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Measuring the Cost of Formalization in Brazil

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Adopting RCI methodology to measure start up costs of firms in the garment industry.

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USP



Supporters

- ▶ SEBRAE



- ▶ TINKER FOUNDATION



- ▶ FUNDAÇÃO INSTITUTO DE ADMINISTRAÇÃO



- ▶ Associação Comercial de São Paulo



- ▶ CIPE



- ▶ FEA – FACULDADE DE ECONOMIA, ADMINISTRAÇÃO E CONTABILIDADE DA USP





Structure

- ▶ **Motivation**
- ▶ **Methodology**
- ▶ **Results**
- ▶ **Implications**
- ▶ **Next Steps**



Motivation

- ▶ Measuring transaction costs
- ▶ Business environment
- ▶ Costs of doing business

Why?

- Promote institutional changes
- Promising institutional arrangements
- Learn from international experience.



Motivation

Our Focus:

- ▶ **Costs to register formally**
- ▶ **Garment industry**
- ▶ **City of São Paulo**
- ▶ **Less than 3 years**
- ▶ **Less than 20 employees**



Methodology

- ▶ **WE CALCULATE “REAL” COSTS – not hypothetical.**
- ▶ **Total Cost=Facilitator + Fees + Op.CostTime**
- ▶ **Sample: 100 industry and commerce / garment**
- ▶ **Survey instrument – RCI model.**



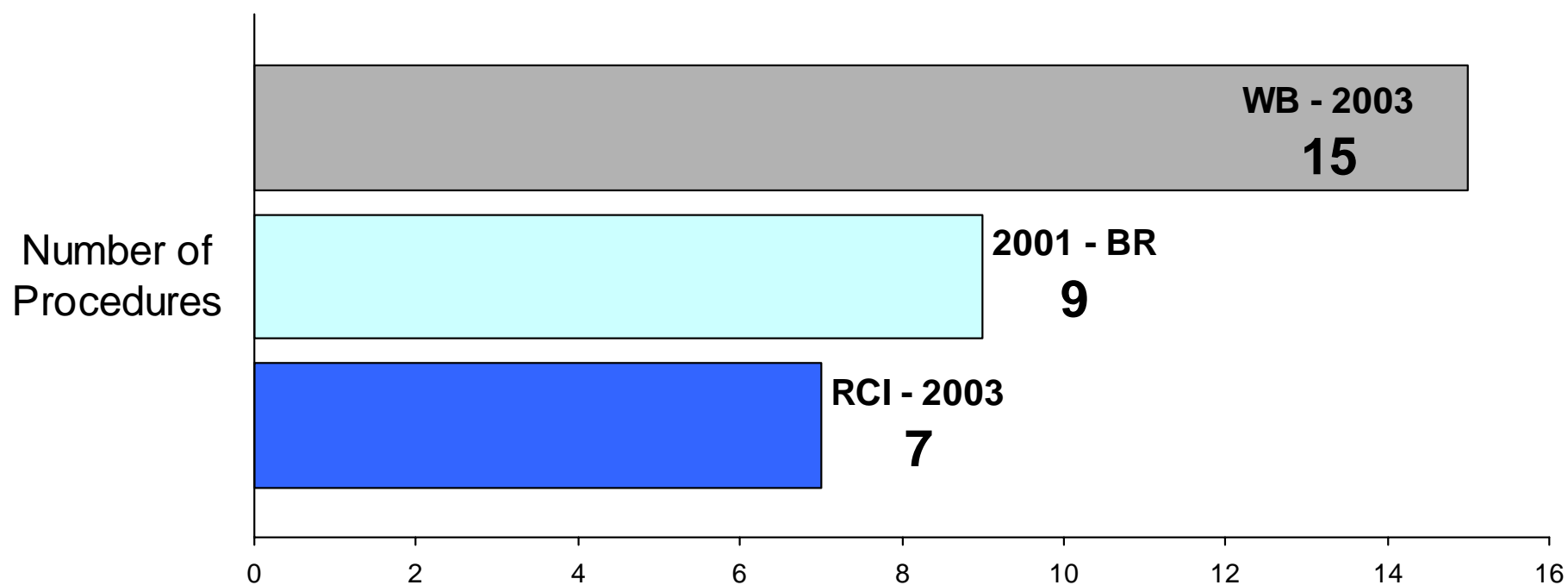
Results

- ▶ Number of procedures
- ▶ Time to register the business
- ▶ Cost to start up the business
- ▶ Contrasts



