THE INFORMAL SECTOR AND ITS TAXATION SYSTEM IN MOZAMBIQUE

by

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SUMMARY

The genesis of the informal sector in Mozambique is similar to the way it emerged in many other countries in the world, starting mainly with small businesses performed by unemployed people, peasant families, street vendors among others as their self employment.

The informal sector offers a striking illustration of the strengths and weakness of enterprises in Mozambique. A simple and transparent legal framework, properly enforced is indispensable for the long term success of the informal sector to turn to formal sector. Taxation is controversial in the informal sector. The existing tax system in Mozambique is distorted and naturally contribute to a host of economic and social problems. The needed for the reform of taxation system has been acknowledged for instance the recent implementation of VAT system in Mozambique still on process of implementation.

Taxes generated by the informal sector could contribute to the budget of the State.

KEY TERMS:

Informal sector; self employment; commercial activity; administrative procedures; taxation; taxation system reform; emergency; business; legal framework; budget of the State.
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Many thanks to my wife Isabel, and my children, for understanding and bearing the hardships I submitted them to during the research for this work.

I also thank my parents, Alfredo and Julieta, for having raised me and given me the opportunity to see how marvellous the world is: "the world is truly beautiful".
SUMMARY

Until recently, the informal sector in Mozambique could be described by the government as a bad phenomenon and the idea was that it should be simply repressed.

Today the informal sector is considered by many Mozambicans as the way of self-employment and means for survival. However, the informals do not follow the legal rules in their activities and do not pay taxes. The legal rules regulating the commercial activities in Mozambique cannot be applied to the informal sector, as they are outdated. No specific law exists to govern the informal sector. Furthermore, the issues arising from mercantile law and the taxation system in Mozambique need to be examined in the sense that a legal framework needs to be created in such a way as to create an environment to gradually integrate the informals into the formal sector, by way of incentives and encouragement to be given by the government. The final aim would be to ensure their welcome contribution to the tax income of the State. I argue that the informals could be the future entrepreneurs which Mozambique needs. The challenge will be to expand the reach of the law to its limits, in the attempt to resolve what is essential: a socio-economic problem of informals. May be the future Law of the informal sector could become a first step in the integration action of the informals into the formal sector.

The legislature has a constitutional, political and moral responsibility to attend to the reform of the principles and rules of mercantile, tax and administrative law, as a matter of urgency, for the informal sector in Mozambique.
CHAPTER I

INTRODUCTION

1. The overall context of the study

This dissertation is concerned with the informal sector and its taxation in Mozambique, as one of the most important issues in the country's economy. An early view was that the existence of an informal sector is a symptom of economic disfunction. From this perspective, the presence of street vendors and home workshops producers signals that the structure and growth rate of the formal economy are inadequate to absorb the national labour force.

The pressure of a large informal sector on virtually all economic activities, is one of the most important characteristics of developing countries. Informal sectors employ between 35 and 65 percent of the labour force and produce 20 to 40 percent of GNP \(^1\) in developing countries. Of the estimated 4.8 billion people in developing countries about one third, i.e., more than 1 billion, survive in condition of extreme poverty. These people are struggling to survive on less than USD 370 a year. Two third of the poor people live in the rural areas and the remainder one third in the urban areas. The majority of them find their main occupation in the informal sector.

Macroeconomic management has improved in many developing countries, but the informal sector has continued to grow.

Development and Social Science specialists have emphasised the informal sector's importance as a creator of jobs and an incubator of small and medium enterprises. In this view, the informal sector is seen as a giant sponge, absorbing much of the shock of periodic economic contraction by soaking up excess labour and by providing jobs and generating income.²

Claims of job creation and enterprise incubation have been challenged in recent years in many countries. Some specialists argue that, in reality, net job creation by informal sectors has actually increased very little. In addition, a growing body of research shows that few micro-enterprises become small and medium businesses, discrediting somewhat the notion of the informal sector as an incubator of the formal sector. Recent empirical evidence concerning this questions in the African context comes from work done by Donald Mead of Michigan State University. Based on surveys of large, representative samples of micro and small enterprises in Botswana, Kenya, Malawi, Swaziland and Zimbabwe, Mead concludes that:

- Net employment in small enterprises in Southern Africa grew by roughly 7 percent a year in the 1980s and early 1990s.

- Small enterprises absorbed more than 40 percent of total new jobs created in this region during the 1980s.

- 75-80 percent of all new jobs in small enterprises came from new business, with the remainder coming from growth in existing micro-enterprises.

- 20 percent of simple enterprises added a worker or two, but only 1 percent reached ten or more workers.

- Because the total number of micro-enterprises was so large, even small growth increments created a large number of jobs ³.

In the current debate regarding the importance of the informal sector, two main counterarguments arise. The first asserts that the informal sectors create a large number of jobs, but these jobs are of such poor quality that many micro-enterprises workers would be better off as employees of medium and large companies. A second counterargument says that although micro-enterprise support programs do raise incomes of the poor, only individuals who are at or near the poverty line are positioned to benefit from them.

Debates about the role of the informal sector continue, but, in the meantime, a critical problem of taxation is present. The informal sector is the set of economic units which do not comply with one or more government imposed taxes and regulations

but whose product is considered as legal. In fact, considering the economic situation of Mozambique, the informal sector is playing a big role on the creation of jobs and the generation of its GNP.

2. The scope of the present study

Mozambique offers conditions for continued growth of its informal sector because of its underdeveloped economy and generalized poverty. The World Bank Report (1998), considers Mozambique one of the poorest countries in the world with a GNP per capita of USD 130 annum.

ESTIMATED POPULATION AND ITS SOCIO-ECONOMIC STATUS

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>TOTAL POPULATION</th>
<th>ABSOLUTE POVERTY</th>
<th>ABSOLUTE POOR</th>
<th>POPULATION AGE OVER 10 YEAR</th>
<th>EMPLOYED POPULATION</th>
<th>ACTIVE PEASANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>URBAN</td>
<td>2,974,440</td>
<td>49</td>
<td>1,458,455</td>
<td>918,826</td>
<td>684,981</td>
<td></td>
</tr>
<tr>
<td>RURAL</td>
<td>14,466,835</td>
<td>23</td>
<td>13,435,556</td>
<td>9,942,311</td>
<td>72,352</td>
<td>5,915,384</td>
</tr>
<tr>
<td>TOTAL</td>
<td>17,441,275</td>
<td>71</td>
<td>14,894,011</td>
<td>10,861,137</td>
<td>754,933</td>
<td>5,915,384</td>
</tr>
</tbody>
</table>

Fig. 1
Source: DNE – DIRECÇÃO NACIONAL DE ESTATÍSTICA and estimation made by the Author

| LIFE EXPECTANCY AT BIRTH | 44.7 |
| ADULT LITERACY RATE      | 33.5 |
| THE UNDER 5 MORTALITY RATE | 273 PER THOUSAND |
| FERTILITY                | 6.5  |
| POPULATION GROWTH        | 2.6 TO 3.1% |

Fig. 2
Source: UNDP, Report 1995
Despite the introduction of a relatively successful Economic and Social Rehabilitation Program (ESRP) sponsored by the IMF and WORLD BANK under the Structural Adjustment Programs (SAPS) in 1987, Mozambique still faces serious problems on the economic and social fronts, inflation which is still high, growing unemployment with declining incomes and increase poverty decline and stagnation of agricultural and industrial output and a poor commercial network. Unions estimate that about 90,000 workers have been considered excess labour and lost their jobs since the privatization process was initiated in 1990, and estimate that more than a hundred privatized firms have been paralyzed, semi-paralyzed or even closed. Taking into consideration the unemployment in Mozambique the given figure seems to be low. (see fig.3).

### POPULATION - EMPLOYMENT AND FINANCE LACK

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>EMPLOYED POPULATION</th>
<th>EMPLOYED POPULATION WITHOUT LACK</th>
<th>ABSOLUTE POPULATION WITH LACK</th>
<th>POPULATION WITH AGE OVER 10 WITHOUT ANY FORMAL ACTIVITY</th>
<th>PEASANTS WITH LACK</th>
</tr>
</thead>
<tbody>
<tr>
<td>URBAN</td>
<td>684,581</td>
<td>82</td>
<td>561,356</td>
<td>918,826</td>
<td>-</td>
</tr>
<tr>
<td>RURAL</td>
<td>72,352</td>
<td>97</td>
<td>70,181</td>
<td>3,976,924</td>
<td>9,942,311</td>
</tr>
<tr>
<td>TOTAL</td>
<td>756,933</td>
<td>94.5</td>
<td>631,537</td>
<td>4,895,750</td>
<td>9,942,311</td>
</tr>
</tbody>
</table>

Fig. 3.
Source: estimation made by the Author and DIRECÇÃO NACIONAL DE ESTATÍSTICA

However, the performance of the Mozambican economy during 1996-98 brought hopes of stability. Inflation declined sharply from 54.1% in 1995 to 16.6% in 1996, 4.3 in 1997 and 3.2 in 1998.

In accordance with the Official Report (1988) the main

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economic crisis indicators in Mozambique before the introduction of the ESRP in 1987 were: a 30% decline in overall production, with the GNP in 1986 having fallen to around two thirds of the level in 1981; exports having fallen by 75% between 1981 to 1986; growing inflation at about 163% in 1987; general lack of consumer goods in the market; the general scarcity of the foreign currency and an overvalued local currency. Adjustments measures were taken namely: a gradual devaluation of the local currency and reviews of the foreign exchange allocation system; gradual price reform leading to an almost total abolition of centrally fixed prices; a tightening of credit supply, and the setting of close to real interest rates; a tax and duties reform; starting of the privatization process of State owned enterprises, and the elimination of subsidies granted to them.

A recent government report refers that the Mozambican economy grew 11% in 1998. However, Mozambique is still considered one of the poorest countries in the world, despite its rich endowment with natural resources.

However, Mozambique has made remarkable progress. The main catalysts for these gain were peace and political stability, strong agricultural productions during a period of good weather, and impressive structural reform, civil service reform, trade and tariff liberalization, decentralization, democratization process, and the privatisation or restructuring of more than 1300 firms. As improvements in agricultural production have included the family farm, as significant part of Mozambique, growth in recent

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years has helped to alleviate poverty. Another catalyst for economic and social gain during this period has been external assistance, which totalled about U$D 550 million per annum from 1995 to 1998.

Even so, Mozambique's economic and social status remains fragile as well as the legal system.

About 70% of the Mozambican population live in absolute poverty and unemployment is one of the main factors causing the emergence and growing of the informal sector in Mozambique. As a historical reference point, the informal sector in Mozambique emerged and developed from the commercial activity of peasant families selling goods from agriculture sector. Nevertheless, major problems facing the Mozambican agricultural sector were: limited use of appropriate technologies; weak commercial networks; inadequate incentives to agricultural production; institutional weaknesses; insufficient public instrument funds; growing inflation; outdated land legislation; foreign dependence; irregular rainfall; cyclic droughts, and reliance on international rivers with no water, made people prefer manufactured products coming from the neighbour countries which created the informal cross border trade (ICBT).


7 MACAMO, J. Luis.October,1997.- "Informal Cross Border Trade".- Mozambique and neighbour countries, Maputo, p.7;

Apart from measures undertaken by the government in the context of structural adjustment programs on the monetary and fiscal policies, there are no specific policies to address informal sector and informal activity issues.

According to the neo-classical theory, it has been argued that economic development will come about as a result of people having full opportunity to buy and sell as well as the knowledge of where and how to get capital to perform their activity. However, the Mozambican government never opted for a strategy concerning the institutional framework of the informal sector, employing instead the use of force to repress or to stop it, with every little success.

The growth and sometime the marginalization of the informal sector in Mozambique are also a case of the non-participation in the law-making process by many groups of people. In Mozambique it has become common practice that when a legal expert is asked to prepare and submit a draft for a specific set of legal norms (e.g. a law to be debated and approved by Parliament; or a decree by Cabinet), he will usually seek inspiration in similar norms that may have been adopted on the same subject matter in other parts of the world (usually Portugal or in the Portuguese-speaking countries), without caring much whether and to what extent these may be adequate in the Mozambique context. Because of this, and the lack of community involvement in the existing law-making process, enforcement institutions have contributed to perpetuating the marginalization of large sectors of the population.
3. The main proposition and assumptions of the study

I argue in this dissertation that the informal sector in Mozambique cannot simply be repressed, and that a thorough understanding of the problem as well as an awareness of the consequences of any measure we take, are needed. Thus, instead of marginalising or repressing it, the State should render support by creating mechanisms allowing for an integration of practitioners of the informal sector into the formal activity. The following factors must be thus be considered:

i) The informal sector is very strong and affects the national economy, influencing all macro economical factors.

ii) The informal sector does not comply with one or more government-imposed taxes and regulation.

iii) A very large number of people in Mozambique are directly or indirectly involved in the informal sector performing various activities for their survival or for easy profit.

iv) Bureaucracy and at the same time the lack of control are also questions which affect the interaction between the informal sector and the Authorities.

v) The informal sector in Mozambique is actively
helping to develop the country's economy in an alternative manner, like self employment, moving goods and services through the market.

vi) The informal sector in general and specially in the developing countries, with special reference to the Western and Eastern African countries, has a substantial impact on the GNP and job creation as well as the creation of small and medium enterprises.

