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THE IMPACT OF LAWS AND REGULATIONS ON MICRO AND SMALL ENTERPRISES IN NIGER AND SWAZILAND

by

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RÉSUMÉ

Ce document technique présente les résultats des enquêtes sur l'impact des réglementations et de la fiscalité sur les micro et petites entreprises (MPE) dans deux pays d'Afrique sub-saharienne. Les pays étudiés — le Niger et le Swaziland — diffèrent largement quant aux textes réglementaires, aux dispositions fiscales concernant les MPE et quant à leurs systèmes administratifs. Sur la base d'échantillons d'entreprises relativement homogènes pour les deux pays, cette étude permet d'estimer et de comparer, d'une part le degré de respect de ces différentes dispositions réglementaires par les MPE des deux pays, et d'autre part les conséquences de ces dispositions réglementaires sur le fonctionnement et la croissance de ces entreprises.

Les enquêtes révèlent que les MPE des deux pays ne respectent pas toutes les réglementations qui les concernent. Le degré de respect varie plus selon le type de réglementation, selon les caractéristiques des MPE étudiées que selon les pays. Il apparaît ainsi que la proportion des MPE enregistrées est presque identique pour les MPE des deux pays mais diffère largement selon la localisation des entreprises (rurales vs. urbaines), leur taille (entreprises individuelles vs. employant plusieurs personnes). Le caractère contraignant des ces dispositions réglementaires varie aussi au cours du cycle de vie de ces entreprises. La fiscalité pèse, semble-t-il, davantage sur les MPE que les autres dispositions réglementaires. Elle s'avère en outre bien souvent régressive. L'enquête montre néanmoins que les micro- et petits entrepreneurs des deux pays ne considèrent pas les réglementations et la fiscalité comme les contraintes les plus fortes à leur processus de développement. Le manque de débouchés et/ou les difficultés de financement ou d'approvisionnement en matières premières constituent souvent une contrainte plus importante pour ces entreprises.

La première section de ce document présente les principales caractéristiques des MPE étudiées et la représentativité de nos échantillons dans les deux pays. Les dispositions fiscales et réglementaires sont brièvement présentées dans la section 2. L'analyse des résultats sur le degré de respect des différentes dispositions réglementaires et sur les variables qui l'expliquent, est développée dans la section 3. Enfin, l'impact de ces dispositions réglementaires sur les performances des MPE et la perception des interventions de l'Etat par les entrepreneurs sont présentés dans la section 4.

SUMMARY

This Technical Paper presents the results of research on the impact of taxation and other regulations on micro and small enterprises (MSEs) in two countries of sub-Saharan Africa. The fiscal and other regulations of the countries studied — Niger and Swaziland — and their administrative systems are quite different. Based on approximately similar samples of enterprises from the two countries, this study estimated and compared the level of compliance with these different legal requirements, and also ascertained their consequences for the functioning and growth of these enterprises.

The research revealed that the MSEs of the two countries do not comply with all the applicable regulations. The level of compliance itself depended more on the type of regulation and characteristics of the MSEs studied than on the country. It appears that the proportion of MSEs that are registered was nearly identical in the two countries, while differences depend primarily on location (rural versus urban) and size (individual enterprises versus those employing several persons). The constraints of these legal requirements depend on the time in the life cycle of enterprise. It appears that taxation is a greater burden on MSEs that other regulations. Nonetheless, the survey shows that small and micro-entrepreneurs of the two countries did not consider taxation and other regulations as the main hindrance to growth. A lack of demand and/or difficulties in obtaining financing or raw materials were often the main constraints faced by these enterprises.

The first section of this paper discusses the main characteristics of the MSEs studied and the representativeness of our sample. Fiscal and other regulations are briefly described in Section 2. Section 3 analyses the degree of compliance with these regulations and the associated explanatory variables. Finally, Section 4 examines the impact of these regulations on the performance of MSEs and how entrepreneurs perceive the state's role.

PREFACE

This study is part of a research project on "Relations Between the Informal Sector and Public Authorities, and Political Power". The project has been undertaken in the context of the Development Centre’s 1990-1992 research programme on "Governance and Entrepreneurship", headed by Christian Morrisson.

Private sector dynamism in developing countries is clearly an essential element in economic growth. The legal and regulatory framework under which the private sector operates might have a large influence on its performance. The institutional environment of small firms has generally been neglected in most studies about their development prospects. Nonetheless, this issue has been of growing interest in the context of structural adjustment and policy reforms, in order to discover why micro and small enterprises (MSEs), which account for the bulk of job creation in developing countries, mostly operate outside the institutional framework. The removal of institutional obstacles to MSE growth might be a low-cost way of supporting the growth of small firms and promote a better integrated economy.

This Technical Paper, which examines the cases of two sub-Saharan countries, Niger and Swaziland, is the first of a series from the OECD Development Centre, presenting case studies for seven countries. Through a sharp economic comparative analysis, it emphasizes the need to reconsider the relative weights of these institutional aspects, compared to the major macroeconomic constraints, which play the most important role.

Moreover, this Technical Paper shows that some constraints, such as the fiscal burden, have a stronger impact than others, and that the weight of the many constraints varies according to the location and size of enterprises.

The lessons to be drawn from this Technical Paper and from five other case studies will be brought together in a synthesis volume in order to formulate the institutional and policy measures to improve the environment for micro and small enterprises.

Louis Emmerij
President of the Development Centre
September 1992

INTRODUCTION

An issue frequently raised in the analysis of the development process concerns the extent to which the legal and regulatory environment constrains the growth of micro and small enterprises (MSEs). This matter has gained in urgency as a result of recent analyses of the informal sector, a segment of the economy that is made up of enterprises that purportedly operate outside of the official legal and regulatory framework and that has been found to be widespread and growing in many parts of the Third World. Questions may be raised as to the extent to which MSEs in fact are currently touched by the laws and regulations of the country, and about the ways in which this legal and regulatory environment constrains the growth of such enterprises.

The OECD has commissioned a study to examine this set of issues. The study involved a comparative analysis of two countries, one of which is reported to have an onerous legal and regulatory environment (Niger), the other of which is reputed to be much more supportive of the growth of small enterprises (Swaziland)[1]. In each of these two countries, a recent USAID-funded baseline survey of small and micro enterprises provided a framework for selecting a sample of enterprises for detailed examination. Enterprises were chosen from five sectors of the economy: three in manufacturing (textiles and garments, wood products, and metal products) and two in commerce (trade in garments, and trade in food and food products). These particular sectors were selected in part because they represent a significant share of the micro and small enterprises in these and other similar countries. Beyond this, it has often been suggested that demand problems constitute a major constraint on the growth of small enterprises; that being so, an effort was made to include sectors that represent different patterns of demand for their products. Since most small enterprises in these countries operate in rural areas, it was felt important to include rural producers in the survey; but since the laws and regulations appear to impinge most heavily on larger enterprises operating in urban areas, the major share of the sample was concentrated in urban localities. The transaction costs of complying with the regulations may be lower in urban areas, while the risks of non-compliance may be higher. For all these reasons, the sample included both rural and urban areas, but with an emphasis on the urban producers.

In each country, a standardised questionnaire was administered to a sample of 300 enterprises; this was followed by more detailed, qualitative discussions with 30 of these respondents[2]. Efforts were made to include enterprises in rural as well as in urban areas in the sample, and also to represent enterprises of different sizes.

This paper summarises the findings of the study. Section I provides an overview and descriptive profile of the enterprises included in the sample in each of two countries. In Section II, there is a brief review of the laws and regulations operating in the two countries under study. Section III explores the extent to which the enterprises in the sample complied in fact with the laws and regulations of these countries. Section IV then examines the effects of the legal and regulatory system on the enterprises themselves. These two sections, which are presented in a comparative fashion, provide insights on the impact of the legal and regulatory environment on the growth of small enterprises in the two countries under study. A final section summarises the main findings.

I. DESCRIPTIVE PROFILE OF MICRO AND SMALL ENTERPRISES IN SWAZILAND AND NIGER

This section provides a brief overview of micro and small enterprises in Swaziland and Niger and the context in which they operate. It is intended to place the subsequent analysis in some perspective. For each country, there is a brief discussion of the economy, the overall characteristics of small and micro enterprises, and the characteristics of the enterprises included in our own study.

Swaziland

With an area of 17 364 Km^2 and a projected 1991 population of 800 000, Swaziland is a small, landlocked country almost completely surrounded by South Africa. In contrast to most African countries, its economy has experienced relatively rapid growth (2.1 per cent annual increase in per capita GDP from 1965 to 1989) and a GDP of $900 by 1989. Small and micro enterprises play an important role in this economy.

1. Micro and small enterprises: an overview

The most comprehensive picture of micro and small enterprises in Swaziland is provided in the recent baseline survey of these firms conducted in 1991 by Fisseha and McPherson (1991). Using stratified cluster sampling procedures covering the entire country, they enumerated all non-farm enterprises employing 50 persons or less. Their principal findings are as follows.

Overall, they estimate that there are about 51 400 small and micro enterprises employing approximately 100 000 persons. Manufacturing activities predominate, accounting for about 61 per cent of the enterprises, followed by trade at about 32 per cent; services and trade make up most of the remaining activities. At a more disaggregated level, garment production accounts for 16.0 per cent of the small and micro enterprises, wood and carving for 1.4 per cent, metal working for 0.3 per cent, selling garments for 7.1 per cent and selling food for 10.0 per cent.

Most of the enterprises are located in rural areas. Specifically, 15.5 per cent of the enterprises are in the two major cities of Mbabane and Manzini; 9.9 per cent are in the smaller towns, while 76.6 per cent are in the rural enumeration areas. Two-thirds of the enterprises operate from home. Only 18.2 per cent operate in a separate structure in a commercial district, while 9 per cent are mobile, and 3.9 per cent operate on the roadside.

These enterprises are quite small, with the average firm having only 1.8 workers. Indeed, 68.8 per cent of the firms are one-person operations, 28.4 per cent have from 2 to 5 workers, 1.4 per cent have from 6 to 9 workers, and only 1.4 per cent have from 10 to 50 workers. Proprietors comprise 66 per cent of the labour force; 84.3 per cent of these are female.

The vast majority of these enterprises, 93.3 per cent, sell directly to individual customers; only 5.6 per cent sell to other businesses. On the input side, 37.2 per cent of the enterprises purchase inputs, while 34.6 per cent make or gather their own inputs, and 25.9 per cent buy finished goods for resale.

2. Micro and small enterprises: survey sample

The sample of micro and small enterprises in Swaziland selected for study was derived from the baseline survey. Enterprises were selected from five subsectors of concentration: garments, wood, and metal working, selling clothing and selling food. The aim in selecting the sample was to choose enterprises in the five target subsectors that were representative on the basis of size and locality. A list was drawn up of all enterprises identified in the course of the baseline survey in these five sectors. These were then classified by size (one-person enterprises versus those with more than one worker) and by locality (primary towns, secondary towns, and rural areas). Where only a few enterprises were found in a particular cell, all were included in the target group. Where the numbers in a particular cell permitted, random selection procedures were used to identify particular enterprises to target. In this way, 382 enterprises were selected for the enumerator team as a target group. The team succeeded in locating and interviewing 216 of these. The remaining 84 in the final sample were chosen by the interviewing team, following the instruction that they limit themselves to the five sectors and they try to achieve a balance in terms of size and locality as close as possible to that in the original target group.

The concentration of the sampled enterprises by subsector and location can be found in Table 1.1. Of the 296 enterprises chosen, 36 per cent are in garment production, the largest of the five chosen subsectors; 66 of the firms (22 per cent) are selling foods, 20 per cent are selling garments, 12 per cent are in wood working, and only 6.4 per cent are in metal working. Five of the selected enterprises have changed their line of activity since the baseline survey; they are included in the sample under a category of "other".

Within each of the subsectors, enterprises were selected from locations of different sizes, including the major cities, secondary towns, and rural villages. The one exception is found in the metal subsector, where no village-level producers could be found. As shown in Table 1.1, the majority of enterprises, 61 per cent, are located in the major cities of Mbabane and Manzini. Thirty per cent are located in the secondary towns, which include the company towns, while approximately 8 per cent of the sampled enterprises were located in rural areas. When compared with the baseline survey, our sample is more heavily weighted towards the major cities; this reflects, at least partly, a desire to incorporate sufficient numbers of larger sized firms, the majority of which are located in the cities.

The full spectrum of firm sizes is included in our sample of small and micro enterprises in Swaziland. As shown in Table 1.2, the majority of enterprises, 60 per cent, are one person firms, while approximately 29 per cent employ from 2 to 5 persons. These percentages are somewhat lower than the country-wide percentages reported in the baseline survey. A relatively greater percentage of bigger enterprises — 8 per cent in the 6 to 10 person category and 3 per cent in the 11 to 52 person category — were included to ensure sufficient absolute numbers of these enterprises in each subsector for comparative purposes[3].

Table 1.1: **Sector and location of sample enterprises[1]. Swaziland**

	Location			
Sector	Urban	Secondary	Village	**All**
Garments	68	30	9	107
Wood	29	4	4	37
Metal	12	7	0	19
Selling Clothing	34	24	4	62
Selling Food	34	25	7	66
Others	5	0	0	5
All	182	90	24	296

Notes: 1. Number of sampled enterprises.
Source: Survey data.

Table 1.2: **Number of workers by sector. Swaziland**

	Number of Workers[1]							
Sector	1	2	3 - 5	6 - 10	11 - 19	20 - 52	Average[2]	Average, hired work.[3]
Garments	77	14	10	4	1	1	1.95	0.57
Wood	21	8	5	2	0	1	3.22	1.97
Metal	5	2	4	4	3	1	6.00	3.42
Selling Clothing	25	14	16	11	0	0	2.97	1.81
Selling food	46	7	8	3	1	1	2.12	1.15
Others	3	2	0	0	0	0	1.40	0.40
All	177	47	39	24	5	4	2.61	1.13

Notes:
1. Number of enterprises sampled employing the given numbers of workers (including the proprietors, paid regular and casual workers, trainees).
2. Arithmetic means for all types of workers (proprietors, apprentices, regular and casual paid workers) for each subsample considered.
3. Arithmetic means for regular and casual paid workers for each subsample considered.

Source: Survey data.

Table 1.3: **Sector and gender of proprietor[1]. Swaziland**

	Proprietor - Gender		
Sector	Male	Female	Joint
Garments	7	94	4
Wood	31	5	1
Metal	17	0	2
Selling Clothing	11	45	6
Selling Food	8	55	3
Other	2	3	0
All	76	204	16

Notes: 1. Number of sampled enterprises.
Source: Survey data.

Table 1.4: **Sector and workplace location[1]. Swaziland**

	Location of Workplace				
Sector	Home	Fixed - Commercial Market	Roadside	Mobile	Other
Garments	52	44	2	3	5
Wood	21	4	4	1	7
Metal	3	11	0	0	5
Selling Clothing	5	25	20	12	0
Selling Food	10	27	16	4	9
Others	2	2	1	0	0
All	93	113	43	20	26

Notes: 1. Number of sampled enterprises.
Source: Survey data.

The gender and sector of the sampled enterprises are reported in Table 1.3. The majority of the proprietors in the sample are female, 69 per cent, a percentage that is somewhat below the comparable country-wide figure reported in the baseline survey. Gender variations are found in all subsectors except metal working.

Among the entrepreneurs, 87 per cent have had a formal education. On average, they attended school for 7 years.

The most common workshop location among the sampled enterprises, as indicated in Table 1.4, is in a commercial market, followed closely by home production. Mobile and roadside locations are also found among the firms in each of the subsectors except metal working. To ensure that there was some variation in type of workshop location, home production, where the majority of activity takes place country-wide, is somewhat under-represented in our sample.

Most of the financial inputs of the sampled enterprises, as shown in Table 1.5, come from the savings of the entrepreneurs (77 per cent) or loans from family and friends (9 per cent). Informal financial markets, commercial banks and assistance organisations did not provide much financial resources to these enterprises.

The purchased inputs of the sampled enterprises came from a wide array of sources. Overall, manufacturing, wholesale, and retail enterprises each provide about one-third of the purchased inputs of the small and micro enterprises (see Table 1.6).

The vast majority of the customers of the enterprises in our sample, as indicated in Table 1.7, are individual consumers. Indeed, almost 90 per cent of the sales are to that group, a figure that closely parallels the country-wide baseline survey findings. At least one enterprise in each of the subsectors, however, sells primarily to other enterprises or to the government.

Table 1.5: **Sector and primary source of finance[1]. Swaziland**

	Primary Source of Finance				
Sector	Own Savings	Loans - Family/ Friends	Commercial Banks	Informal Sources	Assistance Organisations.
Garments	81	13	6	3	4
Wood	34	1	0	1	1
Metal	15	1	2	0	1
Selling Clothing	40	5	5	8	0
Selling Food	54	7	2	2	0
Others	3	1	0	1	0
All	227	28	15	15	6

Notes: 1. Number of sampled enterprises.
Source: Survey data.

Table 1.6: **Sector and primary source of inputs[1]. Swaziland.**

	Primary Inputs				
Sector	Large Manufacturers	Small Manufacturers	Retailers	Wholesalers	Others
Garments	3	32	36	33	3
Wood	7	4	16	3	7
Metal	6	2	4	7	0
Selling Clothing	7	19	11	23	2
Selling Food	4	21	19	21	1
Other	0	1	3	1	0
All	27	79	89	88	13

Notes: 1. Number of sampled enterprises.
Source: Survey data.

Table 1.7: **Sector and primary market[1]. Swaziland.**

	Primary Market			
Sector	Individuals	Manufacturing	Commercial	Public
Garments	95	0	2	10
Wood	24	1	10	2
Metal	18	0	1	0
Selling Clothes	58	0	1	0
Selling Food	64	0	1	1
Other	5	0	0	0
All	264	1	17	14

Notes: 1. Number of sampled enterprises.
Source: Survey data.