Results-Procedures

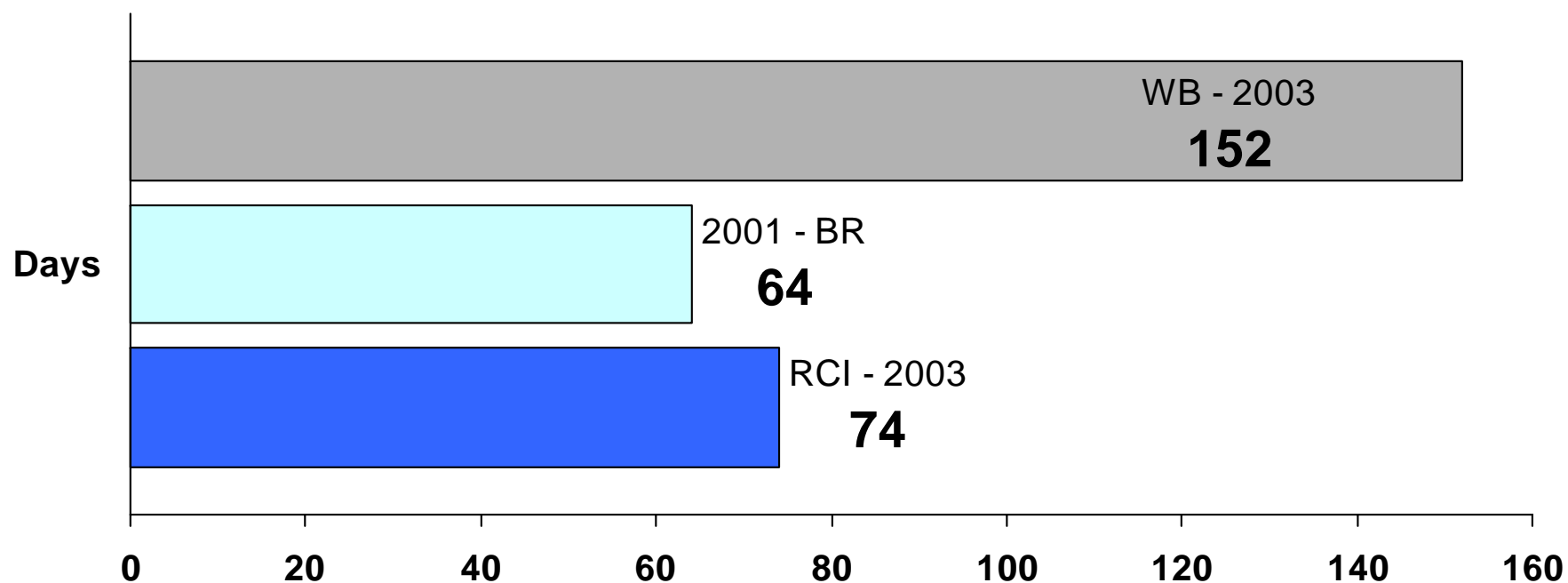
▶ Number of procedures





Results-Time to register