4. **Objective and Justification: Relevance of the present study**

The main objective of the present study is to initiate and open a constructive debate about the informal sector and its taxation in Mozambique on the basis of an overall assessment of the impact of this sector on the Mozambican economy.

The informal sector is growing and increasingly so in competition with the formal sector. Sometimes the Government when pressed by formals, tends to be more aggressive in its attempts to combat the informal sector, however, without success. The informal sector offers a striking illustration of the strengths and weaknesses of enterprises in Mozambique. Taxes generated by the informal sector could make a large contribution to the budget of the State and to its functions as a welfare state. It is thus hoped that this study may lead to the adoption of actions to enhance the integration of the informal sector into the formal sector instead of attempts to repress informal sector activities.
Integration of the informal sector in the context of the present study should be understood as a gradual introduction of tax and customs duties rates that are lower than the costs of evasion and to stimulate the informal sector with benefits and bank credits.

The legal framework should be settled to improve the harmful environment of the informal sector, and to eliminate the excess of bureaucracy by simplifying the process of registration and control. Mozambique needs its entrepreneurs and these will come from the informal sector, considering that the formal sector, for a very long time, was characterized by Mozambique's command economy principles.

Thus I consider this work to be a starting point in addressing the true situation of the informal sector in the Mozambican society.

5. Methodology, data sources and limitations

The methodology used to collect information was based on direct contacts with some operators of the informal sector, with officials of institutions such as the Ministry of Planning and Finance, the Ministry of Industry, Trade and Tourism, the Faculty of Law of Eduardo Mondlane University.

This study is also based on secondary sources i.e. academic writings in the economics, legal and social sciences, as well as surveys on the informal sector carried out by the Author and technical staff in different places in the country.
The absence of official statistical data related to the informal sector in Mozambique is one of the biggest problems which impact negatively on the exactitude of the relevant information. It makes it difficult to compare the diverse information obtained in many places where the research took place, and from statistics and verbal information.

6. The structure and organization of the present study

This dissertation is structured and organized in chapters as follows:

- THE FIRST CHAPTER contains this introduction, focusing the overviews of the presentation of the informal sector, the concepts and its definitions by different specialists.

- THE SECOND CHAPTER, addresses what is considered the informal sector in Mozambique, the genesis of its emergence, its characteristics and classification, the impact in the socio-economic sphere, especially on the GNP. The measurement method is also stated in this chapter.

- THE THIRD CHAPTER looks at the Law with particular relevance to administrative and mercantile law and taxation and the Mozambican government intervention in dealing with the informal sector. The issues arising from the application of the Mozambican law in general and mercantile law in particular relating
to business activities, are also referred in this chapter, as well as the taxation system in Mozambique and its issues, and the way how the informal sector should be taxed.

- THE FOURTH CHAPTER deals with the law and informal sector in Mozambique emphasizing the legal system of Mozambique; freedom of trade, occupation and profession; the right to food and a brief reference to the law governing the commercial activity in Mozambique.

- THE FIFTH CHAPTER gives the conclusions and some recommendations.

- REFERENCES AND BIBLIOGRAPHY, are referred in the end of the present thesis.
CHAPTER II

THE INFORMAL SECTOR

1. Concepts and definitions

The proliferation of concepts and definitions of the informal sector gives rise to different points of view with relevance to the problem which need to be addressed.

Since the 1970's, scientists in the social and economic areas have discussed the informal sector as a phenomenon and they used the expression "Informal economy" to describe the economic strategy used by many poor employers in different countries of the Third World. However, the informal activity has been performed ever since the formal activity was enforced by law and other public administrative procedures.

Originally the informal sector was considered a form of self-employment, and later as a very important factor in the economies of developing countries. This sector was conducted

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primarily by self-employed workers who had little or no formal education who became known as traders, hawkers, or hucksters.

More recently, however, the activities of the informal sector and the personnel involved, have changed considerably. People from different status are active parties in the informal activities. When examining the informal sector we are looking at a sector or an activity that developed without obeying any established legal rules or where its agents perform their activities without actually being permitted to do so. At first, the idea of trade or industrial activity performed by hidden and unregistered economic agents, comes into our minds and for that they do not pay taxes. Many studies have shown that the informal sector is heavily commercial in character.

The general concept is that the informal sector is considered the activity illegally performed by people who are looking for easy profit or simply for survival.

Studies intended to analyse issues of informal sector, have faced the definition dilemma existing around the term informal itself. This term has been subject to varying interpretations, thus having different meanings to different people. A universally satisfactory definition of the informal sector has so far not been found.


ISS - Institute of Social Studies, 1985. - The informal sector: concepts, issues and polices, the HAGNE.
Vito Tanzi and Edgar L. Feige for instance, define the informal sector as one that is not normally recorded in the national accounts or in other official statistics. When some information is registered in the GNP there’s a discrepancy between what official figures present and the information from informal sector.

A methodology developed by Tanzi for instance is widely acknowledged to be the most plausible of the monetary methodologies 10.

Dan Bawly defines the informal sector as the non-measured economy 11 to explain that the activity performed by informals is difficult to measure and register on the official statistics.

The informal sector is usually assumed to fall outside of a regulatory framework, and most policy recommendations centre on how to graduate informal sector into licensed activities 12.

The International Labour Organization (ILO) first used the term “informal sector” in the early 1970s to refer to informal economic


activities\textsuperscript{13}. The term is also typically used in one of two ways. The first refers to illicit or illegal activities by individuals operating outside the formal sphere for the purpose of evading taxation or regulatory burden. The some definition has been also used most often in the Latin America context\textsuperscript{14} notably by de Soto (1989).

The second is simply shorthand for very small enterprises that use low technology modes of production and management and does not refer to their legal status. In this case, the term also implies a traditional mode of production and therefore excludes small but high technology businesses. The degree of legal or regulatory control over the enterprise is not considered. In fact, employing a legal definition would not be useful for instance in most countries in Africa, because the extent to which these very small businesses are registered and pay taxes varies from country to country. S.V. Sethuraman used the term informal sector based on the concept of enterprise and he called attention to the fact that the multiplicity of the criterias of definition of the informal sector causes ambiguity because it should be used in a different way to represent the general idea about the informal sector\textsuperscript{15}. Jacques Charmes emphasised that the concept and definition of the informal sector arises out of two elements: marginality and


\textsuperscript{15} SETHUMAN, S.V. 1981. "Concepts, Methodology and Scope" - The Urban Informal Sector in Developing Countries: Employment and Environment, Chapter 2. GENOVA, ILO, p.182.
productivity, as the main factors to be considered in the activity of small business. Hans Singer defined informal sector as a giraffe: its difficult to describe but if we see it we know that it is giraffe.

It is my submission that the "informal sector" should best be defined as those activities performed by different people in the economy, that are not recorded in the national accounts or in other official statistics, and happen outside the realm of formally established rules and legal mechanisms that regulate such activity. It is an illegal activity because is not performed according to law governing economy activities, by people who are looking for survival or easy profit.

My argument for this definition concentrates on the fact that the existence of this sector implies the existence of the formal sector and that the activity performed by the informals is not licensed by the official departments of the State. Thus their operators do not use any formal legal mechanisms to perform their activity.


Nevertheless, the informal sector activities do not happen according to rules that are created by the operators themselves, such as price most basically and who can sell which type of products and where, etc. The main rule is of cause that transactions are generally made in cash.

2. **The dynamism and influence of the informal sector**

The informal operators engage in a wide range of business like agriculture, manufacturing and repairs, trade, civil construction, transport. In fact their backgrounds are equally diverse. In rural areas for instance, they may be small scale farmers, agriculturalist engage in off-season non-farm activities or fulltime providers of products and services to the countryside. In the cities they may be migrants from rural areas, members of traditionally informal operators, school, leavers, workers redeployed from public service or private firms, or public service employees seeking to supplement their official incomes.

Specialists have emphasized the informal sector's importance as a creator of jobs and incubator of small and medium enterprises. In this view, the informal sector is a giant sponge, absorbing much of the shock of periodic economic contraction by seaking up excess labour.

3. **Measurement methods within the informal sector**

In the absence of official statistical data related to the informal sector in Mozambique, and because their activity does not obey
any regulation and there are no account and no registration systems, the relevant information is not easily compiled, even if exactitude is not an essential requirement.

The two main measurement methods of obtaining information about the informal sector are the following:

a) The empirical method: (to obtain statistical data by way of interviews).

b) The monetary method: (To calculate the amount of money flowing within the informal sector).

3.1. The empirical method

The empirical method is characterized by the fact that statistical information is based on what is registered by the investigators doing the interviews.

Based on the information gathered, the next steps are the aggregation and drawing up of an inventory of profits obtained by the economic agents operating in this sector, and then an estimated value is obtained. Since the informal sector is vast in respect of the number of its operators and the products themselves, the best way to obtain data that is closer to reality is to draw up a sectorial inventory of this sector; of the operating agents and products.

Usually it is easier to know who deals with a certain
product, under which conditions and where, so that, through this process sectorial statistical information can be obtained.

It is important to note that the data obtained by this method, for example, the place where the products are obtained, the purchase price, the payment, the number of the people employed by the operator during the business deal, etc, cannot always be trusted.

3.2. The monetary method

The monetary method\textsuperscript{20} as proposed by Guttman, Spiro, Feige and Vito Tanzi seems to be less appropriate for measuring the informal sector in Mozambique.

The theory is characterized by a study of the characteristics between monetary greatness macro economical and aggregations, starting from the principle that in the informal sector only hard cash notes are used,


FEIGE, Edgar, 1979, November, "How big is the irregular economy?" USA.

so that the operations performed are not declared.

This action causes a monetary disorder which influences other monetary affairs. Deposits in banks can be used to discover the size of the informal sector in monetary terms. It is important in this context to adhere to the principles of national accounting. A National account aggregate such as the Gross Domestic Product, provides us with an indication of the volume of goods and services produced in the country over a given period. When measuring such production, the total value of final goods and services is considered.

When measuring the size of the informal sector, it is crucial that only the value of that part of the transaction actually generated by the informal sector participant, i.e. the value added, be considered. That is why economists define the informal sector as "the total value of economic activity which is not captured in official statistics and which constitutes the value added by various participants to the value of economic transactions" 21.

However, The monetary method cannot be applied to get information on the informal sector in Mozambique because of a lack of general economic statistic information and because the data related to money flow in Banks only reflects the least part of the gross money

flowing in the economy.

For the present study the empirical method was used to obtain data from informal sector operators in different places in the country, using a simple questionnaire to get such information. Some information given by the practitioners of the informal sector could not be trusted because some of them distrust the interviewers as argue, to give information means to become exposed and risk to be notified by the fiscal and administrative authorities to pay taxes or other legal impositions. This has been taken into account in the weighing of the data obtained.
CHAPTER III

THE INFORMAL SECTOR IN MOZAMBIQUE

1. The emergence of the informal sector in Mozambique

The genesis of the informal sector in Mozambique is similar to the way it emerged in many other countries in the world, starting with small businesses performed by unemployed people. As a historical reference point, the informal sector in Mozambique emerged and developed from the commercial activity of peasant families and unemployed people selling goods such as, peanuts, beans, maize, mapira, etc, before and during the colonial period. In other words, the informal sector was developed by poor people and the unemployed. Unemployment is the major reason of the emergence and growth of the informal sector in Mozambique.\(^\text{22}\)

The informal sector has emerged also from the shady clandestine activities known as candonga during the times of


In Jornal "Domingo" 1996, 8 of September, nº 764, Maputo. pp. 18-19.

In NOTICIAS, 1996, 11 of September, Maputo.

planned or command in Mozambique economy. Today this is an open sprawling economic culture flouting the attempts by urban councils to control its spread.

In the 1960's, with the beginning of the liberation war in Mozambique, a period of repression by the colonial police started, which forced hawkers in to selling their in delimited areas such as: cinemas, recreation centers, rural and suburban zones.

The municipal authorities, facing serious problems in controlling the hawkers, were forced to announce through the display of posters on the streets and through the radio, warning peddlers not to sell anything on the streets, as this incurring the risk of bring punished with a penalty. The peddlers were forced to do their businesses within delimited municipal areas against payment of a variable fee according to the area occupied and the kind of product offered for sale.

During this pre-independence era, the Government built and provided facilities and trained city officials in order to regulate and control the peddlers. With the concentration of the peddlers in the municipal areas set aside for them, the Government managed to collect some money from the fees charged according to the areas occupied. It was, however an insignificant amount.

Mozambique was then a Portuguese colony and depended on the economic policy guidelines made by Portugal. It had to follow plans and guidelines which often had little in common with the Mozambican reality. Mozambique did not have its own
economic plan until it became independent in 1975.

