

The Influence of Laws, Regulations and Policies on the Development of Micro- Small-
and Medium Enterprises: The Case of the Coastal Region of the Benguela Province,
Angola.

A thesis submitted in partial fulfillment of the requirements for the degree of Masters in
Commerce at the Institute of Social Development, University of the Western Cape



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Cape Town, Sunday, March 14, 2010

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Abbreviations

ADEO: Agency for Economic Development *OMBAKA*.

BPC: Banco de Poupanca e Credito (comercial bank)

DW: Development Workshop.

FDES: Fund for Economic and Social Development.

GDP: Gross Domestic Product.

ID: Identification.

IDRC: International Development Research Center.

Kz: Kwanza; Angolan currency.

MPLA: Popular Movement for the Liberation of Angola.

MSMEs: Micro-Small and Medium Enterprises.

NGO: Non-governmental organization.

OECD: Organization for Economic Co-operation and Development.

Sida: Swedish International Development Agency.

UNITA: National Union for the Total Independence of Angola.

UNDP: United Nations Development Programme.

USD: American currency (United States Dollar).

US: United States.



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KEYWORDS

Transaction costs

Demand-side

Supply-side

MSME

Institutions

Angola

Benguela



Abstract

The research analyzes how laws, regulations and policies are influencing the development of Micro- Small and Medium Enterprises (MSMEs). The study was undertaken in the coastal area of the Benguela Province in Angola. The research question can be formulated as follows: How do laws, policies and regulations influence the development of MSMEs in the coastal area of the Benguela Province? The theory of transaction cost as developed by the new institutional economists will provide the framework for the study.

Since the beginning of the 1990s, Angola is facing a complicated transition period. One reason for the complexity is related to the change from a communist regime to a market oriented economy. The other reason is linked to the transition from civil war to peace (cf. The World Bank, 2003: 1). Angola is a rich country, but apart from the oil and the diamond industry almost all sectors have stopped functioning. Household surveys from the period of 2000-2001 show that almost 24% of the population is living in extreme poverty (cf. Government of Angola et al, 2003: 3). Related to this, a key challenge for Angola is the expansion and diversification of the economy. The role of MSMEs are highlighted in the Angolan government interim Poverty Reduction Strategy Paper. They are mentioned as a means for pro-poor growth (cf. The World Bank, 2003: 8). An increasingly active MSME-sector could offer a counter response to the current tendency of the increasing exclusion of the Angolan poor from the economy and from social life. This exclusion hinders their participation in the recovery process that started after the war, because they cannot access resources that would help them to escape from poverty (cf. Cain, 2004: 17). The role of institutions needs to be taken into account, too. The OECD emphasizes the role of institutions when it comes to setting free more positive outcomes for the poor (cf. OECD, 2004: 37).

This research investigates the causal relationship between “institutions”, as the independent variable, and “transaction costs”, as the intermediary variable. Laws, regulations and policies, as institutions, are influencing demand-/ supply-side transaction costs that are either market or non-market transaction costs. An additional relationship can be identified between transaction costs and the creation/ survival of MSMEs, as the dependent variable.

As the research will go into the subject of institutions and their role in the development of MSMEs documents revealing the institutional surroundings were first gathered and analysed. The second stage of the field research contains interviews via structured questionnaires with around a) 15 independent experts and b) 50 entrepreneurs. Because of evidence of serious problems to get access to entrepreneurs drawn through a random sampling method, snow ball sampling was used. The interviews were analysed via a statistical computer program. The findings are compared to

existing information contained in the available documents, and recommendations are made on how to deal with problems that emerged. The aim of the research is to improve the understanding of the effects of the institutions on the development of MSMEs.

By June 2006 a summary of this study was sent to the Angola Enterprise Program (AEP) - a Public Private Partnership between UNDP, Chevron and the Government of Angola to promote micro, small and medium enterprises (MSMEs).



Declaration

I declare that The Influence of Laws, Regulations and Policies on the Development of Micro- Small- and Medium Enterprises: The Case of the Coastal Region of the Benguela Province, Angola is my own work, that it has not been submitted for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged by complete references.

Oliver Höllige

November 2005

Signed.....



Acknowledgement

I would like to thank Frau Dr. Bäcker and Prof. LeRoux for their constructive feed back. Furthermore my special thanks go to the *ADEO* team in Benguela who was able to help me to get started. I would like to thank UNDP in Luanda for giving me the opportunity for this research. Especially Dona Ofelia and Claudia were giving me all support that was needed. Moreover I would like to thank all respondents of the questionnaires and also those that helped me to get any other information. My very special thanks go to Dona Regina in Benguela and further special thanks go to the staff from University of Lusiada in Lobito who provided good assistance. I would like to thank Sr. Edgar in Lobito who helped me to stay on the road. Last but not least my thanks go to Katja Serova for her good comments on the first drafts of the questionnaires.



Chapter 1

Introduction

In April 2002 the Angolan civil war that lasted almost 30 years came to an end. The peace agreement signifies an important opportunity to reduce poverty in the country. Linked to that, the strengthening of the economy is one of the challenges that Angola is facing.¹ As one component of the economy this thesis takes up the private sector. Within the private sector, the eye is on the development of Micro- Small and Medium Enterprises (MSMEs) or, more specifically, on how laws, regulations and policies are influencing these enterprises in the coastal area of an Angolan province. However, before entering the topic, some paragraphs are devoted to the general importance of the subject for poverty alleviation. The elaboration leads us to what is necessary for poverty alleviation, i.e. economic growth. The role of the private sector and especially the MSMEs is highlighted for the successful contribution to growth and, in all brevity; it is described how institutions come into play. Later on in this chapter, the emphasis shifts to the Angolan context. The immense importance of the topic for Angola becomes clear and is channeled into the formulation of the research objective and the research question.

The link between key terms of this treatise and economic growth and poverty reduction

The discussion about the gains or the absence of gains for the poor from the growth of the world economy in the 1990s was intense. Empirically, the effect of growth on the poor has been examined by Dollar and Kraay. Their conclusions support the view that income growth of the poor equals the growth of mean income.² The study also challenges the opinion that the influence of growth on poverty decreased over the last decades. The conclusion from Dollar and Kraay therefore is that growth benefits the poor and consequently policies that promote economic growth should be the focus of poverty reduction strategies.³ The Dollar and Kraay paper was challenged by various authors. For example, when using roughly the same data that Dollar and Kraay applied but over different time periods, the Institute of Development Studies discovered that the income shares of the 20% poorest fell in 69 of 143 periods of growth.⁴ However, these results do not seem to contradict what is commonly accepted, i.e. that mean income growth is a necessary condition for the reduction of poverty and the higher the growth rate and the longer it can be kept, the quicker is the poverty reduction process.⁵ As it

¹ The World Bank, 2003, p. 10.

² Dollar & Kraay, 2001, pp. 1 and 32.

³ Dollar & Kraay, 2001, p. 32.

⁴ Watkins, 2000, p. 191.

⁵ OECD, 2004, pp. 13-14.

is established by now that economic growth is a necessary condition for poverty reduction, it need to be clarified what the private sector can contribute to economic growth. Moreover, an important point to tackle is the role of private sector development to alleviate poverty directly.

The importance of the private sector is approached by taking a look at three general issues. First, all over the world the private sector is the most important “contributor” to GDP and employment: Growth, being measured by the augmentation in GDP, can be seen as the total increase of the value that all participants add while being engaged in production activities and the exchange of market goods. The more the private participants are able to add value and to generate wealth the faster the economy will be growing. Therefore the private sector can be called the driving force behind the economy.⁶ This can also be viewed empirically. A study analyzed the relationship between public and private investment and growth by looking at data from 50 developing countries between 1970 and 1998. The result shows that those countries with higher growth rates are characterized by higher private investment rates (as percentages of the GDP).⁷ When GDP is growing and the economy is expanding, the labor market also is affected. Then the labor supply- and demand-side are pushed for a change and an upward pressure on wages is more likely. This helps to lessen poverty as more of the poor tend to be taken into employment with respectable wages.⁸ The role of the private sector for job creation in comparison to the public sector can be taken from Table 1. There the ratio “private to public job creation” ranges from 3,6:1 in Gabon to 87:1 in Mexico. These figures indicate a much higher job creation potential in the private sector than there is in the public sector.

Table 1 Private firms as a source of job creation (selected developing countries, 1987-98)

Country	Period	Job Creation (thousands)		Ratio Private to Public Job Creation
		Private	Public	
México	1989-98	12,431.0	143.0	87:1
Costa Rica	1994-98	238.0	12.0	20:1
Turkey	1987-92	1,490.0	91.0	16:1
Kenya	1993-98	173.0	13.0	13:1
Guatemala	1994-98	47.0	4.0	12:1
Bolivia	1994-97	181.0	18.0	10:1
Uruguay	1987-92	127.0	27.0	4.7:1
Gabon	1992-96	4.7	1.3	3.6:1

Note: This table is limited to the few countries for which changes over time in job creation are documented for the entire public sector, including state-owned enterprises. Source: Pfeffermann (2000). From PRIVATE SECTOR DEVELOPMENT STRATEGY –DIRECTIONS FOR THE WORLD BANK GROUP, 2002.

⁶ OECD, 2004, p. 18.

⁷ Commission on the Private Sector & Development, 2004, p. 7.

⁸ Sida, 2003, p. 78.

Second, major investments in the social sector are unavoidable to reduce poverty. In many countries and especially in the poor ones, there is the need to finance for example schools, hospitals, health care or safe water conditions. On top of that, extra expenditures are necessary to bring diseases like HIV/ Aids or Malaria to a halt or at least to cushion their impacts. In order to realize these investments, strong economic growth is becoming necessary. With that the countries can create the tax revenue that finally will help to finance the social expenditures. Herewith, the private sector serves as the major source.⁹

Third, while the last mentioned point refers to an indirect contribution of the private sector, the private sector can also contribute as investor, operator and service provider directly to the effectiveness and success of necessary social sector and infrastructure activities.¹⁰

This dissertation deals with the MSME-sector (see also pp. 20 for the applied definition of MSMEs and for further elaborations) as a part of the private sector. The relation of MSMEs to abovementioned issues, like the relevance of growth for the poor and the importance of the private sector in general on growth and in consequence for poverty alleviation, needs to be tackled.

The importance of smaller firms for economic growth has been confirmed by evidence put forward by Thurik and Wenneker. One can deduct from this evidence that those countries, which managed to shift their industry more quickly towards a higher percentage of smaller firms, managed to attain higher growth rates.¹¹ Moreover, increasing the MSME-sector is supposed to lead to growth that includes larger parts of the population; it leads to increasing income possibilities for the poor via job creation and to a more stable and flexible economy. Also, effects on the social side derived from a functioning MSME sector are accepted. These enterprises offer empowerment and an escape out of poverty for a large portion of the poor in developing countries.¹²

However, MSME-owners might identify constraints that they face when doing business. Many of these constraints have their foundation in the enabling environment, e.g. in regulations that influence how the entrepreneur can access inputs and how capital can be accessed.¹³ Expressed more general, one can argue that the structure of incentives, which those participating in an economy are facing, is provided by institutions (see also pp. 17 for the applied definition of institutions and the respective sub-chapter for further elaborations) as “rules or norms that are subject to an

⁹ Sida, 2003, pp. 20-21.

¹⁰ Sida, 2003, p. 21.

¹¹ Thurik & Wenneker, 2001, p. 6.

¹² Deloitte Touche Tohmatsu Emerging Markets, 2003, p. 3.

¹³ Liedholm & Mead, 1999, p. 73.

enforcement mechanism”¹⁴. The development of the incentive structure helps to determine whether there is a growing, stagnating or a declining economy.¹⁵ The constraints that the owners of MSMEs are facing is one focus of the research undertaken.

In order to go into the formulation of research objectives and questions some background information on Angola is essential. The necessity and the relevance of the research becomes apparent against this background.

Background information

Since the collapse of many communist regimes in the beginning of the 1990s, Angola has faced a complicated transition period. One reason for the complexity is related to the change from a communist regime to a market oriented economy. The other reason is linked to the transition from civil war to peace.¹⁶ The war of more than 30 years that ended in April 2002 has left the country with a high number of displaced persons. The social and economic infrastructure had been destroyed. Household surveys from the period of 2000-2001 show that almost 24% of the population is living in extreme poverty which is a big increase on the 13% in 1995.¹⁷ Additionally, the inequality in the country is growing. By 2002 the top decile of households contributed to 42% of total household expenditure compared to 32% in 1995.¹⁸ Since the end of war the Angolan economy has shown a remarkable recovery.¹⁹ In 2002 the average annual growth rates of the agriculture, manufacturing and services sector were ranging between 10-15%. Between 2003-2007 the World Bank projects the annual GDP per capita growth rate to be 11,5%, whereas between 1993 and 2003 the rate was on average 3,8%, 11,1% in 2002 and 0,3% in 2003.²⁰ The inflation rate came down from 98% in 2003 to 30-40% in 2004.²¹ However, by 2003, Angola was still one of the poorest countries in the world. The Gross National Income is 740 US\$ per capita compared to a country average of 490 US\$ in Sub-Saharan African countries in 2003.²² In the Human Development Index Angola is ranked 164th out of 175 countries.²³

From these figures one can derive the urgent need for poverty alleviation in Angola. Related to that, a key challenge for Angola is the expansion and diversification of the

¹⁴ Voigt & Kiwit, 1997, p. 3.

¹⁵ North, 1991, p. 97.

¹⁶ The World Bank, 2003, p. 1.

¹⁷ The World Bank, 2003, p. 5.

¹⁸ Cain, 2004, p. 17.

¹⁹ UNDP & Government of Angola, 2003, p.3.

²⁰ The World Bank, 2004, p. 1.

²¹ The World Bank, 2005, no page number.

²² The World Bank, 2004, p. 1.

²³ The World Bank, 2003, p. 4.

economy.²⁴ Although, Angola is a rich country in respect of its natural resources, apart from the oil and the diamond industry almost all sectors have stopped functioning.²⁵ As the trade statistics reveal, by the end of the 1960s, 9 commodities comprised 80% the exports and at that times Angola was better known as a coffee exporter than an oil exporter. By 2003 Angola's exports were less diversified and oil accounted for 90% and diamonds for 8% of the country's exports.²⁶ A similar pattern can be observed in the overall structure of the Angolan GDP: Over 50% of the Angolan GDP in 2003 was contributed by the oil and diamond sector.²⁷ Without going into detail of the problem of the distortion caused by those typical to oil exporting countries (Dutch Disease²⁸), it is worth remembering that the oil industry has almost no effect as a "resource pull"²⁹ from other sectors because its location is in isolated parts of Angola, run by virtually 100% foreign workers who live in cut off areas and who use 100% import technology. Although the diamond production is physically not as cut off, the way of producing diamonds does not offer significant backward links to the remainder of the economy.³⁰ Due to the situation of all other sectors apart from the oil- and the diamond sector, the emphasis has to be on the expansion of the economic sectors which could contribute to the improvement of the income situation within the country. According to the World Bank, accelerated broad based economic growth is needed in Angola and should have a special orientation towards the poor.³¹ This orientation and the consequent improvements seem to be especially relevant in the Angolan context, when keeping in mind Angola's double-transition complexities, e.g. the transition from war to peace. In order to settle the conflict, it is relevant that hope and optimism, like opportunities for employment, are injected into society. The danger, otherwise, is that the conflict brakes out again,³² especially when one is aware of the situation on the ground: Angolans nowadays live in circumstances of „armed peace“³³ due to the fact that guerrilla ex-combatants and people formerly armed by the government have given back only a small percentage of their weapons. Therefore, and in order to avoid future risks of instability, ex-combatants need to be integrated economically and socially back into society.³⁴ In the light of the preceding, one has to agree with the UNDP Assistant

²⁴ UNDP & Government of Angola, 2003, p.3.

²⁵ UNDP & Government of Angola, 2003, p.3.

²⁶ The World Bank, 2003, p. 9.

²⁷ Government of Angola, 2004, p. 6.

²⁸ Problems like overvaluation of the exchange rate and price distortions are linked to the "Dutch Disease".

²⁹ Kyle, 2002, p. 8.

³⁰ Kyle, 2002, pp. 8-9.

³¹ The World Bank, 2003, p. 24.

³² Gerson, 2001, p. 103.

³³ Cain, 2004, p. 21.

³⁴ Cain, 2004, p. 21.

Resident Representative for Angola when he argues that, “after almost three decades of war the development of the sound and sustainable national private sector is certainly a key challenge for the country”.³⁵ In the long run, only the private sector enables this distribution of hope and optimism by the creation of enterprises, investment, employment and economic security.³⁶

In Angola, MSMEs - as a sub-section of the private sector - are facing major difficulties to survive and there is a shortage of reliable data regarding the activity in this sector. Generally, it is known that around 13,500 new companies (not only MSMEs) were registered between 1994 and 2001 but there is no further data regarding these new enterprises. Nevertheless, the role of MSMEs is highlighted by the World Bank with reference to a first draft of the Angolan government’s interim Poverty Reduction Strategy Paper. They are mentioned as a means for pro-poor growth.³⁷ An increasingly active MSME-sector could offer a counter response to the current tendency towards more and more exclusion from social life that the Angolan poor are facing. This exclusion hinders their complete participation in the recovery process that started after the war, because they cannot access resources that would help them to escape poverty.³⁸

The situation of the Angolan economy, Angola’s post-conflict environment and the potential positive effects of MSMEs point at the necessity to put more effort into understanding why this sector is apparently not functioning well. The Angolan Government, Chevron Texaco and UNDP already launched the Angolan Enterprise Program which is intended to promote a better functioning of the MSME-sector and will contribute to establish a knowledge base on MSMEs.

Research objective and structure of the thesis

From literature on the situation in Angola, one can derive indication, that many of the existing institutions have a detrimental influence on the MSME-sector. It was thus not surprising that the manager of a program based within UNDP in Luanda/Angola made the suggestion that this research effort be directed to the question on how institutions impact on the mal-functioning of the MSME-sector. This research tackles this question by a detailed analysis of the environment of MSMEs. An Angolan province - the Benguela Province - was proposed by UNDP as the research target because the interest on the MSME-environment in this province was very high. However, due to restrictions imposed by bad roads, limited time and inadequate transport availability the research was concentrated on the coastal area of this province.

³⁵ See “Interview partner and E-mail comments”: Almeida, 2004.

³⁶ Gerson, 2001, p. 103.

³⁷ The World Bank, 2003, p. 15.

³⁸ Cain, 2004, p. 17.

The research question is: How do laws, policies and regulations influence the development of the MSMEs in the coastal area of the Benguela province? The aim of the research is to improve the understanding of the effects of institutions on the MSMEs in the coastal area of the Benguela province.

The next chapter gives an overview of the transaction cost approach and important definitions on transaction costs are presented. Chapter three includes more major definitions and classifications of terms used in relation to the theoretical framework. Later in chapter three, the theoretical framework of the research, which regards institutions as the independent variable, transaction costs as the intermediate variable and the development of MSMEs as the dependent variable, is put forward. Some discussions in the literature are highlighted because they can give a better understanding of the situation on the ground in Angola. Chapter four includes details on the data collection process and the data is analyzed in chapter five. The main data sources are interviews with entrepreneurs as well as with experts and a document collection. The analysis of the interview data was done with the assistance of a statistical computer program. The conclusions and recommendations are presented in the last chapter



Chapter 2

The transaction cost approach

Introduction

For our analysis the transaction cost approach is used. The following section gives an overview on the importance of this approach. It elaborates on what is understood by a transaction and on why it is relevant for this research. Furthermore the importance of transaction costs is viewed in the light of what these costs influence and in they light of how these costs are considered by many economic models. The success of the use of transaction costs in empirical research is mentioned and we get an idea on what percentage of the GDP in the US can be devoted to transacting. The following section starts off with Ronald Coase and his conceptual introduction of transaction costs. In the subsequent paragraphs two streams of literature on transaction costs are introduced. It is explained what each of them understands by the term transaction costs. With this elaboration we get to the point where the classification of transaction costs used in this treatise can be defined. After having done this the last section of this chapter focuses first on a brief overview of topics that have been analyzed with the help of the transaction costs approach. The focus is especially on the “economics of identity” as a field that seems to have common features to a proposition formulated. This chapter will finish with a short elaboration on criticism about the transaction costs approach. However, first the following section gives an idea of the relevance of the approach for empirical research.

The transaction cost approach and its relevance for empirical research

One can find remarks on the importance of transactions, transaction costs - as “the costs of running the system”³⁹ - and the transaction costs approach in literature by various authors. Milgrom and Roberts start their chapter about problems of economic organizations by considering the transaction as the most important unit of analysis in the theory on economic organizations. They explain hereby *transaction* as the relocation of goods or services between individuals.⁴⁰

Benham and Benham highlight transaction costs as costs that have a vital influence on how an economy is functioning. Transaction costs affect the production portfolio and what is exchanged in the market; transaction costs influence the survival of organizations.⁴¹ They influence the rules of the game that manage to persist,⁴² as

³⁹ Milgrom & Roberts, 1992, p. 29.

⁴⁰ Milgrom & Roberts, 1992, p. 21.

⁴¹ Benham & Benham, 2000, p. 367.

⁴² Benham & Benham, 2000, p. 367.

those rules might have proven to lead to the desired transaction costs. These desired costs could be at the lowest level,⁴³ but it could also be, for example, at this lowest level only for certain groups in society, because the ruler wants to avoid offending powerful establishments.⁴⁴ Apart from this influence on the rules of the game, a high percentage of theoretical economic models are underlined by specific assumptions about transaction costs. Therefore transaction costs can be considered the most significant group of prices in an economy.⁴⁵ Williamson argues that due to the number of published empirical studies on transaction costs economics (over 500 by the year 2000) and because of the consistency demonstrated by theory and evidence, transaction costs economics is a tale of empirical triumph. Largely, the research has tended to confirm the forecasts of transaction cost economics.⁴⁶ These impressions can be summarized with the following comment of a Nobel prize winner: “Without the concept of transaction costs, which is largely absent from current economic theory, it is my contention that it is impossible to understand the working of the economic system, to analyze many of its problems in a useful way, or to have a basis for determining policy”⁴⁷. Furthermore and in order to get an idea of the importance of transaction costs, one can refer to a study that examined the size of the transaction sector in the United States. The study revealed that transacting was responsible for more than 45% of the national income or in other words more than 45% of all “resources going through the market”⁴⁸ are devoted to transacting.⁴⁹

Due to the aforementioned significance of transaction costs, which is also relevant for MSMEs as being an integral part of the economy, this concept will be used in the study. However, before, more elaboration is needed of its historical embeddings and of the definition of terms in literature, i.e. what someone can understand by transaction costs and the transaction cost approach. On this occasion, later on in this chapter, it will also be described what definition of transaction costs is going to be applied in this thesis.

Different concepts of transaction costs and their development

Officially, by 1937, the words `transaction costs` were conceptually introduced by Ronald Coase's `The Nature of the Firm`. There they were described as “the cost of using the price mechanism”⁵⁰. Coase presented examples on what he understood by

⁴³ Milgrom & Roberts, 1992, pp. 28-29.

⁴⁴ North, 1990, p. 191.

⁴⁵ Benham & Benham, 2000, p. 367.

⁴⁶ Williamson, 2000, pp. 605-607.

⁴⁷ Coase, 1988, p. 6.

⁴⁸ North, 1990, p. 184.

⁴⁹ North, 1990, p. 184.

⁵⁰ Coase, 1937, p. 390.

this special cost: finding out what the prices are; the negotiation and the finalizing of the contract. He gave hints to enforcement problems,⁵¹ which can be related to property rights that can largely be defined as all laws, rules, social customs and organizations that create motivation for actions.⁵² Coase did not come up with a definition. Actually, Coase, in all his documents, never provides other than examples of transaction costs.⁵³ Up to now, when skimming through literature on transaction costs, one can notice that there still is no standard language. The definitions of transaction costs vary and mostly give good conceptual perspectives but have not yet been transformed into commonly accepted standards.⁵⁴

The vagueness that is surrounding the concept of transaction costs is grounded mainly in the fact that two literatures at the same time are claiming possession of the term.⁵⁵ In the following section these two streams of literature are examined.

Two streams of literature on transaction costs

The first stream of literature is called by Allen the 'neoclassical' literature on transaction costs. It has its starting point in the early 1950s. In general, it models transaction costs often in the same way as transportation costs or taxes.⁵⁶ According to the neoclassical definition, transaction costs are considered those cost that are consequential to the shift of property rights. Or in other words, according to this stream of literature transaction costs only occur when property rights are exchanged.⁵⁷ Property rights here are defined as the capacity to freely decide on what to do with a good or service.⁵⁸ With regard to the second stream of literature, Allen comes up with what he calls the 'property rights definition' of transaction costs. It defines transaction costs as the costs of "establishing and maintaining property rights"⁵⁹. Literature associated with that stream has brought into existence new sub-divisions of 'law and economics', e.g. the new institutional economics.⁶⁰

For clarifying the differences between the two streams, we can highlight that from the point of view of the neoclassical approach all costs related to enforcement within a firm are not considered as transaction costs. From that perspective transaction costs are only those ones that are linked to a market exchange and that take place between

⁵¹ Allen, 2000, p. 895.

⁵² Allen, 2000, p. 893.

⁵³ Allen, 2000, p. 895.

⁵⁴ Benham & Benham, 2000, p. 367.

⁵⁵ Allen, 2000, p. 893.

⁵⁶ Allen, 2000, p. 894.

⁵⁷ Allen, 2000, p. 901.

⁵⁸ Allen, 2000, p. 898.

⁵⁹ Allen, 2000, p. 898.

⁶⁰ Allen, 2000, p. 893.

companies and individuals.⁶¹ The property rights definition takes into account transaction costs as soon as property rights are defended or are sustained no matter what the circumstances are.⁶² Therefore the property rights definition can be regarded as an expansion of the neoclassical view.

Transaction costs will play a crucial role in the connection of the main concepts, institutions and MSMEs. Therefore more thought will be now devoted to the classification of transaction costs as they are understood in this treatise.

The classification of transaction costs used in this treatise

In the case of market-transaction costs, the systematic used by Milgrom and Roberts (1992) is applied, because it thoroughly breaks down the term and therefore helps to decipher what these costs really are. Also - according to Allen - it is a first-rate textbook handling of transaction costs that follows the property rights definition:⁶³

“Transaction costs are the costs of running the system”⁶⁴. These can be divided into...

- ❖ Coordination costs and
- ❖ Motivation costs.

Coordination costs: These are the costs associated with the problem of coordination which comes up from the necessity to settle on prices and other particulars of a transaction occurring in a market system. The transaction costs related to these other particulars of a transaction could be the costs involved in getting the existence and locality of the buyers and sellers known to each other and the costs of getting the buyers and sellers together to exchange goods or services. Transaction costs that fall under this rubric are on the buyers side for instance the time spent for comparing prices or the time spent for finding the suppliers. On the supplier side these costs comprise the expenditures for market studies, for promotional activities and the resources spent in the decision-making process to determine the price to demand from the buyers. On a less obvious level, when looking at a situation where the matching of buyers and sellers does not work out perfectly or even worthwhile transactions do not take place, the transaction costs related to coordination can be defined as forgone benefits.⁶⁵

Motivation Costs are those costs connected to the problem of motivation.⁶⁶ These costs are related to “information incompleteness and asymmetries”⁶⁷ on the one hand

⁶¹ Allen, 2000, p. 902.

⁶² Allen, 2000, p. 899.

⁶³ Allen, 2000, p. 899.

⁶⁴ Milgrom & Roberts, 1992, p.29.

⁶⁵ Milgrom & Roberts, 1992, p. 29.

⁶⁶ See Milgrom & Roberts, 1992, pp. 29-30, about this issue and the following elaborations.

⁶⁷ Milgrom & Roberts, 1992, p. 30.

and to “imperfect commitment”⁶⁸ on the other hand. The problem of *information incompleteness and asymmetries* occurs when the buyers and/or sellers are not in possession of the relevant information to form an opinion on whether an agreement is acceptable for both sides or whether the details of the agreement will actually be fulfilled. For instance, if someone is interested in buying a product, this person might be unsure about the trustworthiness of the information provided by the seller on some features of the product. In these cases associated to information incompleteness and asymmetries, transactions might not occur although being beneficial for either party, because at least one party fears becoming victim of opportunism. Also, the necessity of expensive side agreements might come up to prevent opportunistic behavior. *Imperfect commitment* is also related to the motivation problem and gives rise to transaction costs if parties, who would like to make a commitment, are hindered to do so due to their inability to follow through on what was once promised and on what threats once were made. The reason for this behavior is that at a later stage one party might have the incentive to renounce the commitment made at an earlier stage. As an example, imagine a situation where a manufacturer expects a supplier to make a bigger investment. This investment should exactly meet the special requirements of the manufacturer. The supplier has to fear that once the investment is made, the manufacturer tries to renegotiate the initial arrangement and the supplier, in consequence does not have other options. This might again lead to missed worthwhile transactions or to expensive side agreements to secure the supplier from harm.⁶⁹

Wang, in his working paper about empirical approaches on how to measure transaction costs, put the spotlight on a different perspective on transaction costs. He referred to Hernando de Soto and his bestseller “The Other Path”⁷⁰ about the informal economy in Peru. According to Wang, de Soto was focusing in his study on what is missing compared to Wallis and North (1986) and their measurement of the transaction sector in the United States:⁷¹ North and Wallis split the economy into one transformation and one transaction part. The costs involved in these two parts together form the production costs (as the sum of transformation and transaction costs). In this study, the costs associated with the transaction part were “land, labor, and capital involved in defining and enforcing property rights over goods”.⁷² If those were only the transaction costs that were “going through the market”⁷³, then costs factors like waiting times, business licensing procedures, red tape hindrances, bribes paid out to officials, and so on were

⁶⁸ Milgrom & Roberts, 1992, p. 30.

⁶⁹ Milgrom & Roberts, 1992, pp. 29-30.

⁷⁰ De Soto, 1989, p. xiii.

⁷¹ Wang, 2003, pp. 5-6.

⁷² North, 1990, p. 184.

⁷³ North, 1990, p. 184.

missing. This was admitted by North and he called them non-market transaction costs.⁷⁴

Non-market transaction costs are also dealing with property rights, e.g. the licensing procedure actually influences how property rights will be dealt with later. However, economics that have the eye on these transaction costs are rather apprehensive of the expenses that government regulations impose on the market entry and market transactions, whereas the focus of property rights oriented view is on negotiating and the enforcement of contracts.⁷⁵ Regarding the research approach, the property rights definition of transaction costs tends to focus on the influence of transaction costs on economic organization and contractual agreements. Consequently, transaction costs, in that sense, help to comprehend alternative forms of organization and contractual agreements.⁷⁶ In contrast, research based on the non-market transaction view is devoted to the influence of transaction costs on the product offer. For example, De Soto described the costs of being an entrepreneur, whether it is formally or informally. Due to the fact that these (non-market) transaction costs affect what is created and what can be bought on the market, these kinds of costs are (also) essentially important for the understanding of the economy.⁷⁷ This and the information that, although the official transaction sector is small in developing countries, non-market transaction costs are extensive,⁷⁸ underline the importance of the integration of these costs into the analysis.

By summarizing all that has been written on **non-market transaction costs**, in the following they will be classified as those costs that are related to rules and regulations that were imposed by governments. As an additional criteria, these costs do not fit well in one of the market transaction cost classifications. These are for example costs related to export-import regulations, business licensing regulations and bribes.

As it probably became clear by now, the proponents of the transaction cost approach are far from having a common opinion on what transaction costs are.⁷⁹ Nevertheless, these chapters served as an overview about some of the perspectives that exist and, most importantly, it is explained how transaction costs are going to be understood in this thesis. In chapter three they are going to be connected to the main concepts of the research. The various opinions about what actually transaction costs are, were discussed earlier and after the reading of the subsequent section one will be able to realize that the different applications of the approach are also very numerous.

⁷⁴ Wang, 2003, pp. 5-6.

⁷⁵ Wang, 2003, p. 2.

⁷⁶ Wang, 2003, p. 4.

⁷⁷ Wang, 2003, p. 5-6.

⁷⁸ Wang, 2003, p. 6.

⁷⁹ Wang, 2003, p. 2.

Moreover the next paragraphs will investigate some criticism of a transaction cost approach that was described above and its consequences for the upcoming research.

Applications and limitations of the transaction cost approach

The transaction cost approach has been related to a wide variety of other research fields, which are summarized in the coming paragraphs.

Along with the property rights definition of transaction costs - topics like “long-term contracts, franchising and share contracts, marriage, wildlife, horse racing, price adjustments, ... rate of return regulation”⁸⁰ and institutional influence on NGOs have been examined with the help of transaction cost economics (for an example on the latter see Salamon & Toepler, 2000).

Empirical studies following the neoclassical approach are also great in number.⁸¹ The connection to the neoclassical definition of transaction costs (see page 17) gives the link to the topics studied by proponents of that stream of literature. These include e.g. “the effect of transaction costs on the volume of trade, abilities to arbitrage, the bunching of transactions, intermediation and the existence and efficiency of equilibrium - all standard neoclassical fare”⁸².