There is also evidence that many of these enterprises have undergone changes over their lifetime. One striking finding is the high overall growth rates in employment that the surviving small and micro enterprises have experienced in Swaziland. As indicated in Table 1.8, the annual growth rate in employment of the sampled enterprises since start-up is 15.8 per cent[4]. By subsector, the growth rates range from 39.7 per cent for wood firms to 7.9 per cent for food sellers, while by size of locality, they range from 21.3 per cent for urban enterprises to 1.9 per cent for village firms. These rapid growth rates are all the more impressive in light of the fact that the majority of these firms do not grow at all. Indeed, among the sampled enterprises, 64 per cent experienced no growth, while 31 per cent grew and 5 per cent declined.

Many of these firms not only grow, but also have experienced other changes as well. As indicated in Table 1.9, almost 50 per cent of the sampled firms have introduced new products, while smaller numbers have changed the source of their inputs, introduced new technologies, or found new market niches or client groups.

Table 1.8: **Annual employment growth rate of existing firms[1]. Swaziland**

(by location and sector)

Sector & Location / Number of years of existence	> 1	1-2	3-4	5-10	< 10	All
Garments	10.0	20.8	5.6	6.7	4.5	9.4
Wood	0	128.6	13.2	33.2	0	39.9
Metal	-	22.2	59.4	45.0	11.8	30.5
Selling Clothes	0	50.3	9.7	4.1	7.0	16.7
Selling Food	33.3	26.4	0.9	5.1	1.2	7.6
Other	-	33.3	-	10.0	-	24.0
Urban	11.1	60.8	11.3	16.7	3.8	21.0
Secondary towns	8.3	15.1	16.0	2.1	6.3	8.8
Villages	0	8.3	0	-1.4	0	2.0
All	9.4	41.8	11.7	11.2	4.3	15.8

Notes: 1. Average annual growth rate (in percentages) in terms of employment is defined as follows: [(A - B) / B] / C where A = number of workers now; B = number of workers when the enterprise started; C = number of years the firms has been in existence. Percentages.

Source: Survey data.

Table 1.9: **Changes introduced by firms since start-up[1]. Swaziland**

	Changes			
Sector	Products	Clients	Inputs	Technology
Garments	56	17	18	7
Wood	16	2	4	4
Metal	8	1	1	4
Selling Garments	32	4	5	1
Selling Food	23	4	8	1
Other	4	0	1	0
All	139	28	37	17

Notes: 1. Number of sampled enterprises.

Source: Survey data.

Niger

With an area of 1 267 000 km^2 and a population estimated in 1989 at 7.4 million, Niger is a much larger country than Swaziland. Like many other African countries, its economy has experienced a negative rate of growth since 1965 (2.4 per cent annual rate of decrease in GDP per capita from 1965 to 1989); its GDP per capita in 1989 was only $290 (World Bank, 1991).

1. Micro and small enterprises: an overview

The main characteristics of micro and small enterprises (MSEs) for the country as a whole can be drawn from two comprehensive surveys, one conducted by ORSTOM and the other by Michigan State University. The absence of homogeneity, both for the definition of the MSEs and for the fields sampled, may be responsible for the divergence of certain of the primary results of these two surveys. Their main findings are as follows.

The main aim of the ORSTOM survey, which was undertaken by the Ministère du Plan de la République du Niger, was to estimate the informal sector's contribution to the GDP. The informal sector was defined as those establishments that did not comply with the profits tax, either evading this tax completely or not having adequate accounts. The Ministère du Plan (1989) had estimated that the informal sector contributed 64 per cent to the GDP of the country in 1988. The survey was carried out during the summer of 1987 and the winter of 1987-88. A questionnaire was administered to 2 823 informal sector establishments, accounting for about 10 per cent of the total estimated number of informal firms in Niger. Two locations were distinguished: urban areas, defined as those localities with more than 10 000 inhabitants, and rural areas (the rest of the country).

The national distribution of the non-farm informal firms between the general sectors was as follows: 21 per cent in manufacturing, 54 per cent in commerce, 23 per cent in services and 2 per cent in construction. At a more disaggregated level, selling or preparation of food accounted for 33 per cent of the informal firms in the urban area, and 19.3 per cent in the rural area; garments accounted for 4.8 per cent in the urban area, and 7.6 per cent in the rural area; wood processing firms accounted for 1.8 per cent urban area, and 2.4 per cent in the rural area; metal processing firms accounted for 1 per cent in the urban area, and 4.1 per cent in the rural area. Selling clothes accounted for 17.1 per cent of the informal sector establishments in the markets of Niamey[5].

Three-quarters of the informal sector firms were located in rural areas, while the others were operating in localities with more than 10 000 inhabitants. As revealed by this survey, the typical informal firm employed an average of less than two persons. Rural firms were smaller than their urban counterparts.

The survey also made estimates of the main accounting measures for enterprises in the informal sector. Estimates of taxes and fees paid as a share of sales revealed that the tax burden was lower for rural informal firms than for their urban counterparts. In general, the tax system was shown to be regressive: for each location, larger firms (in terms of level of sales) were paying relatively less taxes than the smaller ones.

The Michigan State University survey was conducted during the autumn of 1989 in two departments, Maradi and Dosso (Fisseha, 1989). Micro and small scale enterprises (MSEs) were defined as those non-farm enterprises whose total employment is less than or equal to 50[6]. This study consisted of an enumeration of MSEs in certain localities in the Dosso and Maradi departments and was conducted using a stratified random sampling approach[7]. The core of the survey involved a simple questionnaire containing basic information, administered to close to 18 650 enterprises, employing 31 500 people.

The distribution of MSEs in these two departments was as follows: 39.6 per cent in manufacturing, 53.1 per cent in commerce, 7.3 per cent in services. The relative importance of different industry groups varied substantially from one locality to another. Generally, the proportion of MSEs engaged in manufacturing or processing activities increased as one moves from urban to rural areas. At a more disaggregated level, the main types of enterprises for the MSE sector in the urban area of these two departments included vending, food catering, food processing, retail stores and tailoring. In rural areas, the most common types of MSEs included mat making, vending, salt mining and food processing. These MSE types accounted for at least two-thirds of the total MSEs in each stratum.

Most of the MSEs (over 90 per cent) were located in rural village settings. The typical enterprise had an average of less than two people working in it; the average size of a enterprise’s work force increased when moving from rural to urban areas. About half of the enterprises covered by the survey were owned by women.

A more detailed supplementary questionnaire was completed for a sample of 237 enterprises. One of its aims was to explore the development potential and the constraints faced by the respondents. This sample was drawn from the larger and presumably more active end of the MSE spectrum. About 90 per cent of the respondents had experienced some growth periods, which occurred almost uniformly in the early to mid-1980s. Amongst the enterprises surveyed, 40 per cent reported increases in their own sales or production from 1984 to 1989, while 50 per cent reported decreases. The percentage of respondents reporting decreases is higher in the rural village settings.

Respondents were also asked about problems they faced at three different stages in their enterprise’s development: at the start-up, during periods of growth (if any), and currently. The importance of regulations as a pressing constraint decreased through time. They were the second most important problem at the time of the start-up (shortage of funds was the most important), and the third most important during past growth periods (following the availability of machines and tools and the shortage of funds). They were among the top-ranking problems at the time of the survey.

2. Micro and small enterprises: survey sample

For the purposes of the present study, a standardized questionnaire was administered to 300 enterprises. The task of selecting a sample was complicated by the fact that baseline survey data were available for only a part of the area to be explored. It was decided in the course of the design of the study that half of the sample would be drawn from Dosso department, the other half from Niamey. For Dosso, the procedures used were similar to those outlined above for Swaziland: all enterprises identified in the baseline survey in the five target sectors were classified by size and by locality (Dosso town, secondary towns, and villages); using procedures set out above, 193 enterprises were selected as a target group, from which the interviewing team was able to locate and interview 150. For enterprises in Niamey, the interviewing team obtained a list of enterprises from the Chambre de Commerce, which formed their starting point. Based on discussion about the need to obtain diversity in the sample in terms of size and localities within the city, the team identified the enterprises to be interviewed. In this section, we present the main characteristics of this sample. In addition, a sample of 30 enterprises amongst those included in the primary enumeration was examined in detail for additional and more qualitative information.

The activities. As in Swaziland, five subsectors were selected for enumeration: garments, wood and metal processing industries, and selling clothing and selling food. The activity distribution of the 300 sampled enterprises was as follows: 56 per cent for the three manufacturing activities (24 per cent are garments, 19 per cent are in metal production, and 13 per cent are in wood production) and 44 per cent for the two commercial activities (25 per cent sell food and 19 per cent sell clothes; see Table 1.10). If this distribution is compared with the ones of the two baseline surveys, the number of the manufacturing enterprises is magnified in our sample. This bias is less important in terms of the relative contribution of manufacturing firms to the economy[8].

Table 1.10: **Sector and location[1]. Niger.**

	Niamey	Dosso	Secondary towns	Villages	All
Garments	30	28	10	4	72
Wood	30	5	3	0	38
Metal	30	17	9	2	58
Selling Clothing	30	16	12	0	58
Selling Food	30	28	9	7	74
All	150	94	43	13	300

Notes: 1. Number of cases for each subsample.
Source: Survey data.

The regional distribution. Four locations were selected for examination: Niamey, Dosso, secondary towns, and villages[9]. The distribution of the firms by location is as follows: 50 per cent in Niamey, 31.3 per cent in Dosso, 14.4 per cent in secondary towns and 4.3 per cent in villages. For each of the subsectors, an effort was made to select at least some enterprises in each of the four locations. Nonetheless, as can be seen in Table 1.10, no wood processing enterprises and clothes sellers were found in the villages studied.

Previous studies have shown that at least three-quarters of the MSEs in Niger are located in rural village settings. Our distribution leads to an over-representation of MSEs located in urban areas. Indeed, while including some small enterprises in rural areas, the primary focus of the research was on urban MSEs.

The size of the sampled enterprises. As shown in Table 1.11, 23 per cent of the sampled enterprises are one-person firms, while 57 per cent employ from two to five persons. The largest firm selected was a garment enterprise located in Niamey, employing 32 persons. Of our total sample, only 24 per cent of the enterprises hire at least one paid worker (regular or casual) besides the manager, apprentices and family helpers. The firms surveyed are well distributed amongst the selected subsectors. On average, the MSEs selected employed four persons (including the proprietor or managers, family helpers, apprentices and regular or occasional paid workers). This figure is slightly higher for manufacturing enterprises (metal, wood and garments) than for commercial ones. Note also that firms located in Niamey are larger (in terms of persons employed) than their counterparts in Dosso, secondary towns or villages. For the whole sample, the average labour force breakdown is as follows: 1.12 proprietors or managers, 1.04 family helpers, 0.75 apprentices and 1.08 paid workers (regular or occasional). Other surveys provide a lower estimation of the average number of persons employed by a small or micro enterprise. This discrepancy between our survey and baseline ones in the average number of workers employed by MSEs could be explained partly by the urban focus of our sample. Our sample was also drawn purposely from the larger and more active end of MSEs spectrum, in order to collect data from enterprises that are supposedly more visible and perhaps more affected by rules and regulations.

Table 1.11: **Number of workers by sector and location[1]. Niger.**

	1	2	3-5	6-10	11-19	<19	No Paid worker	At least 1 Paid worker	Average number of workers[2]	Average number of paid-workers[3]
Garments	15	18	29	6	3	1	57	15	3.9	0.21
Wood	8	9	13	5	3	0	28	10	4.2	0.26
Metal	8	4	22	18	6	0	42	16	5.5	0.28
Selling Clothing	16	20	16	3	3	0	43	15	3.0	0.26
Selling Food	23	15	25	4	7	0	57	17	3.5	0.23
Niamey	17	26	58	26	22	1	82	68	5.5	0.45
Dosso	37	23	26	8	0	0	83	5	2.5	0.05
Secondary towns	11	15	15	2	0	0	43	0	2.5	0
Villages	5	2	6	0	0	0	13	0	2.5	0
All	70	66	105	36	22	1	227	73	4.0	0.24

Notes: 1. Number of cases for each subsamples, excepted for the last two columns
2. Arithmetic means for all types of workers (proprietors, family helps, apprentices, regular and casual paid workers) for each of the subsample considered.
3. Arithmetic means for regular and casual paid workers for each of the subsample considered.

Source: Survey data.

The gender of proprietor. As shown in Table 1.12, the majority of proprietors are males; enterprises owned or managed by females are under-represented in our sample (only 15 per cent of the firms sampled). Note also that these firms are concentrated in garments, food and selling clothes; no metal or wood processing industries managed by females could be found. The male bias of our sample may be the result of the choice of activities to be surveyed. As shown in previous studies (Fisseha, 1990), the role of women was particularly important in mat-weaving, in vending, and food catering.

Schooling. Relatively a few of the sampled entrepreneurs (26.7 per cent) had formal education[10] before managing their business. They attended school for seven years on average.

The workshop location and ownership. As shown in Table 1.13, the majority of the sampled enterprises (71 per cent) operate in fixed and closed premises outside the home, either in commercial areas (39 per cent) or outside commercial areas (32 per cent). Home production represents 14 per cent of the sample. Note that only 11 per cent of the sample firms operate in the open or as itinerants. For the whole sample, 42 per cent of the entrepreneurs own their premises, while 39 per cent were tenants. Note that renting prevails in Niamey (51 per cent of the entrepreneurs considered).

Table 1.12: **Sector and gender of proprietor[1]. Niger.**

	Male	Female	Joint
Garments	63	9	0
Wood	38	0	0
Metal	58	0	0
Selling Clothing	48	9	1
Selling Food	47	27	0
All	254	45	1

Notes: 1. Number of cases for each subsector
Source: Survey data.

Table 1.13: **Sector and workplace location[1]. Niger.**

	Home	Fixed, in commercial area	Fixed, not in commercial area	Road-side	Mobile	Other
Garments	12	33	26	1	0	0
Wood	7	5	15	4	2	5
Metal	8	10	33	4	1	2
Selling Clothing	3	37	6	8	4	0
Selling Food	13	31	18	8	2	2
All	43	116	98	25	9	9

Notes: 1. Number of cases for each subsample.
Source: Survey data.

The customers. We have chosen to concentrate on the five subsectors specified above, based in part on the assumption that these are representative of a variety of different patterns of demand. It was assumed that households were the main customers of clothing and food sellers; wood and metal goods produced by MSEs might be purchased either by other enterprises or by households; and garment products could be exported, partly through large commercial firms. The survey results do not support these hypotheses. The vast majority of the firms sampled (93 per cent) have as primary customers, if not the only customers, individuals or households (see Table 1.14). Only 5 per cent of the sampled enterprises sell primarily to commercial firms; these enterprises are well distributed amongst the selected subsectors.

Manufacturing firms and public administrations appeared to be the main customers for only 2 per cent of our sample, and the MSEs concerned are only garments and metal processing MSEs. Fortunately, in each of the subsectors selected (except selling clothes), public administrations and manufacturing enterprises appeared to be customers - not necessarily the main one - of at least three of the MSEs sampled.

Table 1.14: **Sector and primary market[1]. Niger.**

	Individuals	Manufacture	Commercial	Public
Garments	67	1	3	1
Wood	36	0	2	0
Metal	53	1	2	2
Selling Clothing	54	0	4	0
Selling Food	69	0	5	0
All	279	2	16	3

Notes: 1. Number of cases for each subsamples.
Source: Survey data.

Source of inputs. The primary sources of inputs are reported in Table 1.15. Retailers are the primary source for a vast majority of the MSEs (68 per cent), followed by wholesalers (27 per cent). Large or small manufacturers play a very limited second- or third-ranking role as input sources for the MSEs, even as second- or third-ranking suppliers.

Finance. As shown in Table 1.16, the role of commercial banks and assistance organisations is very limited in financing MSEs' activities[11]. Most of the firms sampled (79 per cent) rely on their own savings. Neither informal lenders nor saving and credit associations ("tontines") are very active in financing the MSEs sampled in Niger.

Table 1.15: **Sector and primary source of inputs[1]. Niger.**

	Large manufactures	Small manufactures	Retailers	Wholesalers	Gathering, family prod.
Garments	0	1	61	9	1
Wood	1	1	24	12	0
Metal	1	1	40	13	3
Selling Clothing	5	0	32	21	0
Selling Food	0	0	46	27	1
All	7	3	203	82	5

Notes: 1. Number of cases for each subsamples.
Source: Survey data.

Table 1.16: **Sector and primary source of financing[1]. Niger.**

	Own Saving	Family or Friends' loans	Commercial Banks	Assistance Organisations	Others[2]
Garments	51	4	1	0	16
Wood	31	2	0	2	3
Metal	46	4	1	0	7
Selling Clothing	47	1	0	0	10
Selling Food	63	3	0	0	8
All	238	14	2	2	4

Notes: 1. Number of cases for each subsample.
2. Gift from the family or the previous employer, inheritance, etc.
Source: Survey data.

Growth. There is evidence that a number of the enterprises in the sample have undergone changes over their lifetime. One noteworthy feature is the relatively rapid overall growth rates in employment that the surviving small and micro enterprises have experienced in Niger. As indicated by Table 1.17, the annual growth rate in employment of the sampled enterprises since the start-up is 7.1 per cent[12]. The breakdown by subsector shows that tailoring and selling clothes have been the most dynamic in terms of employment. By size of locality, the growth rates ranged from 8.9 per cent for firms located in Niamey to 3.9 per cent for firms located in Dosso. These average rates of growth are particularly striking when it is recognized that a substantial number of firms did not grow at all. Indeed, among the sampled enterprises, 45 per cent did not change, 18 per cent declined, and only 37 per cent actually grew. It should also be noted that the percentage of "growing firms" is relatively higher for the firms located in Niamey than elsewhere in the country.