In 1975, the position assumed by the Mozambican State, as far as economic policy is concerned, was characterized by the State being the main economic agent, and resulted in what was then known as "State intervention" 23 in many private companies. The way State enterprises operated, which included price controls, gave Mozambicans the sense that everything had to be done by the State which controlled the performance of even smallest tasks.

In 1977 the civil war started and made the population's socio-economic situation worse. Emigration and the non-stop movement of people away from their areas of origin to other areas that rarely offered conditions for agricultural activities, was also a factor that added to the ones already mentioned, presenting populations with even more obstacles to survival. This was a contributing factor to the failure by the Government to undertake meaningful measures designed to improve the living standards and provide jobs for the majority of the population of whom the "informals" are a substantial part.

The "State enterprises" created in terms of Law 2/81 of 10 of September 1981 were the vehicle for the State to begin controlling the entire economy of the country and establishing what is known as a command economy. See Decree 12/87 of 21 of October, 1987.

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23 The Decree 16/75 of February 1975 is the legal instrument that was used by the government in the period following the independence of Mozambique to take over the management of companies abandoned by their owners or those considered to be targets of " economical sabotage" (mostly those companies that had not been abandoned by their owners). The vast majority of the private sector companies became property of the State and made up its enterprise or public sector in further approaches to economic reform.
The country started living on donations and international support, which turned most Mozambicans into a people with a culture of dependence.

The average Mozambican citizen, however, could find formal employment and turned to small business in the streets, such as selling bread, roasted groundnuts, cashew nuts, cakes, iron mongery, clothes, etc. In a more developed phase, the Mozambicans were selling basic foodstuffs such as rice, sugar, peanuts, green beans, vegetables, tomato, onions, and bread on the pavements in the cities.

The shortage of goods in the formal markets created an opportunity for the appearance in the informal sector of some manufactured products such as bottled drinks (beer and soft drinks), cigarettes, batteries, electronic equipment, building materials, school books, spares for motorcars and machinery, etc. These products came into the informal sector via people employed in factories who, in most cases stole them by various means and sold them to the informal sector operators.

The appearance of manufactured products in the informal sector resulted in competition with legitimate producers and traders who fell victims to the inadequacy of their own control systems, as well as those of the police, to end this situation. Eventually the formal producers and manufacturers gave up and began sending their products to the informal sector 24. The

In "MEDIAFAX", 1995, 30 of March, n°726. Maputo. p.3.
same programatic attitude is assumed by the formal sellers and traders who had to permit that even in front of their shops informal trader will be found selling the same products that are sold inside the shop. This situation was aggravated by the high taxation levels which actually encourage formal traders rather to work through the informal sector.

Over and above the small peddlers there is, today, a growing expansion of the informals from many different social strata 25 such as, for instance, small industrialists (the tinker's shop, metalworkers, mechanics, carpenters, welders, etc.).

Modern present day peddlers appear to work on a larger scale.

There are specific leaders of the informal trade. They deal with big products, they are the ones who end up guiding the Mozambican economy and affect macro-economic factors. They operate outside any legal rules. Nevertheless, they effectively regulate the informal sector in Mozambique through strolling or fixed operators, operating in large or small numbers as well as go betweens who sell products coming from formal traders and go betweens who sell products from factories, imported products, stolen goods, currency, etc.

The Mozambican informal sector has grown every year in strength and is looked on with respect by the Authorities 26.

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26 The estimated figures given by the Banco de Moçambique in its Staff Paper n° 5 (September 1996) pag.12, indicated that the informal sector has grown since 1987
because of its impact on the country's economy.

The shortage of infra-structural development such as roads, bridges, dams, schools, hospitals, and the fact that the few infrastructures that existed at independence were totally or partially destroyed during the civil war 27, is another factor that exacerbates socio-economic needs. The actual political scene is characterized by a permanent ideological debate with a negative impact on society; there is despondency amongst the people who are more concerned with survival than national issues.

When faced with a complete collapse of the national economy, and following the negotiations with the IMF and World Bank in 1987, the government adopted a new policy. Economic legislation was reviewed so as encourage to the economic agents to develop own economic activities of limited scope for private initiative. This new government policy gave greater autonomy and a new direction to Mozambican

and its weight (impact) in the economy grew from 30% (1987) to 51% (1994). Studies made by Silvina de Abreu estimated the impact of the informal sector at 36% taking into account the employment issue (data for this research by the DNE-CNP-National directorate of statistics of National Plan Commission as well as the Report on part Results of the Research in Maputo City between August and November of 1991, where the impact of the informal sector was started as 43%. A study made in May 92 suggests 42.5%, see Volume I (September 1993) - DNE-CNP.

27 Study made by the United Nations -Economic Commission for Africa- UNDP, Report, 1989, p.3, stated that "the total economic losses to Mozambique caused by the war during 1980-1988 was US 15 Billion".
economic agents.

In November of 1990, with the commencement of a new constitution, the "open economy" approach gained further ground. However, unemployment and poverty continued. The largest part of the Mozambican population continues to be involved in the informal sector, and today this sector is stronger than ever and recognized everywhere in the Mozambican society. Nevertheless the government still does not have a dedicated strategy concerning the institutional framework of the informal sector.

Instead various and uncoordinated attempts at repressing the informal sector continue for lack of any consensus on alternative approaches.

The informal sector has also been exacerbated by the return into the country of tens of thousands of Mozambicans who had been working in the former German Democratic Republic prior to German unification. An even more fundamental impact was felt when several hundreds of thousands of refugees returned after the ending of the civil war since the October 1992.

The total estimated figures are as follow:

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28 BROCHMANN, Grete; OFSTAD, Arve; YUSSUF, Adam; ERICKSEN, Tore Linné;

- Refugees abroad: 1,200,000;
- Internally displaced: 1,690,000;
- Returned from former German Democratic Republic: 75,000.

Upon independence, the inherited "dual economy" was never significantly changed, and as capital-intensive technologies replaced labour-intensive production, the "informal sector" grew. However, the fact that the "informals" have been burgeoning even in peace times in most other third world countries suggests that there may be other common causes for this social problem. Many studies made in different countries suggest that the informal sector is not at all a phenomenon of developing countries, but a common problem in the developed countries as well.

2. Mozambican informal sector characteristics

In Mozambique, the informal sector is characterized by the heterogeneity of its operators and their different modes of performance. Totally different activities are performed such as for example: sewing, knitting, hawking, shebeen, repairs of car or electrical appliances, and, last not least, the "black taxy" phenomenon (transport activity performed by mini-buses and private vehicles without any license, they are called "chapa 100" in Mozambique). The informal sector activity is very heterogeneous in terms of the people involved and products in the market.
There is also a large percentage of women and children working in the informal sector. It is possible to find that all the members of a particular family work in the informal sector. When this happens, it is common to have splits and break-ups since the rules of family conduct are not respected. There is no head of the family since they all consider themselves to be heads because each performs a profitable activity. Family members are suddenly valued according to what they earn in the informal sector.

Women represent a large portion of the population working in the informal sector in Mozambique. 67% of 3,271 people interviewed were women. We can also find children operating in that sector. Children are mostly looking for opportunities to study. Because women often appear to be outstandingly successful at informal activity, earning a great deal of money, they end up influencing all home decisions, which often provokes marital conflicts. Talking to different married women operating in markets like Mandela, Estrela, Xiquelene, Museu, Xipamanine, Vulcano, Goto and Maquinino, they all said they "were not worried about their husbands but were worried about their business, since their husbands did not give them any money but only work". In other words, the husbands are believed only to want money and to require a good life at home and nothing else. Asked about the possibility to develop their activities on a formal basis, they answered this poses great problems.

Meanwhile, the informal sector activity is performed also by formals who render services and sell goods using their employees or informal operators.
Most things sold in the informal markets come from the formal sector and the formals also perform activities in the informal sector, because the failure of administrative controls and also to avoid high taxation burdens.

In summary, it can be said that the reasons for all operators to participate in the informal sector are somehow similar, differing according to the kind of product each one deals with, but identical in respect to their objectives. The ultimate objective of the informal sector activity is to get an income and where such activity is intense, accumulate and maximize profits, whilst not paying any direct taxes.

There is obviously no specific regulation or control mechanism for knowing who is who and what he is selling or producing. The formals say, for example, that they are forced to go to the informal sector because of the illegal competition they face with the informals 29.

Research conducted through direct contacts with some informal operators in some regions of the South, Centre and North of Mozambique, namely in the cities of Maputo, Xai-Xai, Beira, Manica, Tete, Nampula and Pemba, has established the following facts 30:

29 In "Gazeta Mercantil",1996,29 of April, Maputo. pp.2-8-29.
In "MEDIAFAX", 1995, 30 of March n°726, Maputo, p.3.

30 208 people interviewed.
In the informal sector, operators are mostly people formerly displaced by the war; unemployed; women; the elderly and children from poor families; marginals and employed people. Some of these operators, apart from developing informal businesses, have also developed agriculture on a small scale, for their own subsistence. The common stereo-typed image of the informal sector is groups of women selling foodstuffs from rickety counters and young and old people selling various types of manufactured goods.

These operators do not yet have their activity formalized so they face many problems such as registration and tax payment. They do not know for instance what steps they have to follow to perform their activities legally. Of 208 people interviewed in different places of the country, 70% knew that it is necessary to pay taxes but they say it is not acceptable, because they do not get enough in return from the State.

They do not know how much they should pay as tax. All people interviewed are scared of the municipal police, because of the repressive methods used to scatter them. The findings presented in the survey conducted in Beira and Maputo on the informal sector by two teams in August 1996, pointed out the increased discontent and frustration, an apathetic but sometimes arrogant attitude by city councils police towards a large segment, if not the majority of the citizens operating in this sector, often subjected to official harassment, fines and confiscation of

31 In "Jornal DOMINGO", 1996, 8 of September, n°764, Maputo, pp. 18-19.
wares. They are required to pay regular daily fees (usually between 1,000 - 3,000 MT (USD 0.08 - 0.26) to the official collectors. Some of the informals opt to obtain licenses believing (often mistakenly) that this kind of formalization brings some benefits. Others prefer to work illegally - either because they are unable to fulfill complicated and sometimes excessive conditions for licensing, or because they would prefer to pay irregular bribes to fiscal inspectors, than to pay regular taxes 32.

Everything that can be acquired by them in different sites or by using different methods is commercialized in the informal sector. Food stuffs, beverages, utensils, spare parts, machines, tools, drugs, medicines, school materials, diverse materials, vehicles, etc.

The characteristic of this type of activity is based on the prevalence of hawkers who conduct business at fixed sites in different parts of the main cities and districts in the country in places called "dumba nengue" 33 in the south, or "tchunga moyo" in the centre and north.

Small beverage industries, mainly producing alcoholic beverages, can be found in many places in the cities and suburbs. The producers use different sources of raw materials to produce fermented alcoholic beverages without any hygienic procedures. The major concerns are the negative implications of such informal sector lack of compliance with minimal health and

32 de VLETTER, Fion, 1996, The informal sector in Maputo and Beira, Maputo, p.5.

33 "Trust your foot", expression used in the south of Mozambique to define the places where the informals operate.
sanitary requirements.

This is quite visible as far as fresh products such as meat are concerned. The way they are packaged expose such goods to contamination, putting the consumer at risk. The businesses in this field involve mainly women who use their children and elderly people to produce and sell those products. Similarly, locksmiths, welding workshops, carpenter's workshops, furnishers workshops, shoe shops, car repairs, electrical repairs, and others are installed in many parts of the cities and suburbs, and in many fixed sites spread throughout the country.

Some products from these workshops are sold in bigger shops in different cities in Mozambique. Sometimes, the price of the product purchased directly from the workshops is much lower than what the formal shops charge. The problem with them is related to quality, which sometimes is very poor. Nevertheless, these workshops compete with the formals and sell their products to different customers. The workshops employ 2 to 5 people and in some cases more than that. They are generally run by technicians, with considerable technical experience. The main problem for these people is related to the conditions required from them to perform the job in the correct way, like registration and getting finance for their investments.

Due to the fact that the industry has no capacity to absorb some agricultural products and also the problem of transport from the field to the main consumption points and factories, products like tomato, and citrus, are sold in the informal sector at cheapest prices.
Another type of, i.e. informal sector activity is that performed by border traders, groups comprised by individuals involved in operations of getting across the border some products to be sold in Mozambique. This group includes traders, hawkers, transporters, consumers and public officials. Normally the traders are registered wholesalers and retailers from either side of the borders as well as informal cross border traders, who sell their products on both sides of the border, serving the border communities or more distant towns.

Hawkers are a heterogenous group comprising unemployed and unskilled people as well as fairly organized specialists, running formal businesses, often with considerable skills.