While the former paragraphs show the impressive variety of areas where the transaction cost approach was applied, the focus now is on an interesting field of application that Wang calls the “*economics of identity*”⁸³. There the emphasis is on transaction-costs being specific to certain agents and not specific to certain transactions or, in other words, it is considered to be of importance what person is performing the economic action. While doing business in the same industry the costs that different actors face may perhaps differ radically. Possible examples of this phenomenon are those ones related to the concentration of certain ethnic groups in business, like the diamond business in New York and the role of Jewish dealers in that environment. Connected to the *economics of identity* is the special type of market failure that is pointed out in this literature and that is related to high transaction costs. Conventionally, high transaction costs are believed to lead to the reduction of the market size or to the complete elimination of the market. The disappearance of e.g. a commodity from the market would be consequential to the latter. However, under the perspective of *economics of identity* a constellation becomes apparent where the market might fail for some entrepreneurs but it flourishes for others. For example, in rural Socialist China some special agricultural products were almost not obtainable due to high transaction costs imposed by the government. Nevertheless, dependent on the

⁸⁰ Allen, 2000, p. 899.

⁸¹ Allen, 2000, p. 911.

⁸² Allen, 2000, p. 894.

⁸³ Wang, 2003, p. 8.

identity, some entrepreneurs were very successful in the market of these special agricultural products while others were kept away from the business or, in other words, the market is sensitive to who is acting. In the research program connected to *economics of identity*, the critical role of “non-economic institutions”⁸⁴ through their most probable influence on transaction costs is highlighted.⁸⁵

A proposition formulated later (page 23) and the respective analysis on page 34 seem to have common features with what was described in relation to *economics of identity*. Regarding the limits of the transaction cost approach one can raise doubts on the conceptual differentiation of transaction and production costs. Every job includes essential parts of production and transaction⁸⁶ and although transaction costs are real, they are sometimes hard to separate from other types of costs.⁸⁷ As a result of this difficult differentiation, transaction costs are sometimes hard to measure.

This criticism particularly can be related to the effort by Wallis and North to measure the size of the transaction sector of the United States.⁸⁸ They stated that the transaction sector grew from 25 to 40% between 1870 and 1979. The question now is how robust are these estimates of the rate of growth if one incorporates even minute changes on the fine line that divides *production* from *transactions*. Due to the doubts on the conceptual differentiation of the two, the growth estimate can be regarded as weak for small changes along this fine line.⁸⁹

Interestingly, all critics leveled seem to be relevant particularly for the task of measuring transaction costs in an absolute way. As this study is not aimed at quantifying any absolute level of transaction costs, it manages to move around this delicate problem. However, the problem of the thin line between transaction and production is also present in the application of the theoretical framework (see page 22 for an overview over the theoretical framework). Since the goal is to only investigate transaction costs and not production costs, this study is also very sensitive for the definition of transaction costs - both with regard to the application of the theoretical framework as with the interpretation of the results - and a strict adherence to the applied definitions/classifications is necessary.

Conclusion

Chapter two presents in its first section an overview why the transaction cost approach is applied for this research. In the following the two streams of literature that are at hand within this approach are presented. This opens the way for a more focused

⁸⁴ Wang, 2003, p. 9.

⁸⁵ Wang, 2003, p. 9.

⁸⁶ Allen, 2000, p. 911.

⁸⁷ Milgrom & Roberts, 1992, p. 34.

⁸⁸ Wallis & North, 1986.

⁸⁹ Allen, 2000, p. 911.

classification of transaction costs, e.g. a distinction between market and non-market transaction costs is raised. With regard to the more focused classification of these costs also comes the definition of transaction costs and how they are going to be understood in this treatise. The chapter is ending with an elaboration on application possibilities/limitations of the approach. The focus is on the conceptual differentiation of transaction and production costs when limitations of the transaction cost approach are accessed.

In chapter three this approach will be adapted to the research topic. This includes an analysis and a definition of the central concepts of the approach together with an elaboration on the linkages between the concepts. Finally, this will bring us to the testable propositions in the last section of chapter three.



Chapter 3

The integration of the transaction cost approach in the analysis of the enabling environment for the MSME-sector

Introduction

The last chapter goes in detail into the topic of transaction costs. Most importantly, it describes how transaction costs will be understood in the remainder of the document. While having these definitions of transaction costs in mind, chapter three will first give all attention to the term “institutions”. External and internal institutions are explained and a definition on how the term “institution” will be understood for the purpose of this research is finalized. Secondly, the elaboration goes into the relation between institutions and transaction costs. Examples are used to point up the influence of institutions on transaction costs. In the following section and after MSMEs are defined, the influence of transaction costs on these businesses is discussed. Finally and based on these insights, a theoretical framework is developed that is connecting the three concepts of institutions, transaction costs and the development of MSMEs. This framework in return serves as the basis for the propositions that are listed in the last section of chapter three and it will illustrate how transaction costs, institutions and MSMEs are linked together. Finally, the propositions are based on literature reports, if available, about the situation on the ground in Angola.

Institutions and transaction costs

According to Douglas North the reduction of transaction costs “by creating permanent structures” is one of the important functions of institutions. With the help of these structures interactions can occur.⁹⁰ However before delving deeper into the linkage between institutions and transaction costs, we have to cast more light on the term *institution* as used by the neo institutionalist.

Institutions are generally the “rules of the game”⁹¹ or are being defined as rules or norms that are intrinsically linked to a mechanism that forces the rule or norm to become true, i.e. an enforcement mechanism. This enforcement mechanism contributes to the effectiveness of institutions.⁹² Rules according to Ostrom “refer to prescriptions commonly known and used by a set of participants to order repetitive, interdependent relationships. Prescriptions refer to which actions (or states of the world) are required, prohibited or permitted. Rules are the result of explicit or implicit efforts by a set of individuals to achieve order and predictability within defined

⁹⁰ Salamon & Toepler, 2000, p. 4.

⁹¹ North, 1994, p. 361.

⁹² Voigt & Kiwit, 1997, p. 3.

*situations*⁹³. Voigt and Kiwit classify institutions based on what kind of mechanism is used for enforcement to support the rules: First, institutions that are supported by the controlling power of the state monopoly are classified as external institutions. Second, internal institution is the classification for those that are linked to an enforcement mechanism taking place “internal to society”⁹⁴, i.e. these institutions are enforced privately.⁹⁵ Related to these two classifications are five types of institutions four of which are internal. These four internal ones are described in the following lines.

Convention is an internal institution that is self-enforced. The reason for the self-enforcement is that once this convention was created no one in society can get in a better situation with a one-sided departure from the convention. **Ethics** potentially influence individuals not to act accordingly their narrow-minded self interest. The reason for, e.g. some kind of behavior, is that they have internalized a commonly accepted opinion about what is a “good” behavior. Such institutions are therefore internally enforced. The third internal mechanism is associated to enforcement by the society. **Customs** are enforced in an unorganized way by members of the society, who are observing who is complying and who not. **Private rules** are the fourth type of internal institutions. These rules are enforced by private organizations e.g. private courts or private security.⁹⁶ The distinction between external and internal institution seems useful, as according to Cain in Angola internal institutions exist⁹⁷ and might have an influence on the development of MSMEs. The exact distinction between internal/external and the further distinction within internal institutions will serve as a basis for clarifying what institutions really have an influence on MSMEs. Therefore the definition on institutions proposed by Voigt and Kiwit will be applied for the research with one change: This research will not only tackle rules that are commonly known. Especially the aforementioned internal institutions might not be considered as commonly known but play a role and can be researched. The conclusion of the preceding elaborations is that the definition of institutions for the purpose of the research is “rules or norms that are subject to an enforcement mechanism”⁹⁸. The institutions tackled by the research - laws, regulations and policies - are further specified as external and internal. With this in mind the linkage between the two concepts institutions and transaction costs can be devised.

As indicated above, institutions can reduce transaction costs. North relates this positive effect of institutions to their ability to create long-lasting structures that serve as a

⁹³ Ostrom, 1986, p. 5.

⁹⁴ Voigt & Kiwit, 1997, p. 4.

⁹⁵ Voigt & Kiwit, 1997, p. 4.

⁹⁶ Voigt & Kiwit, 1997, pp. 4-7.

⁹⁷ Cain, 2004, p. 14.

⁹⁸ Voigt & Kiwit, 1997, p. 3.

facilitation of mutual action.⁹⁹ In his article “Institutions” North is more precise about the institutional influence. According to him, in the past and nowadays, humans have developed institutions to generate order and to lessen “uncertainty in exchange”¹⁰⁰. One can understand by uncertainty that it “...involves choices involving multiple possible outcomes in which the probability of each outcome is unknown and cannot be estimated”.¹⁰¹ Generally, when uncertainty is higher contracting is more multifaceted,¹⁰² and the uncertainty is reflected by higher transaction costs.¹⁰³ Therefore institutions influence uncertainty and in consequence transaction costs. Furthermore, together with other variables, institutions, according to North, define what possibilities exist and consequently establish the costs of transaction and production.¹⁰⁴ For example, they might establish what ingredients are allowed in food and what hygienic provisions the seller of food has to observe. Both influence the costs the entrepreneurs are facing. North’s elaboration about the influence of institutions on transactions gives a more obvious hint on the possibility that institutions not only reduce transaction costs but can also be a reason for high transaction costs. In case of institutions having an influence on these costs, they can increase or decrease transaction costs¹⁰⁵ or in other words: institutional agreements are differing in terms of the kind of solutions they are offering for coordination or motivation problems (for an explanation of these terms see page 11) and as these problems give rise to market-transaction costs, institutions via their solution mechanism to coordination and motivation problems have an impact on transaction costs.¹⁰⁶ As an example one can take a look at commodity markets. There it may be difficult to distinguish products because certain features are not immediately visible to potential buyers, e.g. the ingredients of beer. In this regard, rules that specify the certification of products (“Reinheitsgebot” on beer) are important because they give information to potential buyers and therefore help them to make informed decisions.¹⁰⁷ If, however, the rules that specify the certification of products are not well defined and e.g. rather confuse than inform the potential buyer, their effect is adverse. Consequently, the transaction costs - in this case as motivation costs - depend on how well the rules offer a solution mechanism to the buyer’s information incompleteness. In the case of non-market transaction costs, institutions might change for example the pattern on how new

⁹⁹ Salamon & Toepler, 2000, p. 4.

¹⁰⁰ North, 1991, p. 97.

¹⁰¹ Webster, 2003, p. 622.

¹⁰² Milgrom & Roberts, 1992, p. 32.

¹⁰³ North, 1990, p. 189.

¹⁰⁴ North, 1991, p. 97.

¹⁰⁵ Voigt & Kiwit, 1997, p. 8.

¹⁰⁶ Milgrom & Roberts, 1992, p. 29.

¹⁰⁷ OECD, 2004, pp. 37-38.

entrepreneurs have to register their business. By diminishing the number of counters to which new entrepreneurs have to talk to, they would probably have a positive influence on the time costs during the registration process.

In order to complete the linkage between the three concepts we need to specify what one shall understand under the notion MSME. This and the influence of transaction costs on MSMEs will be elaborated on in the following paragraph.

MSMEs and transaction costs

When analyzing the literature, it is revealed that abundance and disagreement dominates the subject of defining MSMEs. Government-related agencies, organizations with private funding and independent research studies proposed a variety of definitions of MSMEs. The more formal ones are connected to the size of the enterprise, i.e. the number of employees or the yearly income. Generally, many definitions brought up from "official" sides were used in order to administrate special programs and not for research purposes.¹⁰⁸ However, we are interested especially in problems that MSMEs face, for example in relation to the owner perspective on government regulation. Therefore the definition specifies a MSME as an enterprise that is "owned independently, has a single decision-making center, and is operated by an owner/manager who is the primary person to deal with government requirements"¹⁰⁹. Since it is suggested to have an employment feature for data analysis included in the definition, the number of worker is added to the definition (Micro (0-4 workers); Small (5-9), Medium (10-20)). Therefore, these elements will be applied to the MSME definition used for the research. With this definition of MSMEs in mind we are now stepping back to the transaction cost approach and critically consider the link between transaction costs and MSMEs.

A conclusion above was that apart from recognizing positive functions of institutions, one can observe that permanent structures might as well negatively affect transaction costs and through that hinder the development of the MSME-sector. It might even be possible that transaction costs reach an obviously prohibitive level, with the consequence that no one would seriously consider using a contract for the regulation of things.¹¹⁰ Here one can draw the link between a contract and a firm, when one reflects on a firm or MSME as a "focal point for a set of contracts"¹¹¹. An entrepreneur could be hesitant to start up such a firm due to prohibitive transaction costs. As an example, the costs of entry - as non-market transaction costs (see also page 13 for further elaborations on these costs) - could impose this "obviously prohibitive" barrier against

¹⁰⁸ Cole & Tegeler, 1980, p. 9.

¹⁰⁹ Cole & Tegeler, 1980, p. 9.

¹¹⁰ Matthews, 1986, p. 913.

¹¹¹ Brickley et al., 2002, p. 240.

the birth of MSMEs. These transaction costs can influence in a profound way how an economy is functioning. Transaction costs have an impact on what the economy is producing, what is exchanged on the market and which organizations stay in business.¹¹² Given that MSMEs are an intrinsic part of the economy, it can be concluded that transaction costs decisively influence the development of these enterprises.

Since the three concepts - institutions, transaction costs and MSMEs – have been defined and the links between them set out, the analysis is now able to approach the theoretical framework in an all comprising way.

The linkage between institutions, transaction costs and MSMEs

Institutions can influence the transaction costs involved when MSMEs are created and when they are operated. Consequently institutions, in a way, can influence the emergence and the economic survival of these firms. Two types of influence can be distinguished:¹¹³ First, they can influence the demand for MSMEs by having an influence on the costs that those perceive who are considering dealing with such organizations. That is called the demand-side effect and the related transaction costs are called demand-side transaction costs. Secondly, they can have an influence on the supply of those enterprises. The latter - supply-side - effect appears by institutions influencing the expenditures involved, when creating and operating MSMEs.¹¹⁴ For example laws or regulations might require the business to pay license fees. The higher they are the lower is the incentive to create or operate such a firm.

Some data reveal an influence on the supply-side transaction costs, as well as on the demand-side transaction costs.¹¹⁵ E.g. if the level of trust in society is high (e.g. towards business partners/employees) the sellers/entrepreneurs might refrain from expensive side agreements/supervision activities to be protected from opportunistic behavior. Also, the buyer can rely more on what product qualities are assured and will enter more willingly a transaction.¹¹⁶

After having elaborated on demand- and supply-side transactions costs, one can take over this approach and apply it to conceptualize the effects of institutions on Micro-Small- and Medium Enterprises (MSMEs). Substantially, it is pointed out that institutions can be obstructive to the creation and persistence of MSMEs by increasing

¹¹² Benham & Benham, 2000, p. 367.

¹¹³ Salamon & Toepler, 2000, p. 4.

¹¹⁴ Salamon & Toepler, 2000, p. 4.

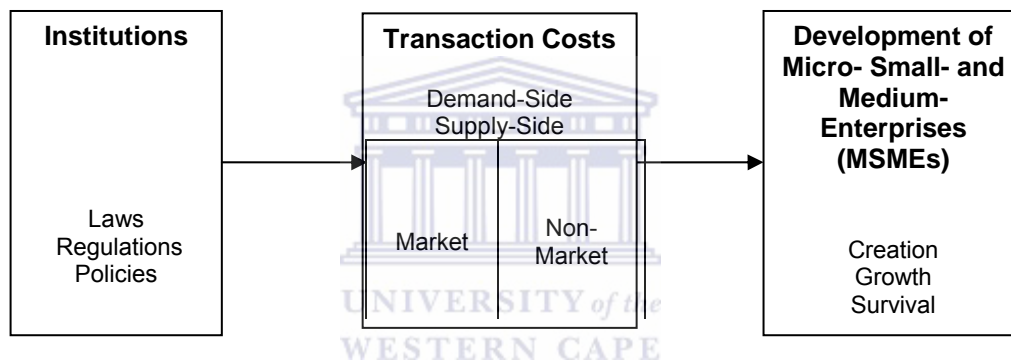
¹¹⁵ Salamon & Toepler, 2000, p. 6.

¹¹⁶ Milgrom & Roberts, 1992, p. 30.

the demand- and the supply-side transactions costs related to Micro- Small- and Medium Enterprises.¹¹⁷

A conceptual framework has now been evolved that is suitable for the analysis of the research questions. Firstly, the conceptual framework includes a causal relationship between “institutions”, as the independent variable, and “transaction costs”, as the intermediary variable. Laws, regulations and policies, as institutions, are influencing demand-/supply-side transaction costs that are either market- or non-market transaction costs. Supported by the aforementioned connections, an additional causal relationship can be identified between transaction costs and the development of MSMEs, as the dependent variable. The two causal relationships can be viewed as arrows in Figure 1 below. There they indicate the connection between the concepts that can be seen in the boxes.

Figure 1 Framework for the analysis on the influence of institutions on MSMEs via transaction costs



The hypothetical interplay of these concepts can be formulated with the help of propositions which is put forward in the following section.

Empirically testable propositions linked to some hints on the Angolan context

The research will investigate the role of institutions for the development of MSMEs.

The all encompassing proposition to be tested is the following:

- ❖ Institutions in place hinder the creation, growth and survival of MSMEs by imposing high transaction costs on either clients of MSMEs or on owners of MSMEs.

This proposition is reformulated into several sub-propositions. Each of these propositions casts a light on at least two concepts of the framework. This proceeding enabled the researcher to undertake an in depth analysis of the abovementioned effect of institutions on transaction costs and through that on MSMEs. The subsequent paragraphs present the sub-propositions. In addition, in order to show the reader that these propositions have the potential to reflect reality, insights from the Angolan

¹¹⁷ Salamon & Toepler, 2000, p. 5.

context are referred to. Those insights were collected from literature before the beginning of the field research period and relate to concrete problems that can be linked to institutions and MSMEs. First, the propositions regarding the supply-side effect will be approached. The presented background information leads us to these propositions.

In Angola, it seems that, for example, the legislation of land (rural and urban) imposes different transaction costs on women.¹¹⁸ Women are often denied, the possibility to own land directly.¹¹⁹ Due to the fact that many women are owners of a MSMEs,¹²⁰ these institutions influencing land ownership could affect their business success, e.g. by limiting their access to finance or by limiting the expansion of their business premises. Furthermore, since many women (21,5%) are also the head of a household¹²¹ and poor, a positive institutional environment for women would especially contribute to a pro-poor effect as they tend to spend a higher percentage on income for their families than do men.¹²² The gender inequality, which is tangent to this paragraph, can be connected to the first proposition, namely that women should be identified as a group that might face different transaction costs when they establish or manage a business.

Another form of inequality can be hypothesized by making oneself conscious of the fact that we are looking at a post-conflict situation. The guerillas were defeated only about three years ago and it seems likely that the war losers are facing different transaction costs from the winners, when doing business in Angola. The World Bank expressed this phenomenon in a more universal way by observing that seemingly certain groups of the population have advantaged access to e.g. special contracts offered by the state, regulating agencies, and subsidized credit¹²³ and therefore enjoy privileged conditions for their businesses.¹²⁴ The last two paragraphs lead us to the first proposition:

❖ **Proposition 1 (supply-side):** Transaction costs are higher for certain groups/individuals, when establish or manage a business.

Proposition one draws attention to possible inequalities or differences in the treatment of groups or individuals in business life. With the following paragraphs I would like to shift emphasis to the second and third thesis regarding the supply side effect. The information in these paragraphs can be connected to non-market transaction costs as the cases seem to indicate that mainly laws or other institutions linked to the official (government) side could be influential to transaction costs. Also, the cases cannot be linked to the market-transaction costs definition.

¹¹⁸ Cain, 2004, p. 3.

¹¹⁹ Cain, 2004, p. 14.

¹²⁰ Cain, 2004, p. 3.

¹²¹ Cain, 2004, p. 3.

¹²² OECD, 2004, p. 38.

¹²³ The World Bank, 2003, p. 8.

¹²⁴ Cain, 2004, p. 12.

The Angolan Enterprise Program Document highlights the apparent great difficulty of Angolan MSMEs to survive and to grow.¹²⁵ The lack of access to credit that entrepreneurs of small businesses are facing is a major problem in Angola.¹²⁶ Furthermore, it seems that the Angolan legal and institutional framework concerning the micro and small business sector is still disjointed, applying uncoordinated ad-hoc measures without a useful strategy or coordination between often various involved institutions.¹²⁷ At the municipal and community levels, the administrations focus on the matters concerning the regulation, taxation and control of micro-enterprises. They do not act as supporters of the development of the private sector by providing services.¹²⁸ With reference to the creation of new enterprises, the government of Angola has undertaken various steps to smooth the progress of this task. Nevertheless, entrepreneurial activities continue to be hindered by bureaucratic hurdles.¹²⁹ After a MSME is formally established it faces by law limiting profit margins and high taxes. An effective tax rate on profits of almost 50% is placing a frustrating burden on the business owner.¹³⁰ Additionally, many people in Angola do not have basic documents at hand, like e.g. identification, which they would need for participation in official business activities, like banking.¹³¹ Proposition number two and three take up these issues:

- ❖ **Proposition 2 (supply-side):** Potential entrepreneurs are discouraged from establishing MSMEs because they are confronted with high non-market transaction costs when establishing or trying to establish MSMEs.
- ❖ **Proposition 3 (supply-side):** The institutional environment discourages potential entrepreneurs from maintaining MSMEs because they are confronted by high non-market transaction costs once the MSME is in place.

Not all the propositions have the advantage of being supported by literature examples reporting from real life in Angola. For the remaining propositions, therefore, the formulated theoretical framework was taken as the solely base. The last supply-side proposition is concerned with market transaction costs and formulated as follows:

- ❖ **Proposition 4 (supply-side):** Potential entrepreneurs are limited in doing business, because the institutions in place lead to high market-transaction costs.

Secondly, propositions regarding the demand-side effect are listed:

- ❖ **Proposition 1 (demand-side):** There are no suitable institutions in place or enforced that help representing the interest of clients. That leads to high market transaction costs on the buyers' side and the demand for the MSME-services or -products is suffering.

¹²⁵ UNDP & Government of Angola, 2003, p. 4.

¹²⁶ UNDP & Government of Angola, 2003, p. 21-22.

¹²⁷ UNDP & Government of Angola, 2003, p. 7.

¹²⁸ UNDP & Government of Angola, 2003, p. 7.

¹²⁹ UNDP & Government of Angola, 2003, p. 50.

¹³⁰ UNDP & Government of Angola, 2003, p. 4.

¹³¹ UNDP & Government of Angola, 2003, p. 7.

- ❖ **Proposition 2 (demand-side):** There are no quality standards inherent in the government regulations. This does not motivate clients to demand locally produced product.
- ❖ **Proposition 3 (demand-side):** The institutions in place lead to high motivation costs related to contract enforcement for clients of MSMEs.

With these propositions in the back of our mind, chapter four will explain how the research was designed and on what methodological approach it was based.

Conclusion

Chapter three starts off by giving detailed elaborations on the term of institutions. During that process the terms internal and external institutions are explained and the definition of institutions for this research is fixed. It then is explained - also with examples - what the influence of institutions is and how that is reflected with higher or lower transaction costs.

Subsequently, the term Micro, Small and Medium Enterprises (MSMEs) is explained and defined. Based on the MSME definition the link between transaction costs and the development of MSMEs is analyzed. Finally, as all main concepts – institutions, transaction costs and MSMEs – are defined the theoretical framework is developed.

In the last section of chapter three the main proposition and several sub-propositions are formulated. That happens partly with the help of hints taken from literature about the situation in Angola.

Chapter four shall lead us to the research results in chapter five. Therefore chapter four explains the research design and methodology that is applied.

Chapter 4

Research design and methodology

Introduction

The theoretical framework of the research dealing with the three main concepts - institutions, transaction costs and development of MSMEs - and the development of the propositions constitutes much of chapter three. The last section of chapter 3 also puts forward some findings from the literature on the situation in Angola. This chapter includes a description of

- ❖ the basic setting of the research,
- ❖ the instruments of the research and the sample methods used and
- ❖ the details from the data collection process, how the data was processed and limitations of the data collected.

Before elaborating on the last two issues a short overview is given of the basic setting of the research.

The UNDP program manager of the Angola Enterprise Program proposed to the researcher to come to Benguela, as the capital of the same named province, for the field research. This study is part of the enabling environment component of the Angola Enterprise Program. The program, as a Public-Private Partnership, is co-funded by UNDP and Chevron Texaco in the framework of the Angola Partnership Initiative officially launched by Chevron Texaco's Sustainable Development Company in November 2002.¹³² A newly created agency for the support of small enterprises served as a contact point in Benguela. In the initial field research period the agencies' connections helped me to get relevant information and to make contact with key persons. Overall, the field research required 11 weeks from the beginning of June until the end of August 2005.

Instruments of the research and sample methods

As the research is concerned with institutions, the question was what official laws or regulations there are that could influence transaction costs. In other words, documents revealing the institutional surroundings had to be gathered and analyzed. Hence, an analysis of the documents was decided to be part of the research. The emphasis is on sanitary, financing, business licensing and property-related regulations as those regulations were proposed by UNDP as usually being the most influential ones for MSMEs. The researcher has to be aware that the information obtained from the documents might not be congruent with the actual perception of an entrepreneur on the impacts of existing institutions. Nevertheless this analysis is necessary as it gives an overview on what institutions exist and it is the basis for revealing possible

¹³² UNDP & Government of Angola, 2003, p. 1.

discrepancies between the environment based on governmental regulations and the actual environment of an entrepreneur.

The second instrument used is a semi structured interview via questionnaire with a) 14 independent experts and b) 50 entrepreneurs. Although the researcher himself speaks Portuguese, the questionnaires were translated from English to Portuguese with the help of a native “Angolan”-Portuguese speaker. Two test interviews with each of the two questionnaires were conducted in order to verify the questionnaires for possible pitfalls and in order to improve them. The interviews with the help of the questionnaires were an essential part of the research as many propositions can only be verified by the information gained through them e.g. whether certain groups or individuals perceive lower/ higher transaction costs when establishing or managing a business. The interview questions were obtained by deriving indicators from the different concepts inherent in the propositions. In other words, the data needed in order to give an insight in each concept inherent in the propositions were identified. These data needs were then translated into questions for the questionnaires that can be found in Annex 1 and 3. In case the data needs were related to the other information e.g. to be found in documents, they guided the researcher through the data research and analysis process. The indicators that are applied for discussing the propositions are further explained towards their significance for the respective concept when elaborating on the research findings in chapter five.

The sampling of the 50 entrepreneurs was a mixture of several sampling designs. Generally, the approach towards the gender quota and towards the quota on the location of the businesses followed a selection technique similar to stratified sampling.¹³³ The gender quota of the population was not available. Therefore and because the researcher generally aimed for a well equilibrated data source, it was chosen to interview 50% woman and 50% men. The distribution of the business locations should also represent the actual populations (as an indicator for the number of businesses) of the different four regions/municipalities included (Lobito, Catumbela, Benguela and the Bahia Farta Region). Especially, after large and unorganized migration happened from rural Angola to the coastal area of the Benguela Province during war times, it is of no surprise that no reliable population estimates are available. Nevertheless, as the researcher had spent already some weeks in the area before the interviews started, by conversations with locals and by own experience it became clear that Benguela and Lobito are the main centers in the coastal area of the Benguela province. Therefore it was decided to give entrepreneurs with businesses located in these towns a higher percentage in the sample. The distribution of the business owners in regards to their business location was fixed accordingly and can be seen by the

¹³³ Sprinthall, 1997, p. 136.

following percentages: Benguela (52%), Lobito (30%), Catumbela (12%) and the Bahia Farta Region (6%).

Regarding the split between registered and non-registered businesses, it was attempted to get 50% of each, because the inclusion of both perspectives in the analysis was considered as equally important. Since informal entrepreneurs are probably more numerous than formal ones, random sampling would have led to the inclusion of only a few formal entrepreneurs. Within the above mentioned restrictions the researcher tried to randomly choose the respondents. However, unwillingness to answer the questionnaire, very often related to distrust on the side of potential respondents, was widespread. Therefore the researcher had to accept recommendations or indications of willing respondents to other potential respondents.

As independent expert interview partners persons were selected who because of their profession, their position or their experience were capable of giving an overview of the situation that MSMEs in the coastal area of the Benguela province are facing. This group of experts was also regarded as a good source for answers to questions tackling demand-side transaction costs, since the experts were believed to have a more neutral standpoint on demand-side issues than the entrepreneurs. The sample size of 14 was the result of the low number of independent specialists that were identifiable in the region. The overall sample size of 64 was the upper limit that the researcher could handle in the given time period.

Informal interviews with specialists in order to get answers to questions that appeared during the period of field research were the third and last instrument used. These interviews became for example necessary when no documents on a topic were obtainable or a question regarding the content of documents came up.

The previous section provides a synopsis on the research instruments used. Moreover details of the sampling process are explained. Information on the method of data collection and on problems during the data collection process can be found in the next section. Details on data editing and analysis are also included before a short elaboration on the limitations of the data gathered finalizes chapter four.

Data collection, data editing and data limitations

All expert interviews and most of the enterprise interviews were conducted face-to-face. Ten entrepreneur interviews were done through a group-administered process with the help of an assistant. During this process the researcher read every question aloud, one at a time, gave help where it became necessary and finally checked the questionnaires for completeness. The questions containing open-ended answers were handled face-to-face, as well. Last, but not least, by limiting conversations between the

participants and by informing participants on the negative effects of these conversations "...contamination through copying, talking..."¹³⁴ was avoided.

The biggest problem during the document analysis was that written documents like regulations and laws were very seldom handed over by the government agencies, ministries and the vice-governor. Therefore, before the start of the interviews a document analysis was not possible and results from that could not influence what and how questions were asked. The documents generally could only be collected by the end of August during a short stay in the state capital Luanda.

During the interview phase the biggest problem consisted of the limited ability of many entrepreneurs to understand what the questions were about. It can be assumed that this was the result of little or "different" Portuguese knowledge on the respondents' side and/or due to a low level of schooling or professional training. Consequently, the researcher had to spend up to two hours on an interview. However, on average around an hour was needed per interview.

The final analysis of the questionnaire is based on an analysis of the interview outcomes via a statistical computer program. The statistical analysis was done mostly by looking at absolute numbers, percentages and also cross tabulations between variables. Statistical testing was not applied as many tests are only applicable with randomly sampled respondents, which is largely not the case in this research. In order to avoid mistakes while entering these large amounts of data, almost all data were entered two times and separately from each other. Microsoft Excel enabled the researcher to compare both data entries and check them for potential errors. The findings of the statistical analysis were completed by selected components of the information gathered from the analysis of the documents.

With regard to possible limitations and gaps in the data I would like to highlight one issue. This issue is related to the limited ability of many potential respondents to understand completely the questions asked. Especially for many informal entrepreneurs understanding the questions was quite a challenge. With some respondents it was possible to go through the questions and to be sure that they understood their meaning but other respondents could not finish the questionnaire. Therefore one gap in the data is that a fairly large number of potential respondents were excluded from participating in the survey. There are several possible reasons for that: One could be their insufficient Portuguese knowledge (although most of them speak Portuguese) and one could be the high illiteracy rate and connected to that the low ability to understand these questions.

¹³⁴ Oppenheim, 1992, p. 103.

Conclusion

The first section of chapter four justifies the need for a document analysis and its focus. Furthermore the procedures for doing the semi structured interviews are described and the reasoning for informal interviews is given.

In the following section details of the data collection process are given. This includes for example a description how the interviewing process went along. A short discussion pinpoints the problems that appeared during the data collection process. Furthermore, we get to know how the gained data are analyzed and how the researcher proceeded with the data entry in order to avoid data entry mistakes. Chapter four ends with the description of possible limitations and gaps that might be inherent in the collected data. In chapter five, after a description of the sample, the analysis of the propositions is done. Further gaps or limitations of the data are mentioned during the discussion of the results.



Chapter 5

Research findings and analysis

Introduction

An elaboration takes place in chapter four of the basic settings of the research, the research instruments and the data collection- and processing. Furthermore, that chapter reveals the researcher's experiences during the field research and refers to the limitation of the data that was collected. Also, it already includes references to the interplay between document analysis and the results of the questionnaire interviews (see page 26). Now, as the research findings become the main topic in chapter five, this interplay between the questionnaire analysis, the document analysis and further interviews with selected experts is becoming increasingly important. It is important to realize that the document analysis does not reveal clear enough information to justify any generalizations¹³⁵ and only gives an impression on the institutional environment. However, for an analysis of the propositions the full range of data collected is put together.

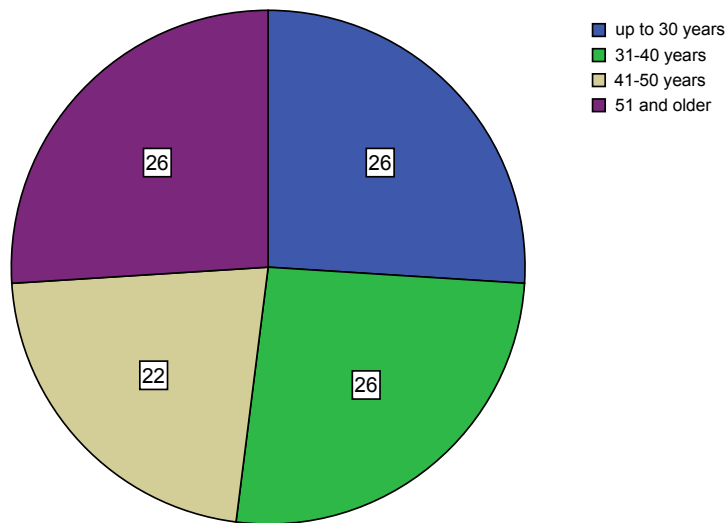
After a short description of the sample in the section which follows, the expert and enterprise questionnaires are investigated, while relations to collected documents and to other information are highlighted. In Annex 1 and 2 the complete questions are visible. This may at times be of some help to the reader because in chapter five only short forms of the questions are given. The discussion in the main text considers the propositions and follows the order in which the propositions were mentioned in chapter three. During the discussions of the propositions the importance of each applied indicator and question in connection with the respective concepts of the theoretical framework is explained. Connections and trends are discussed and, if possible, connections to the propositions are made that might lead to it being rejected or accepted. Before that, however, the sample is described.