Table 1.17: **Annual employment growth rate of existing firms[1]. Niger**
(by location and sector)

Sector & Location / Number of years of existence	> 1	1-2	3-4	5-10	< 10	All
Garment	26.7	30.7	2.3	4.8	6.7	10.3
Wood	0	-8.0	4.2	6.1	0.5	2.4
Metal	0	6.0	12.7	3.9	7.4	6.6
Selling Clothes	-	100.0	7.6	5.8	7.6	10.4
Selling Food	0	14.3	0	2.0	4.9	4.1
Niamey	21.3	21.2	5.4	4.2	8.2	8.9
Dosso	0.0	12.2	7.1	5.1	1.0	3.9
Secondary towns	-	93.8	6.3	5.5	1.1	8.0
Villages	-	16.7	0	7.4	4.7	7.2
All	15.2	22.8	5.6	4.2	5.9	7.1

Notes: 1. Average annual growth rate (in percentages) in terms of employment is defined as follows: [(A - B) / B] / C where A = number of workers now; B = number of workers when the enterprise started; C = number of years the firms has been in existence. Percentages.
Source: Survey data.

Changes. Relatively few of the firms instituted any other types of change. Indeed, as indicated in Table 1.18, 88 per cent, 96 per cent, 97 per cent, and 94 per cent respectively of the enterprises sampled did not change their line of products, their clientele, their inputs, or their technology. Manufacturing firms (especially those in metal production) have been the most innovative in these domains.

Table 1.18: **Changes in the line of products, the clientele, the source of nature or inputs, and the technology used[1]. Niger.**

	Products	Clientele	Inputs	Technology
Garments	7	1	4	8
Wood	8	0	0	6
Metal	17	7	3	3
Selling clothing	2	4	0	0
Selling food	3	0	1	0
Total	37	12	8	17

Notes: 1. Number of cases for each subsample.
Source: Survey data.

In summary, it is clear that the two countries chosen for examination in this study differ in many respects: in population, area and resource endowment; in levels of income; in history and culture; and in inter-relationships with neighboring economies. There are many factors at work influencing patterns of growth among MSEs other than the differing legal and regulatory environment. The analysis that follows seeks to minimise the importance of the other factors by focusing on identifiable differences in the legal and regulatory environment, the extent to which these laws are enforced for small producers and traders, and the ways in which this enforcement appears to affect their behaviour.

Turning from the country comparison to the particular enterprises selected for analysis in Niger and Swaziland, the sample is not perfectly representative of the entire micro and small enterprise sector in these two countries but it does represent a mix of the basic features of the enterprises found in the five chosen subsectors in each country. The sampled enterprises tended to be somewhat more urban and somewhat larger than the average population of small and micro enterprises, reflecting the particular interests of the study. This set of sampled enterprises provides a solid base for assessing the effects of taxes and regulations on MSEs in the two countries. It is important to note, however, that the enterprises selected for study have certain characteristics that must be born in mind in interpreting the results, particularly in comparisons between the two countries. The enterprises in Niger have some features that in earlier studies in other countries have generally been associated with higher levels of efficiency, and with higher overall growth rates: they are substantially larger than those in Swaziland (an average of four workers, compared to 2.6 in Swaziland); more of the enterprises in the Niger sample operate from locations outside the home (86 per cent, compared to 69 per cent); and a smaller percentage of the proprietors in Niger are females (15 per cent, compared to 69 per cent). Yet the survey found a much smaller percentage of enterprises in Niger reporting changes in patterns of production or selling (about 13 per cent in Niger, compared to nearly half in Swaziland). The overall growth rate in employment among respondent enterprises in Niger was less than half that of the Swazi sample. It will be important to keep these differences between the respective samples in mind in the subsequent discussion of the impact of laws and regulations on MSEs in these two countries.

II. LAWS AND REGULATIONS GOVERNING SMALL AND MICRO ENTERPRISES

In this section, the regulations and fiscal laws that apply to small and micro enterprises in Swaziland and Niger will be examined in some detail. The stated (*de jure*) rules provide the context for comparing the actual compliance (*de facto*) of these enterprises. For each country, the registration regulations will be examined first, followed by the fiscal (taxation) rules and other regulations.

Swaziland

1. Licensing and registering a new enterprise

The steps to be followed in establishing a new enterprise in Swaziland vary by type of enterprise and by location. An entrepreneur interested in setting up a business on Swazi Nation Land (i.e. anywhere in rural areas other than on land set aside for larger-scale commercial agriculture) must follow a series of steps leading through Swazi Commercial Amadota to the King. After this, the person must apply for a license through the Regional Trade Licensing Board, following the same procedures as those outlined below for a new enterprise operating outside of Swazi Nation Land.

For enterprises on Swazi Nation Land (SNL), the first step in the process is to approach the chief of the area where the enterprise is to be established. The applicant in such a case need not necessarily be the chief's subject. The chief and his small council examine the application, which is generally presented verbally. The applicant is asked to explain the type of business, its intended market, and the usefulness of the activity to the community. If the chief approves of the application, he will nominate one or more persons to accompany the applicant in presenting the application to the regional branch of Swazi Commercial Amadota (SCA), the organisation which regulates commercial activity on behalf of the King on Swazi Nation Land. The transport and food bills of the chief's representative are paid for by the applicant.

If the regional branch of SCA approves the application, after allowing any interested persons to voice their objections, the application is taken to the National Executive of SCA. This body also examines the application thoroughly and, upon approval, forwards the application for signature by the King. This approved document is then taken to the relevant region where the Regional Trade Licensing Board undertakes its own review.

Enterprises being established outside of SNL begin at the last step in this procedure, with an application to the Regional Trade Licensing Board. This Board operates under the Trade Control Act of 1986, which governs the granting, renewal, amendment and transfer of all licenses in Swaziland. An applicant must present an affidavit or solemn declaration pursuant to the Registration of Business Act No. 42 of 1943. The affidavit must state the name of business; the nature of the business to be undertaken; the full address of the premises were the business will be conducted; and the full name, usual residence and all occupations of all persons proposing to carry on the business. Notice of the application and the time, date and place of hearing on the proposed activity are published once by the Board in the Government Gazette and in local newspapers[13]. This enables people who wish to oppose the application to attend and give reasons for their objections.

The applicant must be able to prove that he or she has enough capital to run the business. (S)he can prove this by producing a bank statement or cash. The required minimum capital varies by type of business. It appears to be based on the judgement of the registry officer.

The registry officer must verify that the applicant is legally resident in the country: either that he or she is a Swazi citizen, or has another form of legal residence. He or she is also required to produce proof of ownership or a valid lease for the premises to be used for the activity. Finally, the premises must be inspected by the local health authorities to ensure that it meets the required health and safety standards.

These requirements can cause problems for an applicant. They assume that the applicant must already have premises and a residence permit before obtaining a trading license; but for a non-Swazi, obtaining a residence permit requires that one prove that one has work, perhaps engaging in a business, proof of which would consist of a license. In the case of (owned or leased) premises, similar questions arise: one must have the confirmed premises before getting the license, but it is not clear what would happen to one's lease if the application is rejected. In view of these problems concerning the order in which these steps must be taken, some have expressed doubt that the regulations are regularly enforced.

At the conclusion of the hearing, and taking into account any objections that have been raised, the Board makes its decision to approve or disapprove the application to grant, renew, amend or transfer a license to trade, specifying any terms and conditions it deems fit. The grounds for successful objection are not clearly specified, and appear to vary from case to case. Thus in one case too much competition may be considered an adequate reason for refusal of an application, while in other cases such a reason will not be accepted.

Above the Regional Board is the National Trade Licensing Board whose function, *inter alia*, is to hear appeals against decisions of the Regional Board. The National Board has the power to grant, rescind, amend or transfer licenses.

Once the application has been approved, a trading license is issued, specifying the premises where the licensee is to conduct his or her trade. If trade is conducted at more than one location, the licensee is required to obtain a separate license for each of the premises.

The basic law that applies is No 20 of 1975. That law provides some specific exemptions to the rule that each enterprise must be registered. Farmers selling the products they have grown themselves do not require a license. Furthermore, a manufacturer is not required to obtain a license unless the products are sold "by retail from a shop, store or fixed place." This confusing clause is generally interpreted to mean that enterprises producing on order and not operating from a particular store (e.g. upholsterers working out of their home) are not required to have a license. But the implementation is erratic, leaving producers at the mercy of the interpretation of the enforcement officers.

A trading license is valid for 12 months from its date of issue, renewal, amendment or transfer. After this period, the licensee must apply for renewal for another similar period[14]. It is worth noting that the process of obtaining a license can take quite some time; in the process, the applicant can spend a considerable amount of money. He or she may be invited to meetings only to be told of postponements. In some cases, the applicant may have to resort to giving favours in order to speed up the consideration of his application. It is therefore not surprising to find significant numbers of businesses unregistered and operating on a small scale. Many of these begin operations while awaiting final approval of their applications, while other entrepreneurs start operating before even sending in their applications.

The procedures outlined above specifically apply to the formation of sole proprietorships and partnerships. These have been elaborated in some detail since most small enterprises fall into these categories. Formation of companies in Swaziland is governed by the Companies Act of 1912, as amended. Depending on whether one is forming a public or a private company, there must be at least seven or two subscribers to the Memorandum of Association, respectively. This Memorandum, which is submitted to the Registrar of Companies, states the name of the company, with "Limited" as the last word in its name in the case of a limited company; the address of its registered office; the objectives of the company; a statement that the liability of the members is limited, in the case of limited companies; and the amount of authorised capital. In addition, Articles of Association prescribing the regulations of the company may be submitted (in the case of a limited company) or must be submitted (for an unlimited company) with the Memorandum of Association.

On receipt of the Memorandum and Articles of Association, the Registrar of Companies will scrutinise them; if they are in order, he will issue a Certificate of Incorporation, which bestows on the company a separate legal entity. A private company may now commence business. A public company, on the other hand, may not exercise its borrowing power and appeal to the public to subscribe to its shares until it has filed a Prospectus. This document gives a detailed statement of the history of the company, its profit record, its assets, its future prospects, and any information deemed necessary to provide the potential subscriber with adequate safeguard against fraud. Once the Prospectus has been approved, the Registrar will issue a Certificate of Trading which authorizes a public company to start business.

2. Taxation

Productive enterprises in Swaziland are subject to a number of different types of taxation. The main instrument of taxation is the Income Tax Order (King's Order in Council No. 21 of 1975, as amended by the responsible Ministry from time to time). Enterprises are permitted to keep records in Siswati or in English; documents forwarded to and examined by the Commissioner of Taxes may be in either of these languages. The year of assessment for the enterprise is based on the financial year of that enterprise.

Enterprises are entitled to allowances, which differ according to whether the enterprise is a new manufacturer investing in the country or an established enterprise, which has fewer allowances under the tax legislation in the calculation of taxable income. A new enterprise is issued with a Certificate of Qualification for the tax holiday concession by the Ministry of Finance. The enterprise is then eligible for a five-year tax holiday. It must be noted that for an enterprise to qualify for this tax holiday, it must be involved in either manufacturing a product that is not already being made in Swaziland or producing a product predominantly for export. Also worth noting, and often not emphasized when inviting new investors to the country, is the fact that the tax holiday is conditional on the cumulative taxable income not exceeding 150 per cent of the value of the assets.

There is no difference in the tax liability of different types of enterprises. Any difference arises in the deductible allowances for different enterprises. All enterprises are required by law to submit audited statements annually to the Commissioner of Taxes. Currently, the normal tax rate for enterprises, whether incorporated or not, is 37.5 per cent, a relatively high level. Due to poor or lack of record keeping by small enterprises, the Commissioner of Taxes often invokes Section 39 of the Income Tax Order and estimates the tax due. This means that, for enterprises without books or audited accounts (which includes most small enterprises), the amount of tax to be paid is established by the tax official based his judgement, making use of a variety of indicators, including the observed standard of living of the entrepreneur. Some have asserted that this results in very high tax rates for enterprises unfortunate enough to have to pay the tax but without books. Consequently, considerable effort is exerted by the government and relevant institutions in teaching small entrepreneurs to keep proper records of accounts.

When their taxes are in order, a tax clearance certificate is issued to the enterprise, stating that no tax is due from the enterprise or that satisfactory arrangements have been made for the payment of outstanding taxes. Such a certificate is required when transacting, *inter alia*, the following: (i) renewing a trading license; (ii) buying or selling property; (iii) buying or selling a motor vehicle.

Enterprises operating in Swaziland are also subject to a variety of other taxes, fees and contributions. The Graded Tax is not a tax on economic activity but rather a head tax to be paid by all adults in the country; yet for hired workers, the tax is generally collected by employers via payroll deductions, so employers are given responsibility for collecting the tax on behalf of the government. Contributions to the

Swazi National Provident Fund are likewise collected through deductions from salary, for those enterprises that choose to become members of this system. License fees also constitute a form of taxation; in fact, revenue collection may be one of the most important functions of the licensing system. The fee schedule has been set out in Appendix A.2.2.

Finally, one should recognise that sales taxes affect virtually all small enterprises. Enterprises that are registered under the sales tax system can obtain imports free of the standard 10 per cent fee on imports from the Republic of South Africa. No small enterprises have taken advantage of this provision of the tax law. Instead, they pay a 10 per cent duty on all of their imported inputs, but do not pay any sales tax on the goods and services they sell. The system thus avoids cascading through taxes levied at multiple stages in the transformation process. In doing so, this tax system provides an incentive to use domestic inputs, and to consume products relying on domestic rather than imported inputs. Since the duty rate is not high (10 per cent, on all imports), this constitutes a reasonable degree of protection and promotion of locally produced and locally based economic activity.

3. Other types of regulations

Enterprises in Swaziland are subject to a variety of other types of rules and regulations. One set of these relate to employment regulations. The Employment Act of 1980 stipulates conditions of employment to which all employers are required to adhere. Among the areas covered by this Act are the minimum wage (which varies by sector), the times and places of payment of wages for different types of employees, permissible numbers of working hours for paid workers, registration of employees, special provisions covering the employment of women, young persons, children and domestic workers; annual holidays; and sick leaves.

The Labour Commissioner may require any employer to furnish returns and statistics as to the number of workers employed by him in any particular type of work and the rates of remuneration and the conditions generally affecting such employment. Any employer who does not keep appropriate records of employees is guilty of an offence. In addition, the Act also states that the Labour Officer, Medical Officer, Health Inspector, Labour Inspector or Sanitary Inspector may from time to time enter the business to inspect the suitability and adherence to specified standards and working conditions.

The Act specifies that no child is permitted to enter into a contract except for employment in occupations approved by the Labour Commissioner as not being injurious to the moral or physical development of young persons. No child under 13 years shall be employed in any commercial undertaking. The exceptions to these rules are undertakings in which only members of the same family are employed. In addition, an employer must not keep a child in continuous employment if the parent or guardian has any objections.

In the case of women and young persons, the Act states that these persons should not work at night. Exceptions are made for young males over the age of 16 employed in day and night shifts in iron and steel, glass works, paper manufacturing, manufacture of raw sugar, and gold mining. Women can also work at night in enterprises using raw materials that are highly perishable, or if they hold responsible positions in management.

The Industrial Relations Act of 1980 gives guidelines for establishing trade unions, staff associations and employers' associations. Significantly, there is the right and obligation to have a representative workers' organisation if there are 25 or more employees.

There are also regulations concerning where enterprises can sell and produce, as well as on hygienic, technical, and quality standards. Price controls are in effect for those engaged in the selling of food.

In *summary*, it appears that small enterprises in Swaziland are subject to a considerable number of regulations. Registration procedures appear to be rather complex, particularly at the point of start-up of the enterprise. While there are only a limited number of taxes to which small enterprises are subject, there are a variety of other rules dealing with things like treatment of labour, their production and selling which affect them. Subsequent sections will explore the extent to which these different rules and regulations are actually enforced.

Niger

1. Registration and the *patente* (business license tax)

The *patente* system has a dual purpose. Besides taxing businesses, it also confirms their legal existence. Indeed, the *patente* receipt is the necessary step to get registered as a business (*Registre du Commerce*).

Registration with the *Tribunal du Commerce* is compulsory for all firms. The procedures are not complex and time-consuming as long as the manager presents the required administrative documents. These are: a) a certificate of compliance with taxes (*patente*, profits tax) provided by the *Direction des Contributions Diverses;* b) a certificate of social security membership from the *Caisse Nationale de Sécurité Sociale;* c) proof of a personal record free of misdemeanors or other legal offenses; d) certificate of nationality person born in Niger or an *Autorisation d'exercice* for foreigners (obtained from the Chamber of Commerce); e) two tax stamps of FCFA 1 500 each and a FCFA 2 500 for the contract fees[15]. Only at start-up does the firm have to deal with these procedures. According to the law, only firms registered with the *Tribunal de Commerce* can compete for a bank loan or a public contract or are allowed to export or import goods.

The *patente* (business license tax) is the most significant direct tax applied to small and micro enterprises in Niger. It is a tax with old roots, having originated in France in 1848, and is ubiquitous in the French - speaking world. This tax applies to anyone managing a business (trade or industry). The main exemptions for small and micro enterprises are those craftsmen functioning on a co-operative or association basis and sculptors and painters considered as artists. The Investment Code (*Code des Investissements*) also has five-year exemption schemes for small enterprises[16]. This tax may also constitute a basis for determining other tax fees, such as the Profit Tax, for firms whose accounting is not well audited (which includes most MSEs). Tax officials and Property Registry Department employees are responsible for the identification of the taxpayers by taking a census of towns, villages and other built-up areas.

The amount assessed on an enterprise depends on its type of activity, the value of capital goods used and premises occupied, the number of workers, the value of its imports or exports, and the turnover. The classification scheme is very complex: five tables, divided into "classes" for which the rationale of tax determination is based on different criteria, and finally each class specifies explicitly the businesses to be considered[17]. The classification is quite rigid. Established in 1959, there have only been two updates (in 1967 and 1981). Nevertheless, many new types of activities are still not included.