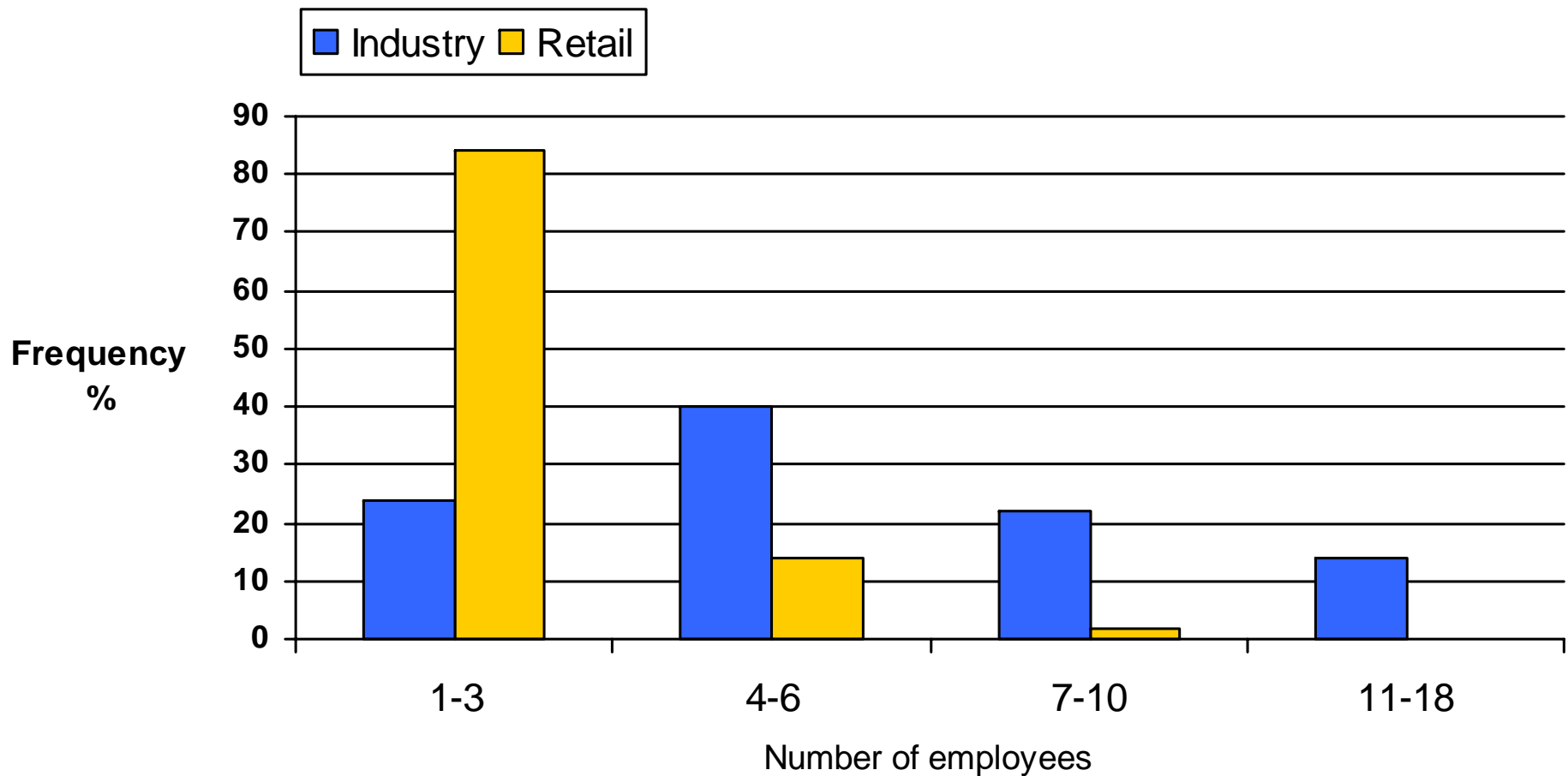
- ▶ Number of days to register





Results-Employees

▶ Number of employees