Description of the actual sample

The description first considers the entrepreneur sample and then the experts sample is described. The age structure of the respondents to the entrepreneur sample is presented. As is clear from Figure 2, all four age categories are well presented.

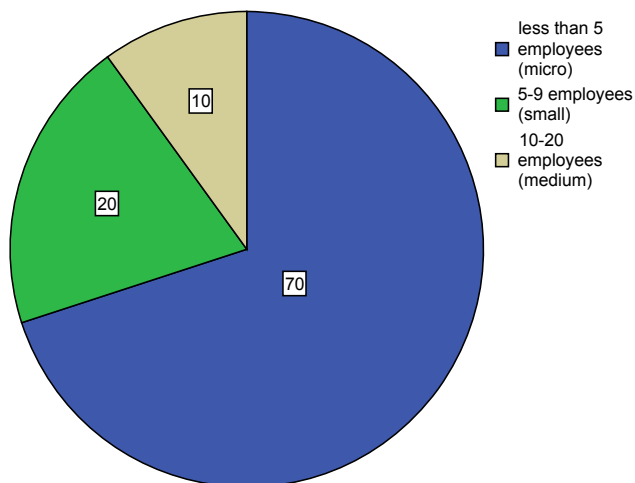
¹³⁵ Madge, 1978, p. 98.

Figure 2 Distribution of the respondents with regard to the age groups [%]



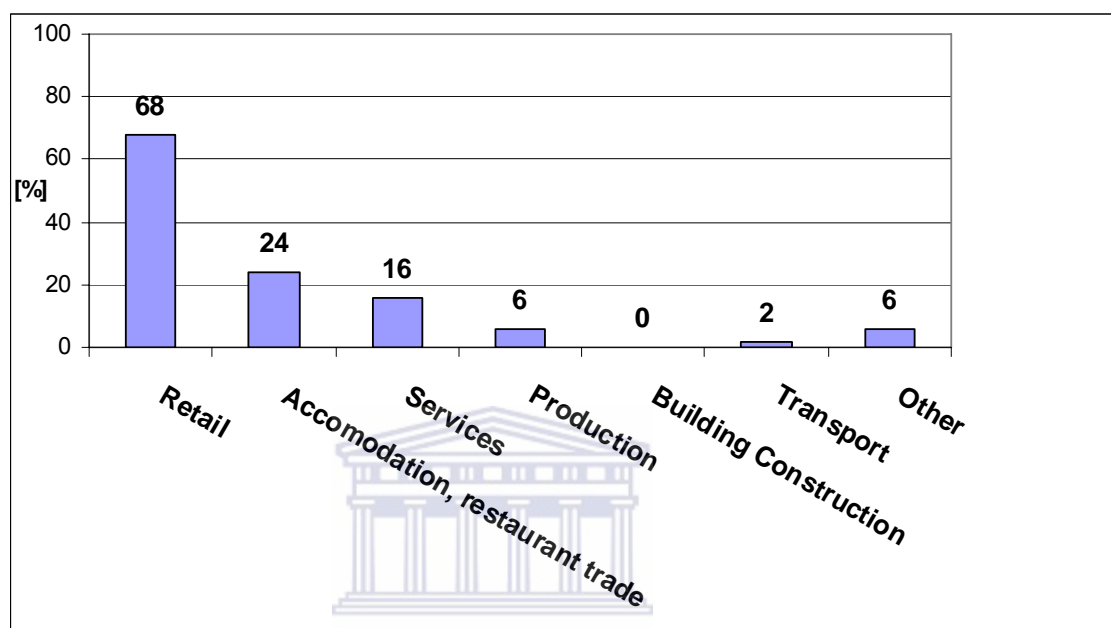
Related to the definition of MSMEs, the respondents were asked to quantify their number of employees (including the owner). The pie-chart in Figure 3 indicates that most of the businesses (70%) can be classified as micro-businesses. 10% of the interviewed entrepreneurs were owners of medium-sized enterprises and the rest were owners of small businesses.

Figure 3 Distribution of respondents with regard to the number of their employees [%]



The fields of activity of the entrepreneurs are summarized in Figure 4. The majority (68%) of respondents were engaged in retail business. Entrepreneurs in production activities represent only a small percentage in the sample, which is in line with the generally limited role of the Angolan production sector. In 2003 only 3,8% of the national GDP was contributed by the manufacturing industry and 14,2% of the GDP had its origin in trade and commerce businesses.¹³⁶

Figure 4 Distribution of respondents with regard to different business sectors



Finally, a quick overview of other characteristics that were revealed by the questionnaire:

68% of the respondents were members of the Ovimbundu-tribe, 23% were member of the political party MPLA whereas no UNITA party members could be identified within the sample. 92% of the respondents are in possession of an official identity document. This characteristic of the sample is not in line with the information based on literature that many entrepreneurs would not have an ID-document (for more on this, see page 24). One explanation might be connected to the fact that most of the respondents were doing business in Benguela and Lobito. These are urban areas whereas in other parts of Angola, e.g. rural areas, ID-documents might be harder to get and therefore their possession is not as widespread. As quite a few questions in the questionnaires tackle perceptions and perceptions might change as one is experiencing how other nationalities or other cultures handle things, the respondents were asked whether they ever spent more than three months outside of Angola. 68% answered no and 32% yes. This characteristic can be related to the nationality of the respondents as 12% were

¹³⁶ IMF, 2005, p.50.

foreigners and 8% had the Angolan-Portuguese double citizenship. 90% of those with double citizenship spent already more than 3 months abroad.

So far, the view was on the respondent sample. This paragraph gives an overview of some of the findings regarding the 14 experts that were interviewed: Most of these respondents (10 out of 14) are male. All except one only have Angolan nationality; this one has Portuguese nationality in addition to an Angolan one. Seven of the experts are of the Ovimbundu tribe, one is Kimbundu and the rest have no tribal connection (1) or are related to other tribes (5). Five of the 14 respondents have spent already more than 3 months in a row in other countries. Six are member of the political party MPLA and the others have no political affiliation.

These paragraphs explained the sample characteristics. With this in mind, the focus can now shift to the propositions.

Analysis of the supply-side propositions

Analysis on transaction costs that certain groups/individuals are facing (proposition 1)

The first proposition put a light on different transaction costs that individuals as entrepreneurs and as members of certain groups are facing. It is formulated as follows: *“Transaction costs differ for certain groups/individuals, when establishing or managing a business.”* The respondents were requested to comment whether entrepreneurs that belong to certain groups are facing advantages, disadvantages or no special treatment when doing business. This question was put to explore whether lower or higher transaction costs apply to different groups. The assumption behind that was, if someone is facing (dis-)advantages when doing business, the costs of running the system - as transaction costs - would be lower (higher).

As specialists and entrepreneurs were asked the same question, in this part of the analysis the respondent basis includes the 50 entrepreneurs as well as the 14 specialists.¹³⁷ Moreover, the researcher noted further explanations and comments in case advantages/disadvantages for groups were mentioned by a respondent.¹³⁸ The analysis of these answers might reveal insights on internal institutions. Significant patterns that appeared in the respective explanations and comments of the respondents are added in addition to the other results.

Based on the evaluation of the interviews, the clearest results can be connected to these groups:

- ❖ Women
- ❖ MPLA-members

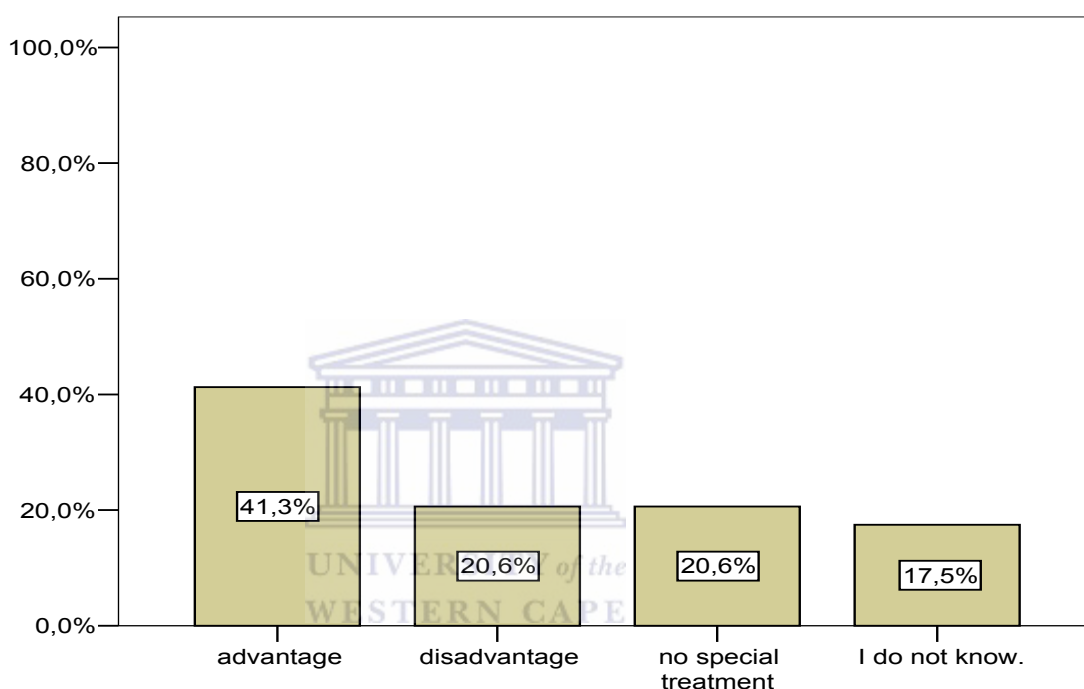
¹³⁷ See question number 33 in Annex 1 and question number 28 in Annex 2.

¹³⁸ See also question 34 in Annex 1 and question 29 in Annex 2.

❖ Military/police authorities

The first entrepreneurs being investigated are the female entrepreneurs. As literature insights reveal that women apparently face higher transaction costs as entrepreneurs (see also page 42). Contrary to what one might expect from this indication in literature, the following graph reveals (Figure 5) that most of the respondents feel that women are facing relevant advantages when doing business. Furthermore, when separating enterprise and expert data, both sets show similar patterns.

Figure 5 Distribution of the answers to the question “Are women facing relevant advantages, disadvantages or no special treatment when doing business?”



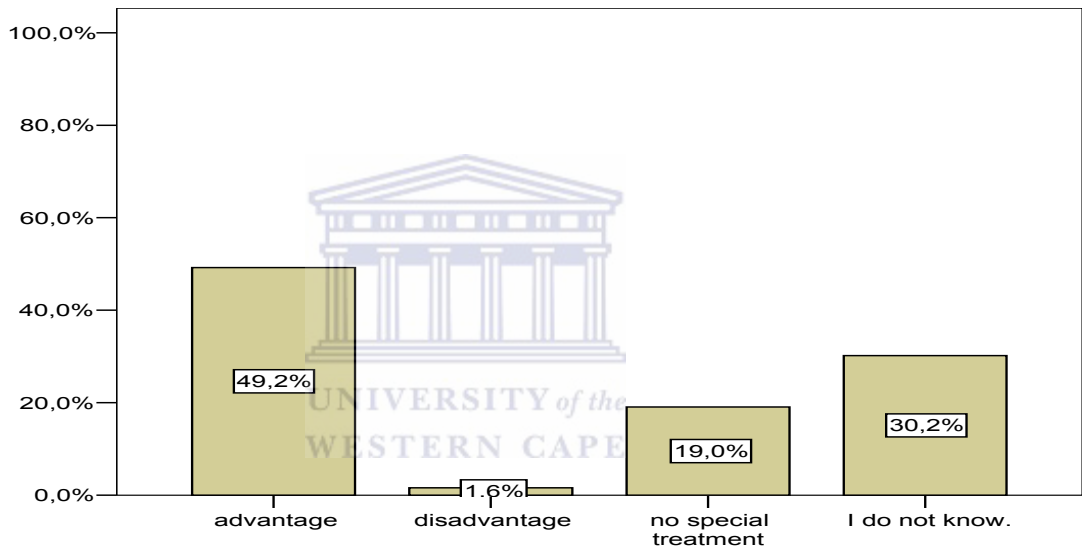
The gender distribution for the entrepreneur-respondent sample is equal. One might argue that the unequal gender distribution of the specialist-respondent sample (71% male) is leading to a bias that leaves the female entrepreneurs appearing as a group that is facing advantages when doing business. However, even the female respondents at least see as many advantages as disadvantages for female entrepreneurs. The male respondents show a clear tendency to feel that women are facing more advantages than disadvantages (see Table 2). Therefore one can conclude that the results based on the perception of the 64 respondents do not have any indication of higher transaction costs for women when doing business. Although the clear majority of the respondents saw advantages for female entrepreneurs, this result is strongly influenced by the male perception. As we cannot tell how biased the male perception of the other sex is, it is not prudent to draw any conclusions regarding the perception that women face lower transaction costs.

Table 2 Frequency - Cross tabulation: Are women facing relevant advantages, disadvantages or no special treatment when doing business? by “Gender”

		advantage	disadvantage	no special treatment	I do not know.	Total
Gender	male	16	3	8	8	35
	female	10	10	5	3	28
	Total	26	13	13	11	63

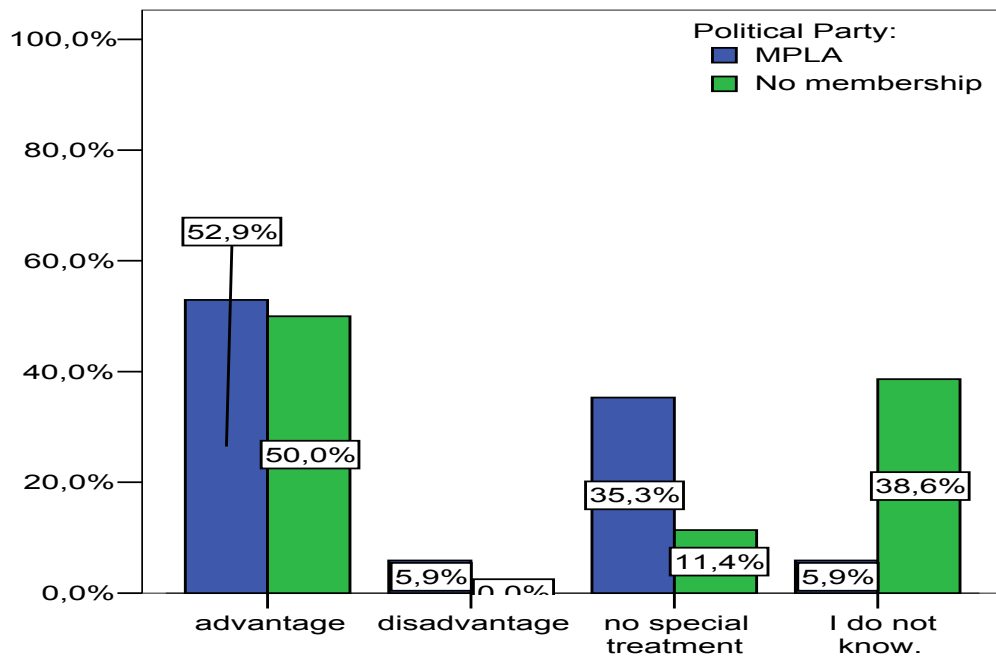
We move now from the analysis of gender towards political party membership. Many respondents (see Figure 6: 49,2%) think that MPLA members face advantages when doing business. MPLA stands for the political party that is in power since 1975.

Figure 6 Distribution of the answers to the question “Are MPLA-members facing relevant advantages, disadvantages or no special treatment when doing business?”



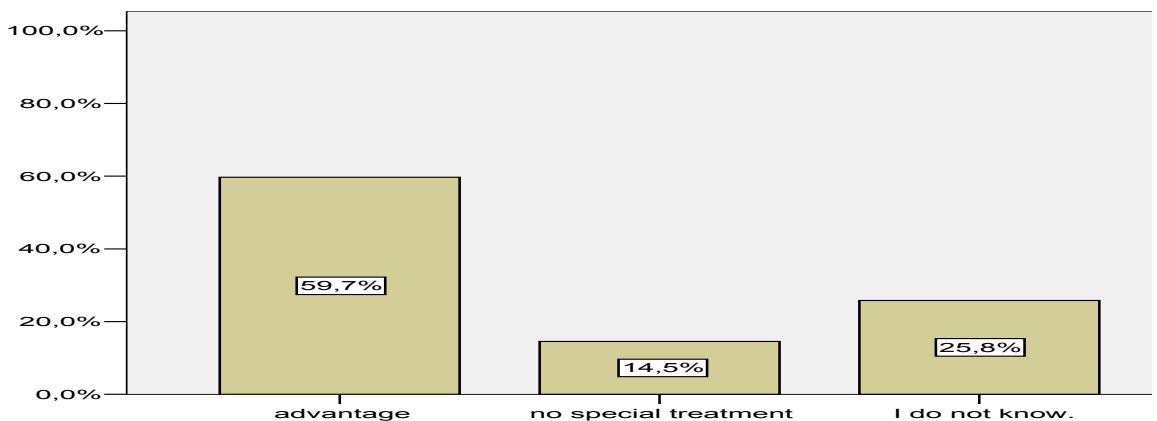
It is of interest to see how the MPLA-members under the respondents in comparison to the non-MPLA-members answered this question. As Figure 7 shows for both a similar percentage for the answer category “advantage”, it seems to confirm the indication that MPLA-members are confronted with lower transaction costs when doing business. Interestingly, the percentages in the graph differ a lot between MPLA-members and non-members when it comes to the frequency of answers for the answer categories “no special treatment” and especially “I do not know”. One reason for the latter distinction could be that MPLA members are more confident in knowing how they are treated as entrepreneurs than outsiders or non-members. Another possible reason could be that non-members feel intimidated to judge the treatment of government party members.

Figure 7 Distribution of the answers to the question “Are MPLA-members facing relevant advantages, disadvantages or no special treatment when doing business? dependent on “Political Party”



The highest percentage allocated to the answer category “advantages” can be observed when the treatment of military/police authorities is being asked for (see Figure 8). This indicates that this group is facing lower transaction costs when doing business. Many of the respondents motivated their answer for example with the great respect with which military authorities are regarded. Also, it seems that these authorities have easier access to good land plots and they seem to be better treated when confronted by government agencies. The collected documents do not contain passages that seem to give this group a preferential treatment. Therefore it seems that the enforcement mechanism is rooted within society and it seems that, at least officially, it is not supported by the controlling power of the state monopoly.

Figure 8 Distribution of the answers to the question “Are military/police authorities facing relevant advantages, disadvantages or no special treatment when doing business?”



A relatively high percentage answered “disadvantage” when the treatment of UNITA-members is being asked for (see Figure 9) which indicates higher transaction costs for these members. UNITA is the political successor of the former rebel group that opposed the MPLA during the long lasting civil war. Shortly after their leader Savimbi was killed in 2002, the war ended and UNITA turned into a political party. Figure 10 shows an overview of the perceptions of entrepreneurs regarding the advantage or disadvantage of belonging to a variety of different groups.

Figure 9 Distribution of the answers regarding the question “Are UNITA-members facing relevant advantages, disadvantages or no special treatment when doing business?”

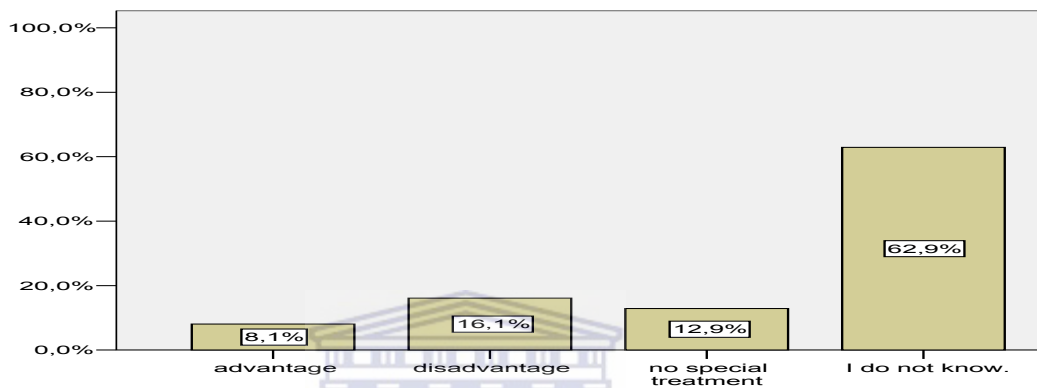
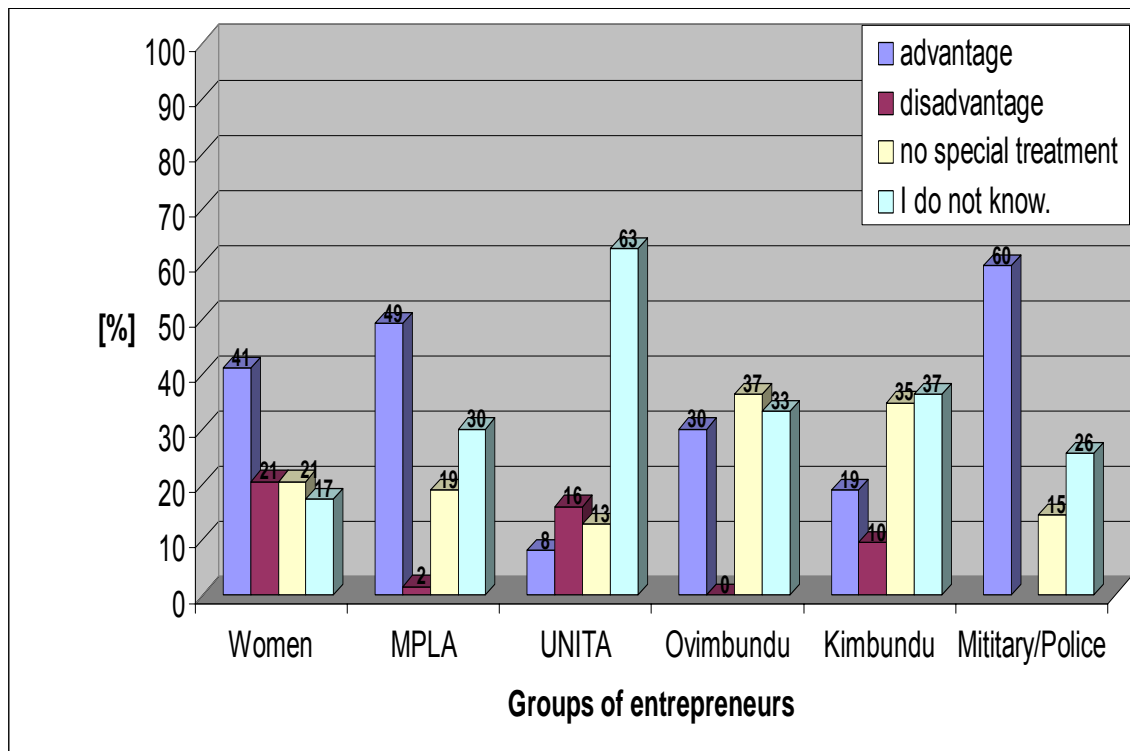


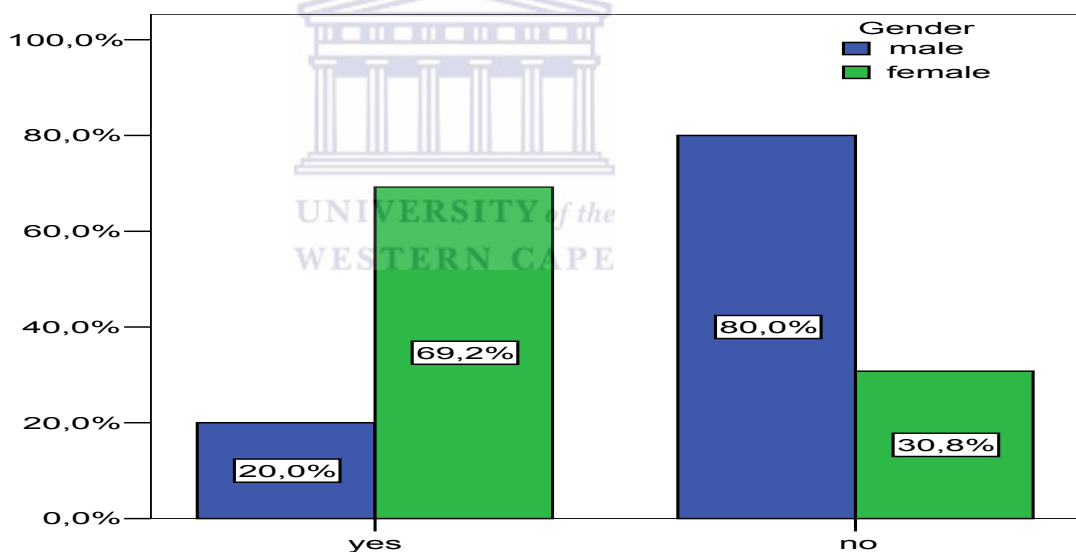
Figure 10 Overview over the distribution of the answers to the questions “Are members of the following groups facing relevant advantages, disadvantages or no special treatment when doing business?”



So far, the focus was on the perception of the respondents regarding general disadvantages and advantages in business life that certain groups face (question 30/33 in the entrepreneur/expert questionnaire). Now the investigation goes precisely into the analysis of certain topics that are relevant to MSMEs. Whereas the results presented in the preceding tables combined the responses of the entrepreneurs and the experts, the results which follow only include the responses by the entrepreneurs.

First, the gender issue is investigated. An interesting result is revealed when considering access to credit by gender. Access to credit can be considered as an important variable influencing the creation and growth of MSMEs, as credit can increase the possibility of an entrepreneur to open or expand a business. If the transaction costs are too high the entrepreneur might have no access at all to third party loans. Of the 50 entrepreneurs, 30 (60%) at least once tried to obtain credit. Of those, 36% applied for credit at a bank. The following graph shows that a higher percentage of the female credit applicants successfully raised money from the bank.

Figure 11 Distribution of the answers to the question “The respondent made a credit application with a bank and was successful” by Gender



One reason for this result could be a sampling error as many women interviewed were members of a cooperative that probably supports them with their credit applications. However, in explaining why women were sometimes considered as having an advantage as entrepreneurs,¹³⁹ it was often argued that they showed more responsible behavior in respect of their expenditure and their debt commitment. This perception might also be shared by banks and this could influence their credit granting policy. This

¹³⁹ See question 34 in Annex 1.

was confirmed by an interview with a manager of Banco Sol.¹⁴⁰ Banco Sol in the region of analysis only gives out group credits if the group is headed by a woman. Another reason for the apparent higher success of women with credit applications could be that, according to the survey, of those who claim to be owners of a property, more women than men seem to have an official legal document that confirms this. This legal document could be used as a security for a bank loan. Of all those that consider themselves as property or land owners (38), 50% of the males have an official legal title given out by the local authorities whereas around 82% of the female are in possession of such a legal document (Table 3).¹⁴¹ This could be explained by the possible tendency of men to move on to other women/wives, so those left behind stay with the legal title of the house. Another reason could be that the society is essentially a society where the women have more power than men within a family and so they are the ones that keep the legal documents. Another reason could be connected to the war history of Angola. Probably more men than women were forced to fight and therefore had to leave home or women were forced to leave the rural area and settled in the coastal region whereas the men were involved in fighting. Both tendencies would have the result that women would be more likely to be in the possession of legal title than men. An experienced insider from Benguela (male), indicated that this could be related to the characteristic of a woman being normally more responsible and organized than men. Therefore he could imagine that women were more careful to make sure that they have the required official or legal documents.¹⁴² As an official legal title for land or real estate increases the chances of getting credit and credit can be helpful for the development of the business, women seem to have advantages in this field.

Table 3 Frequency and distribution - cross tabulation: Is the property owner in possession of a legal title issued by local authorities? by "Gender"

			In possession of a legal title issued by local authorities (yes/no)		Total
			yes	no	
Gender	male	Count	8	8	16
		% within Gender	50,0%	50,0%	100,0%
	female	Count	18	4	22
		% within Gender	81,8%	18,2%	100,0%
Total		Count	26	12	38
		% within Gender	68,4%	31,6%	100,0%

Another difference between males and females came to the fore in the responses to the question concerned with the possibilities of the entrepreneur to make the product or

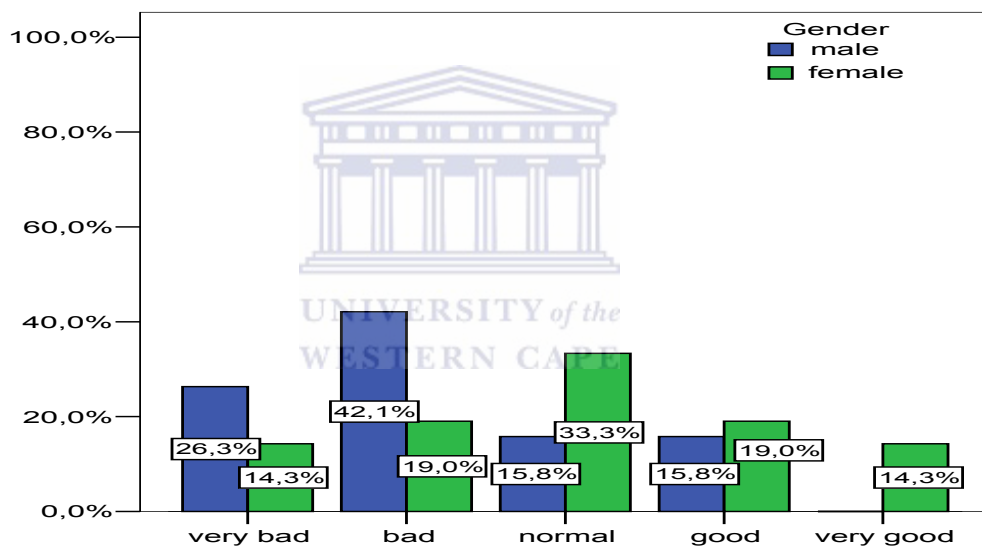
¹⁴⁰ Sr. Emanuel (Interview), Lobito, 2005.

¹⁴¹ See questions 29-30 in Annex 1.

¹⁴² Sr. Roque (E-mail comment), 2005.

service more known:¹⁴³ This variable serves as an indicator for coordination costs that an entrepreneur might be facing (for further elaborations on coordination costs see page 11): On the one hand, it can indicate a possible imperfect match between buyers and sellers as the sellers cannot properly announce and advertise what they are offering. Consequently, otherwise valuable transactions might not occur.¹⁴⁴ On the other hand, the better the marketing possibilities for an entrepreneur are, the less time and/or money needs to be invested to bring buyer and seller together. Based on Figure 12, it seems that male entrepreneurs perceive their transaction costs related to marketing possibilities as being higher in comparison to the perception that female entrepreneurs have. This can also be expressed by the median response of the two groups, with “normal” as the median response for women and ”bad” as the median response for male respondents.

Figure 12 Distribution of the answers regarding the possibilities to make the product/service known (marketing) by “Gender”



With regards to influence of MPLA membership, there are two variables that reveal quite interesting results. The first one is related to the frequency the entrepreneur would call upon the police for help if feeling betrayed.¹⁴⁵ The question tries to measure the acceptance of police by respondents. This acceptance is applied as an indicator for motivation costs that might be consequential to a functioning or non-functioning police authority as a medium for contract enforcement. For example a small business owner might be more motivated to do business if the owner considers the police as a valid source of help, e.g. in case of threat or theft by others. Figure 13 shows that 73% of the

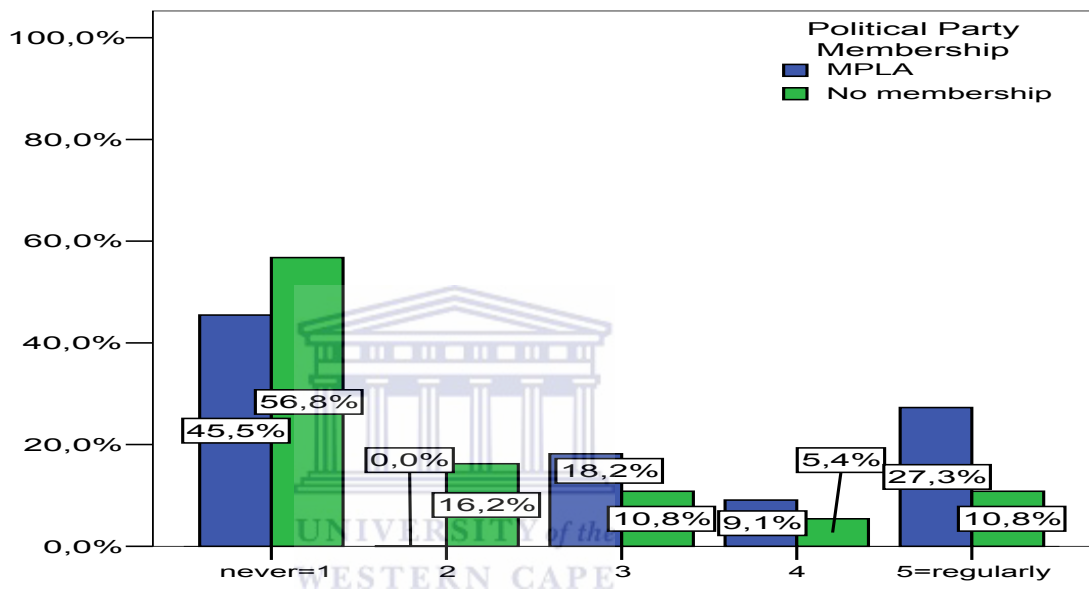
¹⁴³ See Annex 1 and question 51.

