

ASSESSING BUSINESS REGULATION

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1

BUSINESS REGULATION MATTERS

○ For competitiveness

- According to the IMF (Art IV report, 2012), “According to staff estimate, *reducing the average of each cost of doing business to the lowest among Indian cities is estimated to boost corporate investment by 3 to 3.5 percent [and aggregate demand by 0.3 to 1.5 percent] by raising profitability*”. ([IMF, 2012](#))

○ For Job creation

- Addressing the challenge of creating 70 to 100 million manufacturing jobs over a decade as per the 12th Plan (since manufacturing and domestic trade each contribute to only 16 to 17 percent of GDP as compared to 25 to 30 percent in other MIC

○ For access to markets

- Helping formalize the informal sector (by removing market entry barriers)
- Gender equality on labor markets

PERVASIVE INFORMALITY IN MANUFACTURING SECTOR

	1994-95	2000-01	2005-06	2010-11
Firms (million)				9/27/2013
Informal	12.2	16.7	17.0	17.2
Formal	0.12	0.13	0.14	0.16
Employment (million)				
Informal	29.1	36.3	36.1	34.8
Formal	9.2	7.9	9.1	11.8

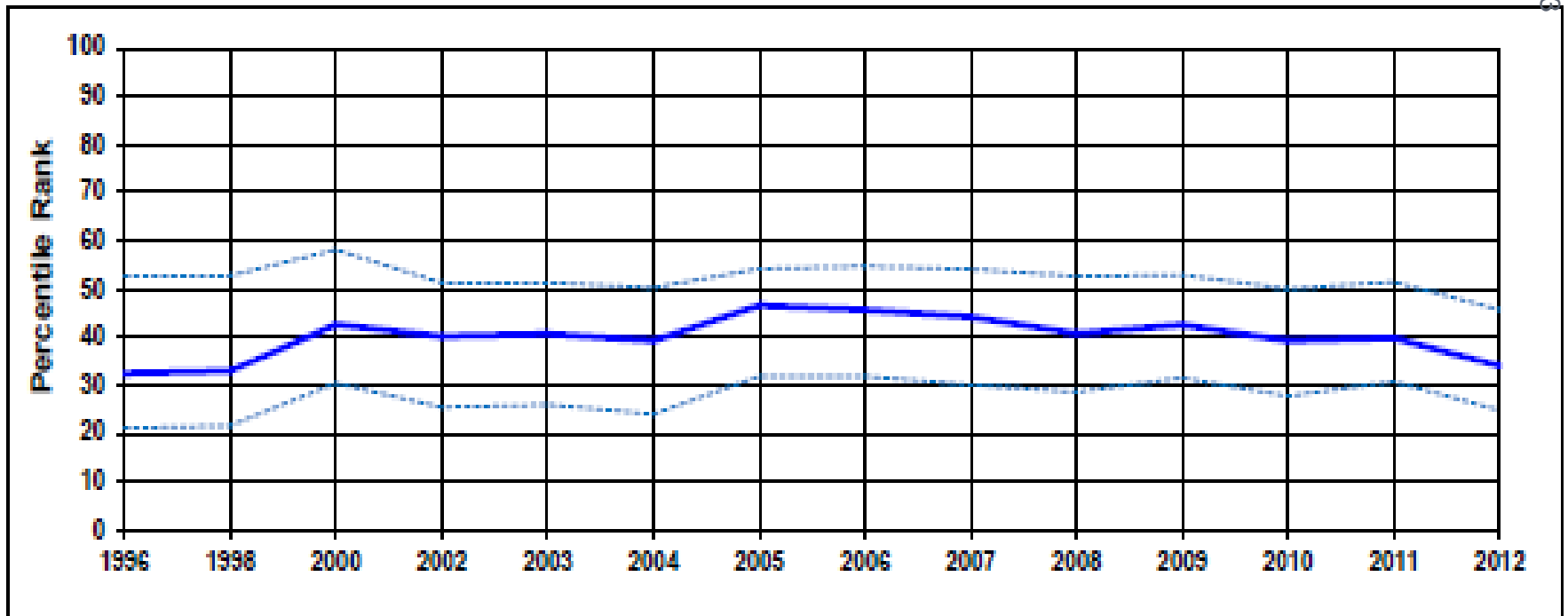
Source: Estimates for the formal sector are from the *Annual Survey of Industries (ASI)*, and for the informal sector from the National Sample Survey Organization (NSSO)