The *patente* has three components:

1. a "fixed" component (*droit fixe*), which for most small and micro enterprises ranged in 1988 from FCFA 3 000 to 1 200 000 depending on the class in which the firm is placed.

2. a "proportional" component (*droit proportionnel*) that, in principle, depends on the estimated rental value of the business premises (12.5 per cent of this value). Nonetheless, it is always at least 25 per cent of the *droit fixe*. It will be equal to 25 per cent of the *droit fixe* in the following cases: when no estimate of the value of the premise is available, when the firm is itinerant and has no fixed premises, or when 12.5 per cent of the rental value is less than 25 per cent of the *droit fixe.* For some classes, businesses are exempt from the droit proportionnel.

3. an "additional component" (*centimes aditionnels*) that is 30 per cent of the "fixed" and "proportional" components of the *patente*. This component was originally added to provide funds to the local governments, although since 1980 local governments receive all components of the *patente*.

The *patente* revenue is still collected by the central government, but it is then transferred to local units with no redistribution between poor and rich local governments. The *patente* proceeds constitute a major source of financing for the local governments. In 1988, the *patente* and license fees accounted for 34.9 per cent of local government budgets, but important differences between local governments have to be noted. For the Niamey and Dosso towns, they accounted respectively for 29.1 per cent and 37.4 per cent in 1988. This share was significantly lower for secondary towns[18].

According to Barlow and Snyder (1991), one of the characteristics of the *patente* tax is its high administrative costs (a large number of agents are employed in trying to collect the tax) and its low compliance rate. The Lallemand-Flucher study (1989) reports that the agents have been able to reach only about 15 000 of an estimated 100 000 persons who should be subject to the *patente*.

The *patente* system may also exert a threshold effect on MSE's growth. It could inhibit, for example, incentives to diversify the activities because an entrepreneur involved in multiple activities would have to pay the *droit fixe* for the highest class into which his activities fall. In addition, it reduces the incentives to expand a business as one entrepreneur who opens a new establishment would be required to pay the corresponding droit fixe for the second premises.

Another criticism of the *patente* is that the classification system is extremely complex and may be very arbitrary. For instance, a garment producer using more than one embroidering machine is assessed under the fourth class of the Tax Table; the fee he has to pay is FCFA 73 125. A garment producer with no embroidering machine could be assessed under four different classes of the same table depending on the number of sewing machines he has and the quality of the textiles used; the fee he has to pay would range from FCFA 6 500 to 52 000. Distortions are reinforced by the fact that the *patente* classification serves as a reference for the determination of other taxes (e.g. profit tax). Fees are unrelated to the actual sales or income. They are based on the estimated capacity to produce or to sell. It may then constitute a disincentive to productive investment. Moreover, in a context of contraction of demand (because of decreases in real wages in the public and modern sectors) and idle productive capacities, the amount due could be excessive.

2. Other taxes

The tax system in Niger is extensive and complex, closely patterned after that of France. Not surprisingly, the volume of rules and regulation is also vast and complex, making it very difficult for anyone to master them all and avoid running into problems with tax administrators. The other major taxes applied to small and micro enterprises besides the *patente* will now be reviewed.

The market tax (*taxe sur les marchés*) is charged daily to each merchant who sets up a stand at an organised market (public area). The fees are determined under the supervision of the Central Government (Ministère de l'Intérieur), but the tax receipts are earmarked for municipalities. Tax rates depend on the goods produced or sold and ranges on average between FCFA 100 and 200 per day. Tax collectors are paid a 10 per cent of the fees collected. The revenue generated by this tax is estimated to have been about 8 per cent of the local budgets in 1988, with important variations between local governments. For Niamey and the other major towns, they accounted for about 4 per cent; for smaller towns this percentage was higher[19].

There is also a **tax levied on the rental income from buildings** (*taxe sur la valeur locative*). It is charged to every real estate owner, except for those using it for industrial and commercial purposes (since 1990). The fee is based on the rental value assessed by the property registry department (*service du cadastre*). This rate was increased from 12 to 16 per cent for the 1991 fiscal year for rented industrial or commercial property. These tax receipts go to the central government.

Another property-related tax is the *contribution foncière des propriétés bâties.* This annual tax is levied on buildings, including uncultivated land used for industrial and commercial purposes, and fixed machinery in industrial enterprises. The fee is based on 40 per cent of the rental value to which a 30 per cent rate applies[20]. Commercial buildings are temporarily exempted (two years) as is rented housing (six years). Since the 1979/80 fiscal year, the proceeds have been earmarked for local governments.

When operating on a public place or market, MSEs may be asked to pay an annual fee for the right to use these facilities. The so-called *droits d'occupation*, for example, are considered as a lease MSEs owe to the Town Hall. This procedure does not seem to be anchored in any existing tax law and to paying this levy does not guarantee the MSEs that they will be able to use the place in the future. It also duplicates the market tax, except that the latter is charged on a daily basis.

There is also a **tax on commercial signs** (*taxe sur les enseignes publicitaires*). Every commune has the responsibility of levying a tax on commercial signs. Lallemand-Flucher (1989) noted the contribution of such tax to the local budget is very meager (0.5 per cent for the Niamey *Département* in 1988) and this income was almost balanced by the collection costs.

The central government also **taxes the profits** of these enterprises (*Impôt sur les bénéfices industriels et commerciaux*). Three systems exist and apply to different types of enterprises:

1. Real-Basis Profit Tax (*Imposition réelle*): for those businesses reporting actual transactions. Distinct rates apply on net income for companies and for individuals. In 1988, companies paid a rate of 45 per cent, and individuals a rate of 25 per cent, on their income.

2. Imputed-Basis Profit Tax (*imposition au forfait*): applies to firms which are able to prove that their sales are lower than a given threshold[21]. These enterprises must report their purchases and wages or salaries paid. The fee is then determined case-by-case by a tax official according to a "normal" margin (over cost), and then negotiated with the entrepreneur (taking into account his effective ability to pay the fee). The amount so determined will be the same for two years.

3. Imputed-Basis (*patente*) Profit Tax [*impôt forfaitaire sur les bénéfices*, *greffé sur la patente* (IFB)]: applies to the majority of MSEs (all the enterprises with inadequate books or no record-keeping). The amount due is directly linked to the *patente* classification. The fee is then a multiple of the *patente droit fixe*: three times the *droit fixe* for those enterprises assigned into classes 1 to 4 of Tax Table A; twice the *droit fixe* for those assigned into classes 5 and 6.[22] The firms assigned into the classes 7 or 8 of Tax Table A are exempted from the income tax. The IFB fee is collected jointly with the *patente* (by the *Direction des Contributions Diverses*). It may then be perceived by MSE as one of the components of the *patente* and may explain why many of the entrepreneurs in our sample said that they do not pay the profit tax. Note that unlike the *patente* receipts, the IFB receipts collected are not earmarked for the local government budget.

Income profit taxes may also be paid in the form of *import duty payments*. Indeed, importing enterprises subject to the imputed basis profit tax pay an advance payment for the profit tax whenever they buy inputs from abroad. All imported goods are subject to a array of taxes: 5 per cent of the purchase price for the *droit d'entrée*, 3 per cent for the *taxe statistique*, as well as the VAT and *droit fiscal* both depending on the nature of the goods. Exports are subject to a 3 per cent levy for the *taxe statistique* and a *droit de sortie* depending on the nature of the goods.

There is also a *value added tax* (VAT). It was introduced on January 1986 to replace both the earlier turnover tax (*taxe sur le chiffre d'affaires*) and the production tax (*taxe à la production*). This tax applies to firms depending on both their ability to present audited accounts and the profit tax system to which they are subject. For those firms subject to the Real Basis Profits Tax, the VAT rationale is respected and three distinct rates apply depending on the type of goods or services: 10 per cent for basic needs type goods, 17 per cent for general goods, and 24 per cent for luxury goods. For those firms subject to the *Imposition au Forfait,* or IFB, 2 per cent of their sales price would be transferred monthly to the tax authorities. As these businesses frequently lack transactions records, an arbitrary forfeit tax is usually applied simultaneously with the profit tax declaration. The amount to be paid is determined by the tax official on a case-by-case basis and is supposed to be valid for two years. The rationale of the indirect tax system does not apply for these MSEs; the VAT that small firms have to pay is a forfeit, and operates as an additional direct tax on income[23].

Despite the multiplicity of taxes prevailing in Niger, the effective domestic tax burden has been relatively low compared to most other African countries. In 1990, total tax receipts represented 9.1 per cent of the GDP.

3. Other regulations

Price controls have been progressively removed since 1985. In 1988, only four goods considered as absolute necessities of life were still controlled: bread, electricity, domestic transport fares and oil products[24]. The total removal of price controls was to be effective in 1990.

There are very few regulations relating to the location of enterprises or rules on quality and technical standards. They apply mostly to food and drink sellers. Strict regulations apply to the quality of prepared food catered for the schools: to be allowed to do so, every person must have a medical examination. Alcoholic drinks cannot be sold near or in schools.

There are also various labour market regulations. In theory, they do not usually differ between large and small enterprises, but the Inspection du Travail does differentiate between enterprises by size[25]. The minimum legal wage has not changed since 1979 and is FCFA 18 889 per month, but in practice employers usually pay around FCFA 21 000. The legal working hours are 40 hours per week and for any hours beyond this limit, a higher wage must be paid. Every wage earner and apprentice can benefit from two and one-half days per month of paid-holidays. Every employee is required to have social security protection, except for members of the family who work in the business. The total contribution is 17 per cent of wages or any other forms of cash payment; 15.4 per cent is provided by the employer, while 1.6 per cent comes from the employee.

Apprenticeship is regulated. A contract between the employer and the apprentice (or tutor if the apprentice is a minor) has to be approved by the *Inspection du Travail.* The apprenticeship lasts for a predetermined period, usually from two to three years. No remuneration rules are explicitly specified, but commonly the apprentice receives room and board with possibly an allowance. The apprentice is supposed to work for the same firm for at least five years after the end of the apprenticeship period[26].

In summary, a wide panoply of regulations and tax laws apply to small and micro enterprises in both Swaziland and Niger. A number of rules and taxes are found in both countries. It appears, however, that the procedures for registering a new enterprise are more cumbersome and complex in Swaziland than in Niger. Enterprises there appear also to be subject to a greater number of regulations in the area of labour and hygiene. It is in the area of taxes that the number and complexity of laws appears to be substantially greater in Niger than in Swaziland. Market, property, and sign taxes, for example, are found in Niger, but not in Swaziland. Moreover, the regulations relating to the license and the profits (income) taxes, both of which are found in the two countries, are much more complicated and confusing in Niger than in Swaziland. Subsequent sections examine the extent to which these different regulations are actually enforced, as well as the ways in which this appears to affect the behaviour of firms.

III. COMPLIANCE WITH REGULATIONS AND TAX LAWS

This section explores the extent to which enterprises in Swaziland and Niger do, in fact, comply with the regulations and tax laws that were elaborated in the previous section. The overall compliance of enterprises with respect to registration and taxes in the two countries is examined first to provide a general perspective. Attention is then focused more specifically on registration compliance, with a specific examination of the characteristics of registered firms, the costs and benefits of registration, and an analysis of the determinants of registration in the two countries. More detailed empirical information on compliance with the various taxes are then presented. The section concludes with an examination of enterprises' compliance with other rules and regulations.

Overall compliance

A key overall finding from both Swaziland and Niger is that most small and micro enterprises do not comply with major parts of the panoply of regulations and tax laws. This can be gleaned from an examination of Tables 3.1, 3.2, and 3.3, which summarises the compliance results from Swaziland, and from Tables 3.4 and 3.5, which summarises the comparable figures from Niger.

The degree of compliance varies widely by type of regulation or tax. In both Swaziland and Niger, the registration regulation is the law to which the largest percentage of enterprises adhere. Over two-thirds of the sampled enterprises in Niger and over 50 per cent in Swaziland, for example, reported that they were registered. At the other extreme, only 9 per cent of the firms in Niger and 16 per cent of the Swazi firms claimed that they paid the income or profits tax.

An examination of these tables also reveals that compliance varies markedly by other key variables, particularly location, size of enterprise, and sector. In both countries, for example, compliance generally increases with size of locality and size of enterprise. These factors will be examined in more detail when compliance with each of the major regulations are discussed.

Table 3.1: **Extent to which respondents are subject to various laws and regulations[1]. Swaziland**.

	Major towns	Second. towns	Rural areas	Total
Trading or business license	54.9	65.2	4.2	54.0
Taxes: business income	16.0	20.7	0	16.2
Taxes: sales tax on purchases	37.0	40.2	33.3	37.7
Labour regulations: minimum wage	15.8	22.8	0	16.7
Labour regulations: maximum working hours	42.6	47.8	0	40.8
Labour regulations: safety, health regulations	17.5	20.7	20.8	18.7
Other regulations: restrictions on locations for production	23.4	28.3	0	23.1
Other regulations: restrictions on locations for selling	56.5	60.9	26.1	55.5
Other regulations: hygienic standards	13.6	28.3	21.7	18.7

Notes: 1. Per cent of all respondents.
Source: Survey data.

Table 3.2: **Extent to which respondents are subject to various laws and regulations[1]. Swaziland.**

	Clothes	Wood	Metals	Trading clothes	Trading food
Trading or business license	46.2	19.4	78.9	82.3	51.5
Taxes: on business or income	9.4	5.5	36.8	29.5	15.2
Taxes: sales tax on purchases	38.6	8.3	10.5	80.3	13.6
Labour regulations: minimum wage	7.5	10.8	21.1	39.3	12.1
Labour regulations: maximum working hours	32.7	18.9	52.6	59.0	47.0
Labour regulations: safety, health regulations	3.7	8.1	31.6	23.0	42.4
Other regulations: restrictions on location for production	25.2	24.3	73.4	14.5	13.8
Other regulations: restrictions on locations for selling	43.0	21.6	52.0	79.0	72.3
Other regulations: hygienic standards	1.9	0	15.8	19.3	60.0

Notes: 1. Per cent of all respondents.
Source: Survey data.

Table 3.3: **Extent to which respondents are subject to various laws and regulations[1]. Swaziland.**

	One worker	2-5 workers	6 or more workers
Trading or business license	36.4	78.2	82.4
Taxes: business income	3.4	23.3	64.7
Taxes: sales tax on purchases	29.5	48.8	88.2
Labour regulations: minimum wage	n.a.	33.3	61.8
Labour regulations: maximum working hours	n.a.	55.2	85.3
Labour regulations: safety, health regulations	10.7	25.3	41.2
Other regulations: restrictions on location for production	14.2	34.1	41.2
Other regulations: restrictions on locations for selling	44.3	70.5	73.5
Other regulations: hygienic standards	17.0	19.3	23.5

Notes: 1. Per cent of all respondents.
2. Not applicable.
Source: Survey data.

Table 3.4: **Registration and tax compliance by location, activity and size[1]. Niger.**

Main Characteristics: location, activity, size	Registration	*patente*	Profit Tax	VAT	Market Tax	Property Taxes
Niamey	80.0	76.7	17.3	23.3	37.3	57.3
Dosso	60.6	59.6	1.1	2.1	51.1	1.1
Secondary towns	58.1	60.5	0	0	46.5	2.3
Villages	7.7	7.7	0	0	7.7	0
Wood	65.8	55.3	15.8	7.9	15.8	42.1
Metal	65.5	65.5	8.6	17.2	27.6	29.3
Garments	81.9	77.8	6.9	9.7	25	12.5
Selling clothes	72.4	74.1	12.1	25.9	60.3	43.1
Selling food	52.7	54.1	5.4	2.7	67.6	28.4
No wage-earner	61.2	60.4	3.5	8.8	41.9	20.7
At least one wage-earner	87.7	83.6	26.0	23.3	41.1	56.2
Total	67.7	66.0	9.0	12.3	41.7	29.3

Notes: 1. Per cent of the subsamples considered.
Source: Survey data.

Table 3.5: **Compliance with labour regulations by location, activity and size[1]. Niger.**

Main Characteristics Location, activity, size	Social Security	Minimum Wage	Working Hours	Security Rules	Apprenticeship
Niamey	8.7	4.7	4.7	12.7	0.7
Dosso	1.1	0	0	1.1	0
Secondary towns	0	0	0	2.3	0
Villages	0	0	0	0	0
Wood	5.6	5.3	2.6	5.3	0
Metal	13.8	3.4	1.7	5.2	0
Garments	1.4	1.4	2.8	5.6	1.4
Selling clothes	0	0	1.7	12.1	0
Selling food	4.1	2.7	2.7	6.8	0
No wage-earner	1.3	n.a.	n.a.	4.4	0
At least 1 wage-earner	15.1	9.6	9.6	15.1	1.4
Total	4.7	2.3	2.3	7.0	0.3

Notes: 1. Per cent of the subsamples considered.
2. Not applicable.

Source: Survey data.

Registration compliance

One of the key survey findings is the divergence between the legal requirements of registration and the actual registration of firms in both Niger and Swaziland. In Niger, for example, only 72 per cent of the firms in urban areas and 8 per cent of the firms in rural areas (villages) were registered; in Swaziland, only 58 per cent of urban firms and 4 per cent of the rural (village) firms were registered. Thus, substantial numbers of small and micro enterprises in both countries were not registered as required by the legal regulations.

Another important finding is that the extent of registration varies by several discernable characteristics of these enterprises. In addition to the locational factors mentioned previously, there is evidence that registration varies directly with the size of the firm. In Swaziland, for example, only 36 per cent of the one-person firms were registered, while 80 per cent of enterprises with two or more workers were registered. There were also wide differences by sector. In Swaziland the percentage of firms registered varied from 20 per cent in wood manufacturing to over 80 per cent in clothes retailing; in Niger, the percentage varied from 53 per cent in food selling to over 82 per cent in garment production.