¹⁴⁴ Milgrom & Roberts, 1992, p. 29.

¹⁴⁵ See Annex 1 and question 45.

Non-MPLA Members said they would never (1) or seldom just about never (2) call upon the police for help. Compared to this, only 45,5% of the MPLA-members said they would never or seldom call on the police for help. On the other end of the scale, more than a quarter of the MPLA members said they would regularly call on the help of the police, as against only one tenth of the non-MPLA. This result could be an indication of better treatment and consequently lower motivation costs for MPLA members in comparison to non-members.

Figure 13 Distribution of the answers regarding the frequency an entrepreneur would call upon the police for help if feeling betrayed by “Political Party Membership”



The second variable that is influenced by party membership is also connected to motivational issues. Milgrom and Roberts refer to problems related to information incompleteness and imperfect commitment (see also further explanations on the term on page 11) that give rise to motivation problems and hence to motivation costs as market transaction costs. As an indicator for motivation costs we adopt the level of trust within a society. In case of high level of trust (e.g. towards business partners/employees/clients), the sellers/entrepreneurs might refrain from expensive side agreements/supervision activities to protect themselves from opportunistic behavior. Also, the entrepreneur as a buyer can rely more on assurances regarding product qualities and will enter more willingly a transaction. If the level of trust is low, transactions might not happen at all.¹⁴⁶ In order to reveal the level of trust within the society, respondents were asked how often promises were fulfilled.¹⁴⁷ This could refer,

¹⁴⁶ Milgrom & Roberts, 1992, p. 30.

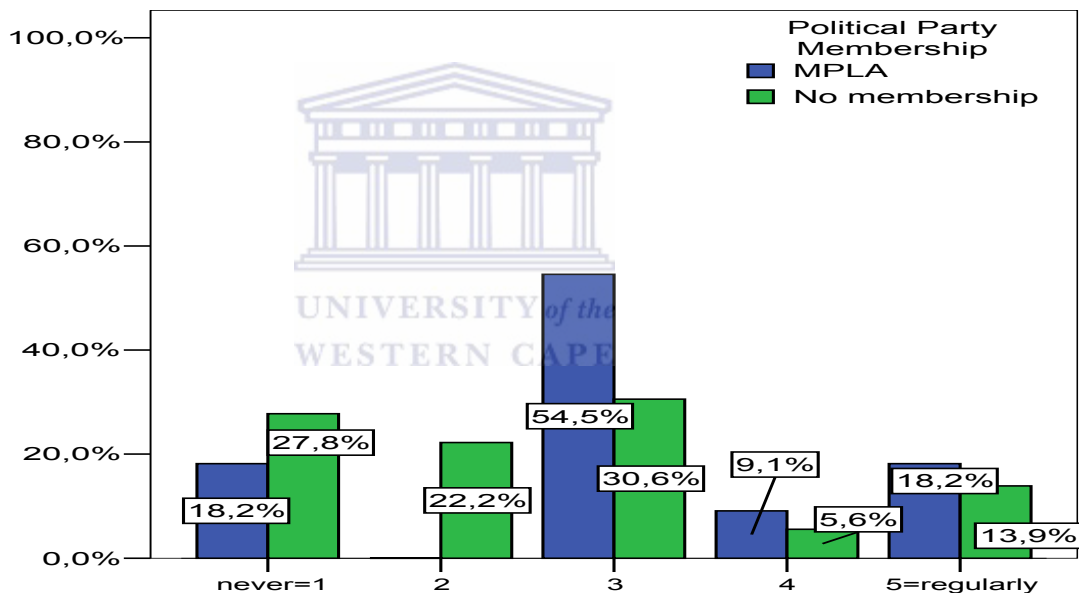
¹⁴⁷ See Annex 1 and question 44.

for example, to the promise that money lent would be returned at a specific day or that a product has specific characteristics. The more frequently that promises or commitments are kept, the higher is the level of trust within a society and the lower are the motivation costs.

Figure 14 could be an indication that MPLA-members also in this respect experience lower transaction costs than non-members. A reason for this could be that business partners are more anxious to please MPLA members than non-MPLA Members and therefore fulfill their promises towards them more often.

As both indicators - acceptance of police and the fulfillment of promises - tend to be of higher relevance during the actual management of the business than during its establishment, transaction costs for MPLA members with regard to management is likely to be lower.

Figure 14 Distribution of the answers regarding the frequency of fulfillment of promises by “Political Party Membership”



The findings with regard to proposition one can be summarized as follows: Surprisingly and in contrast to the literature overviewed before the interviews, most respondents had the impression that female entrepreneurs face advantages. Considering the fact that most of the respondents are male, a bias cannot be excluded. The contention that women are perceived as having advantages when doing business was therefore not accepted as well established. However, even when considering only the female respondents, one can conclude that based on the interview outcomes, the proposition that women face disadvantages - or higher costs of doing business - had to be rejected.

The investigation regarding credit access revealed that the female respondents were more successful with their credit application at banks, which indicates lower transaction costs (e.g. fewer of them were dependent on the high interest rate that are charged outside the banks,) and a better chance for them to develop their business.

Related to that, it seems that the female respondents are better equipped with legal titles of properties which also favor the view that female entrepreneurs visage lower transaction costs than male entrepreneurs do. Related to that, it seems as though female respondents are better equipped with legal titles of properties which also favor the view that female entrepreneurs experience lower transaction costs than male entrepreneurs do.

The relative costs of MPLA-members and military/police doing business were also investigated. From the answers provided by the respondents, it would seem as though both these groups are facing lower transaction costs, when doing business. Moreover, MPLA members were found to be far more likely to call on the police for help, and to have confidence that people will keep to commitments made. These results seem to indicate that the MPLA-members in the sample face lower coordination costs than non members of the MPLA when doing business. One could thus conclude that members of these groups tend to face a more facilitating environment when developing their business.

Regarding the proposition "*Transaction costs differ for certain groups/individuals, when establishing or managing a business*", one can conclude that the analysis indeed reveals tendencies that certain groups are treated differently and therefore have lower transaction costs. If one takes the perception of the entrepreneurs and the experts together, the groups with the highest advantage are the military and police authorities. It seems reasonable to conclude that these groups face lower transaction costs. The proposition seems to hold. Considering the long war, this is of no surprise. The proposition also seems to hold with regard to the MPLA-members. All indicators show a tendency that an entrepreneur faces lower transaction costs if she/he is a member of the MPLA. The questioned female entrepreneurs seem to be better equipped with credit facilitating documents which could lead to the higher success rate in their credit applications. Since the answers differed significantly between female and male respondents, it seems to be too risky to conclude that the results indicate lower transaction costs for women.

This section gives indications for the high inequality prevalent in the region of analysis. Klasen (2003) stresses the importance for policies that reduce the inequality in order to reach pro-poor growth.¹⁴⁸ It is confirmed that high income inequality reduces the positive poverty reduction effect of growth. Therefore a double poverty impact can be

¹⁴⁸ Klasen, 2003, p. 19.

observed: Firstly, anti-inequality measures directly reduce poverty by giving the poor more capital and, secondly, these measures will increase the poverty effect of later economic growth. Moreover, country comparisons revealed that those countries with lower initial inequality later experienced higher growth rates. Most importantly for the peace process in Angola, these countries also seemed to be more capable in the reduction of hidden social conflict. Due to these aforementioned matters Klasen calls the consequence of lesser inequality “a triple effect of reduced inequality on poverty”.¹⁴⁹ In order to benefit from this “triple effect” the following policy measures are recommended:

- ❖ Introduction of an independent commission to investigate, reduce and penalize preferential treatment of certain entrepreneurial groups by government agencies.
- ❖ To combat income inequality: Introduction of safety nets, progressive income tax system, increasing programs that have a redistributive character.¹⁵⁰
- ❖ To combat asset inequality: Expansion of micro credit programs and verification on how more poor can have better infrastructure.¹⁵¹
- ❖ Generally: As the success of policies that are in favour of pro poor growth, especially in countries that apparently have high levels of inequality, is dependent on coalitions that support pro-poor action, these coalitions (e.g. between government, donors and NGOs) need to be supported. An expansion of the liberated press, a government that is accountable and democratic institutions that are widespread in the country would help these coalitions.¹⁵²

While the preceding pages were concerned with the proposition that transaction costs differ for certain groups, when establishing or managing a business and the topic of inequality, the focus in the next part is on the issue of entrepreneurs being discouraged to establish MSMEs because of the non-market transaction costs connected to that.

Analysis on non-market transaction costs and the establishment of MSMEs (proposition 2)

Proposition 2 is formulated on page 24 as follows: “*Potential entrepreneurs are discouraged from establishing MSMEs because they are confronted with high non-market transaction costs when establishing or trying to establish MSMEs.*” In order to investigate this proposition, this research focuses on those types of costs that are typical during the phase of business establishment and can be regarded as non-market transaction costs.

¹⁴⁹ Klasen, 2003, pp. 6-7.

¹⁵⁰ Klasen, 2003, p. 28.

¹⁵¹ Klasen, 2003, p. 28.

¹⁵² Klasen, 2003, p. 25.

Firstly, we considered the costs incurred when transferring land, property or user rights. These costs are used as an indicator of non-market transaction costs in the phase of establishment of an MSME, as the transfer of these kinds of property or user rights is likely to occur, when one opens a new business.

In order to assure that the information is up to date only the data collected that refer to the years 2004 and 2005 was considered. Unfortunately only 10 respondents bought property, land or obtained a right to use land. Only five of them gave valid answers to the question regarding the cost of the “transfer of building” (in money and time) and even fewer valid responses were recorded to the questions concerned with the costs of “transfer of land” and of the “transfer of land use”. One reason why only a few of the 10 respondents gave information on costs and time involved, might be that the question on costs and time includes the formulation “when following the provincial regulations”. Consequently, cost and time of informal procedures, e.g. community rules through the approval of the community leader, which might at times be applicable, were not asked for.

The response set for all three modes of transfer shows that many respondents opted for “high (long)” or “very high (very long)” when being asked for the costs (time) (categories: 1 for very high (long), 2 high (long), 3 normal, 4 low (short) to 5 very low (short)).¹⁵³ That would indicate rather high transaction costs but as only few of the entrepreneurs were able to give information on costs and time involved, the expert questionnaire results are now taken into consideration. There at least 90% of the respondents in all three modes of transfer opted for classifications from very high or very long (1) to normal (3) (answer categories: very high (long) 1, 2, 3, 4, 5 very low (short)). The answers show a tendency towards very high costs and very time consuming procedures for two of the three modes of transfer. It seems that the costs, if being direct or indirect, related to the examined modes of transfer of property or user rights rather indicate high transaction costs that new entrepreneurs have to face. Therefore we can formulate the following policy recommendation:

- ❖ The steps that someone has to follow during the process of transferring land, property or user rights has to be streamlined, with the aim of limiting costs and time.

The new land law also contains three more ways by which the state can transfer land rights but these appear to be less relevant for predominantly urban areas. It was published in the “Diario da Republica” on the 9th of November 2004 and addresses the disadvantages of the former land law (Law 21-C/92). There land legislation was not treated in an integrated and multidisciplinary way but instead in a way that one could almost claim that the old land law was solely applicable for agricultural areas, it was

¹⁵³ See Annex 1 and questions 15.1-15.3.

simply an agricultural land law. It did not consider economic, social and urban goals.¹⁵⁴ The new Law 9/04 has the objective of establishing a general legal basis for those stretches of land that are in state ownership. The law is the general basis for the transmission, constitution, exercise and termination of land rights. Generally, land rights are only transferable if the area does not exceed by more than 1/3 that can be used by the new developer and his/her family. The transference of the right of property from the state as the owner to an owner in the private domain can only take place when it is guaranteed that the land will be utilized *effectively* and *usefully*. In order to establish what is considered *useful* and *effective*, the cultivation practised in the area and the *suitable* use of the area is taken into consideration. If the land use is not considered *effective* and *useful* after 3 years, the required rights - independent of the reason - extinguish.¹⁵⁵ As the criteria for the definition of what can be considered as *useful* and *effective* are in the responsibility of the local management and no further information about the criteria is available, the analysis cannot go deeper into this detail. However, it is evident that it is important that these regulations have to be lined out clearly for the potential investor and the action of the local management has to be calculable in order to ensure investment security. Only then will potential investors be willing to invest into new business premises. Therefore we can conclude with the following policy recommendation:

- ❖ It needs to be confirmed that all local managements understand and apply the checking if a use is *useful* and *effective* in a way that does not alienate potential investors and new business entrepreneurs.

Article 12 of this law regulates expropriations: Expropriations by the state in general are possible, if the planned exploitation of the land is going to serve a specific public usefulness. The state has to pay the owner of the property right a just compensation.¹⁵⁶ The state can transfer the following established rights to single or collective private persons:

- ❖ Right for ownership.
- ❖ "Dominio util consuetudinario".
- ❖ "Dominio util civil".
- ❖ Right for the use of surface.
- ❖ Right for precarious occupation.

The *Dominio util consuetudinario* in article 37 affects the acceptance of the occupancy of rural public lands by families. However these lands must be used usefully and effectively by these families. This right is free of charge¹⁵⁷ and can be the subject of a

¹⁵⁴ Republica de Angola, 2004, p. 2118.

¹⁵⁵ Republica de Angola, 2004, pp. 2119-2120.

¹⁵⁶ Republica de Angola, 2004, p. 2120.

¹⁵⁷ Republica de Angola, 2004, p.2126.

mortgage but cannot be pledged.¹⁵⁸ It is confirmed by an official title issued by the competent authority.¹⁵⁹ The *Dominio util civil* is about concessions from the state to the private domain which transfers the right to use. *Dominio util civil* tends to be more relevant for larger corporations like mining companies. The right of ownership can be transferred to single persons of Angolan nationality whereas the right for the use of surface can be transferred to Angolans and foreigners for a maximum period of 60 years. The latter obliges the recipient of the right to pay a certain annual amount or a single amount that has to be fixed in a contract. The right can be subject to a mortgage and the user of the right has a preferential right to become the buyer should the government sell the land.¹⁶⁰ The right of ownership can be sold by the one who bought it from the state but only after the granting authority has allowed it and only after a time span of 5 years during which the land is being used effectively and usefully.¹⁶¹ The right for precarious occupation tends not to affect MSMEs, as it comprises e.g. scientific installations or activities to study nature. The land law does not clarify the bureaucratic steps involved for the transfers and also the costs of the processes do not get clear. Generally, the land law does not give clear hints on the costs of transferring property. As the drafting of this new law included a public consultation process, one can hope that it is adapted to the real situation in Angola instead of being a copy of an established law of another country.¹⁶²

Data or official statistics were not available to indicate how many MSMEs came into existence. Therefore it is not possible to make any direct connection between the transfer costs/time and the number of new establishments of MSMEs. However, as the institutions related to the property transfer seem to put rather high transaction costs (being direct or indirect) onto the entrepreneur, we can conclude that the time and the money needed for transferring property/land/land use, rather discourages than encourages potential entrepreneurs from doing so. This would negatively impact on the motivation to create new MSMEs, in those cases where the entrepreneur will have to be involved in some kind of property transfer.

Whereas the emphasis in the preceding paragraphs has been on the transfer of property/land use, an analysis now follows on the transaction costs that are linked to the process of registering a new company. Before the start of this analysis some introductory comments are needed.

The researcher's goal generally was to gather current data. During data collection, it turned out that many of entrepreneurs interviewed got their business registered a

¹⁵⁸ Republica de Angola, 2004, p.2132.

¹⁵⁹ Republica de Angola, 2004, p.2126.

¹⁶⁰ Republica de Angola, 2004, p.2127-2127.

¹⁶¹ Republica de Angola, 2004, p.2129.

¹⁶² Development Workshop, 2006, Internet.

longer time previously, e.g. some went through the registration process around 30 years earlier. From informal interviews,¹⁶³ it became clear that the registration process over the past years has been a rapidly changing one in Angola, e.g. a “one-guichet” contact point was introduced in Luanda. In order to ensure the ability to make policy recommendations on current practices, it was decided that only those companies that registered recently, i.e. in 2004 or 2005, were considered when discussing this topic.

Several indicators are used to reveal the non-market transaction costs related to the business licensing process (for more information on non-market transaction costs see page 13). The respondents were asked to report on the costs and time involved,¹⁶⁴ including whether they paid bribes. The entrepreneurs might have to pay bribes when they follow the official steps of the registration process that is outlined in the regulations. Therefore, the payment of bribes is considered a non-market transaction costs as it is, in this case, a cost that is related to government regulations. Respondents were further asked to report on the difficulty of the process, as this could also indicate indirect or direct costs. Finally, the number of offices that needed to be contacted was asked for, which also could indicate direct or indirect costs.

Out of the 50 respondents 26 reported that their business was officially registered. Four of the 26 registered their company in 2004 or 2005. Of these four, two went through the registry process as a *market salesperson*, which implies that the commercial retail activity that happens requires no installations fixed to the ground. Both these respondents managed to get the registry within a month and classified the overall cost for the registry and all related steps as low and very low, respectively. Furthermore, they classified the process of going through the different steps of the registration process as easy. According to them no extra payments, or bribes, were necessary during the process of registration.

The regulations regarding the conditions and the proceedings for the licensing of commercial activities were published in the “Diario da Republica” on the 2nd of July 2000. Executive Decree 47/00 gives more information about the licensing process for *market salespersons* the. Table 4 below gives an overview regarding the conditions under which a license is granted to market salespersons.¹⁶⁵

Table 4 Overview over important regulations regarding the licensing process of market salespersons

Topic	Content
Validity of business license	1 year only in the respective municipality.
Documents necessary for application	a copy of the identification, two photos, sanitary/health card (in case of selling of food or groceries)

¹⁶³ Sr. Carlos & Sr. Johnson (interview), Benguela, 15.6.2005.

¹⁶⁴ See also Annex 1 and questions 10-13, 15.

¹⁶⁵ Republica de Angola, 2000, pp. 540-541.

Penalties	140 USD for not having a valid license, if no other heavier penalties are applicable that can be found in other laws.
Maximum time the authorities can take for the process	15 days
Costs	140 USD

The answer set of the admittedly very small sample of two entrepreneurs do not indicate a tendency towards particularly high non-market transaction costs for the required registering process. This is somehow confirmed by the decree.¹⁶⁶ It is thus quite likely that the experience of the two respondents who reported that it was a quick process reflects the experience of all the people in this field. However, as these businesses are probably somewhat simple, the researcher believes that the maximum time (15days) it can take for the authorities to decide still seems long. Furthermore, the costs that an entrepreneur has to pay to get registered (140 USD) seem to be quite high if one compares that to the income and poverty level in Angola. The decree is not clear about whether 140 USD have to be paid every year for the renewing of the license.

The other two respondents who registered a company made a full business registration. The results of the respective questionnaire questions in Table 5 indicate that more costs and time are involved for this type of registration in comparison to the registering process of a market salesperson. Interestingly, both respondents differ in their classification of costs involved, in their classification of the time needed for the registration and in their judgment on the difficulty of the process. The reason for this difference might be due to the fact that the level of corruption that each one faced is not clear. It is possible that respondent one paid more and therefore experienced less other costs, needed less time and overall had an easier process. With the intention of getting a clearer view on this, the responses to question 42a are looked at.¹⁶⁷ Each respondent was questioned whether corruption causes significant additional costs during registration or not. Respondent one only opted for “2” (scale: “significant 1, 2, 3, 4, 5 no”) whereas the corruption was slightly more significant for respondent 2 (opted for “1”). However, respondent one made a significantly higher investment compared to respondent two which could indicate that this entrepreneur would consider higher amounts of corrupt payments as less significant than if someone with a lower budget would have to pay the same amount of money. Moreover, there are other variables that could influence the level of corruption. For example, respondent one is in the gastronomic and hotel business and mentions the provincial department for hotels and

¹⁶⁶ Republica de Angola, 2000, pp. 540-541.

¹⁶⁷ See Annex 1 and question 42a.

gastronomy as the main recipient of corrupt money, whereas respondent two is in the retail business and most likely paid the corruption fees to other departments.

Table 5 Answers of two respondents regarding the process of making a full business registration

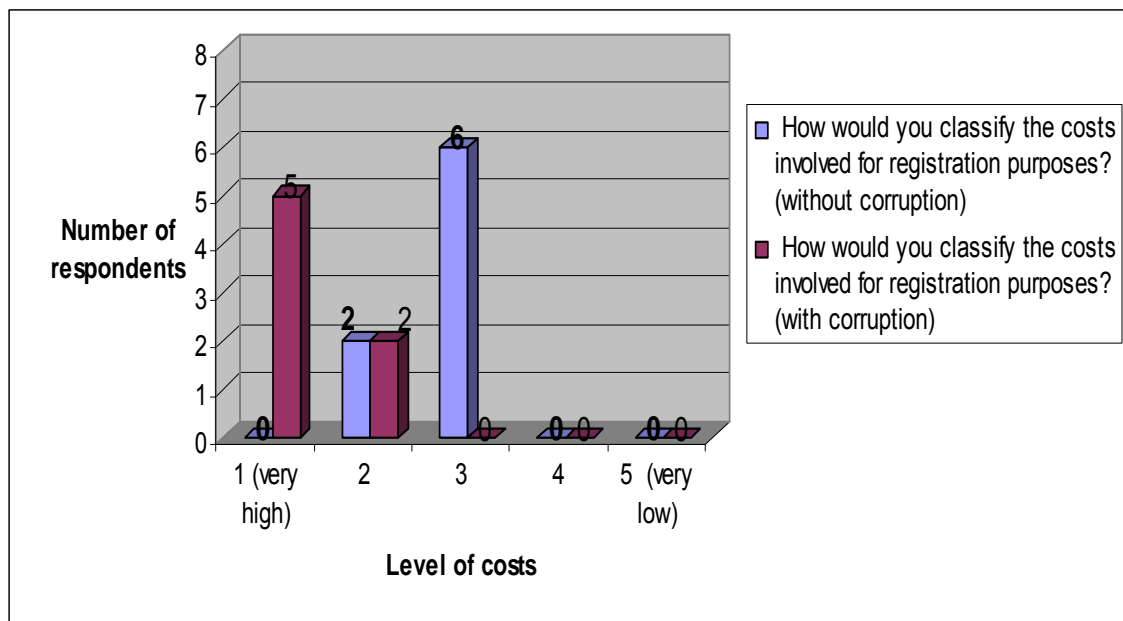
	10. Classification of costs involved?	11. Time needed to register?	12. Extra payments involved (corruption)?	13. Difficulty of the process?	15. Number of offices to talk to?
Respondent 1	normal	1-4 months	Yes, for sure.	normal	more than 4
Respondent 2	very high	5-8 months	Yes, for sure.	difficult	more than 4
Answer categories	very high (1), high (2), normal (3), low (4), very low (5)	up to a month/ 1-4 months/ 5-8 months/ 9-12 months/ more than 12 months	yes, for sure./ yes, but I am not sure./ No.	very difficult (1), difficult (2), normal (3), easy (4), very easy (5)	1, 2, 3, 4, more than 4

Respondent two gave some further information on why the process of registration was “difficult”: As reasons for the difficulty the respondent chose “Not enough instructions/help available to go through the process”, “Too many different bodies/counters to talk to”, “Some bodies/counters needed too much time” and “Some bodies/counters took too much money” with the “notary” and the “chamber of commerce” specified in latter two cases. Furthermore the respondent mentioned that persons involved in the registry process are not open to provide services without the payment of bribes.

Recapitulating, both respondents clearly paid bribes and both indicate that a maximum number of guichets had to be contacted. These two responses might leave the reader suspicious that higher transaction costs could be involved. However, due to the low number of valid responses from the entrepreneur side on this topic, it would be imprudent to draw any definite conclusions. For a better picture of what happens when one registers, we now turn to the expert-questionnaire and there to the responses to questions related to the registration process.

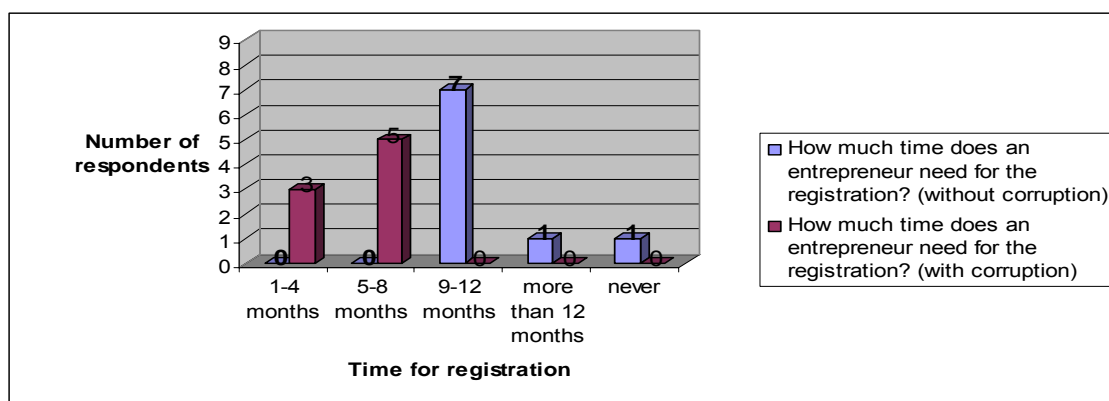
Out of the 14 experts interviewed, 8 (9) claim to have detailed and updated information from the years 2004 or 2005 about the costs (the time) involved with the business registration process. Figure 15 shows that in the presence of corruption the costs to register a company change. It reveals a clear shift to higher cost levels when one includes unofficial payments in the calculation.

Figure 15 Frequency of nominations: Costs involved for the registration process (with and without corruption; from experts)



It would be interesting to know how much time - according to the experts - is needed to register a company with or without corruption. Perhaps without corruption the time taken to registering is tolerable compared to international levels and therefore corruption would not be “necessary”. Information on this aspect can be viewed in Figure 16. The results show, that without corruption the registration of a business is not possible within 8 months. The prospective of waiting for the registration for at least 9 months or maybe never being able to succeed is probably frustrating and connected to forgone profits. Therefore the new entrepreneur most likely has no other option than to bribe the officials, unless no time pressure exists. One has to conclude that according to these data either direct costs for the registration are high or very high when there is corruption or that indirect costs are rather high when there is now corruption. However, even without corruption two of the eight respondents classified the costs of the process of registration as being high. Therefore either way, with or without corruption, direct or indirect costs seem to have the potential to discourage an entrepreneur to officially establish a new business.

Figure 16 Time for registration (with and without corruption; from experts)



In the following lines we have a look at the licensing regulation of this category. The regulation can be found in Chapter 2 of Decree no. 29/00.

Table 6 Overview of important regulations on the licensing process: full business license

Articel	Topic	Content
8	Validity of business license	5 years
10	Documents necessary for application	identification of applicant, complete location information on the business and a description of the business plus premises including the mentioning of the number of employees, a declaration (by the applicant) that the applicant is competent to run the business, the criminal record of the applicant, the confirmation of the tax registry, the registry fee payment confirmation, a proof that the establishment goes along with the local zoning regulations.
24	Penalties	see Law 6/99 article 6 (not known)
	Maximum time the authorities can take for the process	not clear
Annex III	Costs	Between 56 USD for small service establishments and 1400 USD for big supermarkets.

In case the company is not led by a single entrepreneur the published statutes of the company has to be attached to the application. Regarding the local zoning regulations, Decree no. 29/00 contains a paragraph that states that this proof can be provided (or rejected) within 30 days. When the application is done with all documents attached, article 15 of the regulation gives the authority between 15-30 days to make a decision. Before the establishment can be opened a delegation of four government authorities (representative of the Ministry, the local administration, the local public health authority and one of the fire fighters) has to make a visit to the location. The result of this inspection must not take longer than 8 days to be officially announced.¹⁶⁸ Consequently, the actual business license should be processed within max. 60 days

¹⁶⁸ Republica de Angola, 2000, pp. 511-513.

from the day of application. It is not clear when the business can be opened as no time limit is mentioned regarding the time that may elapse before the delegation must show up for the visit. Also, it is not clear whether the visit can be done before the actual business license is issued. Generally, the unclear overall time it could take until an entrepreneur can open a business could lead to an excessively long duration of the process. Further fees/costs (e.g. notary costs) that might be charged do not appear in the decree but the long list of documents that are necessary in order to complete the process could be an indication for higher costs and excessive time needed for an application. The five year validity term of a license could signify a high burden for the entrepreneur in case all the costs and time involved need to be invested again. Based on these considerations we can derive the following policy recommendations for the registration process *full business registration*:

- ❖ Temporary establishment of a commission to develop a white paper on how to make registration easier. The composition of the commission should be clearly independent, i.e. professional groups that usually profit from a complicated process like lawyer and notary should be excluded. A “one-guichet” contact point for the new entrepreneurs should be aimed for all types of business licensing.
- ❖ More information dissemination is required to make people aware of the processes and requirements and to give pressure to simplify processes and reduce costs. The newly organized process should be summarized on an easy to understand information leaflet. Moreover, a consultancy service should be offered to potential entrepreneurs.

We now turn to consider the licensing regulations that *precarious salespersons* are facing. Precarious enterprises are defined in the Executive Decree 43/00 as enterprises that are established in non-conventional or provisional buildings: The building material has to have the characteristic that it can be easily removed from the location. Further details on the licensing on this type of business can be gathered from Table 7 which follows.¹⁶⁹

Table 7 Overview over important regulations on the licensing process of *precarious salespersons*

Article	Topic	Content
8	Validity of business license	2 years (1 year according Decreto no. 29/00, Article 8)
7 (5)	Documents necessary for application	identification of applicant, applicant has to sketch a map where the business will be, in case the location is in a street with no name etc., indicate the products or services that are going to be offered, confirmation of the license fee payment . sanitary/health card (in case of selling of food or groceries)
16	Penalties	56 USD in case of a missing sanitary/health card 26-56 USD for not having a valid license, if no other higher penalties are applicable that can be found in other laws.
	Maximum time the authorities can take for	not mentioned

¹⁶⁹ Republica de Angola, 2000, pp. 531-532.

	the process	
Annex III	Costs	28 USD

The decree leaves the maximum time open that the authorities may take to process a registration application which could lead to an excessively long duration of the process. The listed costs for the business license are 28 USD and appear to be relatively high for these simple businesses. It could be that these costs have to be paid at every renewal of the license. This could de-motivate entrepreneurs to get the license. Executive Decree 48/00 regulates the business activities of a *moving salesperson*. Business that falls in this category are not fixed to a building or market but sell their products as they move around.

Table 8 Overview over important regulations on the licensing process of *moving salespersons*

Article	Topic	Content
8 (Decree no. 29/00)	Validity of business license	1 year
4	Documents necessary for application	a copy of the identification, two photos, sanitary/health card (in case of selling of food or groceries)
19	Penalties	Between 56 and 140 USD for ignorance of norms mentioned in this decree and other norms set up by the municipal authority, if no other heavier penalties are applicable that can be found in other laws. 140 USD for doing business without a license.
5	Maximum time the authorities can take for the process	15 days
Annex III	Costs	56 USD

It is conspicuous that the costs for this license and the penalties for doing business without the license are relatively high. Therefore, this combination of higher costs is likely to put the salespersons in a vicious circle. Furthermore, the listed maximum time the authority may take for the decision (article 5: 15 days) seems to be relatively long for these simple businesses. The short renewal period could put a high burden on the entrepreneur in case the costs would incur again every year (at renewal).

Based on the information regarding the licensing process of *full business registration, precarious enterprises, moving salespersons and market salespersons*, it is recommended:

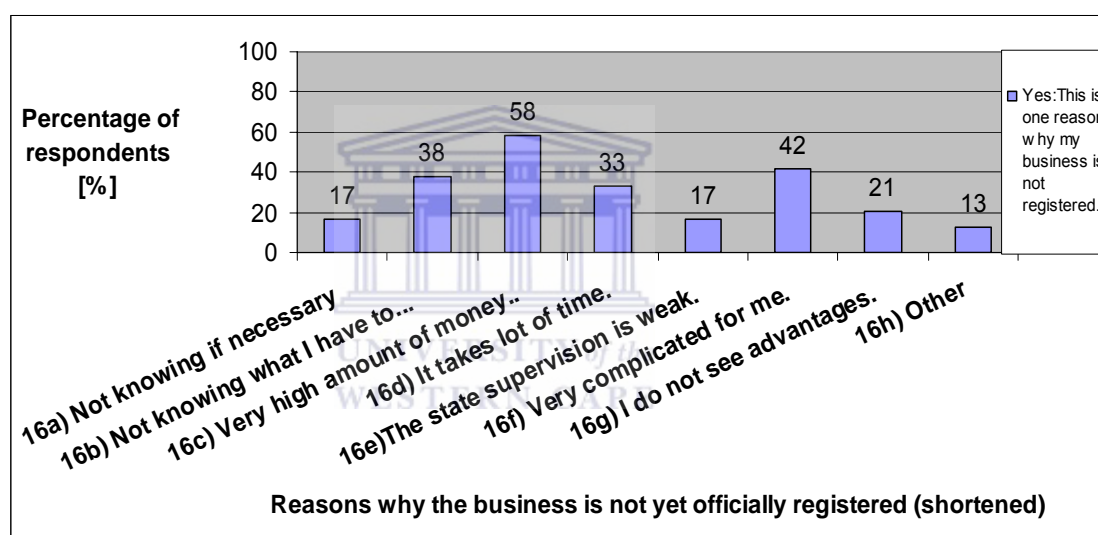
- ❖ To combat corruption and mal-functioning: A permanent and independent anti-corruption and supervisory commission should be established. The commission should only be responsible for the business licensing agencies and agents. The commission should also fight root-causes for corruption like for example delayed salary payments for civil servants and not only deal with the punishment of corrupt civil servants.
- ❖ Generally, the business licensing fees should be lowered. This goal has to go hand in hand with the tasks of above mentioned commission to combat corruption. Otherwise the danger is that civil servants might charge higher bribes instead of higher fees or stop working at all. Furthermore, all new business registration processes should be shortened. The maximum time

the process may take should be clearly mentioned in the respective regulation.