PERCEPTION MATTERS

India, 1996-2012

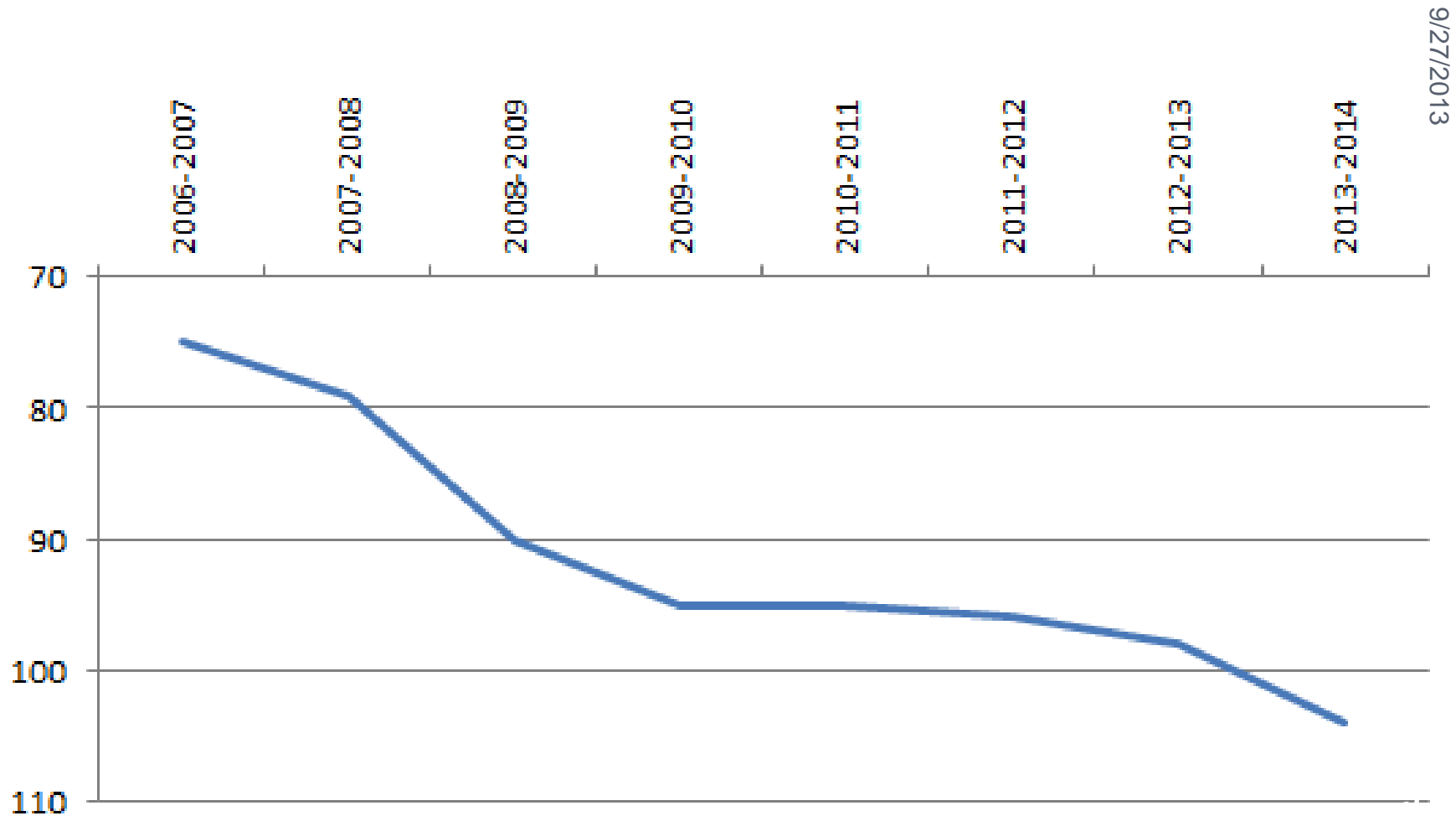
Aggregate Indicator: Regulatory Quality

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RANKING/SCORING MATTERS

India's Rank on GCI, Burden of Govt Regulation



9/27/2013

Global competitiveness report, WEF, 2013

MAKING SENSE OF OBJECTIVE INDICATORS

○ **Assessing business regulation: a challenging exercise**

