Measuring the Cost of Formalization in Brazil

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Supporters

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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
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

Number of Procedures

WB - 2003: 15
2001 - BR: 9
RCI - 2003: 7
Results - Time to register

- Number of days to register

- WB - 2003: 152 days
- RCI - 2003: 74 days
- 2001 - BR: 64 days
Number of employees

- Industry
- Retail

Number of employees:
- 1-3
- 4-6
- 7-10
- 11-18

Fonte: Dados Primários
Results-time informal

Time informal – MIDDLE 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?

- Make contracts
- Avoid fines
- Stay under the Law
- Market of suppliers

Fonte: Dados Primários

2003 Faculdade de Economia, Administração e Contabilidade da USP
Results - Costs to Register

![Bar chart showing costs percentage per capita for RCI - USP, BR - 2001, and World Bank. The chart categorizes costs into Facilitator, Fees, and Cost of time.]
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.
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.