What reasons were given by the enterprises for not registering their businesses? In both Niger and Swaziland, over 50 per cent of the non-registered entrepreneurs either claimed that registration was not required or did not know registration was required. Less than 20 per cent wished to obtain a license but found the procedures too complicated or too costly. In their elaboration of these answers in Swaziland, a few respondents indicated that they were not able to obtain a license because they did not have enough capital. Registry officers indicated in subsequent discussions that applicants are required to show that they have sufficient funds to operate the business, and that they have a bank account in the name of the business (although neither of these is specified in the law). A few other respondents indicated that they were not eligible to obtain a license since they did not have an appropriate premises, or because they were not Swazi citizens (non-citizens must be legal residents of the country). Overall, however, it would seem that lack of information about the registration requirements rather than high cost was the primary stated reason for the lack of registration. For the most part, lack of registration did not cause these firms any undue difficulties.

Was registration an onerous process, involving high transaction costs on the part of the business? The survey asked those who had registered how long they had waited from the time of their application until registration was completed. Of those currently registered in Swaziland, the average waiting period was 2.2 months. For more than one-half, the waiting time was one month or less; for only 4 per cent was it more than three months. A follow-up question asked how much time they had personally had to spend in following the registration procedures. The average figure in Swaziland was 2.3 hours. For 94 per cent, the time required was eight hours or less. In Niger, the time was even less. For 87 per cent of the firms, less than one hour was required.

Was not having a license a problem? Or put another way, were there any perceived benefits from registration? While this question was not asked explicitly, the responses provide some information about it. As reported above, while well over half of those without license seemed to feel no need to register, some did indicate that their non-registration had caused them problems in Swaziland. A few wished to advertise their products, but found that their ability to do so was constrained by the lack of a license. A few others indicated that in dealings with a bank (even in the form of a bank account), the banker required that they obtain a license. Officials at the Registry Office in Swaziland suggested that registration was important in enabling an enterprise to obtain help from the authorities in case of robberies; no business person mentioned this issue in the questionnaire responses. There was also no evidence from either Swaziland or Niger that firms without licenses were under more pressures to pay bribes to government officials than those with licenses.

It should be noted that the survey focused on existing enterprises; it had no way of reaching persons who would have liked to start a business, but who were prevented from doing so by the licensing procedures. In Swaziland, this is reported to be a particular problem in rural areas, where the procedures for obtaining a license give an effective veto power to the chief. The fact that many small enterprises operate without licenses in rural areas is not inconsistent with the fact that the local authorities can block the establishment of a new enterprise if they so wish. Discussion with informed individuals suggests that this is indeed a problem, particularly for those wishing to start somewhat larger enterprises operating on Swazi Nation Land.

In summary, the descriptive findings from the surveys in the two countries indicated that sizeable numbers of enterprises were not registered; nevertheless, obtaining a license, for the most part, was relatively easy for those who had it, while the lack of license did not appear to be a serious constraint for most of those who did not have one. It may have been a significant hurdle for some of the enterprises at the time they were starting up, particularly for the somewhat larger ones.

1. The registration decision - key determinants

What influences a proprietor's choice regarding registering the business with the authorities? As noted previously, many proprietors are completely unaware that registration is required. These entrepreneurs fail to register out of ignorance, not conscious choice. The degree to which information about registration filters down to individual entrepreneurs depends both on the ability of individual proprietors to understand what information is available, and on the efforts of the government to ensure that information reaches business persons.

For those proprietors who know about the registration requirements, one might hypothesize that this decision rests implicitly or explicitly on an assessment of the potential benefits of registration relative to the possible costs involved. Proprietors elect to register their businesses when the expected benefits of doing so outweigh the expected costs.

It is useful to distinguish analytically two distinct but interrelated costs of registration- the fiscal cost and the transactions cost. Fiscal costs include any fees that might be required by the licensing authorities. Transactions costs include the monetary costs involved with filing the application (e.g., costs of transport to the capital city) as well as the value of the manager's time which must be spent away from his business. In addition, there are the less immediate recurring expenses that may ensue from registering. By registering, enterprises become known to the government, which may lead to the imposition of additional taxes or regulations at some point in the future. These potential additional costs are also likely to be imposed by different government agencies at different times. How entrepreneurs evaluate these possible future costs of registration naturally depends on their assessment of the probability that these costs will occur.

There are, of course, advantages which may accrue to enterprises that register. Typically, banks will only consider loan applications from officially sanctioned businesses. Training programmes aimed at small entrepreneurs may be disinclined to accept proprietors of unregistered firms. Should the enterprise require imported inputs, it must gain access to foreign exchange. Most allocation systems favour registered businesses, and indeed may not consider applications from unregistered firms. In Niger, only registered business are allowed to export or compete for public contracts. In addition, unregistered enterprises may be subject to harassment by the authorities, perhaps requiring the payment of bribes to induce officials to "look the other way". Finally, registration may be necessary if the enterprise is to advertise.

Several key variables could explain the registration decision. First, the sector in which the enterprise operates appears to be an important explanatory variable. Certain types of activity may be more visible to the authorities, thus making the costs of not registering higher than for other types that are more easily hidden. In addition, the costs of registering, both fiscal and transactional, may be higher for some sectors than for others.

Locational aspects represent a second set of characteristics likely to influence a manager's assessment of the costs and benefits of registering. Enterprises in rural areas face higher transactions costs, since they must bear the cost of travel to administrative centres to complete the licensing process. At the same time, it is likely that it is more difficult (and costly) for the government to enforce its registration laws in rural areas. In addition, the potential advantages of registration, such as the ability to advertise, are probably greater for urban enterprises. Therefore, it is expected that rural entrepreneurs would be less likely to register their businesses than their urban counterparts. A second locational aspect which may be important concerns whether or not the enterprise is home-based. Presumably, enterprises operated from the home are less visible to government regulators, and therefore the costs of not registering are lower for these firms.

Larger enterprises are usually more visible to the government. For such firms the costs of not registering may be quite high. A variable reflecting whether or not the enterprise has paid employees could be used as a proxy for size.

The gender of the proprietor may also have an impact on the registration decision. Given the traditional role of women in child care, the opportunity costs of taking the time to go through with the registration process may be higher for females than for males.

It is also necessary to keep in mind that some proprietors are essentially unaware of the requirement to register, and of the potential gains from doing so. These proprietors, then, do not make calculations along cost-benefit lines. To allow for this sort of proprietor, one might consider variables intended to measure the proprietor's educational attainment or level of experience. Additionally, since it seems likely that the commitment to inform proprietors about the benefits of registering differs across countries, it is expected that controlling for country will be important.

A related issue involves the relative diligence with which governments pursue enterprises that fail to register. Clearly, a lax enforcement structure imposes fewer costs on an unregistered enterprise than would a more stringent situation. Firms in Niger, operating in a country with a tradition of extensive French-type regulation, would be expected to be more likely to be registered than those in Swaziland, other things being equal.

2. Analytical results

To determine the specific contribution of these variables on registration compliance more precisely, a statistical analysis, using a logit framework, was carried out on data for Niger and Swaziland[27]. This analysis can provide estimates of the separate impact or contribution of each of the previously discussed explanatory variables - such as location, subsector, enterprise size, and country - on registration compliance. To provide insights on the effect of country, the analysis was undertaken for Niger taken by itself, and then for Niger and Swaziland combined.

The key findings from the Niger analysis, the details of which are presented in Appendix 3.2, were as follows:

- Economic activity: among the five activities studied, the garments producers had the highest "compliance rate" with the *patente* system. A garment firm located in Niamey and employing at least one paid worker had a probability of paying the *patente* that was about 29.4 per cent higher than a wood-processing enterprise with the same other characteristics (size and location). Other things being equal, wood-processing firms and food sellers were the enterprises with the lowest compliance rates.

- Location: with the firms segmented into three groups (Niamey, Dosso and secondary towns, and villages), the logit analysis confirmed the large impact of location on the compliance with the *patente*. For a garment firm operating in Niamey employing no paid workers, the probability of paying the *patente* was about 86 per cent, compared to 75 per cent in Dosso and secondary towns, and only 14 per cent in villages.

- Size: with the firms divided into two categories, enterprises having no paid worker (regular or occasional) and those with at least one paid worker, the logit analysis confirmed that the larger, visible firms generally complied more with tax regulations than small ones. For instance, it was estimated that a garment enterprise in Niamey with at least one paid worker has a 93 per cent probability of paying the *patente*, while the same firm with no paid worker has a probability of about 86 per cent.

The results of the logit analysis combining the data from both Niger and Swaziland, of which the detailed findings are summarised in Table 1 of Appendix 3.1, provide even more illumination of the key determinants of registration compliance. The primary results were as follows.

Most of the subsector variables, except for selling clothes, were significant; enterprises selling food or engaged in wood or metal production were less likely to be registered than those enterprises producing garments. with everything else constant, a metal firm, for example, was 41 per cent less likely to be registered than its counterpart in clothing production. Location variables also proved to be often significant. Specifically, village enterprises were 69 per cent less likely to be registered than their urban counterparts. There was no statistical difference, however, between firms located in secondary towns and urban areas. Enterprises operating in the home, on the other hand, were 42 per cent less likely to be registered than those operating outside the home. Size of firm was also a statistically significant variable explaining registration. Firms with paid workers, for example, were 27 per cent more likely to be registered than those firms with no such workers. Some entrepreneurial variables also were significant, specifically the gender of the entrepreneur. Female entrepreneurs were 23 per cent less likely to be registered than the male entrepreneurs. The level of education of the entrepreneur, on the other hand, was not statistically significant.

Finally, one of the most important and perhaps surprising findings is that once all other factors were incorporated into the analysis, the country variable proved to be **not** significant. Thus, such factors as the subsector, location, gender of entrepreneur, and size of firm were the key determinants of firm registration, **not country.** This implies that small and micro enterprises in Niger were no more likely to comply with registration requirements than their counterparts in Swaziland, once the effects of all the other variables were taken into account. Such a finding runs counter to our initial hypothesis that the legal and regulatory environment in Niger was more onerous than that of Swaziland and would result in relatively greater compliance.

License tax compliance

The tax associated with registration, the business license tax, is the most ubiquitous tax levied in both Niger and Swaziland, as noted previously. The degree of compliance closely parallels registration compliance, and thus also varies largely by location, size, and type of activity[28].

What is the magnitude of the burden of the license fee on small and micro enterprises? The findings for Niger are summarised in Table 3.6. As that table shows, the *patente* (business license) tax actually paid by small and micro enterprises is seen to vary widely by sector, location, and size of firms. Of those enterprises paying the *patente*, for example, the burden of the tax is heaviest in the metal sector both absolutely and as a percentage of annual sales; in absolute terms, it is smallest in the garment sector, although in percentage terms the lowest burden is on food sellers. It also falls most heavily, both absolutely and in percentage terms, on enterprises in urban areas and those with paid employees.

Table 3.6: **License Business (*patente*) fees[1]. Niger.**

Activity, Location, and Size	Average in FCFA	Ratio of license fee to sales (%)	Number of cases
Wood	84 500	7.06	21
Metal	129 400	13.27	34
Garment	62 500	3.51	52
Selling food	110 000	1.11	39
Selling clothes	101 000	1.33	41
Niamey	137 500	6.43	109
Dosso	42 200	2.33	54
Secondary towns	28 800	2.30	23
Villages	6 500	0.54	1
No paid worker	56 240	4.40	128
At least 1 paid worker	184 100	5.37	59
Total	95 600	4.70	187

Notes: 1. for those enterprises paying the *patente*.

Source: Survey data.

Overall, for those that pay the business license fee in Niger, the *patente* tax burden would seem quite large, averaging almost FCFA 100 000 per firm and almost 5 per cent of annual sales[29].

In Swaziland, on the other hand, the magnitude of the license tax burden is substantially less than in Niger. Somewhat more than half the respondents have trading licenses, for which they paid fees ranging from E5-10 for hawkers and peddlars to E100 or more per year for larger and more modern enterprises. As a percentage of sales, the annual license fee amounts to less than 1/2 of 1 per cent.

Profits tax compliance

The business income (profits) tax is paid by relatively few enterprises in either Swaziland and Niger. Overall, only 16 per cent of the sampled enterprises in Swaziland and 9 per cent of the enterprises in Niger paid this tax[30].

Most of the firms paying this tax were located in urban areas. Indeed, in Niger, 26 of the 27 who claimed to pay this tax were located in Niamey, while in Swaziland, none of the enterprises located in the rural villages paid it (see Tables 3.1 and 3.5). While only a small share of all respondents paid this tax, it should be noted that the rates are high (37.5 per cent of income in Swaziland)[31].

There is also a clear relationship between the coverage of the income tax and the size of the enterprise. Only 3 per cent of the one-person enterprises in Swaziland, for example paid this tax. Of those with two to five workers, 23 per cent paid the tax, while among those with six or more workers, the coverage was 65 per cent. In Niger, 70 per cent of the enterprises paying the income tax employed at least one paid worker[32].

In sum, the income tax appears to touch only a small percentage of MSEs. For those that pay, the rates appear to be quite high[33]. It is clear that small enterprises have a strong incentive to try to avoid being noticed by tax officials (over two-thirds of the respondents in Swaziland reported zero contact with tax officials during the year preceding the survey. None complained about this neglect!). The major reason for not paying such a tax in Niger was that "it does not concern or apply to me" (92 per cent of those entrepreneurs who stated that they did not pay this tax).

Sales or value added tax compliance

The sales or value added tax is relatively more important in Swaziland than in Niger. Indeed, in Swaziland, over 37 per cent of the sampled enterprises reported paying this tax; overall, it was the second most prevalent tax paid by small and micro enterprises in that country. Since this tax is levied at 10 per cent on virtually all imports into the country, it is felt by producers large and small, urban (39 per cent) and rural (33 per cent), that rely on imported inputs for transformation or imported products for resale. While several of the product lines under study in Swaziland rely primarily on domestic inputs and therefore escape this duty almost entirely [e.g. food processing and sale (13 per cent), wood products (8 per cent), others have a significant import component (the production and trade of garments (80 per cent)]. Many of the firms that claimed they did not pay the tax, however, were undoubtedly also affected by it through their use of imported inputs that they purchased locally[34].

A minority (12.3 per cent) of the MSEs surveyed in Niger, on the other hand, claimed they complied with VAT. Almost all of them were operating in Niamey (95 per cent). Food sellers were by far the least likely to comply, while clothes sellers and metal processing firms were most likely to do so.

Market tax compliance

The market tax is levied in Niger but not in Swaziland. It follows the *patente* as the second most prevalent tax paid by MSEs in Niger. Yet, not all the firms in that country pay this tax, as some of them do not operate in a public market area[35]. In our total sample, 41.7 per cent of small and micro enterprises in Niger paid this tax. Considering the location criteria, the percentage of firms paying this tax is 37.3 per cent in Niamey, 51.1 per cent in Dosso, 46.5 per cent in secondary towns and only 8 per cent in the villages. Sellers (food and clothes) are taxed much more often than transformation enterprises (garments, wood and metal processing enterprises).

Some limited data on the magnitude of the market tax paid by enterprises are available for Niger. The amount the entrepreneurs claimed to pay ranged from FCFA 2 000 to 76 000 by year. The average amount paid and the average share of annual sales this tax represents are reported in the following table by location, main activity and size of the firms. The market tax fees are revealed to be relatively higher in Niamey and Dosso than in the other locations under study. Discrepancies among activities are also to be noted. The breakdown of the sample by size shows that the smaller firms are disadvantaged by such a tax system in which the fee seems to be regressive by firm size. Indeed, the market tax appears to constitute an important fixed entry cost (or "barrier to entry") in Niger.

Table 3.7: **Market tax burden. Niger.**

	Average fee [1] in FCFA	Average fee[1] as % of annual sales	Number of cases
Niamey	57 100	3.87	56
Dosso	45 700	3.80	48
Secondary towns	17 600	1.04	20
Villages	20 800	1.73	1
Wood	49 300	5.92	6
Metal	31 500	4.66	16
Garments	56 410	9.41	18
Selling food	45 500	1.58	50
Selling clothes	47 700	2.00	35
No wage-earner	43 500	3.87	95
At least 1 wage-earner	54 400	1.75	30
Total	46 100	3.37	125

Notes: 1. The reported findings are restricted to those sampled enterprises that paid this tax and that were able to give an estimate of their sales. The daily fee has been converted to an annual basis, which could lead to an overvaluation of the tax burden if firms do not set up a stand on the market every day of the year.

Source: Survey data.

Compliance with other taxes

There are several other taxes on small and micro enterprises that exist in Niger (but not in Swaziland) that must also be briefly reviewed. These are the property tax, the *taxe sur la valeur locative*, the *droit d'occupation*, and the tax on commercial signs. In our sample, a minority of the firms claim they pay property taxes, although more than 85 per cent operate in fixed and closed premises; only 25 per cent reported that they pay property taxes. Nearly all of the enterprises paying one of these taxes are located in Niamey. This distortion between firms located in

Niamey and other locations relating to these land taxes might be the result of failures in the administrative system: urban buildings are comprehensively surveyed and assessed by the Cadastral Service in Niamey but probably not elsewhere. The average fee paid for the *taxe sur la valeur locative* is of FCFA 81 130. It ranges from FCFA 26 000 to 312 000.

Virtually none of the enterprises paid the sign tax. Indeed, only two of the MSEs surveyed declared that they pay either the *taxe sur les plaques publicitaires* or the *taxe de voirie.*

The average fee paid for the *droit d'occupation* is FCFA 27 350, ranging from FCFA 1 000 to 120 000.