This people are known as “mukhero” \(^{34}\) at Namaacha and “madjolidjoli” at Zobwé and Machipanda were more visible due to their high numbers. The transporters form numerous and heterogenous group highly visible at the most active borders such as Namaacha, Ressano Garcia, Machipanda and Zobwé. This group includes lorry and pick up drivers, cyclists, goat herders, carriers of hand/head luggage, and so on. Most transporters are just couriers operating on behalf of big or small (in)formal traders and other transporters.

Consumers are also another group of informals since they get products out the border to bring them into the country in their luggage which is usually unrecorded. Residents from some border towns like Namaacha and Machipanda, for instance are allowed by officials to freely cross the border on 2 to 3 days to

\(^{34}\) Informal cross border trade operations.
buy and sell agricultural and consumer goods. Finally, public officials are the group including customs, immigration and police officers involved in the informal sector themselves or charging unofficial rates to formal and informal traders.

They were an important source of information and, contrary to what could be expected most of them maintained good relations with the informals.

3. Classification of the informal sector in Mozambique

Taking into consideration the nature of the informal sector in Mozambique it should be divided into three groups:

a) Informal subsistence sector (survivalists);

b) Informal sector performed by self employed persons;

c) Informal sector performed by enterprises (formals)

Large Firms and medium scale firms typically attract the most attention from the government, banks and donors, but most workers and enterprises are often located in the informal sector. Diversity is its trademark, and it includes survivalists (very poor people) and self employed people who produce goods for resale or offer services. Enterprises are in general small micro-enterprises and sometime some small scale firms, involved in the informal sector.

The following explains the characteristics of each group:

3.1. Informal subsistence sector (survivalists)

This sector is composed mostly of operators whose economic situation is poor. Their main objective is to obtain an income to solve the immediate problems they have which are related to hunger, misery and extreme poverty.

The incomes in the informal subsistence sector are used to buy firstly goods that satisfy basic survival needs. The informal sector that produces wealth exceeds by far the basic need for subsistence. Operators that generate profit than they need would ideally decide to invest it in order to further increase profits, for instance formalising his activity by forming a micro-enterprise.

Despite wanting to expand his activities, the successful operators is constrained in doing so due to a lack of financing. In a recent study of urban poverty and unemployment made by de Vletter in 1995 a survey was undertaken of 63 people (38 women and 25 men) in mainly informal markets related activities in different areas of Maputo. The findings suggested that, although the informal sector provided an important source of supplementary income for many urban households, the majority of the informal sector participants were the principal bread winners (two thirds of the interviewees
claimed to be the sole income earner in the family). The diversity of activity was matched by the spread of monthly incomes, ranging from a low of approximately U$D 8 to U$D 330 per month. About one quarter earned less than U$D 17 and almost two-thirds earned less than U$D 33. Very few managed to earn more than U$D 100.

Lack of finance was seen as the biggest constraint to expanding their activities. Those unable to buy in bulk from wholesalers were found to be earning margins as low as 4 to 6% on their wares.

Bulk-purchased items such as fruits and vegetables allowed margins of between 30-80%. Often, in activities with high margins (such as selling drinks) competition results in low turnovers, resulting in monthly incomes of less than U$D 10.

One particular disquieting aspect of the informal subsistence sector is that, even below the extremely low incomes earned by many of those involved in informal sector activities, an ultra-exploited group of hired helpers exists, usually relatives of the owner and brought in from the rural areas. Women operating on their own often employ labour of which the majority are paid in kind (mainly food and lodging). None of the helpers are in possession of employment cards and very few are given any time off work including weekends.
### 3.2. Informal sector performed by self employed persons

This sector is composed by self employed people whose economic situation is fairly poor and they are looking for supplementary income for their expenditures and other needs. Normally these people operate after normal working hours and use their families and friends to develop their activity while they are involved in their workplace. Where they have formal employment once they have reached a sufficient earning capacity through their

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informal activity, they prefer to create their own business and perform the informal activity on a permanent basis.

3.3. **Informal sector performed by formals**

Formals maintain have considerable participation levels in the informal sector. It is in this sector that the activities of the formal operators stand out because of their participation, taking advantage of the disorganization or lack of control by the legal institutions or for other reasons such as higher and easy profit.

In their activity, the formals use the informals or their servants to put their products in the informal sector, avoiding tax and other obligations that are due and collected from legally constituted traders and industrial concerns.

The majority of the products sold in the informal sector (85%) are imported by licensed enterprises who sell directly to the informals. When they receive those products from the licensed enterprises they do not pay a circulation tax. That means, the licensed enterprises and vendors or hawkers do not pay any tax to the State.\(^{37}\)

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\(^{37}\) The Circulation and Consumption taxes are paid by the consumers when they get any product in the market. The seller of the product must collect the tax (retain) and after, deliver it to the fiscal administration where he practices his commercial activity.
This group, constitutes a particular challenge to the government. The case is more serious, since in order to operate as formals they accepted a number of specific duties towards the respective Authorities, so that they could practice commercial or industrial activities legally. That is to say that they operate in the informal sector solely to avoid tax and other norms, often designed to protect the consumer. Formal businesses in the informal sector will defend their case arguing that the Government does not protect them from competition by the informals.

4. The impact of the informal sector in Mozambique on the economy

Discussions about the impact of the informal sector lead to its size. The first issue arising is to know what represents the informal sector in Mozambique 38.

A number of experts have differed on the impact and size of the informal sector, while the Gross National Product is derived at on the basis of questionable statistics and is likely to significantly underestimate the actual economic performance. Mozambique does not have any official statistical information about the informal sector. However, it is a generally known fact that the informal sector is very strong and affects the national economy, influencing all macro-economical factors.

ESTIMATED INFORMAL SECTOR POPULATION BY SECTORS

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>TRADERS HAWKERS</th>
<th>TRADERS FIXED</th>
<th>ABSOLUTE POPULATION WITH LACK</th>
<th>AGRO INDUSTRIAL COMMERCE HAWKERS</th>
<th>AGRO INDUSTRIAL COMMERCE FIXED</th>
<th>OTHERS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>URBAN</td>
<td>299,568</td>
<td>621,550</td>
<td>261,579</td>
<td>59,195</td>
<td>29,587</td>
<td>118,393</td>
<td>884,531</td>
</tr>
<tr>
<td>RURAL</td>
<td>801,173</td>
<td>1,101,294</td>
<td>500,624</td>
<td>5,207,624</td>
<td>2,002,333</td>
<td>701,056</td>
<td>72,352</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,200,741</td>
<td>1,723,143</td>
<td>451,573</td>
<td>5,266,819</td>
<td>2,291,913</td>
<td>819,449</td>
<td>756,883</td>
</tr>
</tbody>
</table>

Fig. 5.
Source: Estimation made by the Author.

Estimation presents the following picture: 11,494,545 Mozambicans seem to be poor, thus involved in the informal sector, representing at least 65.9% of the total estimated Mozambican population; 1,479,882 Mozambicans operate in urban areas (8% of the total) and 10,014,663 operate in the rural and periurban areas, meaning 57.4% of the total population of Mozambique.

About 32.4 million U$D of uncollected taxes is estimated to be generated each day in the informal sector. Currency exchange in the informal sector costs the official exchange more than 60 million U$D/year. Public finances are thus severely affected, diminishing the State's resources to fulfil urgent welfare obligations like the provision of schools, hospitals, justice, security, roads, bridges and other public and social infrastructures.

Smuggling is another informal sector activity that diminishes state revenues. In Mozambique, for example, this activity is used
by formals too, because of the lack of effective control by the administrative authorities in the boarders. About USD 26 million is the estimated amount in lost revenue from the informal Cross Border Trade.

Taking in consideration some estimates based on the survey made by the Author, cigarette and beverage sales by informals are estimated to cost about USD 20 million each year in customs duties evasion.

The point is that every national activity should be registered and reflected in the GNP, so as to reflect the true performance of the national economy. However, the lack of information from the informal sector can create two situations:

1 - The absence of registration by the informal sector affects global economic statistics leading to a false statement about the GNP.

2 - In order to enhance its aid earning capacity, the Government will postpones "sine die" decisions about how to integrate the informal sector in the economy and continues without any information about its size and activities.

Many countries simply the informal sector as an illegal activity which must be repressed, using administrative measures to do so. This thesis submits that before doing so, the examination of the informal sector has to take into consideration the reasons for its emergence, the country's economy, and its impact on the economy.
In Mozambique for example, the informal sector plays a big role in providing self-employment and resolves many economic and social needs. Field research conducted by the Author in the cities of Maputo, Matola, Xai Xai, Maxixe, Beira, Quelimane, Chimoio, Tete, Nampula, Pemba with a total of 3,271 people interviewed, reveals that 93% of those people argued that the informal sector is the only way that they can survive, because they cannot rely on government support.

The informal sector's impact on the GNP is substantial if we look at how much this sector grows by year. The estimated figures given by the report of the Bank of Mozambique indicate that the informal sector has grown since 1987 and its weight (impact) in the economy varies from 30% (1987) to 51% (1994).

Research conducted by the DNF-CNP-National Directorate of Statistics of the National Planning Commission, stated that according to studies made in Maputo city between August and November of 1991, the impact of the informal sector was 43% of all urban income. The study made in May of 1992 suggests 42.5%. Pinto de Abreu (1996) using a monetary approach estimates the informal sector contribution to be about 33% of GNP.

The estimation used by the Author arrives at U$D 325,6 million

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39 Research by the Author and by the students of the Faculty of Law at Eduardo Mondlane University in 1992 during their holiday activities.

40 Staff Paper n°5, 1996, September, Banco de Moçambique, Maputo, p.12.

41 Staff Paper n°5, 1996, September, Banco de Moçambique, Maputo, p.12.
generated by the informal sector which represents about U$D 26 million on ICTB (Informal Cross Border Trade) of GNP.

Compared with various regional countries studies, it seems to be a common statement to say that the informal sector contributes about 40% of GNP, but these are generally "guesstimates". A analysis of the South Africa Labour force by the S.A. Institute of Race Relations estimates that about 16% the economically active population is employed in the informal sector (Sunday Times, 12 May, 1996). If we consider all income earned from all activities - legal or not - which are not included in the GNP, the real GNP figures would be much higher. It can be safely stated that the contribution of the informal sector in Mozambique is significant, that it will grow and that, unless rapid growth is imminent in the formal sector, the informal sector will soon be the dominant source of income for the majority of the population and an important supplementary contribution for rural households. If the situation continues unchanged in the coming years the informal sector should grow at a rate of about 18.5% a year.

In Mozambique the informal sector has had positive and negative impacts. The positive impact is the increased introduction of goods into the market at lower price; self employment; income and poverty alleviation; complementing of the commercial network; a positive impact on the GNP; and the opening of new markets in different areas.

The negative impact includes the lack of transparency in trade operations reflected mainly in the use of certain informal sectors by formals, as intermediaries in their transactions; the tax evasion,
as the informal does not pay direct tax; and the violation of health, sanitary and environmental requirements.
CHAPTER IV

THE LAW AND THE INFORMAL SECTOR IN MOZAMBIQUE

1. The legal system of Mozambique

According to the nature of law we use the term "law" to define a rule of human conduct, imposed upon and enforced among the members of a given state. We may say, then, that two ideas underline the concept of law: one is an order in the sense of a method or a system, and another is the idea of compulsion, to bring about the enforcement or obedience to the rules or laws laid down.

When Mozambique became an independent State on 25 June 1975 at least three normative systems were applied side by side namely: written law, based on current legislation that was being reorganised by the new State; customary norms with various specific local characteristics; and the sharia law followed by those of the Moslem faith. In addition there were also some norms emanating from other religious faiths in Mozambique.

In recognition of this situation, following independence, the

42 Talking about "enforcement", there's a big debate, for instance to know if Public Internacional law is "enforceble" or not, and if it is "enforcement" a condition of "law"? However, I argue that enforcement is in fact a condition of law for a citizens to given State.
Mozambican State opted for a legal system which could reconcile written law with the customary norms of the various populations groups, a system which started with procedure entrusted to Peoples Courts in suburbs and localities and culminated in the Supreme Court of Justice. The suburbs and locality courts were thus a kind of testing ground, and its was intended that their experience in combining customary norms with written law would contribute to the subsequent new Mozambican law 43.

The Mozambique written legal system is basically Romano-French, based on codes, and it functions and exercises power on the basis of codifications pre-dating independence.

2. Freedom of trade, occupation and profession

The starting point for addressing different issues arising in the legal system in Mozambique related to the informal sector and law in some aspects, imply to discuss freedom of trade, occupation and profession.

Looking at the Constitution of Mozambique of 1990, article 88 n°2 reveals "the right for every citizen of freedom to choose their profession" and the article 51, n°1 states that "work is dignified and protected by the state", as the "potencial engine" for "the

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development of the country".

The Constitution of the Republic of South Africa of 1996, (Act 108 of 1996) for instance, states in the section 22 that "every citizen has the right to choose their trade, occupation or profession freely. The practice of a trade, occupation or profession may be regulated by Law".

