Transaction Costs in Peru: What does it cost to start a new garment firm in Lima?*

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General characteristics of the firms

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
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<tbody>
<tr>
<td>Number of workers</td>
<td>4.1</td>
</tr>
<tr>
<td>Yearly sales</td>
<td>US$ 11,130</td>
</tr>
<tr>
<td>Years operating</td>
<td>2.6</td>
</tr>
<tr>
<td>Years operating formally</td>
<td>1.9</td>
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</tbody>
</table>
Factors motivating registration*

Access to new clients and suppliers: 85%
Avoid fines: 63%
Get credit: 58%
Avoid bribery: 40%

* Percentages
Do entrepreneurs use outside help?*

* Percentage
Duration of the registration process

Note: Duration of the process expressed in days
High variability in registration costs

Note: Costs in US$
Cost of the process by firm size

Note: Registration costs in US$
Comparison with World Bank estimates

<table>
<thead>
<tr>
<th></th>
<th>World Bank</th>
<th>Ours</th>
</tr>
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<tbody>
<tr>
<td>Duration of process</td>
<td>100</td>
<td>61.2</td>
</tr>
<tr>
<td>Cost</td>
<td>US$ 510</td>
<td>US$ 163</td>
</tr>
<tr>
<td>Cost/GDP</td>
<td>24.9</td>
<td>8.2</td>
</tr>
</tbody>
</table>
How results compare with previous studies

- There have been improvements:

<table>
<thead>
<tr>
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<th>De Soto (1983)</th>
<th>Ours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration of process</td>
<td>289</td>
<td>61.2</td>
</tr>
<tr>
<td>Cost</td>
<td>US$ 1231</td>
<td>US$ 163</td>
</tr>
<tr>
<td>Cost/GDP</td>
<td>74.9</td>
<td>8.2</td>
</tr>
</tbody>
</table>
Factors considered important in facilitating the formalization process*

- Experience: 75%
- Advice of friend or relative: 50%
- Help of any governmental institution: 50%
- Being a member of a union: 38%

* Percentage
Distributional effects: gender bias

- Entry costs affect different social groups differently.

- Preliminary evidence suggests women systematically spend more on registration.
Perceived disadvantages of being formal*

- Pay taxes: 78%
- Red tape / bureaucratic burden: 34%
- Need to have an accountant: 36%
- None: 14%

* Percentage
Final remarks: policy issues

- Improvements have been made, but...
- Formalization costs have dropped from the 1980s
- But, there is bias against women
- Registered business find bureaucratic procedures related to being formal costly
- Policies should focus on these issues