Compliance with labour regulations

The degree of compliance with labour regulations varies by country and by type of labour regulation. Overall, compliance with labour regulations was higher in Swaziland than in Niger. In Swaziland, for example, over 40 per cent of all respondents replied that they were subject to regulations on maximum working hours. It is particularly surprising that even a quarter of the one-person enterprises reported they were subject to controls of this type. By contrast, in Niger, less than 10 per cent of the enterprises employing at least one paid worker complied with working-hour regulations (see Table 3.5). One third of the enterprises with two to five workers and 62 per cent of those with six or more workers reported that they are bound by minimum wage regulations in Swaziland; in Niger, less than 10 per cent of the firms of this size reported they were subject to these rules. In Niger, only 15.1 per cent of the entrepreneurs surveyed with at least one wage earner reported that they comply with the social security system; they do, however, respect other social insurance principles in case of sickness of one of their employees, even if he or she is not a regular worker[36]. In addition, it should be noted that in Niger, virtually none of the firms complied with the apprenticeship regulations.

The most frequent reason given for non-compliance in Niger was that "it is not required, it does not concern me". The cost and complexity of the related procedures were never cited. A few of the entrepreneurs surveyed (less than 4 per cent for each regulation studied) said that they did not comply with these labour rules because "there is no real enforcement, no incentive to do so." These findings on labour regulation compliance run counter to our initial hypothesis that the laws and regulations would be more restrictive in Niger than in Swaziland.

Compliance with other regulations

The most frequently reported regulations impinging on small and micro enterprises in both Swaziland and Niger were those relating to the location in which an enterprise is permitted to produce or sell. In Swaziland, more than half the respondents reported restrictions relating to **selling**, covering all the different sectors of economic activity, and (surprisingly) enterprises of all sizes[37]. A smaller number reported restrictions on the locations in which they are able to produce.

In Niger, the location restrictions were less frequently cited than in Swaziland and those relating to production (27 per cent) were mentioned more frequently than those relating to selling (19 per cent). As one could expect, however, processing firms (wood, metal, and tailoring) were mostly concerned with the restrictions on the location in which they could produce (45.8 per cent of them), while commercial firms (clothes and food) were mostly concerned with the selling restrictions (34 per cent). The percentage of firms experiencing such restrictions was higher in Niamey (76 per cent of the MSEs surveyed in Niamey) than in Dosso (23 per cent) and almost nil in the secondary towns and villages. In summary, the two locational constraints together suggest a potential constraint arising from the regulatory system. As with the previous findings on labour and registration compliance, however, our initial hypothesis that these rules are more restrictive in Niger than in Swaziland is not supported.

In Niger, 27 per cent of the firms surveyed said they were subject to price controls, although such controls have now been almost totally removed[38]. Most of them are food sellers (43 per cent of this subgroup). Nonetheless, the percentage of garment, clothing selling, wood and metal processing firms having said to experience price controls is non-negligible (respectively 18 per cent, 21 per cent and 12 per cent of the subgroups considered). The information on the elimination of the price controls is not conclusive. MSEs may also be subject to other social pressures, especially for food products during given periods, such as during Ramadan or when stockpile depletions are anticipated.

Other regulations and restrictions were reported less frequently, and generally for particular sectors of the economy. Hygienic standards are established primarily for restaurants; technical and quality standards are imposed for the metal products sector. In Niger, very few firms claimed that they experienced hygienic, quality or technical standards imposed by the authorities (respectively 5.3 per cent, 2.3 per cent, and 1 per cent of them). Food sellers are the most concerned with hygienic standards (20 per cent of them)[39]. The fact that none of these were mentioned in complaints in response to questions about problems arising from the government's legal and regulatory system suggests that these are seen by the respondents — at least those that are affected by them — as reasonable.

While it is difficult to isolate the effects of these non-tax rules and regulations on enterprise formation and growth, it seems that the most serious aspect may relate to locational restrictions. Licenses and zoning regulations designate the location in which a particular enterprise is permitted to carry out its business — production as well as trading — and as such may reduce the ability of entrepreneurs to respond flexibly to new opportunities.

In summary, our surveys have revealed that most small and micro enterprises do not, in fact, comply with the complete array of regulations and tax laws that they face in either Niger or Swaziland. Compliance varies widely by type of rule or tax. In both Niger and Swaziland, compliance is highest with respect to registration and licenses, and lowest with respect to income or profit taxes. There is no statistical evidence, however, that the compliance of small and micro enterprises with regulations and taxes is greater in Niger than in Swaziland. The logit analyses of registration and the major taxes in these countries reveals that compliance depends primarily on the size, location, and sector of the enterprise and not the country. Moreover, with respect to the labour and locational regulations, the enterprise compliance rates are higher in Swaziland than in Niger. These findings thus do not lend support to our initial hypothesis that compliance would be higher in Niger than in Swaziland, because of a reputedly more onerous legal and regulatory environment in Niger.

IV. EFFECTS OF REGULATIONS AND TAXES ON ENTERPRISES

What have been the effects of these regulations and taxes on the performance of small and micro enterprises in Swaziland and Niger? This section will seek to provide some insights into this question. Many of these insights, of necessity, must stem from the perceptions of the entrepreneurs themselves. The relative importance of regulations and tax laws compared to other problems and constraints faced by these firms will be examined first. This will be followed by an examination of the specific regulations and tax laws that entrepreneurs in the two countries felt were most onerous. What laws and regulations the entrepreneurs would most like abolished or changed and what benefits, if any, they perceived to be provided by the government will next be examined. The final portions of this section will turn from the entrepreneur’s perceptions to some analyses of the effects of rules and regulations. Specifically, the relationship between the tax burden and size of firm — tax incidence as well as that between registration and the growth of enterprises — will be examined.

Overall perceived constraints or problems

In both the Swaziland and Niger surveys, the entrepreneurs were asked about the major problems or constraints they faced at different stages in the evolution of the enterprise. Results are reported here as of the time the enterprise first started, and "currently" (as of the time of the survey). Questions were asked asked twice in each of these time periods about problems being encountered. First, the entrepreneur was asked the question in general terms: "Did you face any major problems?" Thereafter, the question was asked a second time in a way that focused more explicitly on regulatory issues: "Did you face any major problems relating to licensing, permits, taxes or other regulations?" The results are summarized in Tables 4.1 to 4.4 for Niger, and 4.5 to 4.8 for Swaziland.

It is important to note at the outset that a sizeable percentage of the entrepreneurs, particularly in Niger, felt that they faced no overall problems or constraints. In Niger, for example, 49 per cent of the respondents perceived no problem at start-up, although this figure declined markedly to 2.7 per cent for the current period (Tables 4.1 and 4.2). In Swaziland, by contrast, only 16 per cent reported that they had no major problems at the time of start-up; the current percentage reporting no problems again declined, to 8.3 per cent (Tables 4.5 and 4.6).

A basic finding is that regulations and tax laws are not perceived by the entrepreneurs to be a major overall problem in either Niger or Swaziland. Other constraints and problems predominate, particularly financial problems in Swaziland and lack of demand in Niger. In the first set of questions, posed in more general terms, regulations and taxes were considered a major problem by less than 3 per cent of the respondents in Swaziland at both start-up and currently. The comparable percentages in Niger were somewhat higher (5 per cent at start-up and 9.3 per cent currently). The figures for Niger also indicate that the percentage viewing regulations and taxes as a major problem was higher in Niamey than in the secondary towns or villages.

Table 4.1: **Most pressing constraints at start up[1]. Niger.**
(without tax or regulatory specification)

Problems mentioned	Niamey	Dosso	Secondary towns	Villages	All
None	43.3	59.6	55.8	23.1	48.7
Lack of demand	16.7	13.8	14.0	46.2	16.7
Financial problems	14.7	11.7	2.3	7.7	11.7
Raw materials or premises[2]	10.0	5.3	18.6	15.4	10.0
Tax or regulations	6.7	3.2	4.7	0	5.0
Others	8.6	6.4	4.6	7.6	7.9

Notes: 1. Per cent of the subsamples considered.
2. "Raw materials or the premises are not available or too expensive".

Source: Survey data.

Table 4.2: **Most pressing constraint, currently[1]. Niger.**
(without tax or regulatory specification)

	Niamey	Dosso	Secondary towns	Villages	All
None or don't know	3.3	1.1	2.3	7.7	2.7
Lack of demand	48.0	64.9	46.5	46.2	53.0
Financial problems	20.0	13.8	14.0	23.0	17.3
Tax or regulations	14.7	5.3	2.3	0	9.3
Raw materials[2]	6.7	6.4	30.2	23.1	10.7
Others[3]	7.3	8.5	4.7	0	7.0

Notes: 1. Per cent of the subsamples considered.
2. "Raw materials or the premises are not available or too expensive".
3. "Premises too small", "Customers did not respect their engagements", "thieves", "others".

Source: Survey data.

Table 4.3: **Most pressing regulatory or tax constraint at the start-up[1]. Niger.**

	Niamey	Dosso	Secondary towns	Villages	All
None	78.7	97.9	100	100	88.7
patente (licensing)	7.3	0	0	0	3.7
Other taxes	3.3	0	0	0	1.7
Regulations	8.7	2.1	0	0	4.9
Others	2.0	0	0	0	1

Notes: 1. Per cent of the subsamples considered.
Source: Survey data.

Table 4.4: **Most pressing regulatory or tax constraint, currently[1]. Niger.**

	Niamey	Dosso	Secondary towns	Villages	All
None	25.3	45.7	58.1	92.3	39.3
patente (licensing)	36.0	42.6	32.6	7.7	36.3
Other taxes	33.3	9.6	7.0	0	20.6
Regulations	2.0	1.1	2.3	0	1.6
Others	3.4	1.0	0	0	2.2

Notes: 1. Per cent of the subsamples considered.
Source: Survey data.

Table 4.5: **Most pressing constraints, at start-up[1]. Swaziland.**
(without tax or regulatory specification)

	Major towns	Secondary towns	Villages	All
None	12.5	20.7	25.0	16.0
Lack of demand	14.1	17.4	25.0	16.0
Financial problems	38.0	39.1	20.8	37.0
Credit given, not repaid	12.5	7.6	12.5	11.0
Raw materials, tools	3.3	3.3	0	3.0
Shortage of premises	4.9	2.2	8.3	4.3
Licenses, work permits	2.7	1.1	0	2.0
Others	12.0	8.7	8.3	10.7

Notes: 1. Per cent of category.
Source: Survey data.

Table 4.6: **Most pressing constraint, currently[1]. Swaziland.**

(without tax or regulatory specification)

	Major towns	Secondary towns	Villages	All
None	9.2	6.5	8.3	8.3
Lack of demand	18.5	15.2	12.5	17.0
Finance	26.1	33.7	20.8	28.0
Credit given, not repaid	12.5	8.7	33.3	13.0
Raw materials	5.4	4.3	8.3	5.3
Premises	15.8	15.2	4.2	14.7
Rules, regulations	1.6	2.2	0	1.7
Taxes too high	0.5	1.1	0	0.7
Others	10.3	13.0	12.5	11.3

Notes: 1. Per cent of category.
Source: Survey data.

Table 4.7: **Most pressing regulatory or tax constraint, at start-up[1]. Swaziland.**

	Major towns	Secondary towns	Villages	All
None	74.5	83.7	87.5	78.3
Licensing	19.6	14.1	12.5	17.3
Permits	4.9	0	0	3.0
Taxes	0.5	1.1	0	0.7
Other regulations	0.5	1.1	0	0.7

Notes: 1. Per cent of category.
Source: Survey data.

Table 4.8: **Most pressing regulatory or tax constraint, currently[1]. Swaziland.**

	Major towns	Secondary towns	Villages	All
None	64.1	63.0	75.0	64.7
Minimum wage	1.6	3.3	0	2.0
Maximum operating hours	1.6	0	0	1.0
Taxes unfair	17.4	21.7	4.2	17.7
Licensing regulations	8.7	5.4	20.8	8.7
Restrictions on location of production and sales	4.9	3.3	0	4.0
Others	1.6	3.3	0	2.0

Notes: 1. Per cent of category.
Source: Survey data.

Specific regulatory and tax constraints

A striking finding from the surveys is that even on the basis of specific questions, the great majority of the entrepreneurs in both countries reported that they had **no** tax or regulatory problems, particularly at start up. In Swaziland, for example, 78 per cent of the entrepreneurs indicated they had no such problems at start-up, while the comparable percentage in Niger was 89 per cent. It is interesting to note, however, that entrepreneurs in Niger perceived fewer problems at start up than their counterparts in Swaziland, contrary to what one might have expected. When asked about their current constraints to growth, the percentage of entrepreneurs reporting no tax or regulatory problems was still quite large in Swaziland (64 per cent), but had declined to 39 per cent in Niger. Thus, regulatory and tax laws, at least as perceived by the entrepreneurs, would seem to be currently somewhat greater constraints to growth in Niger than in Swaziland. As indicated in Table 4.4, these constraints would also seem to more pressing in Niamey than in the smaller localities of Niger.

The relative importance of the various regulatory and tax constraints varies somewhat as the firm evolves. At start-up, for example, regulations, particularly licensing and registration, were cited as more important than taxation issues in both Swaziland and Niger. In Swaziland, over 90 per cent of the entrepreneurs reporting regulatory or tax problems at start up mentioned difficulties with licensing and permits. In Niger, somewhat over one-half of those reporting such problems at start up mentioned regulatory difficulties as paramount. Yet, when asked about the specifics of regulatory and tax problems **currently** inhibiting growth, taxation issues loomed as much more important than regulations. In Swaziland, half of the entrepreneurs citing tax and regulatory problems cited taxes, particularly the sales tax. In Niger, approximately 90 per cent of those citing current tax and regulatory problems mentioned taxation as central. Among the various taxes, the *patente* in Niger was the most frequently cited as the major problem to growth. One element that contributes to this disenchantment in Niger is that the taxes are related more to the productive capacities of the firms, in some cases for two years in advance, rather than to their actual sales; consequently, in times of relatively low or declining sales, tax burdens on firms can be unduly high. In addition, the wide array of other taxes levied on small and micro enterprises in Niger along with the relatively high overall tax burden on such firms, helps explain why taxes, rather than regulations, are viewed as a constraint to growth by many in that country.

General views of the government

The responses of entrepreneurs to questions concerning what taxes and regulations they most wish to see abolished or changed, along with questions about benefits they have received or for which they would be willing to pay to receive from the government, reinforce the findings examined previously. These responses on the role of government will be briefly reviewed.

One of the important findings from the question concerning which tax or regulation entrepreneurs would like to see changed or abolished was the large number of respondents in both Niger and Swaziland who had nothing to suggest: they said either "none" or "do not know". In Swaziland, almost half (49 per cent) answered in such a fashion, while in Niger the comparable percentage was 28 per cent (see Tables 4.9 and 4.10). This reinforces the notion that for a significant share of the respondents, the government has very little relevance for their business activities. Small and micro entrepreneurs in rural areas, in particular, were likely to answer in this fashion (Table 4.9). The fact that relatively more entrepreneurs in Swaziland than in Niger had nothing to suggest may also have implied that there was a somewhat less inhibiting regulatory and tax setting.

Among those who cited policies that should be abolished or changed, the vast majority of the entrepreneurs in both Niger and Swaziland mentioned taxes. Indeed, less than 5 per cent in either country mentioned regulations. The type of tax to be changed or abolished, however, did vary significantly by country. In Swaziland, the sales tax was most frequently cited, followed by the income (profits tax). In Niger, however, it was the *patente* (license) that was most frequently mentioned (by 42.7 per cent), followed by the market tax. It was also interesting to note that in Niger, relatively few entrepreneurs asked for a change or abolition of all taxes (only 4.3 per cent). Thus, from the entrepreneurs' point of view, the most serious problem they face with their government is apparently being taxed at too high a rate.

What direct benefits, if any, did the small and micro enterprises receive from the government? A clear finding from the surveys is that very few of the small and micro entrepreneurs in either Niger or Swaziland felt that they benefited directly from the government through training programmes, the provision of credit, or tax holidays etc. In Swaziland, only 5 per cent mentioned that they have received some sort of government benefit, while in Niger the comparable figure was 7 per cent.

Would entrepreneurs be willing to pay an additional fee or tax, however, if this were linked with the provision of a particular service or benefit by a public authority? The results from Niger and Swaziland with respect to this question are strikingly different. In Niger, less than 5 per cent of the small and micro entrepreneurs responded affirmatively, while in Swaziland over 80 per cent answered positively. In Swaziland, the most frequently mentioned type of benefit desired was access to better quality or lower cost premises. It is interesting that this response was common to all locations, all sectors and enterprise of all sizes; it was selected by fully 50 per cent of those who answered this question affirmatively. Apparently it reflects a widespread and unmet need for appropriately serviced work locations for small entrepreneurs, one for which they indicate a willingness to pay. Other alternatives mentioned included financial assistance through grants or loans, and improved infrastructure (roads and water). In Niger, the strikingly low willingness to pay an additional fee or tax may be due to the recent tax increases levied on businesses, with no apparent benefit perceived, along with the recent governmental crisis, which might cause entrepreneurs to doubt the ability of the government to implement supporting measures for small and micro enterprises.

Table 4.9: **Tax or regulation to be abolished or reduced[1]. Niger.**

	Niamey	Dosso	Secondary Towns	Villages	All
None, do not know	11.3	38.3	44.2	100	28.0
patente	46.7	42.6	41.8	0	42.7
Market tax	6.7	14.9	14.0	0	10.0
Property taxes	12.0	0	0	0	6.0
Others[2]	16.0	2.1	0	0	9.0
All of them	7.3	2.1	0	0	4.3

Notes: 1. Per cent of the subsample considered.
2. Profit taxes, custom tariffs, VAT and other taxes or regulations.

Source: Survey data.

Table 4.10: **Tax or regulation to be abolished or reduced[1]. Niger and Swaziland.**

Tax or Regulation	Niger	Swaziland
None or do not know	28	**49**
License Tax	**43**	3
Market Tax	10	0
Value Added/Sales Tax	4	24
Property Tax	6	0
Other or All Taxes	6	8
Income Tax	1	14
Regulations	2	3

Notes: 1. Per cent of category.
Source: Survey Data.