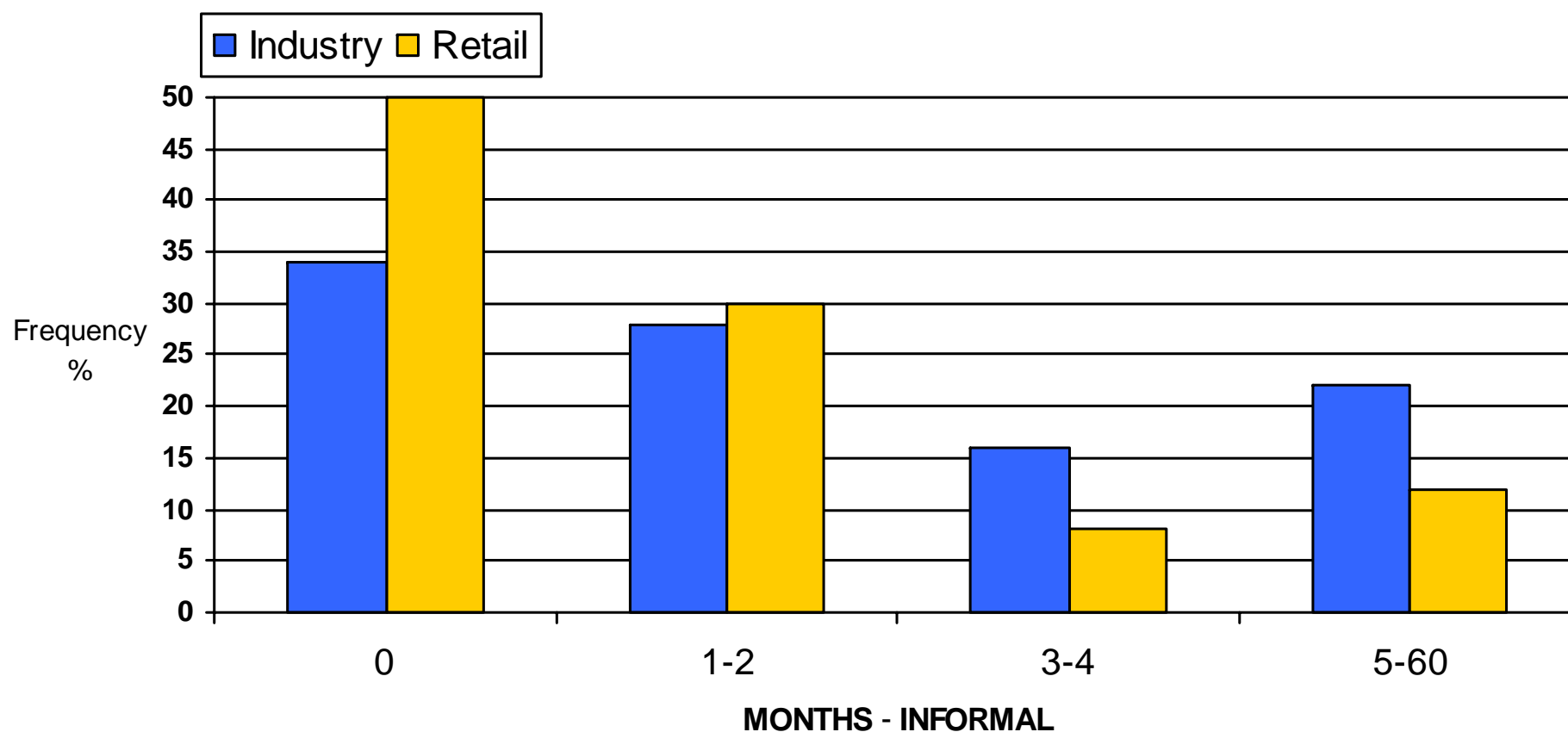
Fonte: Dados Primários





Results-time informal

► Time informal – MONTHS:

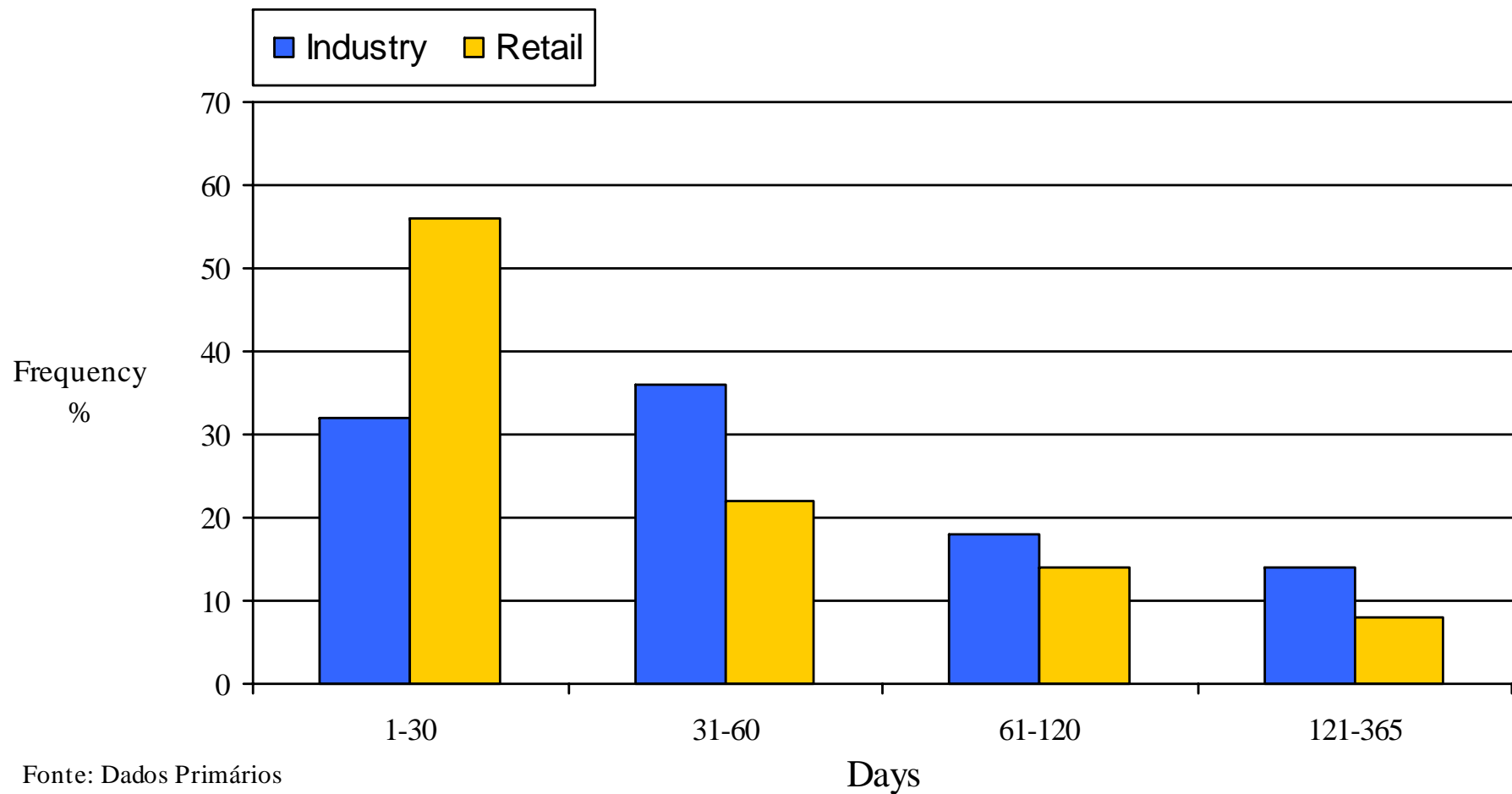


Fonte: Dados Primários



Results-time to register

► Time to register – average 74 DAYS



Fonte: Dados Primários



