ASSESSING BUSINESS REGULATION

Roland Lomme, Governance Advisor
World Bank, New Delhi
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

<table>
<thead>
<tr>
<th></th>
<th>1994-95</th>
<th>2000-01</th>
<th>2005-06</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Firms (million)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal</td>
<td>12.2</td>
<td>16.7</td>
<td>17.0</td>
<td>17.2</td>
</tr>
<tr>
<td>Formal</td>
<td>0.12</td>
<td>0.13</td>
<td>0.14</td>
<td>0.16</td>
</tr>
<tr>
<td><strong>Employment (million)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal</td>
<td>29.1</td>
<td>36.3</td>
<td>36.1</td>
<td>34.8</td>
</tr>
<tr>
<td>Formal</td>
<td>9.2</td>
<td>7.9</td>
<td>9.1</td>
<td>11.8</td>
</tr>
</tbody>
</table>

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

World Governance Indicators, 2013
RANKING/SCORING MATTERS

India's Rank on GCI, Burden of Govt Regulation

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)

L. Pritchett, 2010
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

Global Gender Gap Report, 2012
### Average Service Delivery Time of commercial taxes receipts

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

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