We have in this section given an overview of the experts' opinions and of the entrepreneurs' experiences regarding the actual registration process. Furthermore we considered the current regulations that influence the process. The question which remains is why virtually half (24 of the 50) of the entrepreneurs interviewed had not registered their businesses. Figure 17 provides the answers to this question. Well more than half of these entrepreneurs (58,3%) claimed that "The money I have to pay to get registered is too much". The second and third most frequently mentioned reasons indicate a need for help to follow through the registration process or indicate a rather complicated registration process. Especially the latter complaint could also be an indication of the low capacity or low professional training level of the respondents.

Figure 17 Why is your business is not yet officially registered?



The process of establishing a MSME has been in the focus of the research in the last paragraphs. Concerning property transfers we conclude that non-market transaction costs tend to be high. Therefore the provincial regulations seem to have a negative consequence for the motivation of potential entrepreneurs to establish a MSME but only in those cases where the entrepreneur will have to be involved in some kind of property transfer.

Interview data reveal that the process of registering as a market sales person was perceived as being connected to fewer costs and less time than the process of getting a full business license. Two entrepreneurs' data regarding the full business licensing process was compared. The entrepreneurs' perceptions of non-market transaction costs depend on several factors like for example on their field of activity as that determines with what different government agency they mainly have to deal with. However, both answers, regarding corruption and regarding the number of offices that need to be contacted, indicate that a new entrepreneur has to expect higher

transaction costs. The analysis of the experts' responses uncovers that corruption most likely cannot be avoided during the registration process. The institutions, especially the internal ones related to corruption, seem to have the potential to discourage an entrepreneur to officially establish a new MSME, as they seem to be responsible for an increased level of non-market transaction costs.

Analysis on non-market transaction costs during ongoing activities and the institutional environment (proposition 3)

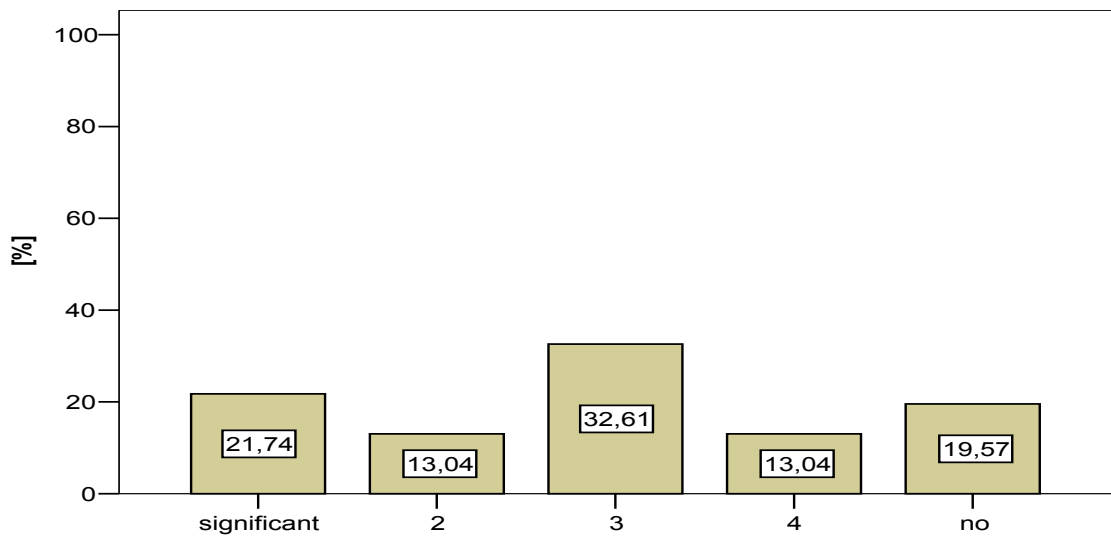
Within the last section the topic of corruption was discussed. Although the perspective shifts now from the registration process to ongoing activities, the investigation of this proposition continues to include corruption as an indicator for non-market transaction costs but after the establishment of the business. Later other non-market transaction costs get into the line of attention. Proposition three states: *“The institutional environment discourages potential entrepreneurs from maintaining MSMEs because they are confronted with high non-market transaction costs once the MSME is in place.”*

One question of the entrepreneur questionnaire directly approaches the matter of corruption and is formulated like this: “Corruption causes additional costs for you during ongoing business activities?”.¹⁷⁰ The cumulative percentage that is based on the percentages for the categories “1”, “2” or “3” (see Figure 18; answer categories: “significant 1, 2, 3, 4, 5 no”) comes to around 67%. In other words, the strong majority of the entrepreneurs who responded to this question classified the additional costs caused by bribing officials rather significant than not. As corruption is applied as an indicator for non-market transaction costs, this result supports the view that most of the entrepreneurs are confronted with rather significant payment of bribes as non-market transaction costs while doing business. Additionally the entrepreneurs were being asked for the institution that receives most of the bribes. Clearly, with 50% of the valid responses, the “Policia Economia” is the most frequently mentioned institution. Based on the last paragraph it is recommended:

- ❖ An independent and influential investigator should figure out why the “Policia Economia” apparently is a main recipient of bribes. With this knowledge a process should be started to fight the root causes of corruption within “Policia Economia”.
- ❖ A permanent independent and influential commission should be established to receive complaints about corruption, to investigate complaints about corruption and to exert pressure on government agencies in order to avoid corruption.

¹⁷⁰ See Annex 1 and question 42b.

Figure 18 Distribution of the answers: “Corruption causes additional costs for you during ongoing business activities?”

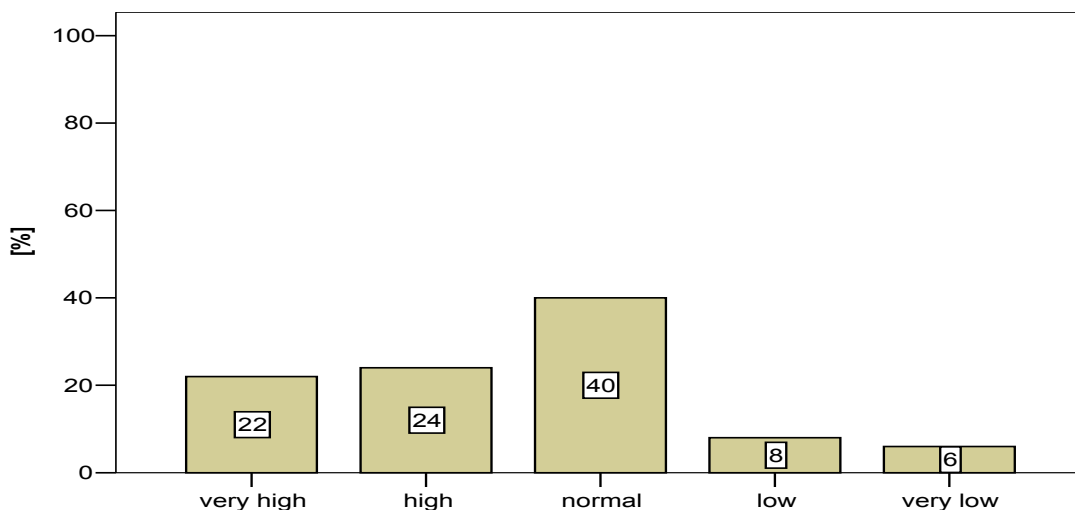


Question 46 is tackling the costs that are connected to overcoming red tape. It questions the entrepreneurs about costs they face to comply with business regulations.¹⁷¹ Figure 19 shows the distribution of the answers to this question. The calculation of the cumulative percentages reveals that three times more entrepreneurs classify the costs invested for the compliance with regulations as being rather on the higher side (“high” and “very high”) than on the lower side. Question 47 reveals the necessity of the payment of bribes in case costs occur for the majority of the entrepreneurs; 78% of the respondents say that corruption occurs in case they are charged for the compliance with regulations.¹⁷²

¹⁷¹ See Annex 1 and question 46.

¹⁷² See Annex 1 and question 47.

Figure 19 During your business activity, how would you classify the *costs* to comply with business regulations (e.g. in order to satisfy the fiscal police or other supervision authorities)?



Regarding the invested time to comply with business regulations, Table 9 gives an overview of the answers to the question “During your business activity, how would you classify the *time* to comply with business regulations, e.g. in order to satisfy the fiscal police or other supervision authorities?”.¹⁷³ A look at the cumulative percentage reveals that just over 50% of the respondents classify the time needed with “long” or “very long” whereas only around 16% classify the time needed with “short” or “very short”. If we imagine what business opportunities, coordination improvements and marketing opportunities a MSME manager is losing through unnecessary waiting times, we can conclude that the opportunity costs for complying with regulations for most of the respondents tend to be rather high.

Table 9 During your business activity, how would you classify the time that is invested to comply with business regulations (e.g. in order to satisfy the fiscal police or other supervision authorities)?

		Frequency	Valid Percent	Cumulative Percent
Valid	very long	8	16,3	16,3
	long	17	34,7	51,0
	normal	16	32,7	83,7
	short	5	10,2	93,9
	very short	3	6,1	100,0
	Total	49	100,0	
Missing	99	1		
Total		50		

¹⁷³ See Annex 1 and question 49.

Furthermore, the entrepreneurs were questioned about what authority takes most of their time and what authority requests most of their money. Regarding *time*, the Economic Police is mentioned by 58% of the respondents. Regarding *money* Economic and Fiscal Police were the most frequently mentioned institutions (45% and 42,5% respectively). Furthermore the respondents had the opportunity to freely mention institutions that especially take their time or money and are not listed in the questionnaire. 6%/8% (time/money) of the respondents mentioned the customs authority in this regard. If we imagine that probably most of the respondents are only active locally these two percentages seem to be quite high. This could indicate that the import/export business shows a tendency of being confronted with high transaction costs due to the import/export regulations and/or due to the customs authority.

Executive decree 48/00 regulates the business activities of a *moving salesperson*. Article 9 gives the local authorities the right to establish zones where these salespersons are allowed to be active. These zones can also be limited to the sale of certain products. Furthermore, the local authorities are allowed to prohibit sales activities for hygienic, esthetic, security, traffic security or public annoyance reasons. Article 15 requires the salesperson to give access to the space where the salesperson stores the products to be sold to the competent authorities should they wish to inspect the space.¹⁷⁴ As the sales activity of a moving salesperson is very often the only way the poorest of poor can make their living, the related regulations should reflect this by including rules that rather support than hinder a person working as a moving salesperson.

Based on the former paragraphs we can derive the following policy recommendations:

- ❖ Reviewing the tasks and the rights of the Economic Police/Fiscal Police in the sense that all policies are questioned. All policies should be justified on the basis of the general welfare (e.g. public health versus survival and success of the enterprise) and adequacy.
- ❖ All penalties that supervising institutions are allowed to charge should be reassessed in order to verify if they are justified on basis of the general welfare and on basis of adequacy. Also, all penalties have to be put on the basis of the differing financial situations of the business owners.
- ❖ The policies of the customs authority should be supervised and changed towards a more business friendly approach, i.e. all those entrepreneurs dealing with imports/exports should be confronted with less fees, less bribes and less time consuming actions.
- ❖ Executive decree 48/00 (moving salespersons): Reformulation of the rules and regulations with the objective to find formulations that rather support than hinder persons working as a moving salesperson. Make the rules and regulations more appropriate to the situation and compliance capacity of moving vendors.
- ❖ Executive decree 48/00 (moving salespersons): Adaptation of the penalty structure to the financial capabilities of an average moving salesperson.

¹⁷⁴ Republica de Angola, 2000, pp. 542-543.

Now, the sanitary regulations are analyzed as UNDP identified these regulations in countries as a mayor reason for high costs while doing business. The sanitary regulations are published In the official statute paper of the Republic of Angola, the “Diario da Republica” on the 23rd of February 1987. With the supervision and the observation of these sanitary or public health regulations the promotion of the health of the population should be achieved. An effort was made to identify those articles that have the potential to influence substantially the transaction costs of MSMEs in the coastal area of the Benguela Province. An overview of the most relevant articles can be seen in Table 10.

Table 10 Overview over the sanitary regulations and the contents that might be influential to the transaction costs

Article	General topic of the article	Summary of those contents that might have the potential to influence transaction costs substantially.
5	Competencies of the health authorities ¹⁷⁵	Local health authorities have the power to... ...inspect all persons that work with food, in restaurants hotels, bars and those who sell food on the streets. ...impose sanctions on those who keep expired products or those who label products incorrectly and ...generally impose sanction if there are any violations of sanitary laws and regulations. ...propose other authorities the destruction of houses etc. that are not in line with necessary hygienic conditions.
8	The agents of the health/ sanitary authorities ¹⁷⁶	They are required to make frequent visits to all those establishments that can be connected to food and to survey with “rigor” the fulfilment of all public health, hygienic and sanitation norms.
44 53	Inspection of food and groceries ¹⁷⁷	In case products are offered that will serve as food for people these products have to be in a perfect conservation state. Otherwise the authorities have the right to charge a penalty, to confiscate and to destroy the food or make further use impossible. The offender has to take over the costs for all the processes involved for this action.
58	Limitations due to the prescribed organization of work ¹⁷⁸	All those that handle food are not allowed to handle money simultaneously.
59	Further limitations due to the prescribed organization of work ¹⁷⁹	These limitations allow moving salespersons only to sell products like ice-cream, cakes, sweets, drinks, pastry or similar products if they were produced in licensed and properly air-conditioned premises.
66	Sales of drugs ¹⁸⁰	Apart from criminal sanctions foreseen in laws- all those are threatened with penalties, who sell or transport medicaments or other pharmaceutical products without proper licence for that. This leads also to the expropriation of these products.

¹⁷⁵ Republica de Angola, 1987, pp. 50-52.

¹⁷⁶ Republica de Angola, 1987, pp. 50-52.

¹⁷⁷ Republica de Angola, 1987, pp. 57-58.

¹⁷⁸ Republica de Angola, 1987, pp. 57-58.

¹⁷⁹ Republica de Angola, 1987, pp. 57-58.

¹⁸⁰ Republica de Angola, 1987, p. 59.

Regarding article 5, it stands out that the threat of a possible destruction of a house gives a lot of power to the local health authorities which could be misused. Also, the words “frequent” and “rigor” in article 8 give the health authority competencies which could be misused as these words are not further defined. The health authorities could interpret these formulations in a way that could lead to inadequate hassle of entrepreneurs. Article 53 could signify a high burden for MSMEs in case high costs are involved or invented by the authorities for the transportation or the destruction of the products that are not in a perfect conservation state. The prohibition of vendors to handle food and money simultaneously could signify a complication of their work. It could make them subject to harassment by the authorities and they might be forced to employ more people than necessary. The requirement mentioned in article 59 does not seem to be realistic as many businesses are not licensed and do not have air-conditioned premises. This in return also could make the entrepreneurs subject to harassment by the authorities. The researcher has the impression that the sale of drugs without a proper license (article 66) is widespread on local markets. The enforcement of this article would take away the earning possibilities for many people. The penalties are listed in chapter 7 of the sanitary regulation. They range from Kz 1.500 to 50.000. It is conspicuous that the penalties mentioned are independent of the profit and earning situation of the entrepreneur. Consequently, some of the amounts mentioned are too high for many of the small business owners. Therefore, these owners could be subject to confiscations and other reprisals of the authorities which would deprive them of their source of subsistence. The penalties are listed in Kwanza (from 1987) and it is questionable if they are up to date.

Based on the analysis of the current sanitary regulations the following is recommended:

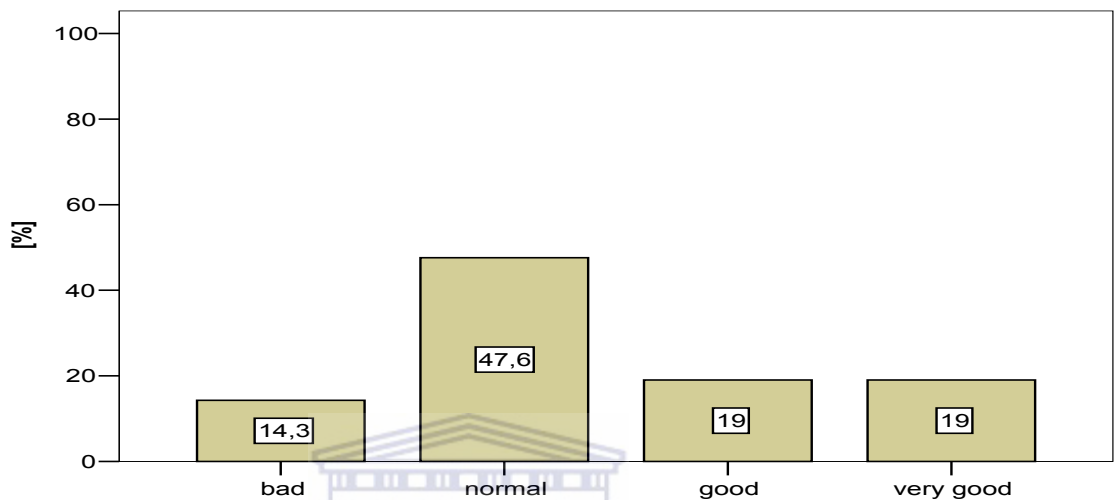
- ❖ The sanitary regulation should be checked if the contents are reflecting the actual working environment of MSMEs. Furthermore they have to be changed so that they give clear and adequate instructions to the executing authorities.

According to the propositions three, the costs and the time needed to comply with regulations would discourage entrepreneurs from maintaining or expanding their MSMEs. The business outlook and the development of the number of employees are taken into account as indicators for the survival and for the growth of these businesses. In order to investigate these indicators the entrepreneurs were asked how they classify their business outlook for the next 12 months and if their number of employees would rather increase or decrease.¹⁸¹ Figure 20 gives insights on how the respondents classify their business outlook. The graph reveals that almost three times more respondents have a positive view (“good” or “very good”) than a negative view of the

¹⁸¹ See Annex 1 and questions 53 and 56.

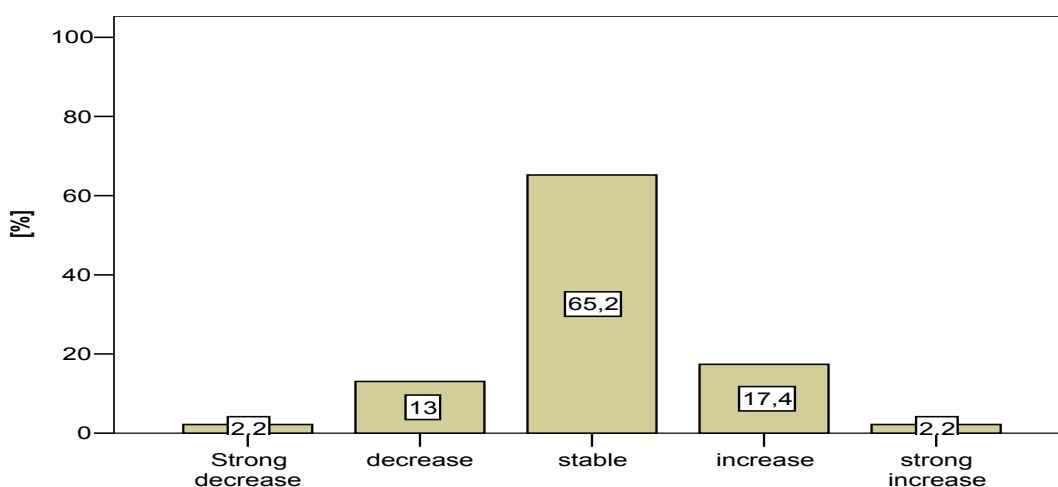
upcoming 12 months regarding their business prospective. Overall the graph reveals that the positive outlook is dominant although the highest percentage of the respondents opted for the middle category.

Figure 20 How would you describe the outlook for your business for the next 12 months?



Question 56 tackles the topic on how the entrepreneurs think their number of employees will change during the upcoming 12 months. A projected growing number of employees could indicate a positive development for the MSME in question. The graphical overview on this topic that is provided in Figure 21 shows an even stronger tendency of the respondents to opt for the middle - neutral - category. The answers tend to be rather on the positive (increase of the number of employees) than on the negative side, although the vote for the positive one is not as strong as it can be observed for the answers regarding the business profile.

Figure 21 Distribution of the responses to the question “Do you think that the tendency of the number of employees is to increase or not?”



Interestingly, the respondents tended to give rather negative responses to the questions that were applied to reveal non-market transaction costs concerning the compliance with business regulations, although the answers that serve as an indicator for growth and development of MSMEs tend to give a rather “neutral” standpoint with overall more positive than negative answers. Therefore, the hypothetical discouragement of potential entrepreneurs to create and to maintain MSMEs *cannot* be confirmed by the results. However, the analysis indicates that the entrepreneurs face rather high non-market transaction costs concerning the compliance with business regulations during ongoing business activities. One reason for this apparent discrepancy could be that the business outlook depends not only on the examined influence of business regulations but also on other factors. It probably is crucial to take the recent history of the Angolan economy into consideration when elaborating on the business outlook. The conflict had lasted a very long time and only a relatively short time since the signing of the peace agreement has passed. Therefore the overall perception of the development of the economy, from a war economy to a “normal” but troubled one, is probably positively affecting the responses. Moreover, the overall change in the country with an expected GDP-growth of 13% in 2005, less money going into military, substantially lower inflation and more affordable food,¹⁸² also might be reflected by the responses on the business outlook.

We also have to realize that the responses of the entrepreneurs regarding the business outlook and regarding the development of the number of employees are far from giving a general positive outlook about the development of the respondents businesses. 61,9 % regarding the business outlook and 80,4 % regarding the development of the

¹⁸² Boslego, 2005, p. 6.

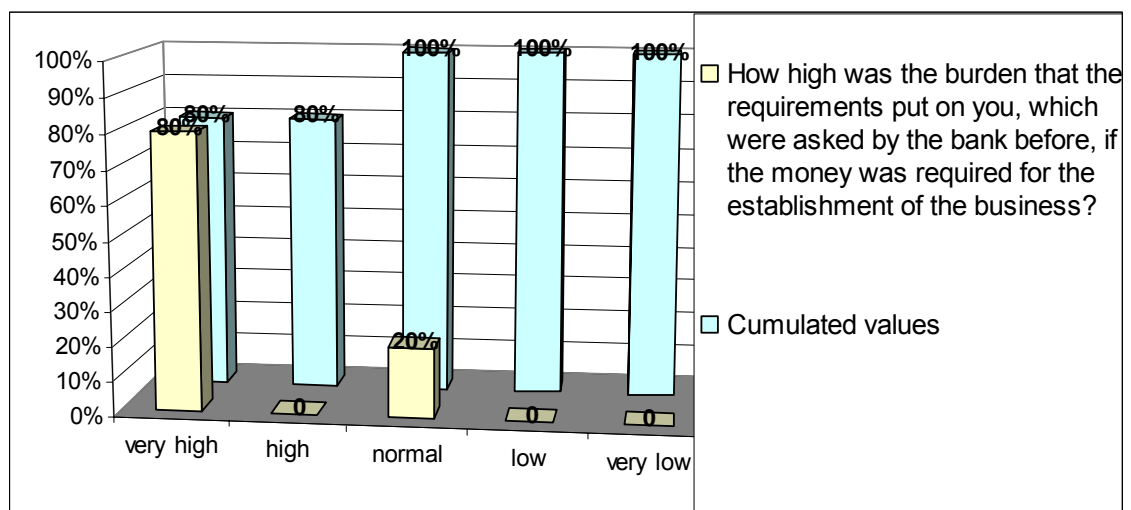
number of employees opted for the neutral or the negative answer categories. It might be that the regulatory environment/corruption and the associated high non-market transaction costs come into play and restrain the respondents from giving a more positive outlook.

As many respondents chose the middle response, this widespread judging of the business prospects as neither bad nor good could be a sign of uncertainty. It could be that the elections that are planned for 2006 caused this uncertainty as they remind to last elections in 1992. In 1992 the elections and the non-acceptance of the election result by the UNITA marked the restart of the fighting. Probably the level of trust is still low in Angola¹⁸³ and many entrepreneurs might fear a failure of the present peace accord after the elections.

In the following, the questions are discussed that are trying to reveal the particulars of credit applications. Access to credit can be considered as an indicator for the creation and growth of MSMEs, as credit can increase the possibility of an entrepreneur to open a business or to expand a business. This is confirmed by Aryeetey (1998): Those smaller enterprises that are growing often meet their working capital needs from internal sources whereas external finance is needed for the expansion of the business.¹⁸⁴

The distribution of the answers to the question “How high was the burden that the requirements put on you, which were asked by the bank before, if the money was required for the establishment of the business”¹⁸⁵ can be seen in Figure 22. They indicate a high burden and therefore higher transaction costs for new business entrepreneurs when they are applying for a credit in order to establish their business.

Figure 22: Distribution of the answers to the question about the credit applications process during establishment of the business



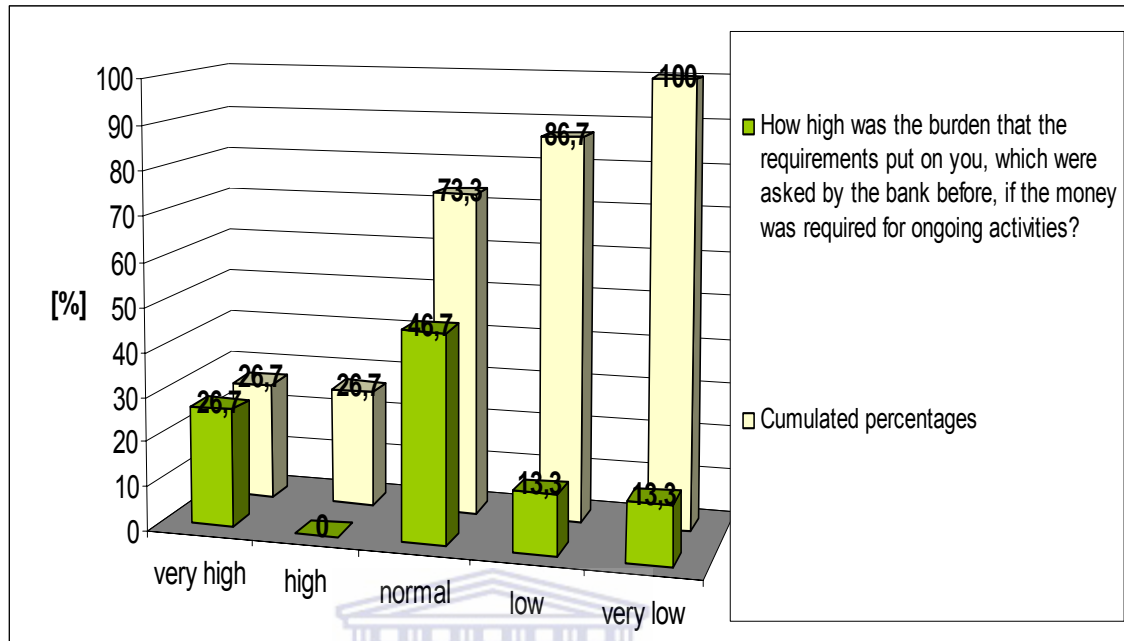
¹⁸³ Gounden & Solomon, 2003, p. 15.

¹⁸⁴ Aryeetey, 1998, p. 9.

¹⁸⁵ See Annex 1 and questions 20a.

Figure 23 indicates lower transaction costs when the credit application occurs during the ongoing business activity.

Figure 23 Distribution of the answers to the question about the credit applications process during ongoing activities



Around 64% of the entrepreneurs that were able to give information about the terms of a bank loan classified the interest rate as high or very high and around 43% considered the repayment period more rather inadequate than adequate.¹⁸⁶ Over 90% of the respondents classified the interest rate as high or very high when the loan is granted outside of banks.

The researcher discovered one tangible law that regulates financial institutions. No articles could be identified that would limit the supply of credit for MSMEs and also no articles were identified that could give hints on the costs, being direct costs (fees and interest rates) or indirect costs (waiting time or exclusion from credit) MSMEs are facing. Article 1 gives the link to a special law that regulates the functioning of those banks and institutions that have the provision of micro-credit as an objective.¹⁸⁷ This law is neither in force nor published with only a preliminary draft being available.

In Angola exist around 20 Micro-Credit programs and projects with three categories of organizations involved: NGOs, government agencies and two commercial bancs (Banco Sol and Novo Banco).¹⁸⁸ In the coastal region of Benguela of those two bancs, only Banco Sol is active although Novo Banco is already on the lookout for premises for a branch.¹⁸⁹ In the following lines a closer view will be taken to the Banco Sol credit

¹⁸⁶ See Annex 1 and question 26.

¹⁸⁷ Republica de Angola, 1999, p.46.

¹⁸⁸ Joao, 2004, p.10.

¹⁸⁹ Sr. Lara (interview), Benguela, 2005.

policies, to a government agency credit policy and to proceedings that standard banks are following when handling credit applications.

A new initiative called the “Program of Credit Expansion” was launched in 2005. The lender is the commercial bank “Banco de Poupanca e Credito (BPC)” and the overall available credit amount is 3.000.000 USD. The BPC has the power to decide whether to grant a credit or not. The minimum credit amount was increased from 5.000 to 10.000 USD compared to former government initiatives. INAPEM, as a government agency, serves as a facilitator that helps the entrepreneur. The *Fond for Economic and Social Development* (FDES) gives out guarantees for up to 90% of the guarantee that is required by the BPC. The entrepreneur has to pay 2,5% p.a. fee over the FDES guarantee. 10 documents have to be shown: the constitution of the company, business license, certificate for statistic registration, tax number, tax payment confirmation, copy of identification and criminal record of owner, technical, economical and financial feasibility study, credit application addressed to BPC, preliminary invoices that correspond with the investment project and a guarantee of FDES.¹⁹⁰ The high minimum loan amount and the need to present the business license is likely to exclude most owners small business owners to benefit from the “Program of Credit Expansion”. In 2005 Banco Sol expanded their Micro Credit Program to the Benguela province. The bank is distinguishing between Group-Micro Credit and Micro Credit for Micro Firms. The first mentioned is given to a group of five with an elected leader.¹⁹¹ This leader, by banc policy, has to be a woman.¹⁹² In a first stage the maximum credit amount is equivalent to 100 USD/person with the credit term of 6 months and two months repayment holiday included. With all other conditions, later the credit amount can reach up to 300 USD/person.¹⁹³ The micro credit for micro firms (fixed capital has to be between 100 USD and 10.000 USD) is limited to the credit amount of max. 10.000 USD and the repayment period usually is up to 12 months long with a possible extension period. With the application it is compulsory to present copies of the ID, the business license and of the property registration. The business has to be well-functioning and the business location has to be clearly defined.¹⁹⁴

A high percentage of all those who have their own business do not seem to have a formal, registered business. This is of importance as a credit application at most of the banks has only prospects if the business is officially registered.¹⁹⁵ As of August 2005 most of the official banks (except Banco Sol in Lobito) in the region had no special

¹⁹⁰ INAPEM, 2005, pp. 1-3.

¹⁹¹ Banco Sol, 2005a, p. 3.

¹⁹² Sr. Emanuel (interview), Lobito, 2005.

¹⁹³ Banco Sol, 2005a, p. 3.

¹⁹⁴ Banco Sol 2005b, pp. 2-3.

¹⁹⁵ Sra. Paula (Interview), Benguela, 2005.

orientation towards small and/or informal businesses. In order to get a loan the business owner generally has to present a guarantor, a mortgage or, in case the applicant is - from a bank's perspective - a trustful person, an income overview can be sufficient. Anyhow, before a credit application is possible the applicant needs to have an account with movement at the respective bank.¹⁹⁶ The sum of these requirements excludes the majority of business owners from getting credit.

Except the group lending regulations of Banco Sol,¹⁹⁷ all loan applications require the applicant to have the business officially registered. This makes it understandable that according to the strong majority of the experts, the entrepreneurs with an informal business face very bad possibilities in getting bank loans. Also, the expert interview result shows that informal businesses seem to experience a much lower availability of finance than officially registered businesses. Moreover, micro businesses seem to face stronger constraints in finding external finance than small or medium enterprises.¹⁹⁸

As a consequence to the lending environment and to the above mentioned observations the following policy recommendations are derived:

- ❖ Government policies should aim for the support of formal or semi-formal lending (NGOs etc.) that has MSMEs as a target group and especially micro and/or informal businesses.
- ❖ Policies should include incentives, for example tax benefits, for banks that provide financing for MSMEs and especially micro businesses and informal businesses. This would probably automatically give banks the incentive to change their target group and to customize the requirements to these special target groups.

