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Firm Creation and the Ease and Cost of Doing Business

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Summary of Presentation

- Background and objectives
- Methodology and data
- Results
- Implications
- Summary and conclusion



Background

- Why monitor and measure competitiveness?
 - Competition among countries and territories
 - > Benchmarking
 - > Lessons on international best practices



Background

Country vs. Sub-national competitiveness

• Ease of doing business as measure of competitiveness



Background

- Some effects of firm entry barriers:
 - > Lower factor productivity (Moscoso Boedo and Mukoyama 2012; Poschke 2010)
 - > Technological growth is impeded (Prantl 2012)
 - ► Bigger informal sector (Monteiro and Assuncao 2012)
 - > Discourages entrepreneurship (Dreher and Gassebner 2013; Van Stel et al 2007)
 - > Lower FDIs (Jayasuriya 2011; Corcoran and Gillanders 2015)



Research Questions / Objectives

• What is the effect of ease and cost of doing business (ECDB) on business creation?

• Use sub-national Philippine data

• Is the effect constant across localities?



• Data from the Cities and Municipalities Competitiveness Index (CMCI)

• 2011 to 2015 data



• CMCI Three Main Pillars:

□Economic Dynamism

□ Government Efficiency

□ Infrastructure



• Economic Dynamism:

□Cost of Doing Business Sub-pillar

• Government Efficiency:

□ Business Registration Efficiency Sub-pillar



- Cost of Doing Business Sub-pillar indicators:
 - > Cost of electricity (commercial and industrial)
 - > Cost of water (commercial and industrial)
 - > Price of diesel
 - Minimum wage (agricultural plantation; agricultural non-plantation; nonagricultural with 10 or less workers; non-agricultural with more than 10 workers)
 - ➤ Cost of land in a central business district
 - ➤ Cost of rent for commercial or office space



- Business Registration Efficiency Sub-pillar indicators:
 - > Number of days it takes to get a permit for a new business
 - > Number of steps it takes to get a permit for a new business
 - > Number of days it takes to get a business renewal permit
 - > Number of steps it takes to get a business renewal permit
 - > Number of days it takes to get a building permit
 - > Number of steps it takes to get a building permit



- Business Registration Efficiency Sub-pillar indicators:
 - > Number of days it takes to get an occupancy permit
 - > Number of steps it takes to get an occupancy permit



- Three indices used:
 - > costeaseindex average standardized score of the Cost of Doing Business and Business Registration Efficiency indicators
 - costindex average standardized score of the Cost of Doing Business indicators
 - > easeindex average standardized score of the Business Registration Efficiency indicators
- Individual indicators



• Business creation measure:

> Number of new business registrations

Regress business creation on the indicators of ECDB



• Control for other city/municipal factors that can also affect business creation

Size and characteristic of the local economy / demand



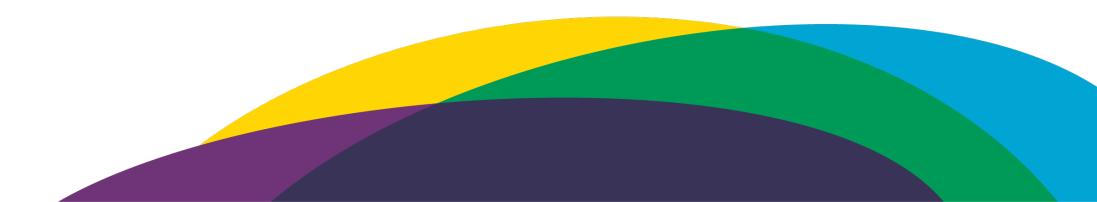


• Analysis was made for the following groups

- > All cities and municipalities
- ➤ Cities only
- > 3rd to 6th class municipalities only



Results



Results with selected control variables (All cities and municipalities)

Dependent Variable: Number of new businesses registered						
VARIABLES	1	2	3	4	5	6
costeaseindex	766.5*	884.3**				
	(421.4)	(433.1)				
easeindex			25.99	52.72		
			(190.4)	(183.2)		
costindex					569.2**	635.7**
					(268.6)	(280.7)
popn	3.294***	3.590***	3.240***	3.545***	3.297***	3.594***
	(0.934)	(1.023)	(0.932)	(1.022)	(0.928)	(1.020)
bustax	1.235**	1.302**	1.230**	1.296**	1.239**	1.305**
	(0.504)	(0.560)	(0.512)	(0.569)	(0.503)	(0.559)
inflation	9.308	9.527	10.49	8.993	6.644	7.510
	(12.33)	(10.15)	(12.81)	(10.25)	(11.61)	(10.04)



All cities and municipalities

• Overall ease and cost of doing business (*costeaseindex*) has a positive and significant relationship with business creation.

• Cost of doing business (*costindex*) has a positive effect on business creation.

• Ease of doing business (*easeindex*) has no significant effect.



All cities and municipalities

 Disaggregating the indexes, *minimum wage, cost of electricity,* cost of water for commercial users, and price of land in a central business district drive the effect of costindex.

 Among easeindex indicators, only number of days to apply for a new business permit has a significant effect on business creation.

• Among control variables, most measures of size of the economy and demand are positive and significant.



Cities only

• Same results, except that coefficients are much larger.



Third to Sixth Class Municipalities

• No indicator of ease and/or cost of doing business is significant.

• Among control variables, measures of size of the economy and demand still significant.

• Some indicators of governance turned significant.



Some implications

• Overall ease and cost of doing business (*costeaseindex*) has a positive and significant relationship with business creation.

• Lower cost rather than ease of doing business is the stronger driver of this effect.

• Financial cost rather than administrative and time cost is a stronger deterrent to firm creation / entrepreneurship.



Some implications

• Firm creation hindered not only by barriers to entry, i.e. number of days it takes to process a new business permit, but also by financial costs associated with operating a business.

 Cost and ease of doing business is an insignificant determinant of business creation in less economically developed municipalities.



Some policy implications

• For programs that promote entrepreneurship and firm creation, focus reforms on the individual indicators that drive the effect ECDB on business creation.

• Could be long term solutions – most are market-driven and require structural and legislative changes.

• Easiest to reform is time to apply for a business permit – controlled by LGUs.



THANK YOU