The fact that constitutions recognise the freedom of trade, occupation or profession, under the "ratio" of the legislator, imply that the practice of those activities would be regulated by law, in other words a license is required before performing certain activities is permitted.

If a constitution point out a right of freedom to choose a trade occupation or profession than an activity may not be restricted unless the restriction is justified for instance in accordance with that which is prescribed in article 36 of the Constitution of South Africa 44. In the some way, the law in Mozambique would have

44 Article 36 of the Constitution of South Africa: Limitation of rights:

1. The rights in the Bill of Rights may be limited only in terms of law of general application to the extent that the limitation is reasonable and justifiable in an open and democratic society based on human dignity, equality and freedom, taking into account relevant factors, including:

   a) the nature of the right;
   b) the importance of the purpose of the limitation;
   c) the nature and extent of the limitation;
   d) the relation between the limitation and its purpose; and
   e) less restrictive means to achieve the purpose.

Note that the Mozambique Constitution did not make any provision governing limitations.
to be applied rationally and not applied arbitrarily, because these limitations to the freedom of trade, occupation and profession must be tested against the State responsibility to promote economic and social wellfare.

3. The right to food

Article 11 of the International Convenant on Economic, Social and Cultural Rights recognizes "the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing" as well as "the fundamental right of everyone to be free from hunger". The right to food is generally considered to be the "economic" equivalent of the right to life.

Although it is often argued that the right to food is more difficult for States to honour than the right to property, especially in poor countries, various reasonable assessments suggest that it would not be difficult to produce sufficient food in the world for everyone.

Moreover, the right to food is at issue not only in poor countries but also in rich ones. 45

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2. Except as provided in subsection 1 or in any other provision of the Constitution, no law may limit any right entrenched in the Bill of Rights.

In conclusion, freedom of trade, occupation and profession, as well as the right to food are without doubt important to recognize that the emergence of the informal sector is in part result of a non fulfilment by the state all very rights. If the Constitution singled out a right to freely choose a trade, occupation or profession, and at the same time considers that their exercise must be conducted lawfully, this does not mean that this freedom can simply be denied or abrogated.

The informals perform their activities outside the formal regulation. The great debate turns around how to find the correct way to make the informals operate within the law. In accordance with Ian Currie the regulation of the practice of a profession is easier to justify than the limiting entry into a profession or the choice of a profession “in the sense that the practice of an occupation may not be restricted by reasonable regulations predicated on considerations of the common good. The freedom to choose an occupation, however may be restricted only insofar as an especially important public interest compellingly requires and only to the extent that protection cannot be accomplished by a lesser restriction on freedom of choice”.  

The point is that the limitation to practice a trade, occupation or profession by the informals, should apply only when such

46 See Waal de , Johan; Currie, Iain; Erasmus, Gerhard in The Bill of Rights, 1998, Juta and Co. Ltd. RSA, pag. 293.-Lawrence refers that...nobody is entitled to practice as a doctor or as a lawyer unless he or she holds the prescribed qualifications and the right to engage freely in economic activity should not be construed as conferring such a right...
activities are against the public interest, or to protect the interests of the existing practitioners, professions with exigible qualifications for instance, doctors, lawyers.

Despite all, the informal economy in Mozambique, like in the rest of the developing countries, reflects the inability of an economy to satisfy the needs of some segments of the population, thus, many people are forced to engage in the informal activities as a way to get income for their survival. The activity performed by the informals is business which must be considered as a commercial activity which aims to generate as much money as possible for its owners. Adding to the previous statement, the economy of Mozambique is based on agricultural activity. Peasants are most active in agricultural activity selling their crops to anyone interested to buy.

According to The Oxford English Dictionary 47, commerce is:

*Exchange between men of the products of nature or art, buying and selling together, trading, exchange of merchandise especially as conducted on a large scale between different countries or districts, including the whole of the transactions, arrangements therein involved.*

This definition therefore covers such transactions as sale of goods and other different activities such as carriage of goods, import and export of goods, etc.

To perform such business anyone needs to be licensed by the

administrative authority. In Mozambique to carry out any type of business on a full legal basis is exceedingly difficult. The problems pointed out are related to many and different constraints such as: bureaucracy, unclear legislation, corruption, and others. Legal regulation is important to business. The legal system affects business just as it does individuals. Every aspects of business life, from its formation and operation to its dissolution, is conducted within an environment of legal regulation. Many purposes are being served in applying legal regulation to business activity.

Methods of legal regulation include licensing, registration and inspection. Those are legal mechanisms for exercising effective control over a range of activities, which, if uncontrolled, could be physically, economically and socially harmful. All of these acts are part of Administrative Law 48.

4. **Brief reference to the law governing the commercial activity in Mozambique**

Private commercial activities relating to wholesaling and retailing exercised by individuals and companies are regulated in general by the Decree-Law 7/79 of 3rd of July of 1979 which emerged at a time of "great food shortages in Mozambique" 49.

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48 By definition, *administrative law means all action taken by bodies of State exercising public power.*

49 Ironically the Decree-Law 7/79 is known as the Law of private commerce, which is still valid, but applied in a dubious manner and which has little acceptance among the economic operators.
Despite some reforms made by the government in the last 3 years, the law still very restrictive regarding commercial activity, comprising provisions which subject the operators to a very complicated bureaucracy.

The referred law was approved in the context of an economy of planned allocation of resources. Private traders were obliged to be registered and established in specific areas according to the government priorities and plans. Private wholesale levels needed to be designated by Ministry of Industry and Trade. Farmers were expected to be the suppliers of industrial consumer goods to the latter on a monopolistic basis, until the situation changed following the dynamics of the ERP. Trading licenses were only awarded to applicants capable of submitting a number of certificates, such as a certificate of literacy, certificate of clean police record, certificate of commercial and property registry and declaration from a public authority confirming that the applicant is not a civil servant. Fortunately, recent reforms state that the certificates referred to no longer need to be present. However, and even considering the reforms made, law 7/79 is still not appropriate to encourage the informals to turn the into formal sector. Informals are in general

ERP - Economic Rehabilitation Programme, established in Mozambique in 1987, including price liberalisation, the reduction or elimination of subsidies for basic food products, devaluation of the Metical against the American dollar, price rises which outrun wage increases, alterations in fiscal policy, and restrictions on public expenditure. In 1990 the ERP were extended to cover also social aspects and became ESRP - Economic and Social Rehabilitation Programme, including promotion of labour intensive activities and projects, rehabilitation of the health and education systems and other social aspects.
people who lack literacy, adding to this they are not encouraged to be registered because nothing points out that they could benefit from that.

In line with the legal framework, i.e. "the basis which regulates commercial and industrial activity, there also exist municipal ordinances which are still applied. For example the municipal ordinances \(^{51}\) the former municipality of Lourenço Marques (now Maputo) are still used and enforced by the municipal council of the City of Maputo. These ordinances were created in order to regulate the activities undertaken by small traders and hawkers\(^{52}\) operating on the street or in the "municipal bazars", which

\(^{51}\) Ordinances on vendors of 8\(^{th}\) of May 1965 and 30\(^{th}\) of January 1967, published in the "Boletim Oficial" n°20, III Serie of 15.05.1965 and 11.02.1967 – until Mozambique became an independent state on 25\(^{th}\) June 1975, art. 136 (4) of the Portuguese Constitution of 11 April 1933, and base XIV (4), (5) and LXXVI (3) of the "Lei Organica" of 23\(^{rd}\) June 1972 provided that, subject to any special legislation to the contrary, the laws applicable in Portugal were also applicable in what originally the colony, and since 1971 the "autonomous region" of Mozambique. With a few particularities and exceptions, Mozambique inherited the Portuguese legal system as well as all basic laws, which came to the then Portuguese colony over 300 years ago.

\(^{52}\) Article 2 of the ordinance defines hawking selling as: "that which takes place in the public streets with or without the use of appropriate vehicles – that which takes a place in a set place with or without the use of installations in public streets, or public or private property".
needed to be regulated and penalised when they acted outside established norms.

From these ordinances, the Author gathered that the objects of the legislator when defining rigid norms such as these was to disencourage the traders and hawkers to operate in the streets. For example paragraph 1 of article 2 provides that "for a hawker to carry out his activity, he requires prior approval from the municipality and his trading premises may not exceed 10 square metres or 4 metres wide".

In fact this is to limit or to disencourage the trader to perform his activity. Any trader or hawker in general prefers to perform his activity where he can get his business going, and the limitation of the space is great concern. If in the colonial period it was possible to apply and control such measures, nowadays, is not possible because the authorities are no longer capable to control large numbers of informals in the street. The informals are now also highly mobile, selling in different places and moving from one area to another 53.

Another provision is that which is referred to sub-paragraph 2 of article 2 which, in light of paragraph 1 of the same article, provide that no hawker may sell his merchandise within a radius of 300 metres from a store which carries similar stock or product. For what we can gather today, hawkers undertake their business

53 Article 2 of the Ordinance on hawker defines hawking selling as: "that which takes place in the public streets with or without the use of appropriate vehicles. That which takes place in a set place with or without the use of installations in public streets, or public or private property".
in front of the shops, often selling identical clothing, product or food. In view of this reality, the said provision no longer makes any sense. Moreover, the activity performed by the informals is not limited to a specific area.

Article 3 of the Ordinance defines hawkers in the cities, suburbs or beaches, whilst paragraph 3 of the same article states that the municipality may also limit the number of hawkers in any of the abovementioned areas, as well as the trading hours on camping or beach areas. Both the definition of trading areas as well as the limitation of the number of hawkers and their trading hours do not make any sense taking in consideration that informals are operating in many and in different areas, at any time and in groups.

Paragraph 1 of article 5 of the Ordinance provides that hawking is primarily a result of home industries and those which are traditionally offered in residential or public places. This is what the legislator envisaged. However, there exists a large "gap" between the reality today and that which was envisaged some 30 years ago.

Article 9 of the Ordinance prohibits informal vendors from exporting their products. In fact this is not applicable nowadays as the country is following a free market economy and the operators are permitted to perform their business on any profit basis.

However, one question arises from this provision: To be an exporter everyone needs to be registered and licensed to do so. To permit the informals to export freely would mean a starting
point to turn the informal to the formal economy. Bearing in mind that informal activities are intermediary in nature, and therefore will not act as springboards, by accepting the informals to export their goods without any formal procedure.

The question that arises from the above is: **How competitive and sustainable is the informal sector?**

Ndangwa Noyoo⁵⁴, defends that the important point is that the informal economy does not have entrepreneurial skills, that its members are illiterate and inarticulate – except for a few educated people who have been drawn to the informal sector due to personal difficulties. Noyoo's position could create the idea that the informals are not capable to be perform well in their activities, which is not true.

In Mozambique, for instance, peasants are involved in exportation process of maize and they are well organized to perform such activity. However, these people are not licensed for such an activity. The provisions of article 9 of the Ordinance of the Law nº 7/79 have never produced the desire effect. The estimated value of Mozambique's informal trade with its neighbors in the overall Trade Balance (Dec 95 – Nov 96) for instance, represents approximately 36.842.000 U$D. About USD 98 million represents informal imports into Mozambique involving

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⁵⁴ Noyoo, Ndangwa, lecturer on social development and social policy at the University of the Witwatersrand in his article titled "The informal sector is not South Africa's Poverty Pill-The forum page, Resconstruct, November, 1, 1998, page 7.
informal operators 55.

Adding to these figures, the estimated informal sector income is U$D 247,810,000 and the missed revenue on the informal cross borderer trade in Mozambique is estimated to be 25,524,000 U$D, as shown in tables 1, 2, 4, 5 and 6, annexed.

Article 10 of the Ordinance prescribes 14 years as the minimum age of the hawker and article 11 sets out how the vendor should present himself when undertaking his activities.

There is great difference between what was envisaged by the legislator and that which is common practice. In reality the informal sector is often run by badly attired youths of less than 14 years 56. Most of these younger people are used also by formal operators as their intermediaries for selling in the informal sector different activity type of goods or performing industrial.

A critical analysis of the abovementioned Ordinance shows for example in relation to article 3 as regards the necessity for approval, inspection and assessment of an industrial project that these provisions cannot be complied with in the informal sector, or by an informal vendor intending to formalize his activities in the future.

As has been established in the survey conducted by the Author


56 The Mozambican Labor Law (Law 8/98 of 20 of July 1998) describes 16 years the minimum age for everyone to be employed.
during 1993 to 1998, the "informal" develops and undertakes his project depending on own strengths, resources and available means. He thereby does a way with the need to prepare a formal project.

5. Administrative procedures and informal sector

For informals to become formal as far, as registration and assessment are concerned, there are a number of steps which must be undertaken by public administration bodies.

The administrative measures to be undertaken to transform the informals into the formal sector, obey the general rules of administrative law in Mozambique.

To be more concise, the author suggests that administrative law is the law relating to public administration. On the stated definition administrative law includes among different roles of the activity of central and local government. The administrative law principles will apply to all administrative action executed by organs of state.