Next, tax paying obligations and profit-limiting maximum-profit-margins are discussed, as both have the potential to affect the development of MSMEs. These issues are also of relevance for the motivation of entrepreneurs of doing business and for them doing business legally.

In the Executive Decree 33/96 entrepreneurs are prohibited to apply profit margins of more than 25% to transactions of product that pertain to the "Free Price Regime"¹⁹⁹. These are all products except e.g. electricity, petrol, drinking water, postal services, fixed telephone costs and the rent of state buildings.²⁰⁰

Income tax paying obligations are regulated in Law 10/99. The income tax relates also to business persons who work for their own account. The income minus the costs but at least 30% of the gross income, serves as the tax base. The applicable tax rate lies between 15 and 20%.²⁰¹ As at least 30% of the gross income serves as the tax base,

¹⁹⁶ Sra. Paula (Interview), Benguela, 2005.

¹⁹⁷ No secured information is available on this.

¹⁹⁸ See Annex 2 and the questions 20 and 21.

¹⁹⁹ Republica de Angola, 1996, p. 335.

²⁰⁰ Republica de Angola, 1997, p.560.

²⁰¹ Cruz, 2003, p. 3.

the entrepreneur might be obliged to pay taxes although he/she faces high costs or a loss at the end of the year.

All those entrepreneurs that are not subject to the payment of income tax and exercise activities for their own account are subject to the payment of industrial tax. The standard industrial tax rate is 35%, but is reduced for certain activities like e.g. agricultural activities to 20%. According to Law 5/99 the tax rate of 35% is applied monthly on 10% of the sales income or services income.²⁰²

There are tax exemptions in place through the “Law of Incentives for Private Investment” (Law 17/03) for periods of 8, 12 or 15 years. These exemptions refer to investments further explained in Law 11/03: Relevant for larger MSMEs is the exemption of paying the industrial tax for up to 10 years for investments of at least 50.000 USD (and max. 250.000 USD) that contribute in a relevant form to the regional economy and fulfill other prerequisites further explained in article 14 of Law 17/03.²⁰³

The special Law 7/97 considers contract services (e.g. construction), sub-contracting and services in general. As a tax base serves a certain percentage of the contract value (between 10-15%) and the applied tax rate is 35%.²⁰⁴

It stands out that the former mentioned tax obligations are related for example to contract values, to the gross income of the business and not to the profit, although generally a business pays tax that is based on the yearly profit.²⁰⁵ A tax system that is designed like the Angolan one, can damage the financial balance of a MSME because a loss making entrepreneur is still obliged to pay taxes. Therefore, the Angolan practice can drive businesses into bankruptcy especially when a business was facing losses over some years. This prospective can hinder the motivation of new businesses to come into existence.

This leads to the following policy recommendations:

- ❖ The tax base for the income- and industrial-tax should be changed towards the inclusion of the costs of doing business in the calculation.
- ❖ All limits on profit margins should be abolished to make it more market-oriented.

The section looked upon proposition three and the question on how the institutional environment influences the non-market transaction costs during ongoing activities and consequently the growth and the survival of MSMEs. 67% classified the additional costs caused by bribing officials with “1”, “2” or “3” (on a scale from “significant 1, 2, 3, 4, 5 no”). Subsequently, the answers regarding costs and the time to comply with business regulations were examined. Three times more entrepreneurs classified the

²⁰² Cruz, 2003, p. 6.

²⁰³ Cruz, 2003, p. 5.

²⁰⁴ Cruz, 2003, p. 7.

²⁰⁵ IDRC, 1995, p.50.

costs invested for the compliance with regulations as being rather on the higher side than on the lower side. Moreover, the respondents' answers show that 51% think that the time invested for the adherence to the rules is "long" or "very long" and only 16,3% opted for "short" or "very short".

Furthermore, different regulations were analyzed. Many of these findings reveal that the regulatory environment contains aspects that have the potential to provoke high transaction costs for entrepreneurs. Therefore it is of no surprise that most of the results of the questionnaire investigation indicate rather high non-market transaction costs for the entrepreneurs during ongoing activities.

The link between non-market transaction costs and the development of MSMEs was discussed as well. The analysis reveals that a positive business outlook was dominant for the next 12 months, although the by far highest percentage of the respondents opted for the middle - neutral - category. The trend to choose the neutral category was even stronger when the tendency to increase or decrease the number of employees was asked for. As the business outlook and the development of the number of employees seem to be discrepant with the rather high non-market transaction costs, we discussed other factors that influence the business outlook and the number of employees.

In sum the MSMEs seem face rather higher non-market transaction costs that are consequential to the institutional environment. This includes - with the phenomenon of corruption - also internal institutions. However, it was not possible to find support for the link between these non-market transaction costs and the development of MSMEs, as probably various other factors are also influential.

Analysis on market transaction costs, their origin and their influence on MSMEs (proposition 4)

Propositions three concentrates on non-market transaction costs whereas propositions four throws a light on market transaction costs. The proposition states that "*Potential entrepreneurs are limited in doing business, because the institutions in place lead to high market-transaction costs*".

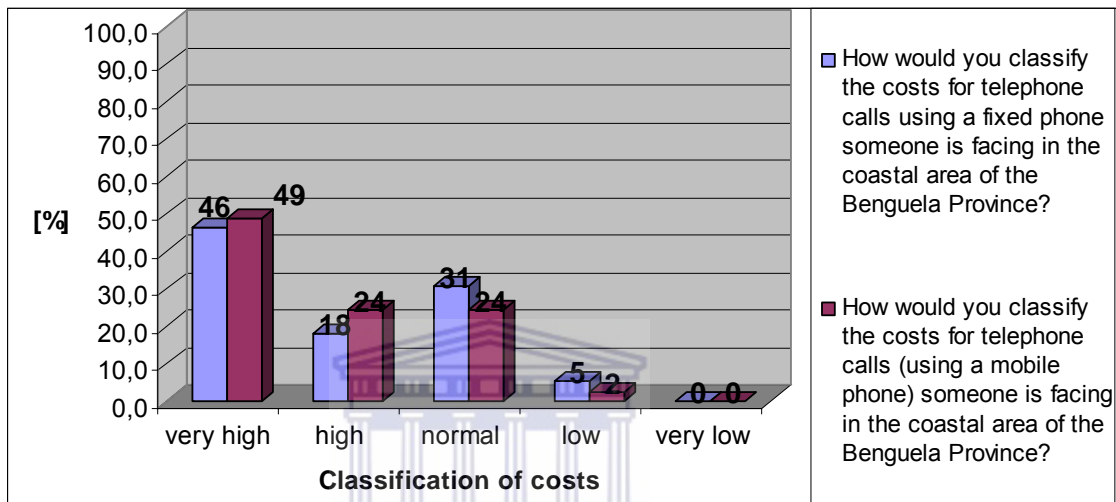
First, some indicators for these costs are looked upon in isolation. Second, these indicators are tested for links to concepts that indicate limitations for doing business. Under the rubric of coordination costs telephone costs, marketing possibilities and marketing costs are considered.

Telephone can be regarded a device that supports the bringing together of buyer and seller. It can also have a supportive function by helping the entrepreneur to get information on various issues like e.g. customs regulations, working hours of supplying businesses or market research issues. Therefore it helps the manager to save time (e.g. not spending hours in public transport) when doing business. For these reasons

telephone can be related to coordination problems and the related costs are now used as indicators for coordination costs. In order to reveal these costs, the 50 entrepreneurs were asked to classify the costs for making telephone calls via fixed telephones and via mobile phone.²⁰⁶

Figure 24 shows classifications for mobile phones (red) and fixed phones (blue). For making calls with a fixed phone (mobile phone), 64% (73%) of the respondents classified the costs at least as being “high”.

Figure 24 Distribution of how the entrepreneurs classify the costs of telephone calls using fixed and mobile phones



Of those respondents who never use neither a mobile, nor a fixed telephone (22%), only 18% stated that they do not need a mobile phone and only 9% stated that they do not need a fixed telephone. They mostly opted for answers that are related to high costs as reasons why they do not use telephones. Accordingly, it can be stated that for most of these respondents the costs that are related to the use of the respective phone are prohibitive. Thus, they are not able to use the telephone as a device to facilitate and coordinate their business. Overall, the high percentage of respondents that do not use a telephone due to cost-related issues and the distribution of the classifications in Figure 24 seem to indicate a tendency of high coordination costs that are related to the use of telephones. Therefore it is recommended:

- ❖ Government policies should aim for easy and cheap access to communication infrastructure by the inhabitants. Furthermore, government policies should aim for the subsidization of the expansion of fixed and mobile telephone networks. This should also include the facilitation of the market entry and of the business activity of mobile phone provider.

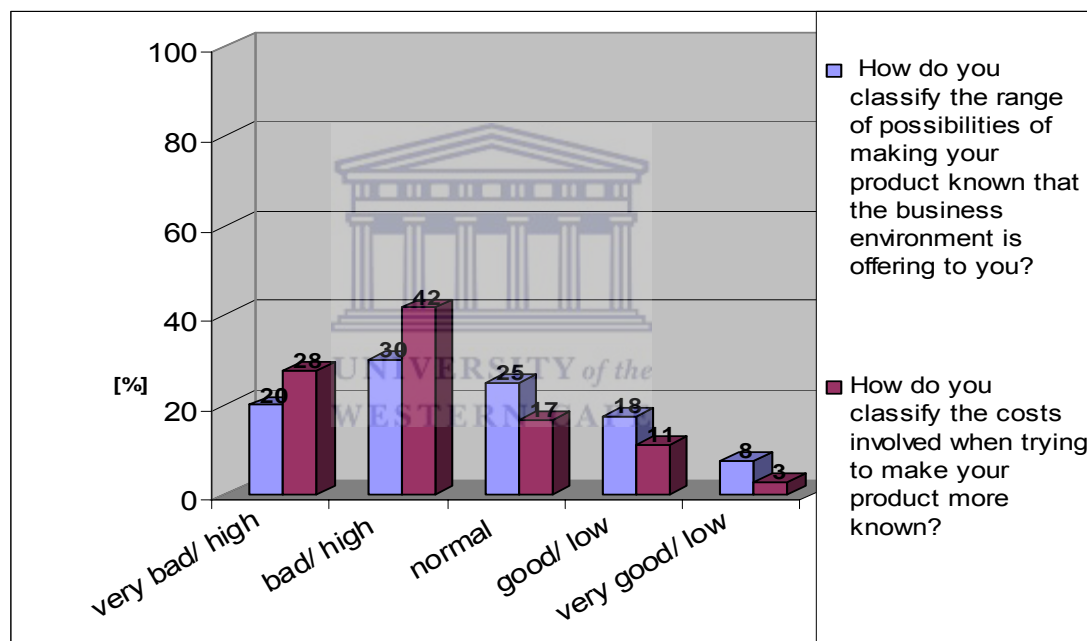
That next set of indicators that is discussed also refers to transaction costs that are associated to coordination problems. The analysis focuses on the one hand on costs for marketing activities and on the other hand on the possibilities that are offered to

²⁰⁶ See Annex 1 and questions 38 and 39.

entrepreneurs to market their product or service. The worse the possibilities and the higher the costs for marketing, they higher are the associated coordination costs. Figure 25 gives an overview of how the respondents classify the range of possibilities for making their product known and on the costs associated to that.²⁰⁷ The graph reveals that at least 50% of the respondents opt for a classification that indicates high or very high transaction costs. Therefore it seems that the respondents face unfavorable transaction costs that can be related to the coordination problem and the matter of making their products and services known. This leads us to the following policy recommendation:

- ❖ Government policies should aim for the promotion of a diversified press and media.

Figure 25 Distribution of the answers for the questions that are related to the possibilities of making their product/service known and to the costs involved in doing so.



Questions 41a of the entrepreneur questionnaire refers to fear of crime and in case of an affirmative answer the entrepreneurs were asked to classify their level of fear. The higher the level of fear the higher are the market transaction costs that result, for example, from the respective security costs. Additionally, a high level of fear can also indicate a tendency of potential entrepreneurs to discard their business plans due to prohibitory market transaction costs as the result of security concerns for their business. The distribution of answers regarding fear of crime in Table 11 shows that the majority of respondents is afraid of crime. However, the distribution of answers regarding the level of fear in Table 12, indicates neither excessive levels of fear nor widespread low levels of fear.

²⁰⁷ See Annex 1, questions 51 and 52.

Table 11 Distribution of answers to the question related to the fear of crime Yes or No.

		Frequency	Valid Percent	Cumulative Percent
Valid	yes	32	66,7	66,7
	no	16	33,3	100,0
	Total	48	100,0	
Missing	NA	2		
Total		50		

It might be justifiable to resume that although fear of crime is widespread (66,7% of the respondents), the majority of respondents that are afraid of crime do not seem to be profoundly worried of crime (“normal”, “low”, “very low” levels of fear). Therefore the transaction costs related to crime seem to be limited. The pictures changes when we only take into account those entrepreneurs that have not yet registered their business. Of those around 78% are afraid of crime and 61,1% would subsequently classify their level of fear with “very high” or “high”. Based on these considerations we can derive the following policy recommendation:

- ❖ An increase of the safety especially of informal entrepreneurs and their businesses should be achieved. Special emphasis should receive the safety of market areas and their access ways.

Table 12 Distribution of answers: Level of fear

Level of Fear		Valid Percent	Cumulative Percent
Valid	very high	28,1	28,1
	high	18,8	46,9
	normal	34,4	81,3
	low	15,6	96,9
	very low	3,1	100,0
	Total	100,0	

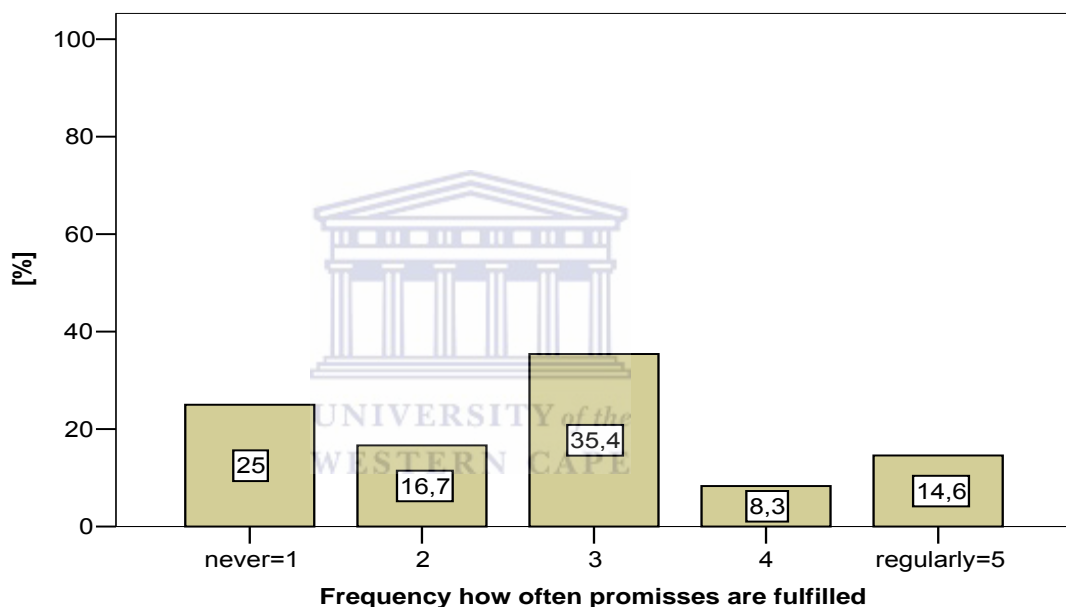
Indicators for the level of motivation costs are investigated in the next paragraphs.²⁰⁸ The following question intends to describe the level of trust within society, which is applied as an indicator for motivation costs (For further explanations regarding the indicator “level of trust” see page 42). Figure 26 displays the results of the question “If something was promised to someone, with what frequency do you think these promises will be fulfilled?”. The more frequently promises or commitments are kept the lower are contract enforcement costs. In case promises are frequently not kept in business live, expensive side agreements become necessary or a transaction might not happen at all. As almost two times more respondents opt for categories one (answer categories 1=never, 2, 3, 4, 5= regularly) and two than for the categories three

²⁰⁸ See Annex 1 and questions 44 and 45.

and four, one can perceive a tendency to a low level of trust in society. Therefore, the résumé for this question is that the associated motivation costs as market transaction costs tend also to be rather on the negative, higher side. The following policy recommendation results from this finding:

- ❖ NGOs and educational institutions like schools and universities should increase their efforts to show the people the benefits of a behavior that is guided by ethics and morality. Government should support these efforts for example by the introduction of ethics as a compulsory school subject.

Figure 26 Distribution of the answers for the question “If something was promised to someone, with what frequency do you think these promises will be fulfilled?”



We now turn to official contract enforcement mechanisms and how they are perceived by the respondents. One question tries to measure the level of acceptance of the police by asking the entrepreneurs if he/she felt cheated, with what frequency would the respondent call upon the police for help (see also page 41 for further elaborations regarding the variable “acceptance of police”). Another question tries with a similar approach to verify the acceptance of courts as a means of contract enforcement. If potential entrepreneurs would be confident that they could call upon the police or upon courts for help, they would probably be more responsive to enter contractual relations. Police and court action could help them overcoming the fear of opportunism. Consequently the acceptance of police and courts serves as an indicator for the extent of market transaction costs that are related to the motivation problem. If these costs would become prohibitively high a worthwhile transaction might not happen.²⁰⁹ Figure

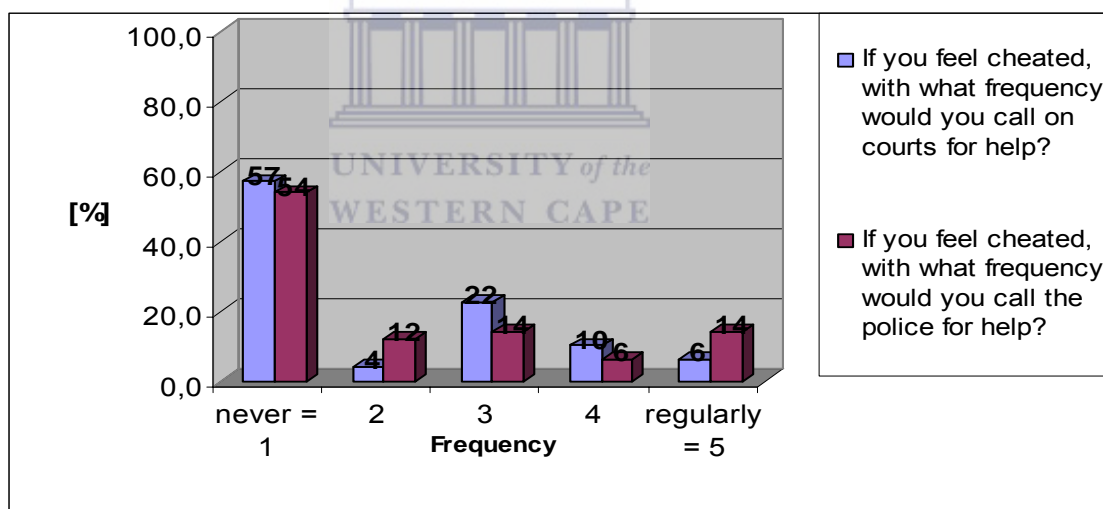
²⁰⁹ Milgrom & Roberts, 1992, p. 30.

gives an impression of answers to the respective questions. The distribution in Figure 27 points toward a low rate of acceptance of courts and police.

According to an expert, the court costs are too high, especially if one considers the Angolan minimum salary of around 50 USD/month²¹⁰ and even though Angolan laws provide with Decree-Law 15/95 the opportunity for those with insufficient funds to receive legal assistance. This assistance comprises the total or partial take-over of court and lawyer costs. The articles of the law lay out the legitimacy, application procedures and further regulations regarding this legal assistance.²¹¹

According to the expert, the provisions that are mentioned in decree-law 15/95 are not fulfilled in reality. Furthermore, court cases take a long time to be resolved (sometimes years) and at the end there is no guarantee that the problems that had been the reason why courts were called are resolved. The conclusion of the expert is that the legal system in Angola is not functioning properly.²¹² This information together with the distribution of the answers in Figure 27 seem to indicate high market-transaction-costs that are consequential to the low acceptance of courts and police.

Figure 27 Feeling cheated and the frequency, with what the entrepreneurs would call upon courts/police for help



Based on the considerations regarding the acceptance of courts and the police, the following policy recommendations are formulated:

- ❖ The government should launch an investigation led by independent researchers to reveal why the trust in the police force is so low and with what measures in the short, medium and long term this level of trust could be increased substantially. The results of this research should be put into practice.
- ❖ An influential specialist commission should investigate in detail the reason for the non-functioning juridical system with the goal of reviving this system.

²¹⁰ Sr. Faustinho (Interview), 2005.

²¹¹ Republica de Angola, 1995, pp. 492-497.

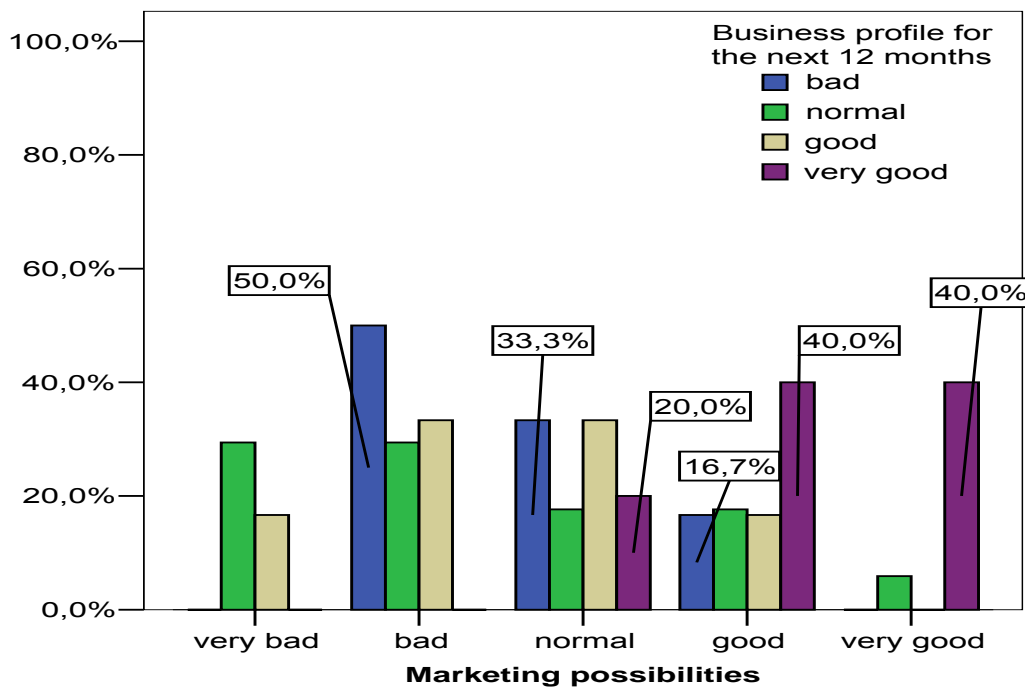
²¹² Sr. Faustinho (Interview), 2005.

Finally, the juridical system should be of use also for those citizens with little means, including the provision of legal counselors for free to MSMEs.

Now, in order to investigate proposition four which states “*Potential entrepreneurs are limited in doing business, because the institutions in place lead to high market-transaction costs*” and the link between high market transaction costs and limitations of entrepreneurs when doing business has to be examined. Therefore, the indicators regarding the development of the MSMEs have to be considered again. Before (see pages 62f) the business outlook and the development of the number of employees gave a rather “neutral” standpoint with overall more positive than negative answers although the examined transaction costs seemed to be rather high. A comparable situation is the case at this point. The indicators show a tendency towards high market transaction costs but the indicators on growth and survival of MSMEs do not go along with that. In order to explain this apparent discrepancy, the elaborations that are raised in the last section can be applied as well.

Nevertheless, with a cross tabulation analysis regarding the perception of the marketing possibilities and the business outlook for the next 12 months, a pattern is revealed that seems to support the hypothetical interrelation between high market transaction costs and limitations in doing business. The graphical outcome of the cross tabulation analysis can be viewed as a clustered bar-chart in Figure 28. There it is visible that the positive classification on the one hand and the negative classification on the other hand for the business outlook tends to increase or decrease over some range along the x-axis: For example, the better the classification for the marketing possibility the lower is the percentage of “bad” (blue) classifications for the outlook of the business activity over a certain range of the x-axis. A comparable tendency can be observed for the violet bars, just the other way round. These observations seem to indicate a slight support for the hypothesized link between market transaction costs (indicated by marketing possibilities) and the growth and survival of MSMEs (indicated by the business outlook).

Figure 28 Cross tabulation: The distribution of the answers regarding the questions for “marketing possibilities” versus “outlook for business activity”:



This section looked upon proposition four which states “*Potential entrepreneurs are limited in doing business, because the institutions in place lead to high market-transaction costs*”. At the beginning telephones and their significance for MSMEs are considered. Most of the respondents that neither use mobile, nor fixed telephones seem to be hindered by doing so due to high costs involved. Generally, the analysis reveals that there are high coordination costs related to the use of telephones. Furthermore, possibilities and costs of making MSME-products more known are investigated. These indicators also reveal that entrepreneurs are facing rather high coordination costs. The analysis shifts then to the investigation of indicators for motivation costs. The level of trust, as an indicator for motivation costs, reveals a tendency towards higher transaction cost. The level of acceptance of courts and the level of acceptance of the police exposes that the questioned entrepreneurs do not have much trust in these institutions. Together with the insights of a separate expert interview,²¹³ the findings seem to indicate high transaction costs related to the motivation problem. In order to elaborate on the correlation between the indicators for market transaction costs and indicators for the development of MSMEs, investigations from former sections are partly adapted. The apparent discrepancy between rather high motivation costs and the information received about the development of MSMEs reminds of the discussion in the past section. However, a cross tabulation analysis between a set of answers that is used to reveal coordination problems (marketing possibilities) and a set of answers that gives insights regarding the development of the

²¹³ Sr. Faustinho (Interview), 2005.

MSMEs (business outlook) gives results that are in line with what is hypothesized. As this link does not seem to be very strong or clear, generally, it has to be concluded that it is not possible to find support for the linkage between market transaction costs and the development of MSMEs, as probably various other factors are also influential.

So far the propositions investigated are all related to the supply-side effect. The following section relates to the demand-side effect. All data that tries to reveal demand-side transaction costs is taken from the expert questionnaire, as the experts could have fewer tendencies to draw an excessively positive picture on MSMEs. Additionally, it is likely that they have a better overview of the situation in the area of analysis.

Analysis of the demand-side propositions

Before starting with the analysis of the demand-side propositions, two questions are discussed that reveal levels of demand side coordination costs and that do not specifically fit into one of the propositions. The first question tries to reveal the possibilities that clients have to get information regarding the location where products or services can be found. The easier clients can get this information the lower would be the associated coordination problem and the resulting coordination costs. The graphical presentation of the answers in Figure 29 indicates fairly high coordination costs that clients of MSMEs are facing. The responses regarding the possibilities of MSME-clients to get information about prices of products/services are discussed next. The answers of the experts are presented in Figure 30 and have a comparable distribution than in Figure 29. Both distributions indicate rather high transaction costs that potential clients of MSMEs are facing.

Figure 29 Distribution of the answers for the question regarding the possibility for clients to get information about the location where products or services can be found.

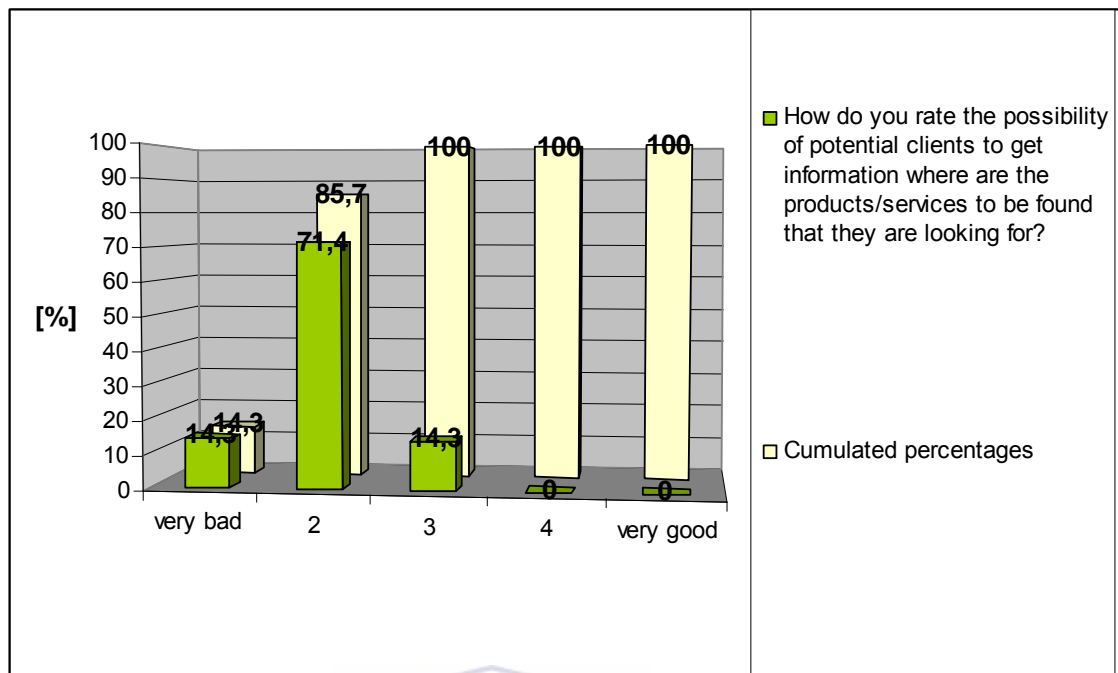
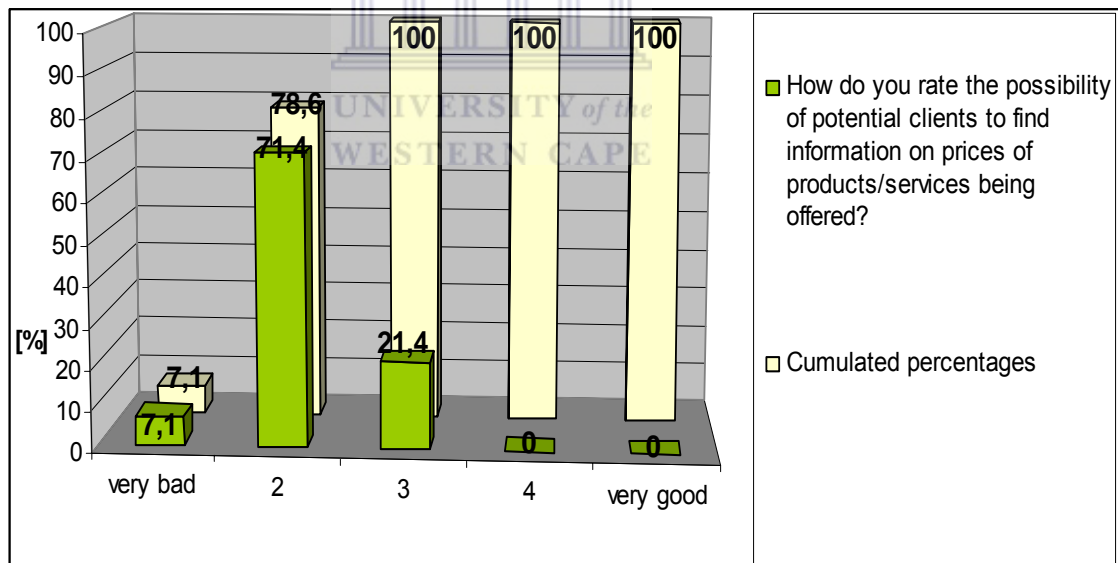


Figure 30 Distribution of the answers for the question about the possibility for clients to get information about prices of products/services



We can state that these findings and possible resulting policy recommendations are interlinked to some indicators that are mentioned as supply side indicators for coordination costs, like for example telephone costs or marketing possibilities. The reason for that is that these indicators are demand- and supply side indicators (see also page 21 for more information about these kinds of indicators). Nevertheless, with the following policy recommendation we can emphasize the client perspective:

- ❖ The government and other agencies like NGOs should put a special emphasis on the education/training of the people in the use of instruments

that enable clients/entrepreneurs to get information and to inform others, e.g. computer and Internet.

- ❖ The government should initiate and support the upgrading of business directories and yellow pages. Furthermore, it should provide easy access to these media.
- ❖ The government should support the dispersion of internet connections and internet cafes through tax exemption for related businesses and through financial support for the installations of relevant infrastructure (e.g. import tariff exemptions).

