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Firm Creation and the Ease and Cost of Doing Business

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DOI: <https://dx.doi.org/10.2139/ssm.3096366>

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?**

Methodology and data

- **Data from the Cities and Municipalities Competitiveness Index (CMCI)**
- **2011 to 2015 data**

Methodology and data

- **CMCI Three Main Pillars:**
 - Economic Dynamism
 - Government Efficiency
 - Infrastructure

Methodology and data

- **Economic Dynamism:**
 - Cost of Doing Business Sub-pillar
- **Government Efficiency:**
 - Business Registration Efficiency Sub-pillar

Methodology and data

- **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; non-agricultural 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

Methodology and data

- **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

Methodology and data

- **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

Methodology and data

- **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**

Methodology and data

- **Business creation measure:**
 - Number of new business registrations

- **Regress business creation on the indicators of ECDB**

Methodology and data

- **Control for other city/municipal factors that can also affect business creation**
 - Size and characteristic of the local economy / demand
 - Governance

Methodology and data

- **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