- A need for Cost/benefit analysis: e.g. legal security
- The risks of proxy indicators (Doing Business)
- The perverse incentives of rating exercises
- The incumbency bias (Lant Pritchett, 2010)
 - Statistical dispersion of respondents' answers to ES

○ **De facto vs. de Jure regulatory frameworks**

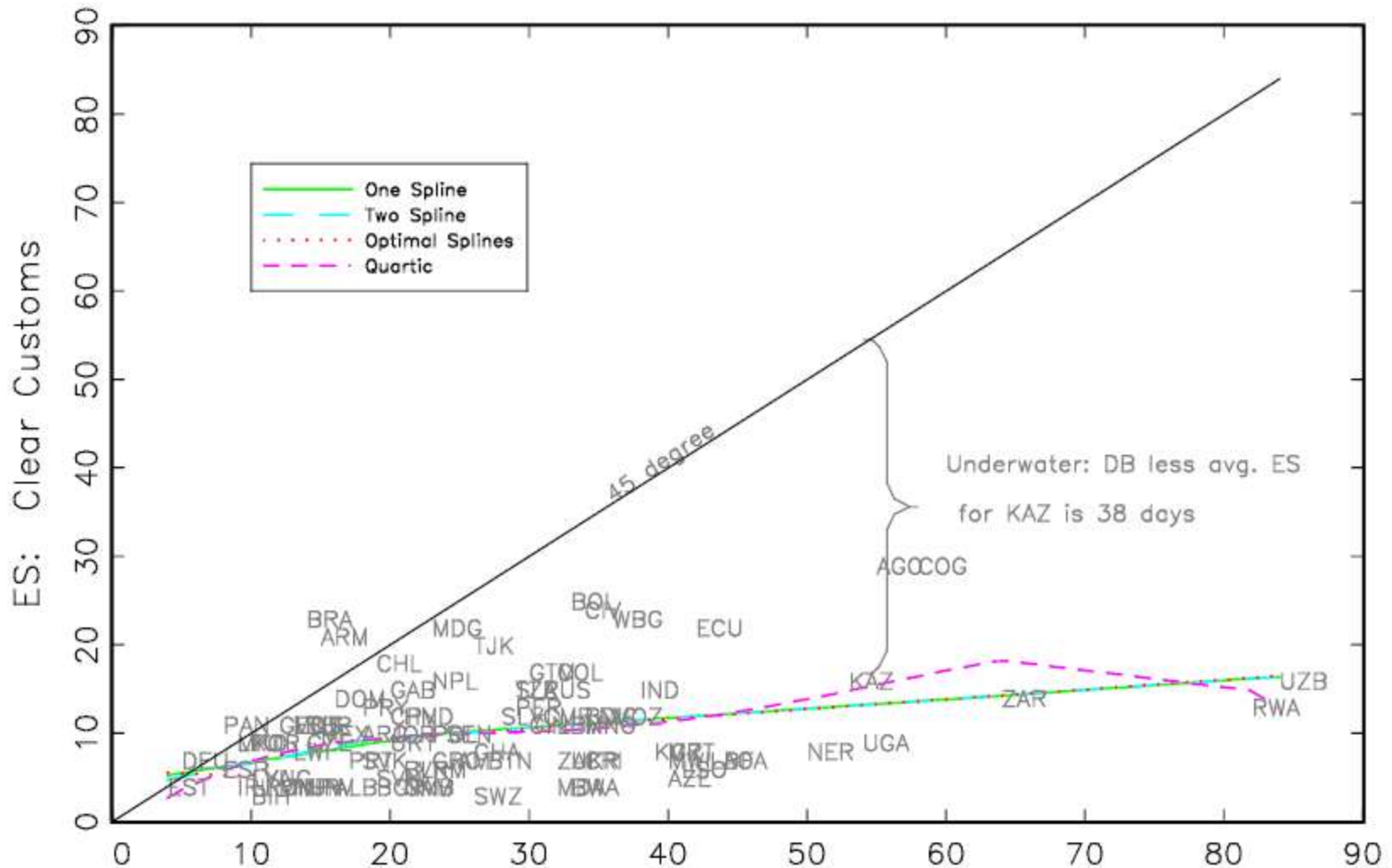
- E.g. tax liabilities vs. effective tax rate (collected taxes minus tax expenditures)