Analysis of institutions that act in the interest of clients, market transaction costs for clients and demand of MSME products (demand-side proposition 1)

The first proposition regarding the demand-side effect states the following: *“There are no suitable institutions in place or enforced that help representing the interest of clients. That leads to high market transaction costs on the buyers’ side and the demand for the MSME-services or -products is suffering”.*

The analysis begins by referring to a question that tries to reveal the existence of institutions that have an effect on the treatment and the protection of clients. It is formulated like follows: “To your knowledge, does an organization in Angola exist that acts in clients’ interest, e.g. an organization that informs clients about dangerous products or generally acts to protect clients?”²¹⁴ 9 out of 14 experts declare, that such an organization exists, which is confirmed by a document analysis: Within the structure of the finance ministry and under the organizational heading “Protected Organs” a “National Institute of Consumer Protection” (“Instituto Nacional de Defesa do Consumidor”) is listed.²¹⁵

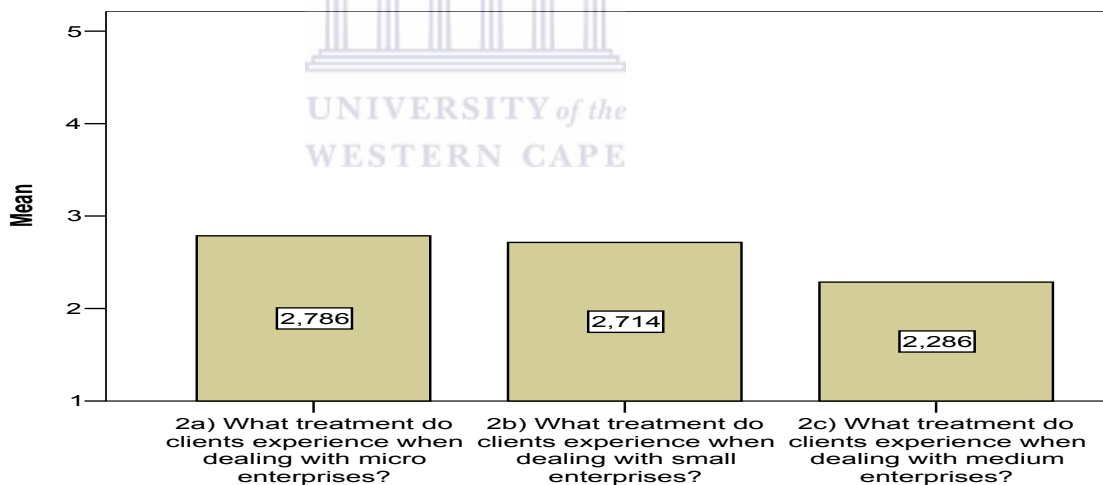
However, only three experts say that this organization is active in the region of analysis. Of those three the median answer is “3” to the question “What is the influence of this organization in the coastal area of the Benguela Province?” (answer categories low=1, 2, 3, 4, 5=high). Consequently, we can resume that although on national level a consumer protection organization exists, the influence of this organization is rather low. This lack of institutional backing for the protection of clients could mean higher transaction costs for clients. For example, it could happen that a client tends to be treated badly and therefore is forced to spend time and money (e.g. for transport) searching the market for another similar product/service. Also, a client might not be able to return a defect product for refund to the place of purchase and loses the invested money. In case a service was provided to a client by a MSME, the client might be forced to see the MSME several times before he/she is satisfied with the service. The described hazards lead to high market transaction costs for clients. These could be coordination costs, e.g. if the buyer is forced to search the market for other sellers,

²¹⁴ See Annex 2 and question 6.

²¹⁵ Republica de Angola, 2000, p. 502.

or motivation costs, e.g. if the transaction is not realized because the client fears to lose money and/or fears to get a bad product/service. Based on the above mentioned examples, high market transaction costs should be revealed by asking for the opinion of the experts regarding the treatment that clients face when dealing with MSMEs.²¹⁶ At this point, a distinction between micro- small- and medium- sized businesses was made while the possible answer categories are “very bad =1, 2, 3, 4, 5=very good” for each. According to the means (see Figure 31) the classification for the clients’ treatment is worsening with increasing size (number of employees) of the MSMEs. In the case of micro and small businesses, we can interpret the result as neither good nor bad as the mean is close to the neutral “3”. However, this changes for medium size businesses. There the mean is with “2,286” clearly on the side that stands for rather bad client treatment which is confirmed by the cumulative percentage: Over 71% of all respondents classify this answer with either “1” (very bad) or “2”. This result would indicate rather high market-transaction costs for clients of medium enterprises, whereas the result would not confirm the prevalence of higher market transaction costs for clients of smaller businesses.

Figure 31 What treatment do clients experience by MSMEs? (Mean for answer categories “very bad=1, 2, 3, 4, 5=very good”)



A reason for this indication might be that clients can benefit from a less anonymous atmosphere when dealing with micro- or small- enterprises which leads to a better client orientation by the entrepreneurs. Seemingly, with the decreasing business size the increasingly intimate climate seems to replace external institutions. We can summarize the considerations in the last paragraphs with the following policy recommendation:

²¹⁶ For the exact wording of the question see Annex 2 and question 2.

- ❖ The government should open branches of the “National Institute of Consumer Protection” in Benguela and Lobito. Furthermore, the management of these offices should be equipped with adequate funds and skilled personnel to fulfill their task as an institution that should lead to more consumer protection in the region.

After this policy recommendation we can proceed to the summary regarding the analysis of the proposition “*There are no suitable institutions in place or enforced that help representing the interest of clients. That leads to high market transaction costs on the buyers’ side and the demand for the MSME-services or -products is suffering*”. We can state that for clients of micro- and small businesses, the experts’ perception regarding how clients are treated does not indicate high demand-side transaction costs. However, if a client is dealing with medium sized companies the treatment gets worse which indicates higher demand-side transaction costs.

The answers regarding the existence of an organization that represents clients’ interest reveals that only three of the 14 experts say that the organization is active in the region. This indicates a rather low influence of this organization on buyers and sellers. Therefore, the hypothesized link between missing influence of institutions that help to protect clients and higher transaction costs for medium sized enterprises seems to hold true.

However, the clients of smaller sized companies seem to receive a better treatment which does not indicate that they are confronted with higher market transaction costs as it is proposed in the proposition. It could be that, as the relations between buyer and seller are getting more intimate, internal institutions take over the role of probably insufficient external institutions. In this case, the respective part of the proposition does not seem to hold true. Also, with regard to the link between demand-side transaction costs and the indicators for the demand for products/services (see pages 62f), the proposition does not hold.

Analysis of quality standards and the motivation to buy locally produced goods (demand-side proposition 2)

The second proposition regarding the demand-side effect states the following: “*There are no quality standards inherent in the government regulations. This does not motivate clients to demand locally produced products*”.

We can relate quality standards for products to their reputation and to the consumers’ willingness to pay for these products. Institutions that influence the certification of certain products according to quality standards enable clients to verify that a product or service is of a defined quality. The existence of these quality standards makes it likely that entrepreneurs are motivated to improve the quality of their output. This in return has a positive effect on the demand of locally produced goods.

Regarding the proposition that there are no quality standards inherent in government regulations, the document analysis did not reveal institutions that deal with quality standards. Thus, the 14 experts were asked if quality standards exist for products produced in Angola.²¹⁷ The question was intended to reveal the existence of official quality standards, like the European quality standard and if necessary explanations in that direction were given to the respondents.

71% of the respondents answered “yes” and 29% with “no” or “I do not know”. If there would exist any official quality standards, a response rate of 29% stating not to know them, seems to be quite high. One reason for this relatively high percentage could be that the production level in Angola is low and even the experts might have not yet come across a respective law or regulation. Another reason for this distribution between the Yes/No categories could be that some of those respondents that know quality standards (71%) related the question to individually or privately enforced quality standards, i.e. misunderstood the question, whereas others related it to official quality standards that are put into practice by the state authority. In case of privately enforced quality standards, a higher quality is likely to appear, as well. However, in this case it is more difficult for a consumer to verify if a product was really produced according to that privately enforced standard. Nevertheless, the questionnaire result rejects the proposition that there are no quality standards inherent in government regulations.

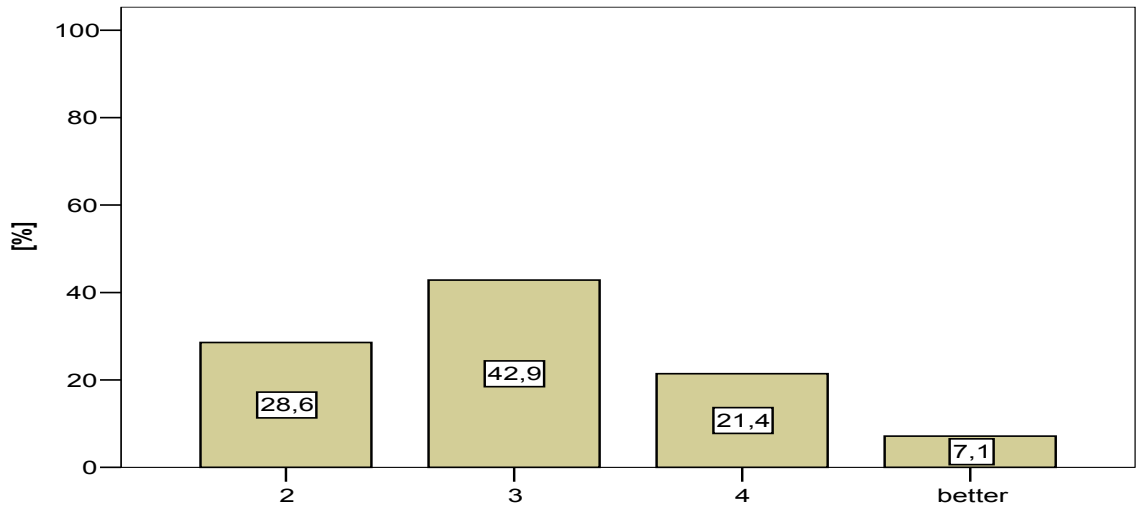
In order to further investigate the proposition, the motivation of clients to buy locally produced goods is analyzed. The motivation of clients is influenced by motivation costs. These costs were revealed by questioning the experts about the reputation of locally produced goods compared to imported products. The tendency of consumers to (be willing) to pay more for imported products than for local products is applied as another indicator for the motivation of clients to buy locally produced goods.²¹⁸ The answers to these two questions should give indications regarding the quality of the respective products. In case a product is associated with a high quality or reliability, the information incompleteness in the transaction is reduced. A potential buyer would be more willing or motivated to demand these kinds of products.

The graph in Figure 32 does not reveal a relevant difference between the reputation of local products and imported products. This result therefore does not support the second part of the proposition that states “*This does not motivate clients to demand locally produced products*”.

²¹⁷ See Annex 2 and question 3.

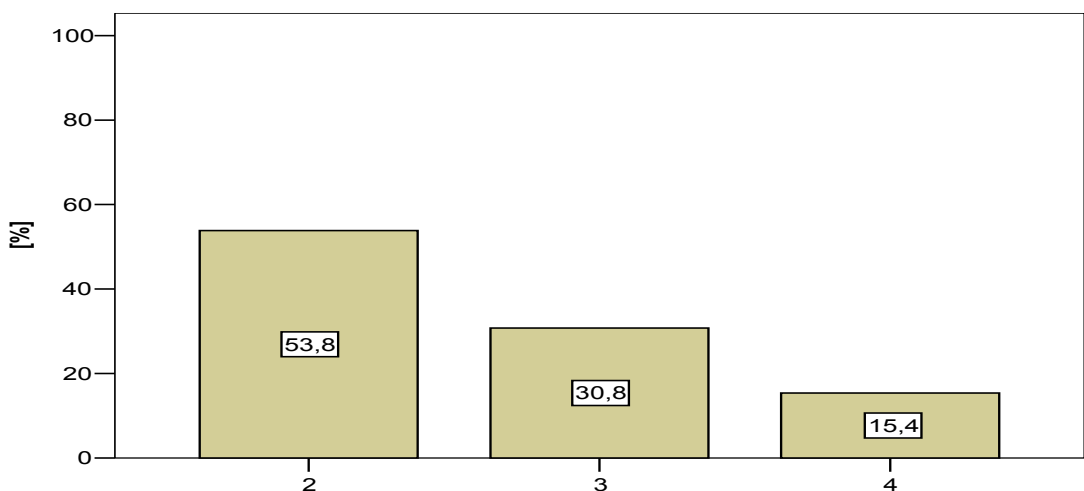
²¹⁸ See Annex 2 and questions 4 and 5.

Figure 32 Distribution of the answers to the question “How is the reputation of locally (in Angola) produced goods in comparison to imported goods with comparable characteristics? (worse=1, 2, 3, 4. 5=better)



The graph in Figure 33 regarding the tendency to pay more for imported goods shows a bias towards the answer categories that indicate a higher willingness to pay for imported than for local goods. This could indicate higher demand-side market-transaction costs for those who buy local products and would confirm the second part of the proposition (“*This does not motivate clients to demand locally produced products*”).

Figure 33 Distribution of the answers for the question about the tendency that consumers are willing to pay more for an imported good than for a locally (in Angola) produced goods (strong=1, 2, 3, 4. 5=weak)



The comparison of Figure 32 and Figure 33 reveals a contradictory element: If the reputation of local versus imported products is more or less alike why should a

consumer be willing to pay more for an imported product than for a local product with similar characteristics. It could be that the question regarding “the willingness to pay more for a product” touches the topic in a more subtle way. Therefore, on the one hand, this question and not the question regarding “the reputation of a product” could be more suitable in revealing differences in the perception of quality between imported and locally produced goods. On the other hand, non-quality and non-motivational costs-related issues could play a role, too. For example, imported products could be more “in” to possess and show although the quality of imported products is not perceived differently than the quality of locally produced products.

This section looked upon quality standards and the motivation of clients to buy locally produced goods. The experts’ answers could not confirm the hypothesized lack of government regulations regarding quality standards. However, the distribution of the answers could indicate that not all respondents understood the questions in the same way.

The answers to the question regarding the reputation of products do not indicate higher transaction costs for buyers of locally produced good than for imported ones. In contrast, the answers regarding the tendency of buyers to pay more for imported goods indicate higher transaction costs for buyers of locally produced good than for imported ones. When considering both questions (and their characteristics), the tendency of potential buyers not to be motivated to buy local goods seems to be low. This and the rejection of the hypothesized lack of quality-related government institutions does not give support to the formulated proposition.

Analysis on the demand for MSME-products and high contract enforcement costs for clients (demand-side proposition 3)

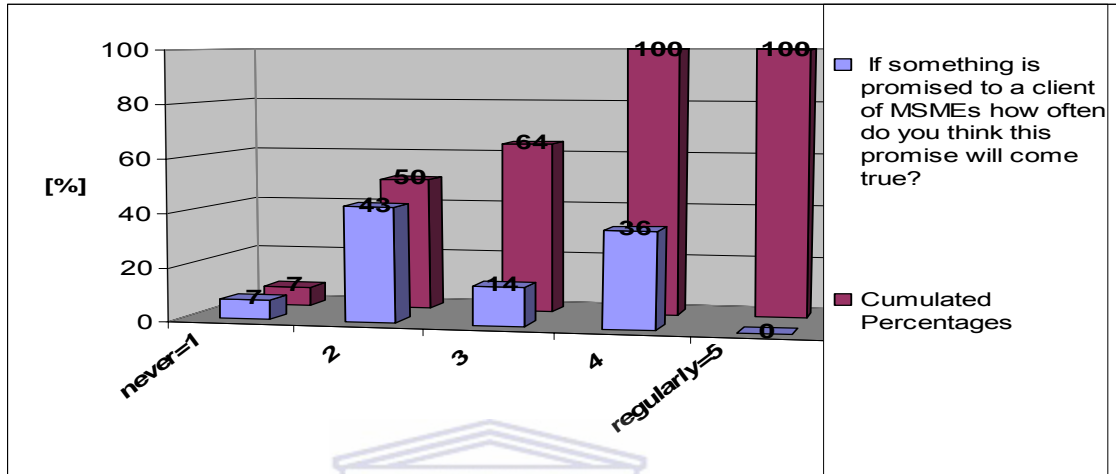
The third propositions regarding the demand-side effect states the following: *“The institutions in place lead to high motivation costs related to contract enforcement for clients of MSMEs”*.

The answers to the questions that are related to contract enforcement are looked upon in this paragraph. The first indicator that is focused on is the level of trust within the society (for further elaborations on this indicator see page 42). It was already applied for the analysis of demand-side transaction costs and for the analysis of inequality issues. As the clients are in the focus now, the question was changed slightly as to address the demand-side and not the supply-side. It was formulated as follows: “If something is promised to a client of MSMEs, how often do you think this promise is coming true?”²¹⁹. A high frequency of kept promises would indicate a high level of trust in a society. That could signify, for example, that a buyer can rely more on the product

²¹⁹ See Annex 2 and question number 14.

qualities that were assured by the seller or delivery dates are more likely to be met. As one consequence a buyer is confronted with less motivation costs and therefore is more willing to enter a transaction.²²⁰ Figure 34 shows that the majority of the respondents opted for answer categories that indicate a trend to higher motivation costs.

Figure 34 Distribution of the answers to the question “If something is promised to someone how often do you think this promise will come true?”



The level of acceptance of courts was asked for in order to reveal motivation costs (for an elaboration on “acceptance of courts” - but from the supply-side perspective - see page 74) for dispute solution and contract enforcement. In case of a high acceptance of courts, sellers would probably feel more bonded to their promises and to contract fulfillment. The buyers consequently would feel more protected; they would feel less vulnerable against opportunism, which would result in less motivation problems that give rise to motivation costs. Therefore clients would be more willing to pursue a business relation with a seller, which in return would result in more worthwhile transactions taking place.²²¹ The following question was asked in order to reveal the level of acceptance: “If you imagine that a client feels like being deceived by a MSME, please rate the frequency this client would call on courts for help?”²²². The distribution of the answers to this question as shown in Figure 35 reveals a very low acceptance of courts. Moreover, an additional interview revealed that the judicial system is not working and the court costs are high, particularly in relation to the low minimum salary.²²³ A decree law would give the basis to (partly) take over court- and lawyer costs for those who have not sufficient funds.²²⁴ In reality, this decree is not effective

²²⁰ Milgrom & Roberts, 1992, p. 30.

²²¹ Milgrom & Roberts, 1992, p. 30.

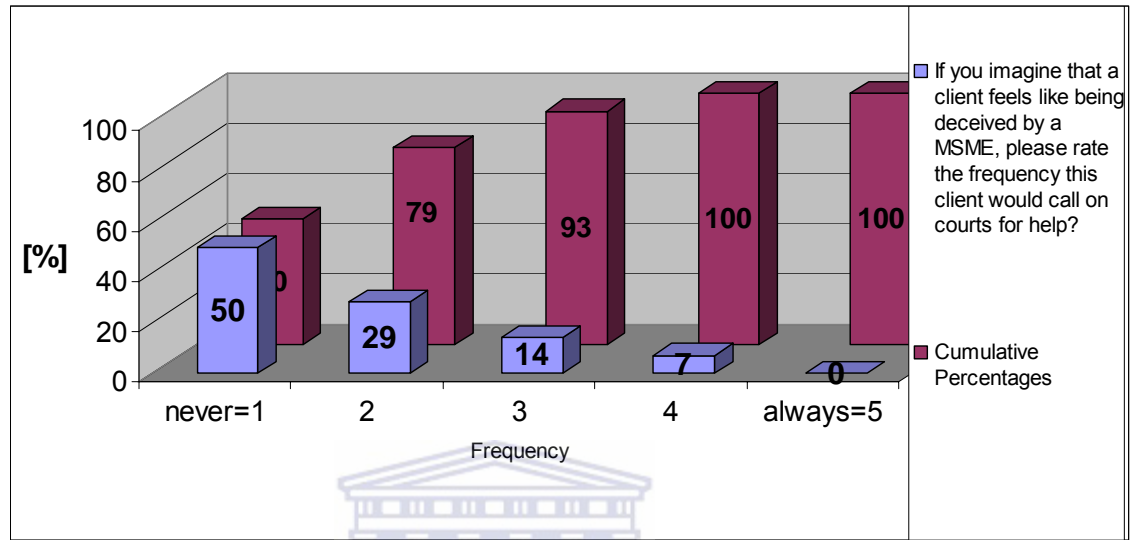
²²² See Annex 1 and question 10b.

²²³ Sr.Faustinho (Interview), 2005.

²²⁴ Republica de Angola, 1995, pp. 492-497.

(for further elaborations on that topic see page 75).²²⁵ The last mentioned information itself and particularly together with the distribution of the answers to the question related to the acceptance of courts as shown in Figure 35 seem to indicate high motivation costs related to contract enforcement for clients of MSMEs.

Figure 35 Distribution of the answers to the question “If you imagine that a client feels like being deceived by a MSME, please rate the frequency this client would call on courts for help?”



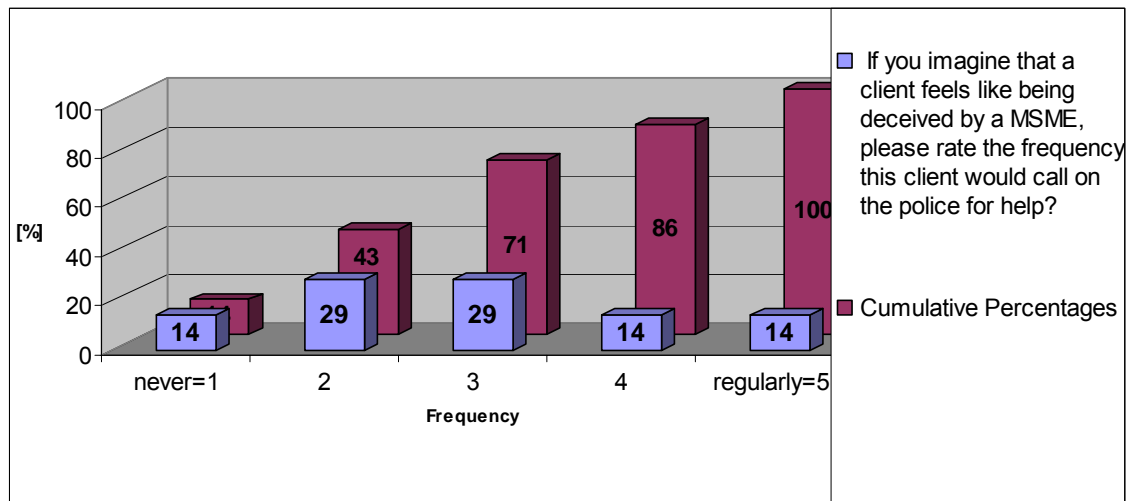
The acceptance of police is applied as the last indicator to investigate the motivation costs regarding contract enforcement. In case of a high police acceptance clients would feel more protected. Furthermore, they would feel less vulnerable against opportunism which would mean less motivation problems for them that give rise to motivation costs.²²⁶

The results (Figure 36) indicate that the acceptance for police is higher than for courts. However, a relatively high percentage of the experts (71%) opted for a rather low frequency that a client would call upon the police for help. Therefore the graph indicates a rather low acceptance of the police. Remarkable is the fact that 2 experts (14%) think that clients never would call upon the police for help. Therefore one can conclude that the answers to this question also seem to indicate higher motivation cost related to contract enforcement.

²²⁵ Sr.Faustinho (Interview), 2005.

²²⁶ Milgrom & Roberts, 1992, p. 30.

Figure 36 Distribution of the answers to the question “If you imagine that a client feels like being deceived by a MSME, please rate the frequency this client would call on the police for help?”



We have to state that none of the indicators that aim to reveal the level of motivation costs related to enforcement of contracts indicates lower ones. Many of the respondents in all three examined questions opted for answer categories that indicate low acceptance of courts/police and a low level of trust.

Further information on the institutional environment reveals that relatively high court and lawyer costs, a non-functioning judicial system and a “pro-poor” law that is not put into practice also indicate a tendency to high transaction costs for MSMEs related to contract enforcement. Overall, the analyzed data confirms the hypothesized link between institutions and higher motivation costs for clients of MSMEs regarding contract enforcement.

Conclusion

This chapter begins with an overview of the characteristics of the entrepreneur and of the expert sample. Regarding the entrepreneur sample, it is revealed that most of the respondents are doing their business in Benguela (52%) and Lobito (30%), which reflects that these two cities are business- and population-wise the hubs of the region. The clear majority (70%) of the respondents has less than 5 employees and regarding the field of activity the statistics reveal that most entrepreneurs are active in the retail business (68%) and in the hotel and restaurant business (24%). 23% consider themselves members of the MPLA. Regarding the expert sample, six out of 14 experts are members of the MPLA.

In the subsequent section topics of inequality are discussed. Indications from literature were compared to the results of the questionnaire analysis. Contrary to these indications, the answers of the respondents could not confirm that women face higher

transaction costs when doing business.²²⁷ As the result is strongly influenced by the male perception, it is not prudent to draw any conclusions regarding the perception that women face lower transaction costs. However, in explaining why women were sometimes considered as having an advantage as entrepreneurs,²²⁸ it was often argued that they showed more responsible behavior in respect of their expenditure and their debt commitment. This perception might also be shared by banks and this could influence their credit granting policy. This was confirmed by an interview with a manager of Banco Sol.²²⁹

Regarding other groups, entrepreneurs that are MPLA-members or military/police authorities seem to face lower transaction costs when doing business. The distribution of the answers regarding the acceptance of the police, discloses that MPLA-members show a higher acceptance of the police than non-members. This could be an indication for a better treatment and consequently lower motivation costs that MPLA-members oppose vis-à-vis the police authority. Also, the results related to the level of trust in society seem to indicate that MPLA-members experience lower transaction costs than non-MPLA Members.

The analysis then continues with proposition two and focuses on non-market transaction costs that are related to the establishment of MSMEs. The information that is obtained in this regard indicates that time and money involved in ownership-transfer and user rights-transfer lead to high transaction costs that new entrepreneurs are facing. The focus then shifts to the actual registration process. The non-market transaction costs are high or very high if the entrepreneurs use bribes for the process of registering their business. In case the entrepreneurs refrain using bribes, the indicated duration of the process extends to at least 9 months, which also indicates rather high non-market transaction costs. We conclude that institutions, especially the internal ones connected to corruption, seem to imply high non-market transaction costs. This in return has the potential to discourage an entrepreneur to officially establish a new business. The conclusion is valid for the process of a full business registration but not, for example, for the process of registering a business as a market salesperson. Depending on what kind of business needs to be registered the regulations differ.

The analysis moves from the establishment-oriented focus towards already established MSMEs. Non-market transaction costs continue to be the focal point of the elaborations and again corruption is used in order to get an indication on the level of these kinds of costs. The related response set indicates rather significant non-market transaction

²²⁷ See Annex 1 and 3, questions 33, 34 respectively.

²²⁸ See question 34 in Annex 1.

²²⁹ Sr. Emanuel (Interview), Lobito, 2005.

costs while doing business. Furthermore, costs and time invested by the entrepreneurs to comply with business regulations were asked for. Again, the results give the impression that the entrepreneurs are facing rather high non-market transaction costs, being direct costs or time costs that are consequential to the institutional environment. Conspicuous institutions that seem to be particularly responsible for causing high transaction costs are the Economic/Fiscal Police and the customs authority.

Regarding the tax system in Angola, it stands out that its design can damage the financial balance of a MSME because a loss making entrepreneur is still obliged to pay taxes. Therefore, the Angolan practice can drive businesses into bankruptcy especially when a business was facing losses over some years. This prospective can hinder the motivation of new businesses to be maintained (officially) or to come into existence (officially).

The indicators that were applied to give information about the development of MSMEs seem to indicate a rather “neutral” standpoint of the questioned entrepreneurs with overall more positive than negative answers. Therefore the proposition *“The institutional environment discourages potential entrepreneurs from maintaining MSMEs because they are confronted with high non-market transaction costs once the MSME is in place.”* could not be confirmed although the impression is gained that the entrepreneurs face high non-market transaction costs when doing business.

With proposition four (*“Potential entrepreneurs are limited in doing business, because the institutions in place lead to high market-transaction costs”*) market-transaction costs come into play. In order to get an indication for coordination costs, the questions for the entrepreneurs tackle telephone related issues, marketing cost and marketing possibilities. The answers to these questions tend to indicate rather high coordination costs. With the intention of getting an idea about motivation costs, again the level of trust in society, the acceptance of the police and the acceptance of courts is analyzed. All questionnaire results, but especially the ones related to the two last mentioned issues, seem to indicate rather high motivation costs for MSMEs. The bad acceptance of courts by the entrepreneurs is confirmed by an expert interview,²³⁰ although a special decree-law exists to support for poor people in need for legal help.

In order to verify how the mentioned market-transaction costs are influencing the business success of entrepreneurs cross tabulation calculations are done. With a cross tabulation analysis regarding the perception of the marketing possibilities and the business outlook for the next 12 months, a pattern is revealed that seems to support the hypothetical interrelation between high market transaction costs and limitations in doing business.

²³⁰ Sr.Faustinho (Interview), 2005.

Demand-side transaction costs are in the focus for the rest of the section. Firstly, the question, if institutions exist that act in the clients' interest is approached. The answers together with the result of the document analysis show that such an institution exists but further responses indicate a low influence of this organization in the region. This could lead to higher demand-side transaction costs.

Secondly, the opinion of the experts regarding how clients of MSMES are treated is discussed. Bad client treatment is regarded as an indicator for high coordination costs. The result indicates that with increasing business size the client treatment is declining. For micro and small business neither a particularly bad treatment nor a particularly good treatment could be revealed. However, 71% of the experts opted for answer categories that stand for high market transaction costs for clients, when they classified the client treatment by medium-sized enterprises. Only for one part of the proposition (*"There are no suitable institutions in place or enforced that help representing the interest of clients. That leads to high market transaction costs on the buyers' side and the demand for the MSME-services or -products is suffering"*) it is possible to find indications that lead to an acceptance of the hypothesized link. This link is revealed between the missing influential institution and the worse treatment of client by medium-sized businesses.

Proposition two of the demand-side proposes the link between missing quality standards, and lacking demand for locally produced goods. It could not be confirmed that quality standards are missing. The following analysis on two indicators that should reveal the demand-side transaction costs and therefore should indicate the demand of locally produced goods does not seem to confirm the hypothesized lack of demand for these products.

Institutions that might lead to high motivation costs are the focus of the last demand-side proposition (*"The institutions in place lead to high motivation costs related to contract enforcement for clients of MSMEs"*). All the three indicators that are applied in order to give indications regarding motivation costs indicate high costs. The institutional environment seems to put high costs on users of the legal system in the province of analysis. The hypothesized link between institutions and the high motivation costs on clients seems to hold.

In the following chapter six a quick overview of the proposition is taken and the policy recommendations that were developed in chapter 5 are mentioned again.

Chapter 6

Conclusions and recommendations

This research has discovered various indications that MSMEs in the coastal region of the Benguela Province face elevated transaction costs. According to the questionnaire analysis, the levels of entrepreneur-side transaction costs have the potential to demotivate the entrepreneurs. This de-motivation either relates to potential MSME-owners that are thinking about opening a MSME or it relates to those that are already in business. Furthermore, this research points out that institutions have a strong influence on how entrepreneurs perceive the costs of doing business in the area of analysis. The interviews and the analysis of existing regulations reveal that the institutions involved are on the one hand those that are written down and enforced by the ruling power of the state. On the other hand institutions could be revealed that cannot be found in any provincial law but are internal in society, like corruption or inequality. Both, internal and external institutions significantly increase the level of entrepreneur-side costs of doing business. The research findings propose that a negative influence by these institutions on the development of the MSME-sector is likely as they negatively influence the level of entrepreneur-side transaction cost.

Regarding client-side transaction costs also increased levels of transaction costs could be revealed. The institutional environment that clients of MSMEs are facing often does not seem to favor the clients' motivation to demand more MSME-products or -services. Instead, clients have to fear costs - whether these are time or money costs - when buying products or services from MSMEs. This is likely to have the consequence that the demand for MSMEs products- and services is sluggish with negative effects for the MSME-sector.

The findings regarding the institutional environment and the consequential transaction costs point out the leverage we can reach by improving the business environment for MSMEs. Also, the improvement of the clients' position when buying MSME products would increase the demand and therefore help the MSME-sector to develop. The sector is important for economic growth and it can be viewed as one of the easiest ways to guarantee that as many people as possible are able to escape poverty. Due to the influence of the sector and due to the revealed deficiencies regarding institutions in the coastal region of the Benguela region, changes in the institutional environment need to be realized:

Recommendations regarding the proposition that transaction costs differ for certain groups, when establishing or managing a business and the topic of inequality: Klasen calls the effects of lesser inequality "a triple effect of reduced

inequality on poverty”.²³¹ In order to benefit from this “triple effect” the following policy measures are recommended:

- ❖ Introduction of an independent commission to investigate, reduce and penalize preferential treatment of certain entrepreneurial groups by government agencies.
- ❖ To combat income inequality: Introduction of safety nets, progressive income tax system, increasing programs that have a redistributive character.²³²
- ❖ To combat asset inequality: Expansion of micro credit programs and verification on how more poor can have better infrastructure.²³³
- ❖ Generally: As the success of policies that are in favor of pro poor growth, especially in countries that apparently have high levels of inequality, is dependent on coalitions that support pro-poor action, these coalitions (e.g. between government, donors and NGOs) need to be supported. An expansion of the liberated press, a government that is accountable and democratic institutions that are widespread in the country would help these coalitions.²³⁴
- ❖ Recommendations regarding transaction costs during the registration process:

The following policy recommendations refer to the modes of property or user rights transfer and the new land law:

- ❖ The steps that someone has to follow during the process of transferring land, property or user rights has to be streamlined, with the aim of limiting costs and time.
- ❖ It needs to be confirmed that all local managements understand and apply the checking if a use is useful and effective in a way that does not alienate potential investors and new business entrepreneurs.

