these results address formalization in Ghana?

Ghana compared to Malawi

86%

Employees
in informal
sector



Ease of Doing
Business

110. Malawi

...

120. Ghana



Thank you



This presentation is an output from the research initiative 'Private Enterprise Development in Low-Income Countries' (PEDL), a programme funded jointly by the Center for Economic Policy Research (CEPR) and the Department for International Development (DFID), contract reference MRG001_271. The views expressed are not necessarily those of CEPR or DFID. Financial support was also provided by, among others, the International Initiative for Impact Evaluation (3ie) and the Global Development Network (GDN).