In administrative law, the relationship between the parties must be one of inequality and the administrative action performed by an administrative body or organ in a position of superiority towards the subordinate party - the individual, groups of individuals or subordinate administrative body. The body or organ must always act in the public interest.

In recognition that the informals are important for the economy
of Mozambique, the government is preparing a project of rules for the informals, based on the “Trade Strategy and Policy” approved by the Council of Ministries \(^{57}\). However, the referred rules will not covering the street vendors, hawkers or industries and covers only trade.

The merit of this document, if approved and implemented, will be to lead the government to turn informals into formals sector of the economy. Although, excess of bureaucracy should be avoided even recognizing that the state and its bureaucracy dominate our world. Is known that all of the states manifestations have a bureaucratic configuration. Then, bureaucracies constitute the mechanism by which the legal order structures choice and thus seek to ensure complying behaviour with rules of law.

An understanding of the relationship between law and society requires that we explore why administrative bodies behave as they do.

In the legal order, bureaucracies serve a variety of functions. They serve, they tell us, as a perfectly flexible tool of democratically elected policy makers. I argue that bureaucracy should not be used as a tool to expose the power of the state but to facilitate the relationship between the state and the citizens and in this case the informal operators.

The bureaucracy encourages everyone involving in business to find shortcuts around the rules and causes those that comply to

\(^{57}\) Resolution no 25/98 of 1 of July of 1998
lose their competitive edge. Removing burdensome regulations would help to eliminate the hidden costs that many informals should for instance to obtain licenses and register their businesses. Bribes are only one sort of cost, long delays and complicated procedures inflict further costs in lost efficiency and competitiveness.

According to the provisions of the rule for informal trading the article 6 provide that to start any activity needs to be previously approved by local Authorities like as an administrator of the district or the Mayer. This sound correct taking in consideration the jurisdictional area when the informal is operating as well as the power given to the local Authorities. In fact, is much easier for the local Authority to give approval than to the central body of government. To perform any trade activity you may need to have your identity card which must be presented to the local authority in order to get your license (article 7).

The license will be valid for a period of one year and renewable. In accordance with article 21, 50.000.00MT will be charged for issuing the license and 30.000.00MT annually for renewable of the license. While the license is valid you can pass it on a free or onerous basis to a third person (article 10). In a term of 5 days after submitin of the application the applicant will be notified of the decision taken (article 13).

Penalties and fines will be enforced for instance if any violation of the rule will be noticed – suspicion, cessation of the license – article 16. You will be charged 50.000.00MT and all goods arrested in case of not having any license to operate. 10.000.00MT will be charged if in case of transaction of the
(premises) or suspension of the activity or in case of move from
the original place you not inform the authority (article 17).

The fines should increase in case of noticed problems on higien
and public health. The fines have to be payed in 15 days when
noticed after that period if not fulfilled the process will be
submitted to court (article 18). Only the Mayor or the
administrator of district have power and competence to fixe the
fine, and the results of fines will be consignated to the budget of
district or city in -50%; to the issuing Authorities in – 25% to the
trading fund in – 25% provision a), b) and c) of the article 22
respectively.

In accordance with the article 24 everyone has the right to
appeal and claim to court or to the Authorities in accordance
with law.

This is in summary what the project aim to reach as a main
objective to rule the precarious trade activity performed by
informals. Although the project comprise only a precarious trade
activity, and contain some aspects which help to avoid excess
of bureaucracy but does not cover other great activity
performed by informals – the small scale industry. While the
Commercial Code dated to 1888 and the decree-law 7/79 of 3
of July 1979 regulate the private commerce, the decree-law n°
46666 of 24 of November 1965 which establish basic rules for the
industrial sector to be applied together with Diploma n° 3057 of
12 of December 1970. Until the whole law is designed to turn the
informals for formal sector, the existing laws will not be
enforceable in a way to attract the informals to be formal.
A critical analysis of the diplomas mentioned shows for example in relation to article 3 the diploma 3057 as regard the necessity of approval, inspection and assessment of an industrial project, that these provisions cannot be compiled with in the informal sector, or by an informal vendor intending to formalize his activity in the future.

The "informal" develops and undertakes his project depending on own strengths, resources and available means. He thereby does away with the need to prepare a formal project.

Article 4, of the diploma 3057 defines the industrial premises as "the place where the activities are undertaken". Therefore, if it is important to define industrial premises, it is also important to highlight that the informal entrepreneur will rarely undertake his activities in an industrial premises.

This is a further cause of reluctance on the part of the informal entrepreneur to formalize his activities. The rigid provisions contained in the diploma as regards industrial premises from the inception of the project to its approval, inspection, assessment and licensing are so time consuming that they discourage the informal entrepreneur to join the formal sector. For example, article 8 of the diploma 3057 prescribe in its first proviso that all applications for licensing have to be official and in triplicate. Why should these be triplicate? Would a simple A4 sheet containing the application on front and the Authorization on back not be sufficient?

Over and above the application in triplicate, article 9 of diploma 3057 stipulates the need to annex a project with feasibility study
in triplicated one of the copies of which must be authenticated by a notary, as well as a declaration from the municipality entity involved, stating that it is not opposed to the industrial project. A duplicate of the voucher related to the project, a technical process and factory diagrams are required. All of these are undoubtedly an unnecessary process which tires the informal to be formal.

Another aspect which is worrying are unrealistic legal deadlines. Provision 2 of article 10 of diploma 3057 refers to a deadline of 30 days for the Ministry of Health to approve the project, a deadline which may be extended to 40 days should an investigation be required. In terms of article 11 another 30 days are given for the approval of the project. The project may, however, not be approved, and the applicant then has 10 days, from the date of the rejection of the application in which to appeal, as stated in article 14.

As has been mentioned previously, these administrative procedures are discouraging in a country, governed by extreme poverty, and lack of literacy.  

More recently (1998) the government decided to implement a new rule for licensing the industrial activity. Some requirements were cut of like stamps on applications forms are not needed, as well as the educational diploma, the proof of financial capability, certificate of commercial regist, and feasibility study. Although the new rule, bureaucracy and other unclear

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58 70% of Mozambican live in absolute poverty. 62% with no scholar. education-
procedures still make difficulty for the informals to be attracted to be in the formal sector. In accordance with the new rule, the informal should be integrated in what is called 3rd class group which does not require more documents but just a registration. Apart what administrative procedures concern, there's another important issue arising on the administrative act: administrative justice as the adjective way to protect the rights of the citizens when they are dealing with the administrative bodies.

The Constitution of Mozambique is not clear about rights which everyone has when dealing with the state Authorities. As we know the Constitution is the supreme law of the Republic and law or conduct in consistent with its provisions is of no force and effect.

How does the informal or any applicant should claim for the rights in case of any unfair decision provided by organs of the state in their administrative decisions?

The article 81 of the Constitution of Mozambique forseen that everyone has the right to claim for the decision taken against his rights. However, the non existence of the Administrative Code in Mozambique is one of the major problem to assure the correct procedures in that way. However, everyone abused or injured on his rights the judicial and administrative courts should use to claim for reparation of his rights. The Mozambican Constitution does not consider the administrative specific provisions of administrative rules to protect the citizens.

Assuming for example that there's is limitation on some rights, could the informal not be accepted to operate in some areas
because of public interest? I argue that yes. Individual rights may sometimes come into conflict with the public interest. For instance if the informals are performing their activity with no higien. However, limitations should not be applied if somebody undertakes the informal activity in street justifying his position as with lack of revenue.

Another very important issue is the consumer protection. A further consumer protection is highly relevant to the activities of the informal sector. Because people's needs are vast and diverse and because resources are finite, people do not always have the liberty to acquire all they need at each and every given point in time.

Resources are available on the market and people generally acquire them at a price. When people access these resources on the market they become consumers. Resources which are on the market emanate from various sources and are channelled and regulated by various entities driven by a myriad of motives. Consumers are important players on the market because they constitute the demand element which interacts with the supply element and the price is generally a product of the interactions of these two elements.

Consumers therefore are vulnerable to all sorts of pressures the moment they enter the market place and it is now a widely accepted principle that the consumer of goods and services is entitled to protection under the law if the goods and services supplied to him or her for consideration are defective or falsely described.
It is usually argued that consumers are exposed to exploitative tendencies by manufacturers and providers of services because of their general ignorance of the products they acquire. Practitioners of the informal sector are also usually ignorant of the complex characteristics of the products they sell.

Protective measures generally fall into the categories of legal safeguards and non-legal safeguards. Under the non-legal safeguards category would fall the work of non-governmental bodies, ordinary civic pressure groups, business self regulation and the market itself as a form of consumer protection. It should be assumed that private law can however, operate as a protective mechanism only if the effect of the remedies prescribed is pursued to its logical conclusion.

The award of a remedy to an aggrieved consumer, for instance, has both a direct and a general deterrent effect. It acts as a deterrent to the guilty party and it acts as a general deterrent to other firms. This ultimately protects the consumer. The effectiveness of such a process, however, is undermined by a number of factors. In general, Mozambican consumers lack the legal literacy that would enable them to know their rights. It is only when a consumer knows his or her rights that the issue of asserting such rights arises. Assuming legal literacy the next middle a consumer encounters is harnessing sufficient material to mount a court action.

Most consumers lack the resources to afford the current fees charged by legal practitioners. Court procedures in Mozambique are generally complex and too onerous. Another discouraging factor as far as consumers are concerned is the
fact that the court processes are slow and labourious. There is no legal aid system in Mozambique which can come to the assistance of consumers in this circumstances. Public law would also be an agent for consumer protection.

Public law measures are more advantageous in that they do not rely on individual enforcement but instead rely on the more available public administrative resources. Local Authorities through their municipal police are competent to enforce regulations and by-laws within their areas of jurisdiction. In general the regulations dealt with in this domain relate to hygiene, pricing and license to engage in certain commercial transactions to protect the consumers.

Apart what I just stated, in most African countries informals have had to operate in very unstable legal and political environments. Such conditions, in which the official rules of the game are uncertain, exact a heavy price from firms and the economies in which they operate. In Mozambique for instance informals need consistent and enforceable or economically powerful to the microentrepreneur equally to the rule of law. All informals as enterprises can benefit from a legal framework that defines contract and property rights clearly and provides an equitable form for settling disputes.

Nevertheless, the regulatory framework for the informal sector is a confusing "hot potch" of legislation divided from the formal sector. It is applied in an uncoordinated and often contradictory fashion by various administrative levels without sensitivity to the particular needs of the informal sector. The situation, not surprisingly, opens itself to widespread corruption and
harassment from officials exploiting the ignorance and vulnerability of informal operators.

The control of the informal sector is subject to Portuguese colonial municipal by-laws enforced by recently reconstituted urban or municipal police who have been discredited in the eyes of the public by abusing their powers, often, violently particularly against vendors.

The laws which have to be enforced would be emanated in a way to meet the expectation of the informals.

6. **A possible way to tax the informals**

Taxation is controversial issue arising when we speak about informal sector. How then possible to tax the informal sector?

Taxation is the price we pay for the welfare state, and the price is high. As an juridical definition, tax is a pecuniary contribution, coercive, outsided, definitive, without counterpart, and not a sanction established by law, required by the state or other public institution for the welfare of the state. However, tax affects the

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59 Terrel, Paul. In Social Service Review, vol.60, n°2 June 1986, The Univ. of Chicago, pag.272. Terrel defends that one of the startling ironies of the welfare state then is that at the very time that social programs direct income and services to the poor, tax policies reduce their income.

taxpayers in many ways, some positive, some negative, some contradictory. On the negative way, second Paul Terrel, tax reduces disposable, usable income. For most people, this has little effect on their essential well-being. One the positive way, tax is a way of contributing to state's revenue.

The existing tax systems of many developing countries are distorted and naturally contribute to a host of economic problems, including inefficient production, less of capital and the disequilibrium of fiscal revenue and balance of payments.

Mozambique is one of those developing where outdated tax burdens do not follow norms of social justice and those create severe problems. The need for the reform of the taxation system has been acknowledged for instance the recent implementation of the VAT system in Mozambique still on process of implementation.

The article 50 of the Constitution of the Republic of Mozambique provide that: "taxes are stablished or charged by law, which fixes them according to the rules of social justice". The equality of

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61 See the above note 59.

62 VAT – Value Added Tax, was implemented in Mozambique on 1st of June of 1999, prior to resistance from different taxpayers whose presented various reasons for instance, short time to them to be prepared for the new tax.

63 Norms of social justice defends that in a democratic society, the distribution of tax burdens follows norms of social justice laid down by the majority. Knowledge and prejudices of majorities vary in time and place so does the concept of social
taxation has been referred to as the standard of social justice, in the sense that taxes should be inherently equitable.

This requires that persons or businesses in essentially the same circumstances be taxed equally and that those in different circumstances be taxed differently but with reasonable discrimination. Should this assumption be applicable to the informal sector? What is the starting point to discuss the possible taxation of the informal sector?