The following policy recommendations are related to the process of a *full business registration*:

- ❖ Temporary establishment of a commission to develop a white paper on how to make registration easier. The composition of the commission should be clearly independent, i.e. professional groups that usually profit from a complicated process like lawyer and notary should be excluded. A “one-guichet” contact point for the new entrepreneurs should be aimed for all types of business licensing.
- ❖ More information dissemination is required to make people aware of the processes and requirements and to give pressure to simplify processes and reduce costs. The newly organized process should be summarized on an easy to understand information leaflet. Moreover, a consultancy service should be offered to potential entrepreneurs.

Policy recommendations related to the licensing process of full business registration, precarious enterprises, moving salespersons and market salespersons are the following:

- ❖ To combat corruption and mal-functioning: A permanent and independent anti-corruption and supervisory commission should be established. The commission should only be responsible for the business licensing agencies

²³¹ Klasen, 2003, pp. 6-7.

²³² Klasen, 2003, p. 28.

²³³ Klasen, 2003, p. 28.

²³⁴ Klasen, 2003, p. 25.

and agents. The commission should also fight root-causes for corruption like for example delayed salary payments for civil servants and not only deal with the punishment of corrupt civil servants.

- ❖ Generally the business licensing fees should be lowered. However this goal has to go hand in hand with the tasks of above mentioned commission to combat corruption. Otherwise the danger is that civil servants might charge higher bribes instead of higher fees or stop working at all. Furthermore, all new business registration processes should be shortened. The maximum time the process may take should be clearly mentioned in the respective regulation.

Recommendations regarding high non-market transaction costs during ongoing

activities: Based on the high influence of corruption during ongoing activities the following police recommendations are formulated:

- ❖ An independent and influential investigator should figure out why the “Policia Economia” apparently is a main recipient of bribes. A process should be started to fight the root causes of corruption within “Policia Economia”.
- ❖ A permanent independent and influential commission should be established to receive complaints about corruption, to investigate complaints about corruption and to exert pressure on government agencies in order to avoid corruption.

Regarding the time and the money that MSMEs need to invest in order to comply with business regulations, the following policy recommendations are formulated:

- ❖ Executive decree 48/00 (moving salespersons): Reformulation of the rules and regulations with the objective to find formulations that rather support than hinder persons working as a moving salesperson. Make the rules and regulations more appropriate to the situation and compliance capacity of moving vendors.
- ❖ Executive decree 48/00 (moving salespersons): Adaptation of the penalty structure to the financial capabilities of an average moving salesperson.
- ❖ Reviewing the tasks and rights of the Economic Police/Fiscal Police in the sense that all policies are questioned. All policies should be justified on the basis of the general welfare (e.g. public health versus survival and success of the enterprise) and adequacy.
- ❖ All penalties that supervising institutions are allowed to charge should be reassessed in order to verify if they are justified on basis of the general welfare and on basis of adequacy. Also, all penalties have to be put on the basis of the differing financial situations of the business owners.
- ❖ The policies of the customs authority should be supervised and changed towards a more business friendly approach, i.e. all those entrepreneurs dealing with imports/exports should be confronted with less fees, less bribes and less time consuming actions.

Based on the analysis of the sanitary regulations, we can formulate the following policy recommendations:

- ❖ The sanitary regulation should be checked if the contents are reflecting the actual working environment of MSMEs. Furthermore they have to be changed so that they give clear and adequate instructions to the executing authorities.

The observations regarding the lending environment lead us to the following policy recommendations:

- ❖ Government policies should aim for the support of lending that has MSMEs as a target group and within those especially micro and informal businesses.

- ❖ Policies should include incentives, for example tax benefits, for banks that provide financing for MSMEs and especially micro and informal businesses. This would probably automatically give banks the incentive to change their target group and to customize the requirements they impose on these special target groups.

The following policy recommendations are related to the tax-regulations:

- ❖ The tax base for the income- and industrial-tax should be changed towards the inclusion of the costs of doing business in the calculation.
- ❖ All limits on profit margins should be abolished to make it more market-oriented.

Policy recommendations regarding institutions that lead to high market-transaction costs: High coordination costs with regard to the use of telephones are observed. The following policy recommendations are therefore derived:

- ❖ Government policies should aim for easy and cheap access to communication infrastructure by the inhabitants. Furthermore, government policies should aim for the subsidization of the expansion of fixed and mobile telephone networks. This should also include the facilitation of the market entry and of the business activity of mobile phone provider.

The respondents seem to face high coordination costs when trying to make their products and services known. It is recommended:

- ❖ Government policies should aim for the promotion of a diversified press and media.

A high percentage of informal entrepreneurs classify their level of fear of crime with “very high” or “high”. Based on these findings we can derive the following policy recommendation:

- ❖ An increase of the safety especially of informal entrepreneurs and their businesses should be achieved. Special emphasis should receive the safety of market areas and their access ways.

People seem to have little confidence that others will keep to commitments made (low level of trust in society). Therefore, the market transaction costs also tend to be higher.

The following policy recommendation results from this finding:

- ❖ NGOs and educational institutions like schools and universities should increase their efforts to show the people the benefits of a behavior that is guided by ethics and morality. Government should support these efforts, for example, by the introduction of ethics as a compulsory school subject.

Based on what was commented on the low acceptance of courts and the police, the following policy recommendations are formulated:

- ❖ The government should launch an investigation led by independent researchers to reveal why the trust in the police force is so low and with what measures in the short, medium and long term this level of trust could be increased substantially. The results of this research should be put into practice.
- ❖ An influential specialist commission should investigate in detail the reason for the non-functioning juridical system with the goal of reviving this system. Finally, the juridical system should be of use also for those citizens with little means, including the provision of legal counselors for free to MSMEs.

Findings related to the *clients'* problem of getting certain information about products and product offer lead to the following policy recommendations:

- ❖ The government and other agencies like NGOs should emphasize the education/training of the people. The training should enable clients/entrepreneurs to get information and to inform others, e.g. by learning how to use computer and Internet.
- ❖ The government should initiate and support the upgrading of business directories and yellow pages. Furthermore, it should provide easy access to these media.
- ❖ The government should support the dispersion of internet connections and internet cafes through tax exemptions for related businesses and through financial support for the installations of relevant infrastructure (e.g. import tariff exemptions).

Policy recommendation regarding the influence of institutions that help representing the interest of clients:

- ❖ The government should open branches of the “National Institute of Consumer Protection” in Benguela and Lobito. Furthermore, the management of these offices should be equipped with adequate funds and skilled personnel to fulfill their task as an institution that can improve consumer protection in the region.

By June 2006, a summary of this study was sent to the Angola Enterprise Program (AEP) - a Public Private Partnership between UNDP, Chevron and the Government of Angola to promote micro, small and medium enterprises (MSMEs).



Annex 1- Questionnaire for the entrepreneur interview

The researcher is a student of University of the Western Cape (SA) and Ruhr-Universität Bochum (Germany). He is working together with the United Nations Development Programme. The researcher's goal is to gather data for the thesis "The Influence of Laws, Regulations and Policies on the Development of Micro- Small- and Medium Enterprises (MSMEs): The Case of the Coastal Region of the Benguela Province". Therefore the researcher aims for getting to know the problems related to institutions - as being laws, regulations and policies - that MSME-entrepreneurs are facing. The researcher is requesting the respondent of being as precise as possible and is thankful for the participation. Your company's name, address nor your personal name and address is recorded. Confidentiality is secured.

1) **Place of interview**

Benguela

Lobito

Bahia Farta

Catumbela



Date of interview

Number of Interview

2) Number of permanent workers: (must be <21)

Observations of interviewer: _____

Company Characteristics

- 3) In US\$ or Kwana , what is your turnover/ month? I don't know
- 4) In US\$ or Kwana, how high is the value of your investments in company assets?
I don't know
- 5) Field of activity:
- Retail
- Lodging, gastronomy
- Services
- Production
- Building Construction
- Transport
- Other: _____
- Other: _____

Creation

The following questions are dealing with costs that a new entrepreneur might be facing.

- 6) Have you during the year 2004, 2005 bought any property or site or obtained any user rights on land?
Yes No
- (If "yes" go to question No.7, if "No" go to question No.8) The following question treats 2 cases of ownership and user right transfer.
- 7) How do you classify the costs for the procedures necessary to transfer the **ownership** when following the provincial regulations...

7.1) In case when land property is transferred, how would you classify...

7.1a) ...the costs if someone follows the provincial regulation?

Very high(1) high(2) normal(3) low(4) very low(5)

I don't know Transfer is not possible

If you marked "transfer is not possible" go to No.7.2)

7.1b)... the time if someone follows the provincial regulation?

Very long(1) long(2) normal(3) short(4) very short(5)

I don't know

7.2) In case when ownership of a building is transferred, how would you classify...

7.2a)... the costs if someone follows the provincial regulation?

Very high (1) high (2) normal (3) low (4) very low (5)

I don't know Transfer not possible

If you marked "transfer is not possible" go to No.7.3)

7.2b)... the time if someone follows the provincial regulation?

Very long (1) long (2) normal (3) short (4) very short (5)

I don't know

7.3) In case when **user rights are transferred, how would you classify ...**

7.3a)... the costs if someone follows the provincial regulation?

Very high (1) high (2) normal (3) low (4) very low (5)

I don't know

Transfer not possible

7.3b)... the time if someone follows the provincial regulation?

Very long (1) long (2) normal (3) short (4) very short (5)

I don't know

To proceed with the questionnaire it is now becoming necessary to know if your enterprise is officially registered or not. Even if your company is not registered please do not hesitate to give me that information as the data generated will be exclusively used for the research project. It will be treated confidential:

8) Is your company officially registered (e.g. do you have an official business license for your activities)? Yes No

If "No", go to question no.16 , if "Yes" go to question No. 9 :

9) In what year did you register your company officially? _____

If the company has been registered the years (2004,2005) continue with question No.10 , else go to question **No.17**:

10) How would you classify the costs involved for the registration of your business..... (Please include also the related procedures to get the registration done like e.g. "health certificate", "guarantee of the local administration", "skill certificate", "company name registration", "notary procedures", "publication of the companies articles", "tax and ministry of finance registration" and others.... into your consideration.)

Very high (1) high (2) normal (3) low (4) very low (5)

11) How long did it take you to get the official business registration? (Please include also the related procedures to get the registration done like e.g. "health certificate", "guarantee of the local administration", "skill certificate", "company name registration", "notary procedures", "publication of the companies articles", "tax and ministry of finance registration" etc..)

Within a month

1-4 months

5-8 months

9-12 months

more than 12 monthsplease specify:

12) During the process of registering your business officially (Please include also the related procedures to get the registration done like e.g. "health certificate", "guarantee of the local administration", "skill certificate", "company name

registration”, “notary procedures”, “publication of the companies articles”, “tax and ministry of finance registration” and others.... into your consideration.) were there any additional payments necessary (compared to those that were an official list, bribes e.g. to fasten the process)?

- Yes, for sure
- Yes, I think so, but I am not sure
- No

13) When you were starting to get your business registered, how easy or difficult was it for you to follow through the different steps of the registration process?

Very difficult (1) difficult (2) normal(3) easy (4) very easy (5)

14) In case you marked 1 or 2 in the latter question what was the reason that the registration process was not easier to go through?

- Unclear structure of the process
- Not enough instructions/help available to go through the process
- Misleading instructions of the registration authorities
- Too many different bodies/ counters to talk to
- Some bodies/ counters needed too much time
- specify bodies _____
- Some bodies/ counters took too much money
- specify bodies _____

15) During the process of registration to how many counters/ bodies one has to talk to?

- 1
- 2
- 3
- 4
- more than 4

(now continue with No. 17)

16) Why your business is not yet officially registered?

- I do not know what I have to do, to get the business registered.
- The money I have to pay to get registered is too much.
- It would take too much time to get it registered.
- I would have to pay for the registration and later on I have to pay fines to the supervision authorities being registered or not.
- It is too complicated for me.
- It is not necessary
- _____
- _____

Finance

17) Have you ever tried to lend money for your business activities from banks, family members, other private persons or other sources? Yes No

If "No" go to Question No. 25

If "Yes" from where?

Banks

Family member

Private Person outside the family

Organization (e.g. NGOs)

_____ If "Banks" is not marked skip question No. 19-24, and go to question No. 26.

18) Have you ever been successful with a credit application?

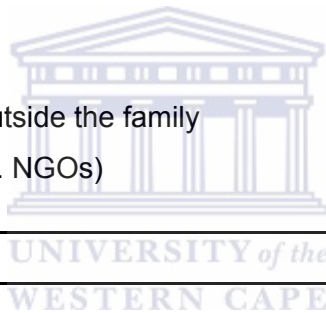
Yes No if "yes" who accepted?

Bank

Family member

Private Person outside the family

Organization (e.g. NGOs)



19) In case you tried to get money from banks, when did that happen the last time?

20) The last time you tried to get credit from a bank, how high **was the burden that the requirements put on you**, which were asked by the bank before, if the money was required for...

a)...the establishment of the business? I never asked at this stage

Very high (1) high (2) normal (3) low (4) very low (5)

b)...for ongoing activities? I never asked at this stage

Very high (1) high (2) normal (3) low (4) very low (5)

In case you marked 1-2 in the question... **20a)**

21) What was the reason for that high burden?

The process of finding guarantees/ securities.

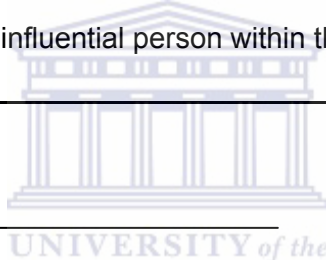
Coming up with the company documents needed (e.g. registration certificate).

- The process of showing a high enough bank account.
- the requested loan amount was not high enough for the bank.
- The lack of personal identification.
- I did not know an influential person within the bank.
- Other specify: _____
- _____
- I do not know.

In case you marked 1-2 in the question.. **20b)**

22) What was the reason for that high burden?

- The process of finding guarantees/ securities.
- Coming up with the company documents needed
(e.g. registration certificate).
- The process of showing a high enough bank account.
- For the bank the requested loan amount was not high enough.
- The lack of personal identification.
- I did not know an influential person within the bank.
- Other specify _____
- I do not know.



23) During the process of trying to get credit from banks have the banks ever provided additional services or consultations (e.g. consulting about market situation, business plan evaluation/ critic, etc.)?

Yes No If "No" go to question No.25.

24) How do you judge these services (e.g. consulting about market situation, business plan evaluation/critic, etc.)?

Very bad (1) bad (2) normal (3) good (4) very good (5)

I don't know

25) Do you know about the current (2005) loan conditions that banks usually apply?

Yes No if "No" go to question No.27.

26) What do you think about the loan conditions that the bank was offering regarding...
a)...interest rate?

Very high (1) high (2) normal (3) low (4) very low (5)

b)...time between money delivery and payback to the bank?

Inadequate 1 2 3 4 5 adequate

27) Why have you never tried to lend money from a bank?

- I do not know how to get it.
- I cannot offer the securities they want.
- I do not have the necessary documents
- Banks are only for rich people and I am not rich.
- The banks interest rates are too high.
- Not enough different banking products offered
- I do not trust banks
- Others (please specify)
- _____

28) In case you tried to get money outside of banks, do you know about the current (2005) loan conditions that prevail outside the banks?
 Yes No if "No" go to question No.....

29) What do you think about these loan conditions that are offered outside the banks regarding...
 a)...interest rate?
 Very high (1) high (2) normal (3) low (4) very low (5)
 b)...time between money delivery and payback to the bank?
 inadequate 1 2 3 4 5 adequate

30) Are you the owner of a piece of land or a building?
 Yes No if "No" go to "Inequality"

31) Do you have a written legal title issued by provincial authorities that confirms that you are the owner?
 Yes No if "Yes" go to "Inequality"

32) Do you have any other document that is accepted...
 32.1)...by banks and indicates that you are the owner of the piece of land or building? Yes No
 32.2a)...by others and indicates that you are the owner of the piece of land or building? Yes No (in case of "No", go to "Inequality")
 32.2b) Who accepts that this document proves that you are the owner?
 Future buyer the provincial authority
 others (please specify): _____

Inequality

The following set of questions is trying to find out if some entrepreneurial groups are facing relevant advantages or disadvantages when doing business. This could relate for example to access to credit, land and property or to the costs that groups are facing when doing business in the region of analysis. Now, what is your opinion:

33) Are members of the following groups facing relevant advantages, disadvantages or no special treatment when doing business?

Groups are facing...	...advantages:	...disad- vantage:	...no special treatment:	Sorry, but I don't know:
a) Women				
b) MPLA (former or present) members				
c) UNITA (former or present) members				
d) Ovimbundu				
e) Mbundu/ Kimbundu				
f) Army/ police authorities				
g) other groups: if yes, please specify				
h)				
i)				

34) In case advantages/ disadvantages please specify the areas/ fields in which these groups face these advantages/ disadvantages:



Growth/ survival

The following questions should serve to reveal how you consider the costs of communication:

35) When you want to talk to someone via telephone with what frequency do you use the following media?

- a) Mobile Phone: Never 1 2 3 4 5 regularly
b) Fixed telephone: Never 1 2 3 4 5 regularly

In case you marked have not marked "1" go to question number 38.

36) Why you do not use a mobile telephone?

- I do not need it
The costs to buy the telephone are too high
I know that the costs to make calls are too high
Other please specify _____

37) Why you do not use a mobile telephone?

- I do not need it
The costs to buy the telephone are too high
The costs to get access to the network are too high
I know that the costs to make calls are too high
Other please specify _____

38) How would you classify the telephone costs (to call using fixed phones) someone is facing in the coastal area of the Benguela Province?

- Very high (1) high (2) normal (3) low (4) very low (5)
I don't know

39) How would you classify the telephone costs (to call using a mobile phone) someone is facing in the coastal area of the Benguela Province?

- Very high (1) high (2) normal (3) low (4) very low (5)
I don't know

40) Do you fear that your land or house will be taken away from you by the government?

- Yes No If "Yes" please specify the level of fear on a scale of 1-5
Very high (1) high (2) normal (3) low (4) very low (5)

41) Do you fear crime?

- Yes No If "Yes" please specify the level of fear on a scale of 1-5
Very high (1) high (2) normal (3) low (4) very low (5)

The following question will tackle an eventually occurring corruption.

42) Corruption causes additional costs for you ...

a)...(skip if no registration happened in 2005) during the registration process?

- significant 1 2 3 4 5 No

What institution is the main recipient? _____

I don't know

b)...during ongoing business activities?

significant 1 2 3 4 5 No

What institution is the main recipient? _____

I don't know

43) How would you range the security costs (e.g. for guards, locks, lost business due to limited opening hours, etc.) you are facing?

Very high (1) high (2) normal (3) low (4) very low (5)

44) If something was promised to someone, e.g. a you were promised to get his/her money back tomorrow *or* a product that you purchased is said to have some specific characteristics, how often do you think this promise will come true?

Never 1 2 3 4 5 regularly

45) If you imagine that you feel like being deceived by a MSME, please rate the frequency you would call

a)...on courts for help?

Never 1 2 3 4 5 regularly

b)... the police for help?

Never 1 2 3 4 5 regularly

The following set of questions will investigate the influence of business regulations and the treatment of local authorities on your business performance.

46) During your business activity, how would you judge the **costs** to comply with business regulations e.g. in order to satisfy the fiscal police or other supervision authorities?

Very high (1) high (2) normal (3) low (4) very low (5)

47) In case costs occur, is it necessary to pay bribes? Yes No

48) If "Yes", is the amount of bribes to be paid in your view significant or not?

significant 1 2 3 4 5 No

49) During your business activity, how would you judge the **time** that is invested to comply with business regulations e.g. in order to satisfy the fiscal police or other supervision authorities?

Very high (1) high (2) normal (3) low (4) very low (5)

50) What supervision authority takes the most of the

a) ...time

Fiscal Police

Economic Police

Health Authority

Finance Authority

Other? Please specify: _____

b) ...money

Fiscal Police

- Economic Police
- Health Authority
- Finance Authority
- Other? Please specify:
- _____

To make your product/ shop/ service known to a wider range of potential clients would probably help you to increase your earnings.

- 51) How do you judge **the range of possibilities** of making your product known that the business environment is offering to you (journal, specialized magazines, word of mouth, distribution of flyer etc.)
 Very bad (1) bad (2) normal (3) good (4) Very good (5) I don't know
- 52) How do you judge **the costs** involved when trying to make your product more known?
 Very high (1) high (2) normal (3) low (4) very low (5) I don't know

Development of MSMEs

- 53) How do you describe the outlook for your business activity in the upcoming 12 months?
 Very bad (1) bad (2) normal (3) good (4) Very good (5)
 I don't know
- 54) What would be the top 2 issues or problems that would in the near future impose the greatest threat to your business success?
 A) _____ B) _____
- 55) How would you describe your profit situation in the past 12 months?
 Strongly worsening(1) worsening(2) stable(3) improving(4) strongly improving(5)
 I don't know
- 56) In case you are having employees, do you see the tendency for the number of employees to increase or not?
 Strong decrease (1) baixa (2) estavel (3) increase(4) strong increase(5)
 I don't know

By now, we have almost come to the end of the questionnaire. In order to classify the obtained information it is necessary to get some further information from you:

- 57) Your Year of birth?: _____
- 58) Gender (silent): m f
- 59) Nationality: Angolan Other If other, specify: _____
- 60) If Angolan: Your tribe: Mbundu/ Kimbundu Ovimbundu No Tribe
 Other
- 61) Have you already spent more than 3 months in a row abroad?
 Yes No
- 62) Do you have a bank account?

Yes No

63) Do you have an official identification card?

Yes No

64) Are you member of MPLA UNITA Other if other, specify:

I am not member of a political party

Thank you very much for your time and enjoy the rest of the day.



Annex 2 - Questionnaire for the expert interview

The researcher is a student of University of the Western Cape (SA) and Ruhr-Universität Bochum (Germany). He is working together with the United Nations Development Programme. The researcher's goal is to gather data for the thesis "The Influence of Laws, Regulations and Policies on the Development of Micro- Small- and Medium Enterprises (MSMEs): The Case of the Coastal Region of the Benguela Province". Therefore the researcher aims for getting to know the problems related to institutions - as being laws, regulations and policies - that MSME-entrepreneurs are facing. The researcher is requesting the respondent of being as precise as possible and is thankful for the participation. Your companies' name, address nor your personal name and address is recorded and confidentiality is secured.

1) **Place of interview**

Benguela

Lobito

Bahia Farta

Catumbela



Date of interview _____ 2005

Number of Interview _____

Information: Criteria for a business considered MSME: number of employees <21.

Observations of interviewer: _____

Demand side transaction costs

What is your opinion about the situation that people -as clients- are facing in the region of analysis when they are buying products or services from MSMEs, e.g. are the products they are buying linked to guarantees or can one return a product to the place where it was bought and will the person get a refund in case of being not satisfied...

2) In that sense, when the client is a private person, how do you judge the situation clients are experiencing ...

a)...when dealing with Micro Enterprises (< 5 **permanent** employees)

very bad 1 2 3 4 5 very good
I don't know

b)...when dealing with Small Enterprises (more than 4 and less than 10 employees)

very bad 1 2 3 4 5 very good
I don't know

c)...when dealing with Medium Enterprises (more than 9 and less than 21 employees)

very bad 1 2 3 4 5 very good
I don't know

3) Are there quality standards existent for products produced in Angola?

Yes No I don't know

4) Often national products are competing with similar products that are produced outside of Angola. What do you think, how **is the reputation of locally (in Angola) produced goods in comparison to imported goods** with comparable characteristics?

Worse 1 2 3 4 5 better
I don't know

5) How would you rate the tendency that consumers **are willing to pay more** for an imported than for a locally (in Angola) produced good with comparable characteristics?

Strong 1 2 3 4 5 weak
I don't know

6) To your knowledge, does an organization in Angola exist that acts in client's interest, e.g. informs clients about dangerous products or generally acts to protect clients?

Yes, I know such an organization

No, I don't know such an organization (in case of "No" go to question No.10)

In case of "Yes, I know such an organization":

7) Can you name the organization(s)? Yes No In case of "Yes" please name it (them): _____

-

- 8) Is such an organization active or not in the coastal region of the Benguela Province?
 Yes No I don't know

In case of "Yes":

- 9) What is the influence of this organization in the coastal area of the Benguela Province?
 Very low 1 2 3 4 5 very high
 I don't know

- 10) If you imagine that you feel like being deceived by a MSME, please rate the frequency you would call
 a)...on courts for help?
 Never 1 2 3 4 5 regularly
 b)... the police for help?
 Never 1 2 3 4 5 regularly

- 11) What do you think how people judge the product offer that they are confronted with in the coastal area of the Benguela Province regarding **quality** ...
 a)... of hotels and restaurant business?
 very bad 1 2 3 4 5 very good
 b) ...of industrially produced goods (e.g. bakery, textiles, drinks, spare parts)?
 very bad 1 2 3 4 5 very good
 c)) ...offered by the construction sector?
 very bad 1 2 3 4 5 very good
 d) ...of the transport sector?
 very bad 1 2 3 4 5 very good
 e) ...of the services sector?
 very bad 1 2 3 4 5 very good

- 12) What do you think how people judge the product offer that they are confronted with in the coastal area of the Benguela Province regarding **costs** ...
 a) ... of agricultural products?
 Very high 1 2 3 4 5 very low
 b) ... of industrially produced goods (e.g. bakery, textiles, drinks, spare parts)?
 Very high 1 2 3 4 5 very low
 c) ... of products offered by the fishing sector?
 Very high 1 2 3 4 5 very low

d) ... of the construction sector?

Very high 1 2 3 4 5 very low

e) ... of the services and transport sector?

Very high 1 2 3 4 5 very low

13) In your view how do you rate the possibility of potential clients of Micro Small and Medium businesses in the coastal area of the Benguela Province to get information about...

a)...where are the products/ services to be found that they are looking for?

very bad 1 2 3 4 5 very good

b)...under what prices are the products/ services being offered in different places?

very bad 1 2 3 4 5 very good

14) If something was promised to someone, e.g. a client was promised to get his/her money back tomorrow or a product that an entrepreneur purchased is said to have some specific characteristics, how often do you think this promise will come true?

Never 1 2 3 4 5 regularly



Creation

The following questions are dealing with costs that a new entrepreneur might be facing:

- 15) These questions is about transfer of ownership and transfer of user rights:
15.1) In case when **land property** is transferred, how would you classify...

15.1a) ...the costs if someone follows the provincial regulation?

Very high(1) high(2) normal(3) low(4) very low(5)

I don't know Transfer is not possible

If you marked "transfer is not possible" go to No.15.2)

15.1b)... the time if someone follows the provincial regulation?

Very long(1) long(2) normal(3) short(4) very short(5)

I don't know

15.2) In case when **ownership of a building** is transferred, how would you classify...

15.2a)... the costs if someone follows the provincial regulation?

Very high (1) high (2) normal (3) low (4) very low (5)

I don't know Transfer not possible

If you marked "transfer is not possible" go to No.15.3)

15.2b)... the time if someone follows the provincial regulation?

Very long (1) long (2) normal (3) short (4) very short (5)

I don't know

15.3) In case when **user rights** are transferred, how would you classify ...

15.3a)... the costs if someone follows the provincial regulation?

Very high (1) high (2) normal (3) low (4) very low (5)

I don't know

Transfer not possible

15.3b)... the time if someone follows the provincial regulation?

Very long (1) long (2) normal (3) short (4) very short (5)

I don't know

- 16) Do you have detailed and updated (from the year 2005) information about costs and time involved with the business registration process when a new company is created? Please include also the related procedures like e.g. "company name registration", "notary procedures", "publication of the companies articles", "tax and ministry of finance registration" etc. into your consideration.
I have detailed and updated (from the year 2005) knowledge...

a)...about the costs involved getting the official registration: Yes No

(if "Yes" do not forget the related questions No.17., if "No" skip these questions)

b)...the time needed to get the official registration: Yes No

(if “Yes” do not forget the related questions No18., if “No” skip these questions)

Very high 1 2 3 4 5 very low

Very high 1 2 3 4 5 very low



Finance

20) How would you judge the availability of finance for owners of the following businesses for their business purposes, if the business is **officially registered** and the business has

	a)... less than 5 employees	b)... more than 4 and less than 10 employees	c)... more than 9 and less than 23 employees
20.1 for establishment:	very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>	very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>	very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>
20.2 for financing of ongoing activities:	Very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>	very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>	very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>

21) How would you judge the availability of finance for owners of the following businesses for their business purposes, if the business is **not officially registered** and the business has...

	a)... less than 5 employees	b)... more than 4 and less than 10 employees	c)... more than 9 and less than 23 employees
21.1 for establishment:	very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>	very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>	very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>
21.2 for financing of ongoing activities:	very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>	very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>	very bad 1 2 3 4 5 very good I don't know <input type="checkbox"/>

22) In case financing happens through banks, do you think the requirements banks have facilitates financing for entrepreneurs of the following companies if you compare the requirements to the actual conditions on the ground (e.g. are the

a)...interest rate?

Very high 1 2 3 4 5 very low

b)...time between money delivery and payback to the bank?

Inadequate 1 2 3 4 5 adequate



Inequality

The following set of questions is trying to find out if some entrepreneurial groups are facing relevant advantages or disadvantages when doing business. This could relate for example to access to credit, land and property or to the costs that groups are facing when doing business in the region of analysis. Now, what is your opinion:

28) Are members of the following groups facing relevant advantages, disadvantages or no special treatment when doing business?

Groups are facing...	...advantages:	...disadvantage:	...no special treatment:	Sorry, but I don't know:
a) Women				
b) MPLA (former or present) members				
c) UNITA (former or present) members				
d) Ovimbundu				
e) Mbundu/ Kimbundu				
f) Army/ police authorities				
g) other groups: if yes, please specify				
h)				
i)				

29) In case advantages/ disadvantages please specify the areas/ fields in which these groups face these advantages/ disadvantages:



Growth/ survival

The following questions should serve to reveal how you consider the costs of communication. :

30) How would you classify the telephone costs using **fixed** phones someone is facing in the coastal area of the Benguela Province?

Very high 1 2 3 4 5 very low

I don't know

31) How would you classify the telephone costs using a **mobile** phone someone is facing in the coastal area of the Benguela Province?

Very high 1 2 3 4 5 very low

I don't know

32) Do you think entrepreneurs fear that their property will be expropriated?

Yes No If yes please specify the level of fear on a scale of 1-5

Very high 1 2 3 4 5 very low

33) Do you think entrepreneurs fear that their business will be suffering from crime?

Yes No If yes please specify the level of fear on a scale of 1-5

Very high 1 2 3 4 5 very low

The following question will tackle an eventually occurring corruption. In your answer please do consider the costs that an entrepreneur might be facing relative to the income of the entrepreneur.

34) Considering that, does corruption cause additional costs for entrepreneurs...

a)...during the registration process

significant 1 2 3 4 5 no

What institution is the main recipient? _____ I don't know

b)... during ongoing business activities

significant 1 2 3 4 5 no

What institution is the main recipient? _____ I don't know

Also, in your following answer please do consider the costs that an entrepreneur might be facing relative to the income of the entrepreneur.

35) How would you range the security costs an entrepreneur is facing in the coastal area of the Benguela Province?

Very high 1 2 3 4 5 very low

By now, we have almost come to the end of the questionnaire. In order to classify the obtained information it is necessary to get some further information from you:

- 36) Your Age: _____
37) Gender: m f
38) Nationality: Angolan Other If other, specify: _____
39) if Angolan, have you already spent more than 3 months in a row abroad?
 Yes No
40) Are you member of MPLA UNITA Other if other, specify:
 I am not a member of a political party

Thank you very much for your time and enjoy the rest of the day.



Interview partner and E-mail comments

E-mail comments:

Almeida, F. (November 2004), Luanda, UNDP Assistant Resident Representative for Angola.

Roque, A. (22.11.2005), Benguela, President of the Industrial Association.

Interview partner:

Sr. Carlos & Sr. Johnson (15.6.2005): Benguela, Leading bureaucrats from the “Camera do Comercio e Industrial” of the Benguela Province.

Sr. Emanuel (18.8.2005): Lobito, Banco Sol General Manager.

Sr. Faustinho (15.08.2005): Benguela, President of “Maos Livres-Associacao de Juristas e Jornalistas na Defesa e difusao dos Direitos Humanos e da Cidadania”.

Sr. Lara (18.8.2005): Benguela, Provincial Director of Banco Nacional de Angola.

Sra. Paula (19.8.2005): Benguela, Banco de Poupanca e Credito (BPC)-Credit Department.

The 14 expert interviews.²³⁵

In the following list the interview day and the position (President, leading manager, etc.) of the respondents are listed. In order to ensure confidentiality at this point the assurance should suffice that all respondents are or were working for an organisation and have a position that justified their selection.

- ❖ 7.8.2005/President.
- ❖ 8.8.2005/President.
- ❖ 9.8.2005/President.
- ❖ 9.8.2005/Board member.
- ❖ 10.8.2005/Leading manager.
- ❖ 10.8.2005/Executive manager.
- ❖ 10.8.2005/President.
- ❖ 11.8.2009/President.
- ❖ 11.8.2009/Independent consultant.
- ❖ 12.8.2005/President.
- ❖ 12.8.2005/President.
- ❖ 16.8.2005/Director.
- ❖ 17.8.2005/President.
- ❖ 22.8.2005/President.

²³⁵ The researcher can be contacted via E-mail (bombig@yahoo.com) for more information on the expert- questionnaire interview partner.

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