○ **Accounting for rating misalignment across indicators:**

“Experienced policy implementation is about firms, not countries (...) there is massive variance across firms in their reported experiences (...) The typical variation across firms in the same country in experienced policy is of roughly similar magnitude to the entire cross-national variation in average policy experience.” [L. Pritchett, 2010](#)

ENFORCEMENT MATTERS: DE JURE VS DE FACTO BUSINESS REGULATION

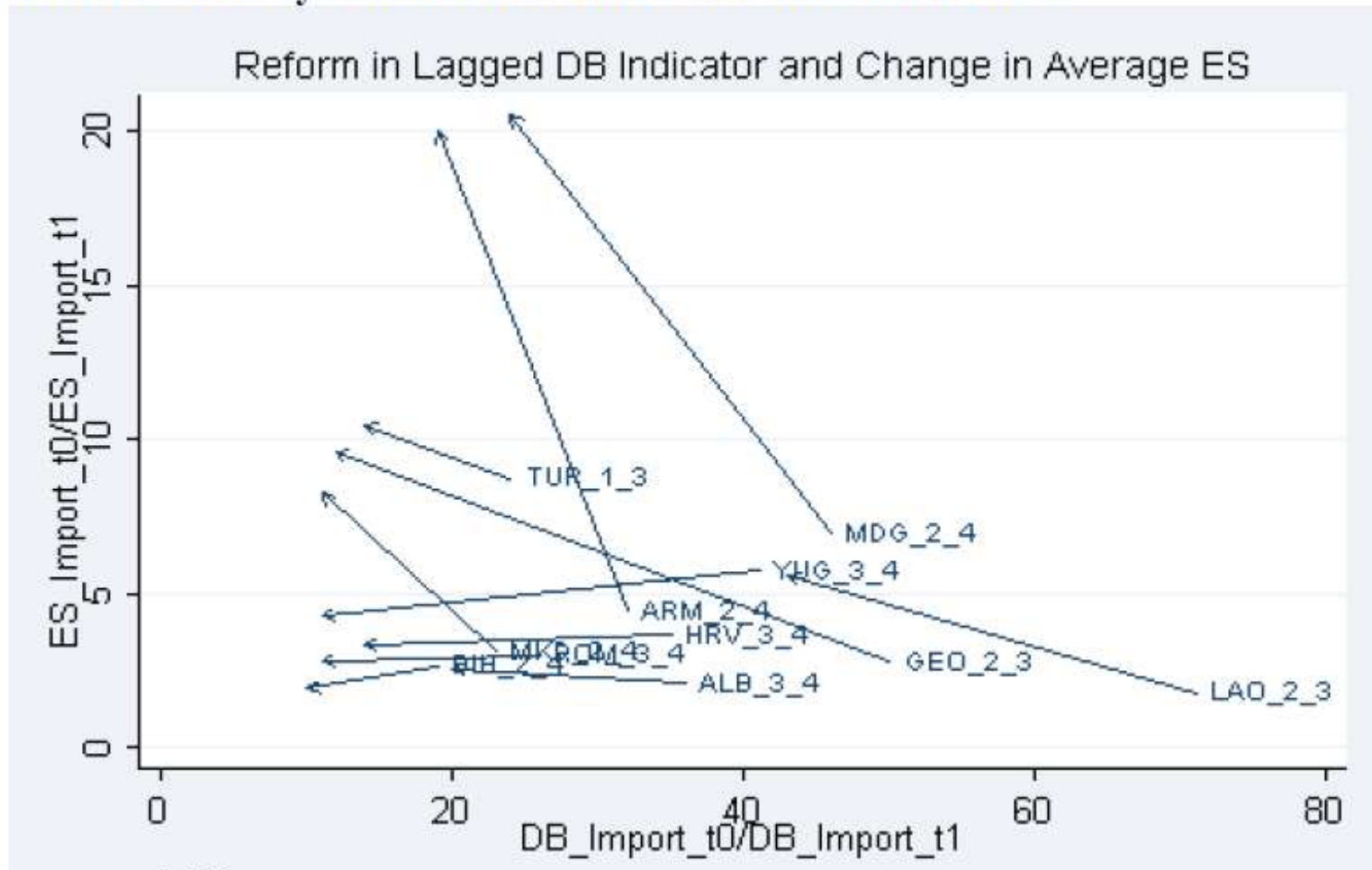
Figure 1a: Doing Business and Enterprise Survey: Imports
(Actual and Predicted Values)