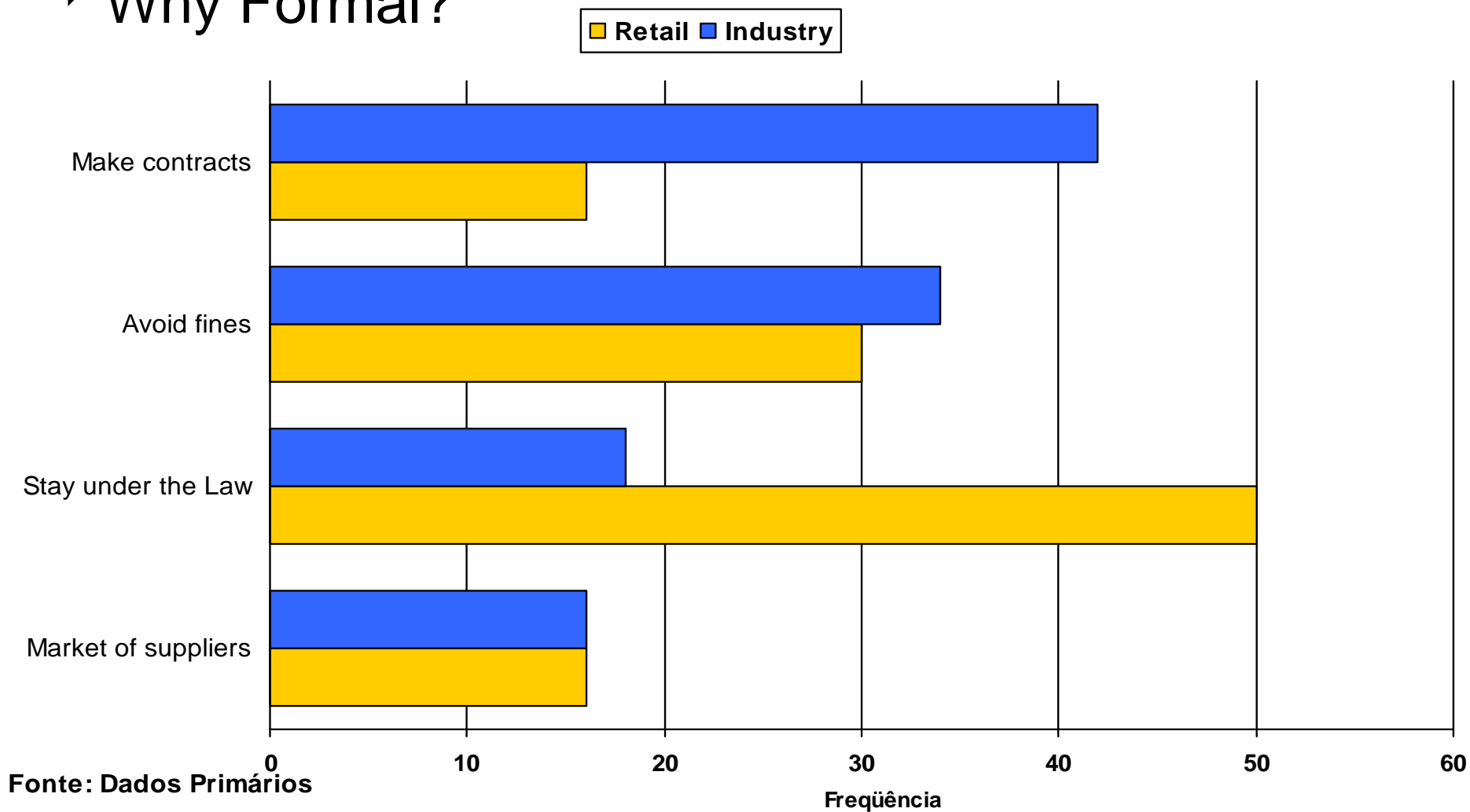
Results-time allocated

- ▶ Time spent by entrepreneur with the facilitator:
- ▶ Average time : 7.1 hours
- ▶ Opportunity cost of time: 2.7% GDP/capita