The preceding discussion in this section has been based on the perceptions of the entrepreneurs themselves on how regulations and taxes have affected their enterprises. They do not provide a direct statistical insight into how regulations and taxes may have impeded the growth of even existing enterprises. An analysis of the relationship between the tax burden and size of enterprise, as well as between registration and enterprise growth rate, however, may provide additional insights beyond those gleaned from the entrepreneurs' responses alone.

Relationship between the tax burden and enterprise size

To what extent do taxes serve as a disincentive to the growth of small and micro enterprises in Niger and Swaziland? It is often argued (see, for example, Little, Mazumdar, and Page, 1987) that as firms increase in size, taxes fall proportionately more heavily upon them and this acts as a disincentive for them to expand. Is there evidence from the Niger and Swazi surveys that the fiscal or tax burden rises with increases in the size of enterprises?

The evidence from Niger, where the relevant data are most complete, would indicate that the fiscal burden of small and micro enterprises **decreases** with an increase in enterprise size. In making this calculation of the fiscal burden, all the taxes paid by the enterprise (including the *patente* fee, the market tax, property taxes, the *droit d'occupation* and the profits tax) were added together and the total was then divided by the firm's estimated annual sales. When the measure of this fiscal burden is correlated with annual sales, a proxy for size, a negative correlation is found, indicating that for small and micro enterprises in Niger the tax system is regressive (see Appendix 4.1); taxes fall most heavily on the very smallest of the enterprises.

This evidence of a negative fiscal burden is also revealed in Table 4.11, where enterprises are grouped according to their level of annual sales. Thus, while there may be some entry-deterring threshold burdens on newly established firms, the fiscal burden would not appear to be a significant barrier to the expansion of existing firms.

Table 4.11: **Average ratio of taxes to annual sales by size of enterprises[1]. Niger.**

Level of sales (in thousand CFA francs)	Total tax as a per cent of annual sales	Number of cases
Less than 49 999	14.9	26
From 50 000 to 99 999	7.0	39
From 100 000 to 199 999	4.0	31
From 200 000 to 499 999	2.8	48
Higher than 500 000	1.9	60
All enterprises	5.1	204

Notes: 1. Per cent of respondents.
Source: Survey data.

Unfortunately, comparable data do not exist for Swaziland, primarily because the information on the important sales tax component were incomplete. It was possible to calculate for Swaziland the fiscal burden of the licensing fee, using the ratio of the annual licensing fee to annual sales. When the burden of this licensing fee was compared with the size of firms, using annual sales, a negative relationship or regressive structure was once again found (see Table 4.12).

Table 4.12: **Average ratio of annual Licensing fees to annual gross sales. Swaziland.**

Annual sales(E)[1]	Ratio of license fees to sales
1 - 999	0.00573
1 000 - 9 999	0.00157
10 000 - 99 999	0.00024
100 000 or higher	0.00004

Note: 1. The unit of currency in Swaziland, the Emalangini (E), is tied to the South African Rand. At the time of the survey, the exchange rate was approximately E 2.8 = US $ 1.
Source: Survey data.

The ratio of license fees to sales clearly declines with size, thereby taxing smaller enterprises at a significantly higher rate than their larger competitors; this should thus not act as a deterrent to the expansion of other firms. As indicated previously, however, the most important disincentive in this regard may have arisen from the income tax. While only very few small enterprises pay this tax, those that do are subject to very high tax rates. The process of moving into the income tax net could constitute a major factor discouraging small enterprises from growing.

Relationship between registration and growth

Is there statistical evidence that regulations, specifically the important registration decision, served to deter the growth of micro and small enterprises in either Niger or Swaziland? An econometric analysis of the determinants of the growth of small and micro enterprises in Swaziland provides some additional insights into the role played by regulations in this process. The salient features of this analysis are outlined in McPherson (1992), who used the same Swaziland baseline enterprise data that were employed in our study.

The primary determinants of enterprise growth can be derived from a combination of deductions of economic theory and inductions from empirical observations of real world firms (see Liedholm and Mead, 1991 for a review of these factors). Among the key independent variables assumed to influence growth are the following: 1. the initial size of the enterprise (inverse with growth); 2. the age of the enterprise (inverse with growth); 3. the location of the enterprise (rural enterprises' growing more slowly); 4. the sector in which the enterprise operates; and 5. the gender of the entrepreneur (enterprises headed by females grow more slowly). Using ordinary least squares econometric analysis applied to growth of employment data among surviving small and micro enterprises in South Africa, Swaziland, Lesotho, and Zimbabwe, McPherson (1992) found that most of these variables were significantly correlated with growth and possessed the hypothesised signs in these four countries.

If registration is now included as another independent variable in this growth analysis, some additional light might be shed on the role that registration plays in the growth process. One might hypothesise that registration acts as a deterrent to growth and thus that registered firms would grow less rapidly than their non-registered counterparts.

The results of the growth analysis for Swaziland with the registration variable included are summarised in Appendix 4.2, Table 1[40]. Except for the registration variable, only the variables that are statistically significant are presented. The significant variables, as in the other country results (see McPherson, 1992), are the initial size and age of the firms (both negative), location (urban firms grow faster), and region. When one controls for the effects of the other primary variables that affect growth, the registration variable is not statistically significant. In other words, there is no statistical evidence from this analysis that firms that were not registered grew at a different rate from those that were registered[41].

This finding provides some additional, though still not conclusive, evidence that regulations and tax laws were not a significant barrier to the growth of small and micro enterprises, at least in Swaziland.

In summary, the survey results indicate that small and micro entrepreneurs in Swaziland and Niger did not perceive regulations and taxes as the primary constraints or problems that they faced. Even when specifically asked about them, the majority claim they had no regulatory or tax problem. The relative importance of perceived tax and regulatory problems, however, does vary over the firm’s life cycle. At start-up, registration looms somewhat larger, particularly in Swaziland, while currently taxes are seen as the primary policy inhibitor to growth. Entrepreneurs in both countries also considered that taxes, particularly the *patente* in Niger and the sales tax in Swaziland, rather than regulations constitute the policy they would most like to see changed or abolished. Yet the analysis of the tax structure, particularly in Niger, indicates that it was regressive rather than progressive and thus should not operate as a hindrance to growth. No correlation could be found between growth and registration.

V. SUMMARY AND CONCLUSIONS

The objective of this study was to provide insights into the role of regulations and taxes on small and micro enterprises in two African countries, Niger and Swaziland. Much of the information was generated by detailed surveys of 300 such enterprises in each of these countries chosen from five sectors: textiles and garments, wood products, metal products, garment trading, and food trading. One of the striking by-products of the surveys, which was common to firms in both rural and urban locations as well as those of various sizes, is the finding that the overall growth rate of the existing enterprises in Swaziland was twice that of their counterparts in Niger. To some degree, these growth rates mirror the overall economic performance of the two countries.

The review of the policy framework indicates that a wide panoply of regulations and tax laws applies to small and micro enterprises in both Niger and Swaziland. Many of the same rules were found in both countries. Overall, however, the volume and complexity of the tax laws are greater in Niger than in Swaziland. Market, property, and commercial sign taxes, for example, are found in Niger, but not in Swaziland. Moreover, the regulations relating to the license and the profits (income) taxes, both of which are found in the two countries, are much more complicated and ambiguous in Niger than in Swaziland.

The surveys reveal that most small and micro enterprises do not comply with the full array of regulations and tax laws that they face in either Niger or Swaziland. Compliance varies widely by type of regulations or tax. In both countries, compliance is highest with respect to registration and licensing, while income and profits taxes have the lowest compliance rates. The coverage of the tax systems is thus seen to be quite uneven.

A key finding of the study, however, is that there is no statistical evidence that compliance with registration regulations is greater in Niger than in Swaziland. The logit analyses of registrations and the major taxes reveal that compliance depends primarily on the size, location, and the sector of the enterprise and not on the country. With respect to the labour and locational regulations, it appears that the regulations themselves are more extensive and that enterprise compliance rates are higher in Swaziland than in Niger. Our initial hypothesis that compliance would be higher in Niger than in Swaziland, because of a reputedly more onerous legal and regulatory environment in Niger, is thus not supported.

Another central survey result is that small and micro entrepreneurs in the two countries do not perceive regulations or taxes to be a major constraint. Even when specifically asked about them, the majority claimed they had no regulatory or tax problems. The relative importance of these types of problems, however, does vary over the firm's life cycle. At start-up, registration problems loomed somewhat larger, particularly in Swaziland, while at the time of the survey, taxes were seen as the primary policy inhibitor to growth. Entrepreneurs in both countries also identified taxes, particularly the *patente* in Niger and the sales tax in Swaziland, rather than regulations, as the policy they would most like to see changed or abolished. Our analysis of the tax structure in Niger indicates that it is regressive rather than progressive; it thus should not operate as a hindrance to the growth of firms, although it may inhibit the emergence of new firms. In Swaziland, the survey results suggest that registration fees are inversely related to firm size, as measured by annual sales; but the more important tax disincentive effects surely relate to the much higher income tax, which only very few small enterprises pay, but which is a heavy burden for those that are caught in this net. With regard to registration issues, a detailed econometric analysis found no statistical relationship between registration and the growth of existing firms. Among the non-tax policy constraints, those relating to location seemed to be most commonly cited in both countries. On balance, surprisingly, non-tax regulations seemed somewhat more constraining in Swaziland than in Niger.

If only regulatory and tax problems are considered, it would appear that overall, their perceived impact on small and micro enterprises is somewhat higher in Niger than in Swaziland. This is primarily due to the tax regulations. Almost three-quarters of the respondents in Niger feel that at least some of the regulations or taxes should be reduced or eliminated, while in Swaziland only one-half of the entrepreneurs share this view. Moreover, the percentage of urban entrepreneurs citing taxes or regulations as a current problem in Niger is double that of Swaziland.

A few notes of caution should be raised when interpreting these findings. While the responses of the entrepreneurs are quite revealing, one must recognize that these are only their perceptions, which may not reflect the true constraints that entrepreneurs face. This is particularly true of those regulations and taxes that affect enterprises indirectly and thus may not be perceived by the entrepreneurs. Taxes on imported goods that are not directly purchased by small and micro entrepreneurs or regulations on financial institutions such as interest rate ceilings or savings mobilization might be mentioned. The surveys also do not incorporate the responses of firms that either disappeared or that could not get started because of rules or regulations.

These qualifications, however, do not vitiate the central overall finding of this study: regulations and tax laws are not a major constraint facing most small and micro enterprises in either Niger or Swaziland. Although important for a few enterprises at particular stages in their life cycle, the regulatory environment, for most, is only a minor determinant of their economic viability.

APPENDIX 1.1

Table A.1.1.1: **Level of current sales compared with start-up sales by sector[1]. Niger.**

	Much higher[2]	A little higher[2]	Almost Equal[2]	A little lower[2]	Much lower[2]	Do not know
Garments	15	5	15	15	16	6
Wood	10	3	2	4	18	1
Metal	14	5	4	6	22	7
Selling Clothing	17	2	4	11	23	1
Selling Food	12	2	7	13	34	6
Niamey	37	12	7	24	64	6
Dosso	14	1	14	20	40	5
Secondary Towns	13	4	6	4	9	7
Villages	4	0	5	1	0	3
Total	68	17	32	49	113	21

Notes: 1. Number of cases for each subsample.
2. "Much higher" (respectively "much lower") means that current sales are at least 2 times superior (respectively inferior) to the previous ones.

Source: Survey data.

Table A.1.1.2: **Changes in the total labour force by sector[1]. Niger.**

Sector	Increase	No change	Decrease	Missing observation
Garments	30	28	14	0
Wood	11	20	7	0
Metal	25	16	17	0
Selling Clothing	23	29	5	1
Selling Food	22	40	10	2
Total	111	133	53	3

Notes: 1. Number of cases for each subsample.

Source: Survey data.

APPENDIX A.2.1

***Patentes* in Niger**

(Francs CFA)

Sector	Table/ Class	Droit Fixe	Droit Proportionnel	Centimes Additionnels	Total
GARMENTS					
Tailleurs à main	A/8	5 000	Exempt	1 500	6 500
Brodeurs	A/8	5 000	Exempt	1 500	6 500
Tailleurs à façon ayant 1 machine à coudre	A/7	10 000	Exempt	3 000	13 000
Tailleurs ayant plusieurs machines à coudre	A/6	20 000	Exempt	6 000	26 000
Tailleurs ayant assortiment d'étoffes	A/5	40 000	Exempt	12 000	52 000
Couturiers modélistes	A/5	40 000	Exempt	12 000	52 000
Tailleurs ayant plus d'1 machine à broder	A/4	50 000	12 500	18 750	81 250
WOOD					
Sculpteurs considérés comme artistes	Exempt	Exempt	Exempt	Exempt	Exempt
Menuisiers, charpentiers	A/6	20 000	Exempt	6 000	26 000
Ebénistes	A/4	50 000	12 500	18 750	81 250
Tâcherons-menuisiers dont le montant du CA est inférieur à 10 millions	A/3	100 000	25 000	37 500	162 500
METAL					
Forgerons	A/8	5 000	Exempt	1 500	6 500
Mécaniciens, électriciens	A/6	20 000	Exempt	6 000	36 000
Soudeurs, charrons, tôliers	A/5	40 000	Exempt	12 000	52 000
FOODSTUFFS, TEXTILES AND READY TO WEAR CLOTHING SALES					
Commerçants au détail, au petit poids, à la petite mesure	A/7	10 000	Exempt	3 000	13 000
Commerçants au détail dont le montant des transactions annuelles est inférieur à 5 millions de francs	A/5	40 000	Exempt	12 000	52 000
Commerçants au détail dont le montant des transactions est compris entre 5 et 8 millions	A/4	50 000	12 500	18 750	81 250
Intermédiaire de vente: pagnes et vêtements cousus	A/7	10 000	Exempt	3 000	13 000

Notes: The Droits Proportionnel are estimated in assuming that the rental value cannot be determinated. Therefore, the Droit Proportionnel is set at 25 % of the fixed component.
Sub-sectors retain the original French nomenclature for ease of identification in original documents.
1 000 CFA franc = 20 French francs = 3.86 US dollars (in December 1991).

Source: République du Niger, Conseil Militaire Suprême (1988): "Loi de Finances pour l'année 1988".

Appendix A.2.2.

License fees in Swaziland

	Annual fee
1. Commission agent (non-resident)	E 100
2. Aerated or mineral water manufacture	E 50
3. Baker	E 50
4. Butcher: General business area Rural areas	E 75 E 25
5. Dealer in farm produce	E 25
6. Eating-house keeper	E 15
7. General dealer: General business. area Rural areas	E 75 E 50
8. Hawker	E 30
9. Peddlar	E 10
10. Motor garage	E 100
10A. Petrol and oil dealer	E 50
11. Restaurant, Refreshment and Tea Room	E 30
12. Temporary and special license: per day	E 5
13. Dealer in motor vehicles	E 100
14. Chemist, apothecary	E 75
15. Prop. of bone sterilising and milling plant	E 30
16. Grocer: General business area Rural area	E 50 E 15
17. Laundry/dry cleaners: steam dry cleaners Other	E 50 E 15
18. Street vendor	E 5
19. Importing and exporting agents	E 100
20. Wholesale dealer	E 100
21. Management consultants	E 105
22. Shoe repairing	E 15
23. Business broker or agent	E 75
23. Driving instruction	E 50
24. Dealer or speculator in livestock	E 40
25. Blacksmith	E 10
26. Billiard table keeper (per table)	E 40
27. Greengrocer	E 75
28. Funeral undertaker	E 20
29. Discotheque keeper	E 100
30. Miller	E 100

Notes: The unit of currency in Swaziland, the emalangini (E), is tied to the South African rand. At the time of the survey, the exchange rate was approximately E 2.8 = US$ 1.

APPENDIX 3.1

A natural way to study the determinants of firm registration is in a logit regression framework. In this case, the dependent variable takes on the value of one for all registered enterprises and zero for those which are not, while the independent variables are those reviewed previously.

In the logit model, the probability that firm i is registered, P_i, is assumed to follow the logistic cumulative distribution function:

$$P_i = \frac{1}{1+\exp[-(a+b_1x_1+b_2x_2+\ldots+b_nx_n)]}$$

where the x_j are regressors. When this is true, the observed "log-odds" ratio can be expressed as follows:

$$\ln\frac{p_i}{1-p_i} = a+b_1x_1+b_2x_2+\ldots+b_nx_n+\mu_i$$

where μ_i is the error term.

The parameters of the coefficients can be estimated using maximum likelihood procedures. The coefficients give the change in the logit (log-odds) for each unit increase in the independent variables. We are interested in the t-statistics for the null hypothesis that each estimated coefficient is zero to test for which variables have a statistically significant impact on the probability of an enterprise being registered. Since we are interested not in the change in the log-odds ratio but in the change in the probability of registration for a unit change in the regressors, we must look beyond the coefficients. The partial derivative of P_i with respect to X_j,

$$\frac{\partial P_i}{\partial X_j} = \frac{\exp[-(a+b_1x_1+\ldots+b_nx_n)]}{[1+\exp[-(a+b_1x_1+\ldots+b_nx_n)]]^2}b_j$$

expressed at the mean of the regressor indicates the percentage change in the likelihood of registration from a unit increase in that variable, holding all other variables constant.

The results of the logit analysis for Niger and Swaziland combined are summarized in Table A.3.1.1. Most of the key explanatory variables were significant and had the hypothesised signs. The partial coefficients of the statistically significant variables indicate the per centage increase in the likelihood of registration, holding the other variables constant. Those accustomed to regression analysis will no doubt be interested in some measure of "goodness of fit" for the logit model. There is in fact an analogue to the familiar R-squared measure, the likelihood ratio index.

Notes: The likelihood ratio index is calculated as follows:

$$\rho^2 = 1 - \frac{\ln L(\Omega)}{\ln L(\omega)}$$

where the numerator of the expression is the value of the log-likelihood function from the logit regression, and the denominator is the value of the likelihood function when the effects of all regressors are constrained to be zero.