9/27/2013

ASSESSING IMPACT OF REGULATORY REFORMS: DE JURE VS DE FACTO

Figure 6a: Changes in DB times to clear customs – and changes in averages reported in ES surveys conducted before and after the reform



FOUR CRITICAL DIMENSIONS

(I) **Competition**—the ease of entry of products and firms into the national market and production space and the maintenance of a level playing field;

(II) **Operations**—the ability of entrepreneurs to discover business opportunities, establish firms to take advantage of them, enter into contracts, resolve disputes, and operate firms with low costs of regulatory compliance;

(III) **Expansion**—conditions for firms to grow and work at a profitable scale; and

(IV) **Exit**—the environment created for risk-taking and firm-creation by establishing effective insolvency and bankruptcy environments and minimizing the firm's costs of shifting resources among product lines and locations.

CONCLUSION

○ Mapping the regulatory framework

- Across the three tiers of government
- Identifying overlaps, obsolescence, negative interactions
- Mapping enforcement capacity/effectiveness/consistency

○ Assessing distributional and actual impact of reforms

- Capturing de facto experience at receiving end
- Measuring threshold effect (avoiding stunting effect of eligibility criteria)

○ Business regulation as policy tool

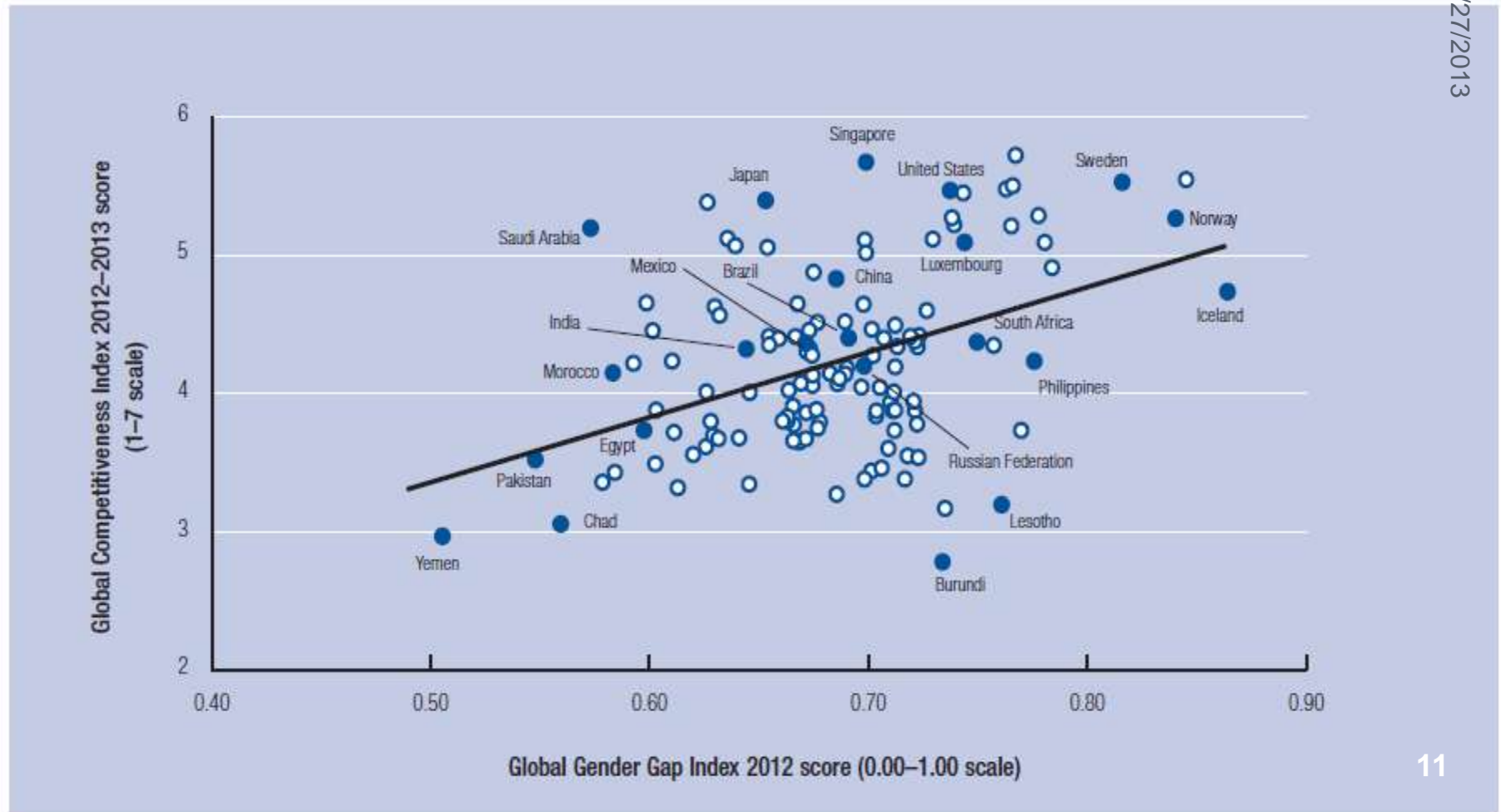
- Aiming at market integration
- Factoring in policy objectives (gender equality, industrial development, job creation, etc.)
- Opting between alternative policy options (e.g. tax expenditures vs. tax relief)
- Business regulation as service delivery (reducing transaction costs)

○ Building on successful initiatives/reforms

- Focusing on the lower tiers of governments and emulating best performers
- Business regulation as services

ENHANCING WOMEN PARTICIPATION IN BUSINESS A NEED FOR REGULATION ?

Figure 7: Relationship between the Global Competitiveness Index 2012–2013 and the Global Gender Gap Index 2012



9/27/2013

BUSINESS REGULATION AS A SERVICE

a) Average Service Delivery Time of commercial taxes receipts

Service	Receipts	In Time Approvals	Stipulated Time	Average Time	Percentage Fast/Slow (-)	Days Saved
Issue of C Form declarations under the CST Act, 1956.	84982	75154	10	2	427	8
Issue of form F Declaration	8200	6285	10	5	212	5
Issue of registration under the KVAT Act, 2003.	4528	3194	25	11	237	14
Issue of form H Certificates	1555	1136	10	5	211	5
Issue of No Due Certificate under the KVAT Act, 2003.	834	658	15	4	413	11

The Karnataka Sakala Services Act of 2011, Report Card for the month of August 2013