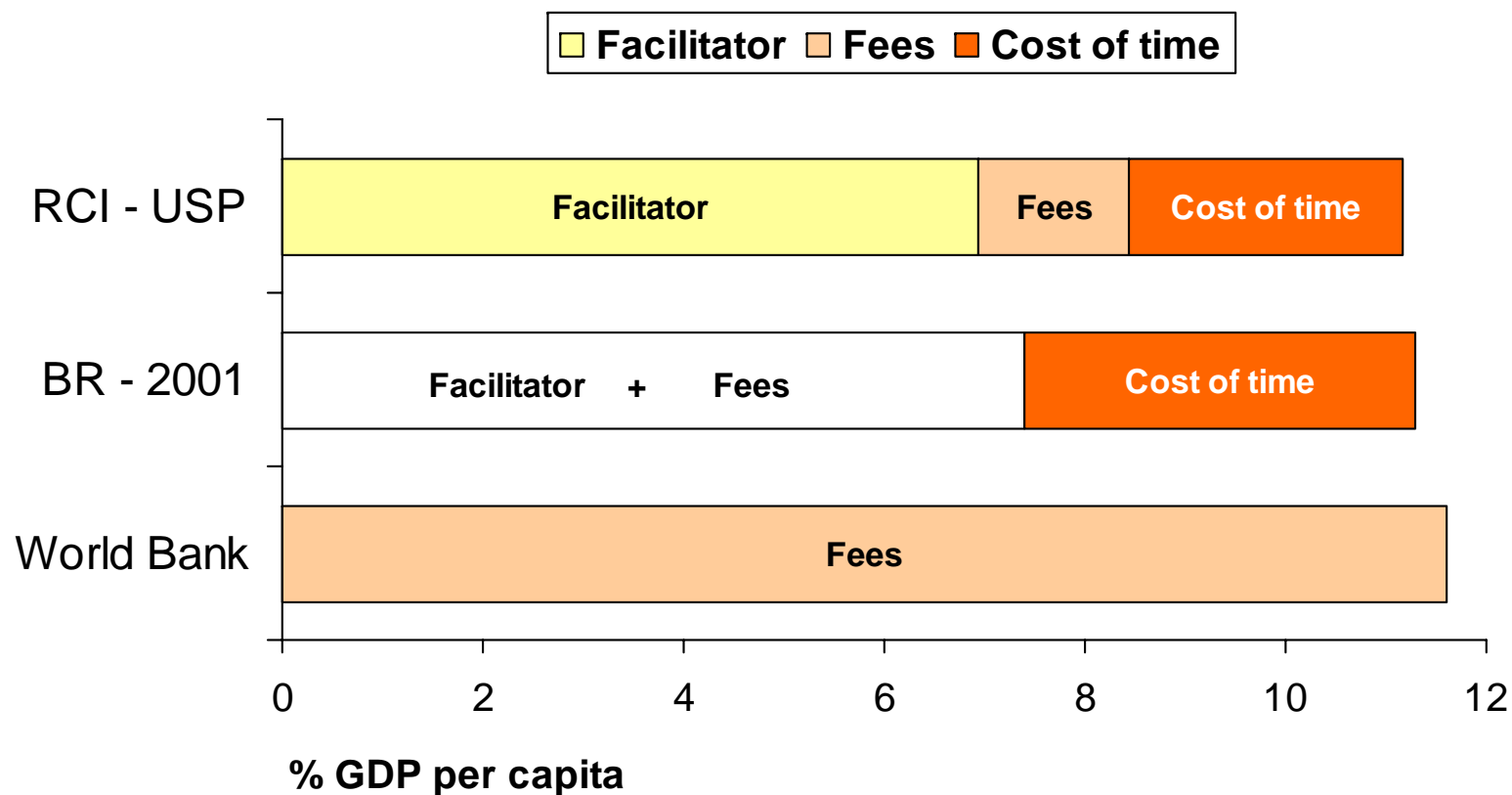
Results-Why register?

► Why Formal?





Results-Costs to Register





Some Contrasts

- ▶ Brazilian versus other nationalities
 - no difference
- ▶ Industry and commerce
- ▶ significant difference in costs and time



Implications

- ▶ Efforts to reduce the number of steps.
- ▶ - Seem to be working.

- ▶ Firms formalize in order to contract.

- ▶ 73% operated informally initially.

- ▶ 32% up to 30 days
- ▶ 68% up to 60 days



Implications

- ▶ Possibility to bribe is reported.
- ▶ Impact of SIMPLES should be measured.
- ▶ Case Study+ Survey+ IO analysis are complementary.



Policy Implications

- ▶ Opportunity cost of time matters therefore
- ▶ Facilitators are widely used.
- ▶ SEBRAE is important source of information.



Next Steps

- ▶ Our next research:
- ▶ Focus on the business environment in Brazilian agribusiness and agriculture.
- ▶ Costs to access credit.
- ▶ Costs to contract.
- ▶ Nature of the farm and farmers organization.