Table A.3.1.1: **Determinants of Registration, Logit analysis. Swaziland Niger.**

Category	Regression Coefficient[2]	Partial Derivative[1]
Subsector		
Selling Clothes	-0.422 (-1.012)	
Selling Food	-0.903 (-2.361) *	- 0.22
Wood Production	-1.151 (-2.843) **	- 0.28
Metal Production	-1.670 (-4.186) **	- 0.41
Location		
Secondary Towns	0.000 (0.004)	
Villages	-2.766 (-3.577) **	- 0.69
Home Production	-1.733 (-6.666) **	- 0.42
Size		
Paid Workers	1.118 (3.888) **	+ 0.27
Entrepreneurial Characteristics		
Female Entrepreneur	-0.947 (-3.123) **	-0.23
Education of Entrepreneur	0.0321 (1.464)	
Country		
Swaziland	-0.380 (-1.298)	
Likelihood Ratio Index	.29	

Notes: 1. Partial derivative of each independent variable with respect to registration evaluated at the mean.
2. T - Statistic in parentheses.
* Significant at 5 per cent level.
** Significant at 1 per cent level

Source: Survey data.

APPENDIX 3.2

NIGER: LOGIT ANALYSIS

1. Registration

$$PROB[REGIST=0] = 1/[1+\exp(b_0+b_1*BOIS+b_2*FOOD+b_3*METAL+b_4*VET+b_5*DOSSO+b_6*SECOND+b_7*VILLAGE+b_8*EMPP)$$

The case serving as reference for this study is one garment enterprise, located in Niamey, employing no paid worker. The probability of not being registered was estimated.

Definition of the Dummy variables

REGIST	= 0 when the enterprise is not registered
BOIS	= 1 when wood transformation is the main activity of the enterprise = 0 otherwise
FOOD	= 1 when selling food is the main activity of the enterprise = 0 otherwise
METAL	= 1 when metal transformation is the main activity of the enterprise = 0 otherwise
VET	= 1 when selling clothes is the main activity of the enterprise = 0 otherwise
DOSSO	= 1 when the enterprise is located in Dosso = 0 otherwise
SECOND	= 1 when the enterprise is located in a secondary towns = 0 otherwise
VILLAGE	= 1 when the enterprise is located in a small village = 0 otherwise
EMPP	= 1 when the enterprise employs at least one paid worker (regular or occasional). = 0 otherwise.

Statistical results: estimated coefficients
(student-t and level of significance)

b0	b1	b2	b3	b4	b5	b6	b7	b8	LRI[1]
2.18 (5.0)	-1.56 (-3.0) **[3]	-1.62 (-3.7) **	-1.26 (-2.7) **	-0.97 (-2.1) *	- 0.78 (-2.3) *	-0.83 (-2.0) *	-3.83 (-3.4) **	1.04 (2.4) *[2]	0.160 5

Notes: 1. LRI = Likelihood Ratio Index. LRI is calculated as follows: $R^2 = 1 - (\log L(Q)/\log L(W))$; where L(Q) is the value of the log-likelihood function from the logit expression, and L(W) is the value of the likelihood function when the effects of all regressors are constraints to be zero.
2. *: significant at 5 per cent level.
3. **: significant at 1 per cent level.

Sources: Data survey.

Aggregating the Dosso and secondary towns enterprises gives the following statistical estimates:

$$PROB[REGIST=0] =$$
$$1/[1+\exp(b_0 + b_1 * BOIS + b_2 * FOOD + b_3 * METAL + b_4 * VET + b_5' * DOSSOSEC + b_7 * VILLAGE + b_8 * EMPP)$$

b0	b1	b2	b3	b4	b5'[1]	b7	b8	LRI[2/]
2.18 (5.0)	-1.57 (-3.0) **[4]	-1.63 (-3.7) **	-1.26 (-2.7) **	-0.98 (-2.1) *[3]	- 0.79 (-2.5) *	-3.83 (-3.4) **	1.04 (2.4) *	0.160 5

Notes:
1. We used another Dummy: Dossosec = 1 when the enterprise is located either in Dosso or in a secondary town; 0 otherwise. The corresponding coefficient is b'_5.
2. LRI = Likelihood Ratio Index. LRI is calculated as follows: $R^2 = 1 - (\log L(Q)/\log L(W))$; where L(Q) is the value of the log-likelihood function from the logit expression, and L(W) is the value of the likelihood function when the effects of all regressors are constraints to be zero.
3. *: significant at 5 per cent level.
4. **: significant at 1 per cent level.

Sources: Data survey.

2. ***Patente*, market tax**

The same equation used for the registration issue (2) was tested for the impact of size, activity and location variables on *patente* and market tax payment.

$$PROB[TAXPAYMENT=0] =$$
$$1/[1+\exp(b_0+b_1*BOIS+b_2*FOOD+b_3*METAL+b_4*VET+b_5'*DOSSOSEC+b_7*VILLAGE+b_8*EMPP)$$

The statistical results follows:

	b0	b1	b2	b3	b4	b5'	b7	b8	LRI
patente	1.82 (4.6)	-1.65 (-3.4) **	-1.20 (-3.0) **	-0.90 (-2.1) *	-0.53 (-1.2)	- 0.72 (-2.3) *	-3.65 (-2.3) *	0.77 (2.0) **	0.13 21
Taxe sur les marchés	-1.29 (-3.5)	-0.50 (-0.9)	2.06 (5.3) **	0.14 (0.4)	1.49 (3.8) **	0.43 (1.4)	-2.69 (-2.4) *	0.88 (0.2)	0.16 93

Sources: Data survey.

3. Profit tax, droit d'occupation and taxes locatives

Similar estimations have been run (separately) for the other taxes, with the same independent variables. None of these Logit estimations proved to be valid. The confusion, already noted, on the Profit Tax for small and micro entrepreneurs probably results in non-confident figures. For the two property taxes, other independent variables such as the occupational mode of the premises may be of prime importance.

APPENDIX 4.1

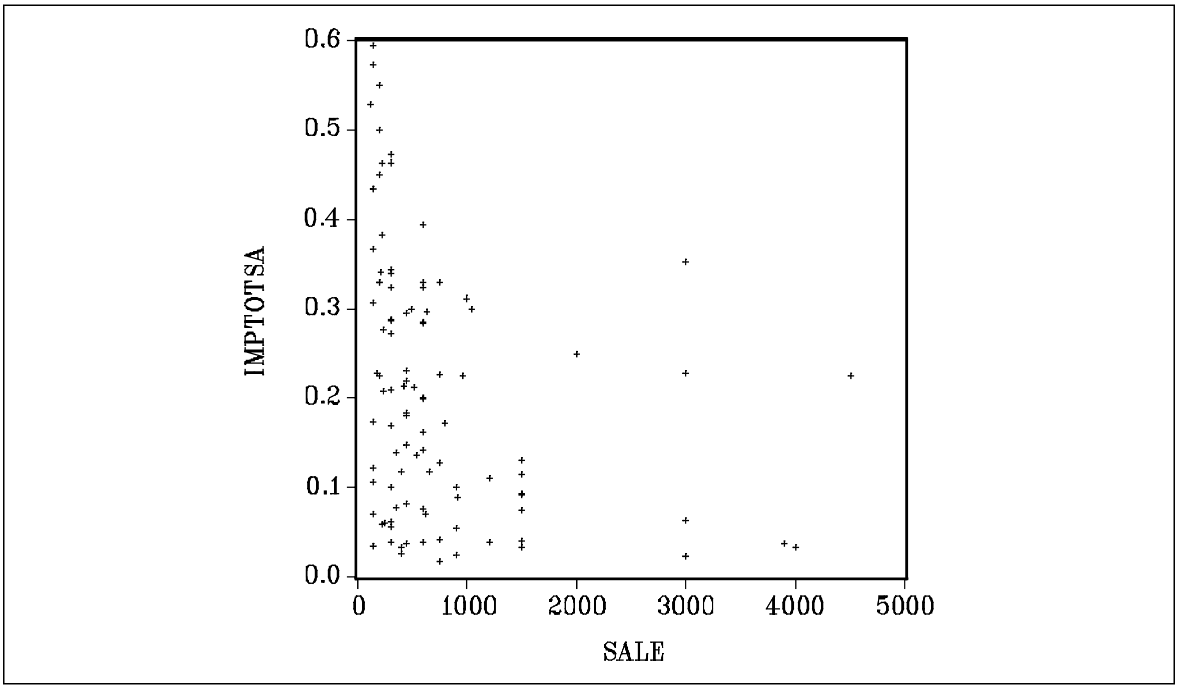
The nature of the tax system in Niger

A cross-section graph of the tax-burden ratio and annual sales supports the view that the tax system in Niger is regressive. The curve illustrating the relationship between the tax-burden ratio and the sales is close to an hyperbolic one. Several models have been run with tax burden as the endogenous variable, and the sales as an explicative variable. For the whole sample, the best results are obtained with the respective two natural logarithms of these variables, and adding the location and registration dummies as defined in the Appendix 3.2 (respectively dossosec, village and regist). The results of the OLS estimation are as follows, with the t-student given in parenthesis:

$$\underset{}{\log(\text{imptotsa})} = 4.18 - \underset{(15.98)}{0.70 \log(\text{sale})} + \underset{(7.96)}{1.26\ \text{regist}} - \underset{(-6.62)}{0.81\ \text{dossosec}} - \underset{(-1.35)}{1.16\ \text{village}}$$

R2a = 0.59

<u>Tax-burden ratio and annual sales (in thousands of CFA francs)</u>



Notes: SALE is the annual sales estimated by each entrepreneur. IMPTOTSA is the tax burden ratio (the sum of the *patente* fee, the market tax, property taxes, the so-called "*Droits d'occupation*", and the profit tax, this sum is divided by annual sales). REGIST, DOSSOSEC and VILLAGE are the dummies previously described.

APPENDIX 4.2

The growth equation analysis was conducted using ordinary least squares regression analysis in which the dependent variable was the annual growth rate of the existing firms and the independent variables were either dummy variables representing sector, location, and the presence of a license or continuous variables for age and initial size of firm. These were estimated in linear form with some variables having squared terms. See McPherson (1992) for details. The primary results are summarised in the following table.

Table A.4.2.1 GROWTH REGRESSION RESULTS SWAZILAND

Variable	Coefficient	T - Statistic
Highveld Region	-8.7	-2.0 **
Middleveld Region	-6.3	-6.9 *
Urban Areas	7.3	2.6 **
Paid Employees	23.0	3.5 **
Initial Size	-7.2	-2.3 **
Firm Age	-0.9	-2.5 **
Firm Age Squared	.02	2.2 **
Licensed	-2.8	-.6

Sample Size 278
R - Squared .331

Source: Derived from McPherson (1992).

NOTES AND REFERENCES

1. See, for example, Page (1979), who also notes that "in the Francophone countries of West Africa registration requirements appear to be uniform throughout the country for small and artisanal enterprises.... In the Anglophone areas greater local autonomy exists in terms of registration and licensing."

2. In Swaziland, the qualitative survey was carried out by Vincent Sithole; results are reported in his paper, "The legal and regulatory environment in the private sector in Swaziland: Practice and Effects on Small Enterprises", February, 1992. In Niger, the qualitative survey was carried out by Liman Tinguiri.

3. In the clothing selling subsector, however, no enterprises with more than 11 workers could be found. It should also be noted that although 50 workers was the upper bound for inclusion in the baseline survey, one wood firm grew to 52 workers since that survey.

4. The given growth rate calculation provides an upper-bound measures of this growth. If one uses a different base (for instance the "arc" or "average base" computed as half of the sum of current number of workers and number of workers at the start-up for a compound growth rate), the calculated growth rates would be less. For comparable growth rate figures for other countries, see Liedholm and Mead, 1992, and Liedholm, 1990.

5. Oudin, 1989.

6. Including: proprietors, working family members, hired workers and apprentices.

7. Localities were stratified on the basis of their population size: Maradi town, Dosso towns, smaller towns in each Département, and rural localities (for which the population ranged from 1 000 to 2 500). For each of the two Départements studied, the departmental capital was fully enumerated. In addition, a sample of smaller towns was surveyed. Finally, rural areas in each Département were selected at random and those chosen were fully enumerated. Localities enumerated accounted for almost 10 per cent of total population in the two départements; the aggregate sample representation was thus good.

8. Ministère du Plan de la République du Niger (1989). This document provides estimates of the relative contribution of production and services of informal enterprises in the GDP.

9. Gaya and Loga are the smaller towns surveyed from the Dosso Département.

10. We did not take into account the Koranic or Medersas schools.

11. To get a loan from a commercial bank, a small entrepreneur must meet at least three requirements: a) have a bank account; b) be registered; and

c) find a co-signer who will guarantee the loan in case of repayment problems. On the credit demand side, time-consuming loan approval procedures may not respond to the MSE's needs. On the supply side, commercial banks have accumulated a high percentage of bad loans in their portfolios during the past year and are quite reluctant to provide credit even for larger and less risky firms.

12. Sales data do not provide quite so robust a picture as provided by the employment data. On the basis of sales, 58 per cent of the entrepreneurs thought their sales had declined, 11 per cent thought they had remained the same, and 31 per cent thought they had increased since start-up. See Appendix 1.1, Table 1.

13. While the advertisement is placed by the Registry Office, the applicant pays for it, and at the hearing he must bring along a copy of the advertisement to prove that the hearing was advertised.

14. The annual fees for different types of licenses in Swaziland are presented in the Appendix A.2.2.

15. 1 000 CFA francs = 20 French francs = 3.86 US Dollars (December 1991).

16. République du Niger (1989): Ordonnance N° 89-19 du 8 décembre 1989. Despite the fact that a special case is made in this text for "small enterprises", the exemption does not apply to any of the enterprises surveyed. Indeed, for this regulation "small enterprises" are those investing between FCFA 25 and 100 million. These enterprises are exempted during ten years from paying the *Taxe sur la Valeur Locative*, during six years from the *Impôt sur les Bénéfices,* for five years from the *patente*.

17. See Appendix A.2.1 for a recapitulation of the *patente* fee for MSEs performing one of the five activities we selected.

18. Cf. Ministère de l'Intérieur, Ministère du Plan, Ministère des Finances de la République du Niger (1990).

19. Cf. Ministère de l'Intérieur, Ministère du Plan, Ministère des Finances de la République du Niger (1990).

20. A deduction of 60 per cent of gross rental value is allowed to represent costs of maintenance and depreciation.

21. In 1991, it applied to taxpayers engaged in sales of goods, provision of housing, farming, and livestock raising with annual turnover up to FCFA 30 millions; and other taxpayers with annual turnover up to FCFA 10 millions.

22. The profit tax increased in 1990 fiscal year; it was twice the *droit fixe* for classes 1 to 4, for example, before that time.

23. During a Sectoral Consultation of Donors on the Micro and Small Business (March 1992), the government of Niger proposed a simplification of the taxation of MSEs. A single tax should replace the multitude of existing ones. The law is under study and should become effective in 1993 if approved. This new tax should also imply a benefit for MSEs, such as guarantees on their property rights (a so-called "droit au bail").

24. Cf. Ministère du Commerce, de l'Industrie et de l'Artisanat de la République du Niger (1988).

25. The only laws that do relate to size concern the formation of trade unions and staff associations; and the utilities required at the workplace.

26. The apprentice receives a diploma (*diplôme d'apprentissage*) that is issued by the firm at the end of the apprenticeship period.

27. See Appendix 3.1 for an elaboration of the logit analysis and technical details of the findings.

28. See Appendix 3.2 for the results of the logit analysis for the *patente* (license) fee in Niger. The findings are parallel to those of the registration analysis.

29. Entrepreneurs in Niger, however, frequently confuse the *patente* and the profits tax and often fail to distinguish between the two, since the taxes are collected together. Thus, the *patente* figures in our study may include some component of the profits tax and be overstated somewhat.

30. The figure for Niger may understate the true number of entrepreneurs who comply with profits tax because of the previously-mentioned tendency of the entrepreneurs to lump the profits tax in with the *patente*, both of which are collected at the same time.

31. In Niger, the profit tax for MSEs is fixed on a imputed basis, as a multiple of the droit fixe of the *patente* as explained in II.2.2.

32. In a logit analysis of this tax for Niger, the only significant variable influencing the probability of paying the profits tax is the size of the enterprise (employing or not employing a paid worker).

33. The Swaziland survey asked for the level of annual payment for income taxes. Unfortunately, there were only a few usable answers to this question. Among those that did reply, several reported paying more than E1 000 per year.

34. Data on the magnitude of the sales tax paid by Swazi enterprises were sketchy, given the way the tax was administered; thus, no accurate figures on the magnitude could be obtained.

35. MSEs operating on the outskirts of the organised markets are not *de jure* subject to this fee because they do not benefit from the related property rights

and can be asked to stop their activities at any moment. But, in practice, they are often persuaded to pay the fee.

36. The qualitative enquiries revealed that in case of sickness the entrepreneur usually pays for the medicine of his employees.

37. Of the one-person enterprises, 44 per cent reported that they were subject to this type of restriction. For larger enterprises, the comparable figures were over 70 per cent.

38. By 1990, only five prices were still controlled by the government: bread, water, electricity, transport fares and oil products. None of the firms surveyed produce or sell these commodities.

39. Hygienic standards can be very specific, and not necessarily the result of the central government's intervention. For instance, one of the entrepreneur surveyed explained that before delivering milk products into schools in Dosso, his employees are required to be checked by a doctor.

40. A similar analysis of the determinants of growth was undertaken for Niger. Unfortunately, few statistically significant coefficients were obtained as the amount of growth explained was quite small. Registration and taxes were not significant explanatory variables, however, in these analyses.

41. These results must be interpreted with some caution. If the registration and growth decision are interrelated, for example, these results may not hold. The endogeneity of the registration cannot be ruled out with certainty. Nevertheless, the burden of proof remains.

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