To tax the informal sector, imply to define the "norm of incidence" and this should only be established by law.

With attention to the "incidence norm" which is rule to oblige everyone to pay taxes, if he is involved in any economic activity this means that those who operate in the informal sector have to pay taxes and duties even if are not licensed to practice such activity.

According to the characteristics of the informal sector where income measurement is not easy, due to the type of activity

justice. The formula for social justice in the tax system of a given democratic society would consist of a mix of taxes based primarily on the principles of equity, benefits received and ability to pay.

BERLINI, A., "Principi di Diritto Tributario, vol. I, Milan, 1952, P.225 - The Mozambican government tax law is ruled by Law n° 3/87 of 30 of January 1987 which covers many of the relevant taxes in the country and is considered the Code of Income taxes. Alterations made on the basic law supported by Law 6/93 of 28 of December of 1993 which is now the main tax law defining the basic principles of the taxation system. The fiscal regime applicable to corporate companies is described in Decrees n° 30/93 of 30 of December 1993; 34/93 of 30 of December 1993 and 41/93 of 31 of December of 1993.
performed as well as the difficulties in identifying its operators and lack of accounts, the income tax is not applicable. However actually, in Mozambique, some informals have been paying some taxes to the Municipality Council. The taxes paid by the informals actually are not in accordance with the fiscal system and this have caused so many claims and queries.\(^{65}\)

The informals pay taxes when they purchase their goods for resale. In what concerns the informals involved in small industries and trade they could be charged as charged to the companies of "Group C" according of the Mozambique Code of Income.

However, as this study has shown is not easy to tax the informals based on income. The proposed way to tax the informals is to charge them an fee on registration, equivalent to 1,000,000,00MT/year (equivalent to R500) and 100,000,00MT (equivalent to R50) for business card, when this is issued or renewable.

The values proposed are possible to be paid by the informals because income and profit generated are also higher than those values. On the other hand, I consider that the rate given should be simply collected in a simply basis.\(^{66}\) Summarizing

\(^{65}\) Vendors in bazars are obliged to pay (10,000,00MT to 20,000,00MT/day- equaly to R5 to R10). Sometimes, the revenue collected is not drawwn totally to the Authority. Many vendors claim for consignation for the amount collected to be reused for investimient to improve the spaces where they perform their activity.

\(^{66}\) Local Authorities are appropriate to collect such a fee and issue the business card. A simple application form with a copy of identity card of the applicant and the value of the fee are enough to issue the business card against payment of
and proving some economic interpretation I argue that for given parameter values, if the tax rate is below a certain threshold level, there is possible to increase the taxpayers in the economy.

In fact, as the tax rate increases from low levels, productivity and welfare rise for everyone because the distortionary effect of taxes is more than compensated for by the beneficial effect of public services.

The author believe that the Mozambican government would want to rise the tax rate up to the point where productivity of public services is minimized. However, this optimal rate must be below the threshold rate otherwise, the presence of the informal sector would add to the distortionary effect of taxes and this rate would no longer be optimal.

To ensure that threshold rate is at least a high as the optimal rate, government would, however increase penalties and prevent informals from using public services, thus making informality less profitable. Nevertheless, additional mechanisms must be encountered to make the informals to pay in fact taxes.

While the taxation system on the informal sector is not applied, the evasion of taxes in Mozambique is a reality. The Minister of Planning and Finance recognized the existence of distortion and tax evasion in the Mozambique fiscal system. In fact, these is equivalent issuing value.

\footnote{Speech of the Minister of Planning and Finance Mr. Thonmas Salomão during the}
substantial evidence of the extent of tax evasion and bureaucratic corruption in many countries with special reference to developing countries.

This evasion involves bribery of officials and a seniority system in public service, high officials with higher income and wealth receive a large portion of the bribes, along with professionals who often act as "middlemen" in this process.

For example, 76% of income tax officers accepted bribes in India in 1988, 72.4% in Pakistan and 47% in Thailand. 

Because of lack of statistics in Mozambique, the Author cannot present any figure related to bribery received by officials linked with the tax services, but there are informations that officials well positioned are involved in bribery.

Taxation is really a problem for the informal sector for many reasons. The idea of allowing a broad sector of activity to escape any form of taxation is unacceptable to local Authorities as well as the state. The economic being of the poor is

Annual Meeting of the Ministry of Planning and Finance held in Maputo in March 1997.

powerfully affected by the tax system, just as it is by direct social service and income maintenance expenditure 69.

The Mozambique State Budget approved annually by Parliament and on it depends the government’s programmes for achieving good results in respect of its welfare and economic responsibilities, should emphasise the support of every agent by the State, by promoting their activity giving ways to achieve it.

In any economy Government fulfils an important role. It is the duty of the state to provide and maintain essential public works and institutions such as roads, schools, hospitals, etc, and to guarantee minimal welfare. Is also the duty of the State to protect the country and its subjects against foreign enemies and to maintain law and public order 70. Taxes represents about 30% of the total Mozambican budget. The Mozambican State Budget is deficitary due to macro-economic issues, about 60% of revenue comes from donor countries like IMF and World Bank 71.

The informals should be one of different ways to help the Budget of state in collecting revenue for social and economical programmes. Contrary to their image as “tax evaders”, many informals pay a significant proportion of their income.


The ILO-Internacional Labour Organization in its report of 1995, estimates that 40% of informal sector enterprises in 10 subsaharian countries pay fiscal taxes or registration fees. Small informal operators that function outside the official regulatory framework contribute substantially to employment and productivity. Study made by the ILO, estimates that the informal sector accounts for 59% of Subsaharian Africa’s urban labour force in 17 African countries surveys found that the informal sector contributes on average 20% of GNP (or U$D 15 billion a year). Taxes or fee charged to informals should not stiple informals.

7. Government intervention in dealing with the informal sector

The government has recently recognized that the informal sector play a very important role on self employment and income for many people in Mozambique.

Examining the constitution of the Republic of Mozambique in its article 41 we can find that the States aim is to provide and create conditions for citizens to perform various activities to expand the economy of the country.


73 See article 4 of the Constitution of Mozambique of 1990, (guidelines to the open market economy); and n° 2 of article 42 and article 44.
The informal sector recognized as playing a very important role and offers a striking illustration of the strengths and weakness of enterprise in Mozambique.

Unregulated and largely unrecorded, its activities comprise the most accessible and competitive part of the Mozambican economy. These informals, many of them very small, should be trained and financed by the government for entrepreneurial initiative. Even the regulation is not formal, they have had developed their own grassroots institutions to meet the demand for credit and training.

Institutions like IDIL- "Instituto de Desenvolvimento da Indústria Local" (Institute of the Local Industry Development) have promoted allocation of funds to women for promotion of their small businesses. However, the criteria for the selection of women to be helped is formalistic and does not cover everyone needing support to perform such activity.

Regarding what the informal sector represents to the Mozambican economy, the government should integrate it than to repress it because of positive impact such as a way for job creation, increasing of good in circulation on the market and participation in the GDP by paying taxes and fees on their

---

74 About R125,000, was allocated during last 3 years in credits and training. IDIL was created by the decree 6/88 of 18 of April 1988 to promote and develop small industries, providing training in management and technical assistance in getting finance for small projects. However didn’t fulfill correctly his programme because of lack of funds in accordance with the information given by the management.
registration and performing their activities.

The government could create adequate law and mechanisms to integrate the informal. Integration should be understood as a way of giving support to the informal practitioners in their activities and simplification of administrative procedures for licensing and registration.

In the success of these actions, government need to make a survey to register and to know how many informals are operating in the economy.

Despite widespread use of the informal sector, there is an overwhelmingly strong feeling that the government should exert more control over the informal market.

The type of intervention is in form of controlling hygiene and crime (sales of stolen goods).
CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

1. CONCLUSIONS

Following the reasoning set out in this study, I can conclude that:

a) The informal sector in Mozambique emerged and developed due the symptom of macro economic disfunction and civil war;

b) As a historical reference point, the informal sector in Mozambique emerged from the commercial activity of peasant families and unemployed people;

c) The informal sector as a phenomenon in Mozambique calls for the attention of the government and should be considered as one of the problem which the government should address in its programme;

d) Despite the introduction of the ESRP in Mozambique, growing unemployment with declining incomes and increase poverty still a problem where about 70% of the Mozambican population live in absolute poverty causing the emergence and growing of the informal sector, competing with the formal sector;
The informal sector has great importance as a way of creation and incubator of small and medium enterprises. In this view, the informal sector is a giant sponge, absorbing much of the shock of periodic economic contraction by soaking up excess labour and by providing jobs and generating income;

The Mozambican legal system does not consider in possibility of accommodate the informal sector into administrative procedures;

The right for every citizen of freedom to choose their profession are recognised in the Mozambican Constitution. Although does not emphasise such as the RSA Constitution does, when states that's every citizen has the right to choose their trade, occupation or profession freely and their practice should be regulated by Law;

Freedom of trade, occupation, profession as well as the right to food are ones to recognize that the emergence of the informal sector is in part because of not fulfilment by the State;

The informals perform their activities not following the formal regulation. Considering the definition of Law and the Law covering the commercial activity, the informals may be regulated by Law. In other words informals should be turned to formal and consequently licensed and enforced to pay taxes;
j) The Mozambican government have been repressed the informals. The Author defend that to repress or to limit the practice of trade or industry by informals should be only when such activities are against the public interest;

k) The existing Law governing the trade activity by the street vendors is not suitable considering how strong are the operators on that field and because is outdated from the colonial period;

l) The administrative procedures still more bureaucratic enabling the informals to be registered themselves;

m) Even knowing that taxation is a controversial issue arising when we talk about taxing the informal sector, I argue that to tax the informal sector should be the way to make that class to contribute to the state revenue;

n) The Council of Ministers have approved a draft of project of decree to guide the trade performed by street vendors. This document is very important and indicative point that the government start looking into the problem of the informals. Although, does not cover the whole class of informals. The referred project has some gaps which must be integrated;

o) The consumers represent the vulnerable class which are not properly protected due the lack of any legal mechanisms for that.

p) Informal sector has immense potential in employment creation.
2. **RECOMMENDATIONS**

The role of Government should consist on:

1. Taking a much more vigorous stance in promoting the informal sector and recognize the importance of the activity performed as a way of employment generation and poverty alleviation;

2. Set a simple and transparent legal framework, properly enforced which is indispensable for the long term success of the informal sector to be formal. Excess of bureaucracy should be avoid;

3. Designing policies and a package of measure to build up the economic strenght of informals after close consultation with the sector to ensure the acceptability of such policies and measures;

4. Creating a more conductive environment supportive policies and institutionalised structures along, with easing access to credit on a timely and adequate basis. This will ensure sustained growth of the development of the informal sector and allow it to became formal. All necessary legislative and administrative measures need to be taken expeditionsly after taking into consideration successful models available in other countries, for instance RSA;
5. Reform on Taxation System to allow possible way to tax the informal;

6. Set up a legal framework to protect the consumers.

7. As experiences in the informal sector indicate, effective rules depend more on social pressures than on coercive enforcement.

8. The countries that have developed to guide financial, political and commercial practices in the informal sector can help to shape laws that fit Mozambique’s own economic and social needs. Designing a more constructive approach will not be without much emotional debate as there still powerful voices fearful of the informalization of the economy.

Finally, it is accepted that the informal sector is one of the essential factors in promoting and achieving economic growth, development and widespread creation of wealth and self employment.
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Maputo.
# ANNEX 1 - TABLE 1

## THE INFORMAL SECTOR INCOME – ESTIMATE

### 1,000 USD

### 1,000 Billion MTs

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>MAPUTO CITY</th>
<th>MAPUTO PROVINCE</th>
<th>GAZA</th>
<th>INHAMBANE</th>
<th>SOFALA</th>
<th>MANICA</th>
<th>ZAMBÉZIA</th>
<th>TETE</th>
<th>NAMPULA</th>
<th>NASSA</th>
<th>CAÇAU DELGADO</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOOD</td>
<td>15,800</td>
<td>8,300</td>
<td>3,875</td>
<td>2,500</td>
<td>7,000</td>
<td>5,500</td>
<td>6,820</td>
<td>8,800</td>
<td>2,500</td>
<td>3,850</td>
<td>64,840</td>
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<tr>
<td>BEVERAGES</td>
<td>18,700</td>
<td>3,700</td>
<td>4,150</td>
<td>2,700</td>
<td>12,000</td>
<td>9,905</td>
<td>7,855</td>
<td>4,750</td>
<td>16,450</td>
<td>1,500</td>
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<td>ELECTRIC EQUIP.</td>
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<td>2,475</td>
<td>2,350</td>
<td>2,475</td>
<td>6,900</td>
<td>1,930</td>
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<td>5,200</td>
<td>7,800</td>
<td>44,100</td>
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<td>EQUIP./MAT.</td>
<td>9,700</td>
<td>2,200</td>
<td>3,800</td>
<td>2,230</td>
<td>5,223</td>
<td>2,750</td>
<td>4,000</td>
<td>2,000</td>
<td>3,159</td>
<td>1,000</td>
<td>36,880</td>
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<tr>
<td>DIVERSE</td>
<td>7,800</td>
<td>1,100</td>
<td>2,000</td>
<td>1,200</td>
<td>2,100</td>
<td>1,500</td>
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<td>1,550</td>
<td>3,406</td>
<td>0,550</td>
<td>23,990</td>
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</tr>
<tr>
<td>TOTAL USD</td>
<td>69,500</td>
<td>15,775</td>
<td>16,175</td>
<td>11,125</td>
<td>33,223</td>
<td>12,105</td>
<td>24,675</td>
<td>14,345</td>
<td>36,014</td>
<td>13,38</td>
<td>247,810</td>
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<td>TOTAL MTS</td>
<td>702,10</td>
<td>186,14</td>
<td>190,86</td>
<td>131,27</td>
<td>392,03</td>
<td>142,53</td>
<td>291,16</td>
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<td>424,96</td>
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**Small Industries**

<table>
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<th>ZAMBÉZIA</th>
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<th>NASSA</th>
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<tbody>
<tr>
<td>USD</td>
<td>12,945</td>
<td>2,900</td>
<td>1,900</td>
<td>1,000</td>
<td>5,700</td>
<td>1,500</td>
<td>7,000</td>
<td>1,000</td>
<td>7,700</td>
<td>6,500</td>
<td>37,745</td>
<td></td>
</tr>
<tr>
<td>MTS</td>
<td>155,67</td>
<td>33,04</td>
<td>14,16</td>
<td>11,80</td>
<td>67,76</td>
<td>14,16</td>
<td>13,40</td>
<td>17,70</td>
<td>31,86</td>
<td>5,90</td>
<td>384,39</td>
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</table>

**Agriculture**

<table>
<thead>
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<th>ZAMBÉZIA</th>
<th>TETE</th>
<th>NAMPULA</th>
<th>NASSA</th>
<th>CAÇAU DELGADO</th>
<th>TOTAL</th>
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</thead>
<tbody>
<tr>
<td>USD</td>
<td>1,500</td>
<td>2,500</td>
<td>3,500</td>
<td>3,150</td>
<td>2,500</td>
<td>3,100</td>
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<td>7,350</td>
<td>4,600</td>
<td>41,600</td>
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</tr>
<tr>
<td>MTS</td>
<td>17,70</td>
<td>29,50</td>
<td>53,10</td>
<td>37,17</td>
<td>27,72</td>
<td>60,18</td>
<td>86,73</td>
<td>56,78</td>
<td>97,94</td>
<td>67,70</td>
<td>527,57</td>
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</table>

**Diverse**

<table>
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<th>MANICA</th>
<th>ZAMBÉZIA</th>
<th>TETE</th>
<th>NAMPULA</th>
<th>NASSA</th>
<th>CAÇAU DELGADO</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>0,637</td>
<td>0,148</td>
<td>0,600</td>
<td>0,290</td>
<td>0,225</td>
<td>0,075</td>
<td>0,129</td>
<td>0,133</td>
<td>0,757</td>
<td>0,095</td>
<td>3,465</td>
<td></td>
</tr>
<tr>
<td>MTS</td>
<td>7,51</td>
<td>1,74</td>
<td>2,05</td>
<td>2,93</td>
<td>2,66</td>
<td>0,88</td>
<td>1,55</td>
<td>1,59</td>
<td>0,93</td>
<td>1,12</td>
<td>41,01</td>
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</table>

<table>
<thead>
<tr>
<th>CATEGORY</th>
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<th>ZAMBÉZIA</th>
<th>TETE</th>
<th>NAMPULA</th>
<th>NASSA</th>
<th>CAÇAU DELGADO</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>73,982</td>
<td>21,223</td>
<td>21,475</td>
<td>15,525</td>
<td>41,498</td>
<td>18,480</td>
<td>32,147</td>
<td>18,080</td>
<td>46,821</td>
<td>18,37</td>
<td>325,624</td>
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<tr>
<td>MTS</td>
<td>887,98</td>
<td>256,42</td>
<td>565,20</td>
<td>183,19</td>
<td>689,67</td>
<td>218,05</td>
<td>495,04</td>
<td>213,34</td>
<td>543,69</td>
<td>211,71</td>
<td>3,864,37</td>
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</tr>
</tbody>
</table>

**SOURCE:** RESEARCH BY THE AUTHOR AND STUDENTS OF FACULTY OF LAW-UEM-1993 TO 1998

**NOTE:** EXCHANGE USED 11,800,00 = 1 USD
### ANNEX 2 - TABLE 2

**INFORMAL CROSS BORDER TRADE IN MOZAMBIQUE: MISSED REVENUES**

**U$D 1,000**

<table>
<thead>
<tr>
<th>Type of goods</th>
<th>Value</th>
<th>Duty/tax rate (a)</th>
<th>Duty/tax rate (b)</th>
<th>Missed Revenue (a)</th>
<th>Missed Revenue (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inform. Imported</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugar</td>
<td>17300</td>
<td>5%</td>
<td>12.5%</td>
<td>8465</td>
<td>2163.5</td>
</tr>
<tr>
<td>Eggs</td>
<td>5847</td>
<td>35%</td>
<td>35%</td>
<td>2046</td>
<td>2046</td>
</tr>
<tr>
<td>Meat</td>
<td>7574</td>
<td>35%</td>
<td>35%</td>
<td>2651</td>
<td>2651</td>
</tr>
<tr>
<td>Vegetables</td>
<td>3625</td>
<td>35%</td>
<td>35%</td>
<td>1269</td>
<td>1269</td>
</tr>
<tr>
<td>Others</td>
<td>20359</td>
<td>26%</td>
<td>16%</td>
<td>5293</td>
<td>3257</td>
</tr>
<tr>
<td><strong>Sub-total Agricultural</strong></td>
<td>54713</td>
<td></td>
<td></td>
<td>12125</td>
<td>11307</td>
</tr>
<tr>
<td>Shoes</td>
<td>9132</td>
<td>55%</td>
<td>35%</td>
<td>5023</td>
<td>3196</td>
</tr>
<tr>
<td>Vehic/Bicycle parts</td>
<td>2148</td>
<td>90%</td>
<td>12.5%</td>
<td>1718</td>
<td>269</td>
</tr>
<tr>
<td>Building Materials</td>
<td>4019</td>
<td>12.5%</td>
<td>12.5%</td>
<td>502</td>
<td>502</td>
</tr>
<tr>
<td>Beer</td>
<td>7703</td>
<td>110%</td>
<td>90%</td>
<td>8473</td>
<td>6933</td>
</tr>
<tr>
<td>Others</td>
<td>20233</td>
<td>26%</td>
<td>16%</td>
<td>5261</td>
<td>3257</td>
</tr>
<tr>
<td><strong>Sub-total Non. Agricultural</strong></td>
<td>43235</td>
<td></td>
<td></td>
<td>20978</td>
<td>14137</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>97748</td>
<td></td>
<td></td>
<td>33103</td>
<td>25524</td>
</tr>
</tbody>
</table>

(a) before reduction of duty/tax rates in November 1996  
(b) after November 1996

This Table shows that, in theory, the total revenue forgone in twelve months of border monitoring could be estimated at about US$ 35 million according to 1996 rates or to about US$ 26 million according to the new rates in force from November 1996.

## ANNEX 3 - TABLE 3

### ESTIMATED VALUE OF MOZAMBIQUE'S INFORMAL TRADE WITH NEIGHBORS AND OVERALL TRADE BALANCE DEC.'95-NOV.'96

<table>
<thead>
<tr>
<th>Neighbors</th>
<th>Mozambique Exports 1,000</th>
<th>Mozambique Imports 1,000</th>
<th>Total Informal Trade 1,000</th>
<th>Informal Trade Balance 1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>SWAiland</td>
<td>30599</td>
<td>50689</td>
<td>81288</td>
<td>- 200000</td>
</tr>
<tr>
<td>South Africa</td>
<td>1303</td>
<td>32092</td>
<td>33395</td>
<td>- 30789</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>406</td>
<td>7295</td>
<td>7701</td>
<td>- 6889</td>
</tr>
<tr>
<td>Malawi</td>
<td>1367</td>
<td>2812</td>
<td>4179</td>
<td>- 1445</td>
</tr>
<tr>
<td>Zambia</td>
<td>217</td>
<td>417</td>
<td>634</td>
<td>- 200</td>
</tr>
<tr>
<td>Tanzania</td>
<td>2950</td>
<td>4643</td>
<td>7593</td>
<td>- 1693</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36842</strong></td>
<td><strong>97948</strong></td>
<td><strong>134790</strong></td>
<td><strong>- 61106</strong></td>
</tr>
</tbody>
</table>

This table shows that the total annual value of ICBT between Mozambique and its immediate neighbors, in the period of December 1995 and November 1996 amounted to about US$135 million. US$37 million were informal exports from Mozambique and about US$ 98 million were informal imports into Mozambique.

## ANNEX 4 - TABLE 4

### MAJOR GOODS TRADED AND AVERAGE MARK-UP

<table>
<thead>
<tr>
<th>COMMODITY (UNIT)</th>
<th>AVERAGE BUYING PRICE (Mls/Unit)</th>
<th>AVERAGE SELLING PRICE (Mls/Unit)</th>
<th>MARK-UP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize flour (1kg)</td>
<td>5,827.92</td>
<td>7,000.00</td>
<td>20</td>
</tr>
<tr>
<td>Irish potato (10kg)</td>
<td>29,970.00</td>
<td>33,750.00</td>
<td>30</td>
</tr>
<tr>
<td>Sugar (1kg)</td>
<td>6,276.00</td>
<td>8,750.00</td>
<td>39</td>
</tr>
<tr>
<td>Rice (1kg)</td>
<td>5,746.56</td>
<td>6,700.00</td>
<td>17</td>
</tr>
<tr>
<td>Cooking oil (0.75lt)</td>
<td>12,186.30</td>
<td>15,500.00</td>
<td>27</td>
</tr>
<tr>
<td>Cold drinks (24 tins)</td>
<td>42,200.00</td>
<td>49,500.00</td>
<td>15</td>
</tr>
<tr>
<td>Beer (24 tins)</td>
<td>83,309.50</td>
<td>113,380.00</td>
<td>36</td>
</tr>
<tr>
<td><strong>Average Mark-up</strong></td>
<td></td>
<td></td>
<td><strong>33</strong></td>
</tr>
</tbody>
</table>

Source: Compiled and calculated from Questionnaire responses
### ANNEX 4 (CONTINUED) - TABLE 5

**MAJOR GOODS TRADED AND AVERAGE MARK-UP**

<table>
<thead>
<tr>
<th>Type expense</th>
<th>% of traders by average annual cost of</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>≤ $US150</td>
</tr>
<tr>
<td>Food</td>
<td>12.9</td>
</tr>
<tr>
<td>Transport</td>
<td>37.1</td>
</tr>
<tr>
<td>Rent/housing</td>
<td>90.5</td>
</tr>
<tr>
<td>Storage</td>
<td>100.0</td>
</tr>
<tr>
<td>Other</td>
<td>70.0</td>
</tr>
</tbody>
</table>

### TABLE 6

**ESTIMATE OF AVERAGE REVENUES OF INFORMAL TRADERS**

<table>
<thead>
<tr>
<th>Period</th>
<th>Average value of import</th>
<th>Estima. Revenue W/33% Mark up</th>
<th>Periodic Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>1,042,933.12</td>
<td>1,387,101.00</td>
<td>344,167.88</td>
</tr>
<tr>
<td>Transport</td>
<td>2,490,873.85</td>
<td>3,312,862.10</td>
<td>824,988.25</td>
</tr>
<tr>
<td>Rent/housing</td>
<td>4,561,469.23</td>
<td>6,066,754.08</td>
<td>1,505,284.85</td>
</tr>
</tbody>
</table>

ANNEX 5

QUESTIONNAIRE

Research made in (place) __________________________________________

________________________________________

date __________________________________________

________________________________________

Name __________________________________________

________________________________________

Age ____________ Occupation - (Activity on the informal sector)

________________________________________

Area of activity (place) __________________________________________

Since when ? ______. How many people live with you ? ______. Where help
you in the informal activity ? ____________________________ How much spend
a day to get goods ? (or raw materials) ____________________________

Where do you get goods ? (or raw materials) ?

________________________________________

Do you pay tax or fee ? __________________________________________

How much do you pay ? (a day) __________________ (a week)

________________________________________

(a month) ______ (a year) __________________________________________

Do you want to licenciate your activity ? ____________________________

If yes, when ? _______ (if not, why ?) ____________________________

Talk about the municipal police or fiscal officials related to your activity

________________________________________

If the government gives you help, should you licenciate as formal ?____ (if not,
why ?) __________________________________________

Talk about your day life __________________________________________

Can you sign this form ? __________________ (if not, why ?)