



private sector | development
M&E Workshop - Delhi

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M&E for BEE: Bad News and Good News!

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Bad news: BEE B/C hard to estimate with precision

- **[US] Experts admit that they don't even know whether the regulatory burden is growing or shrinking**
- **One estimate re US Federal regulation:**
 - annual cost between \$40 billion and \$46 billion,
 - Benefits between \$99 billion and \$484 billion.
- **An alternative cost estimate is \$1.1 trillion a year** including the burden of price supports, barriers to entry and complying with the tax code.

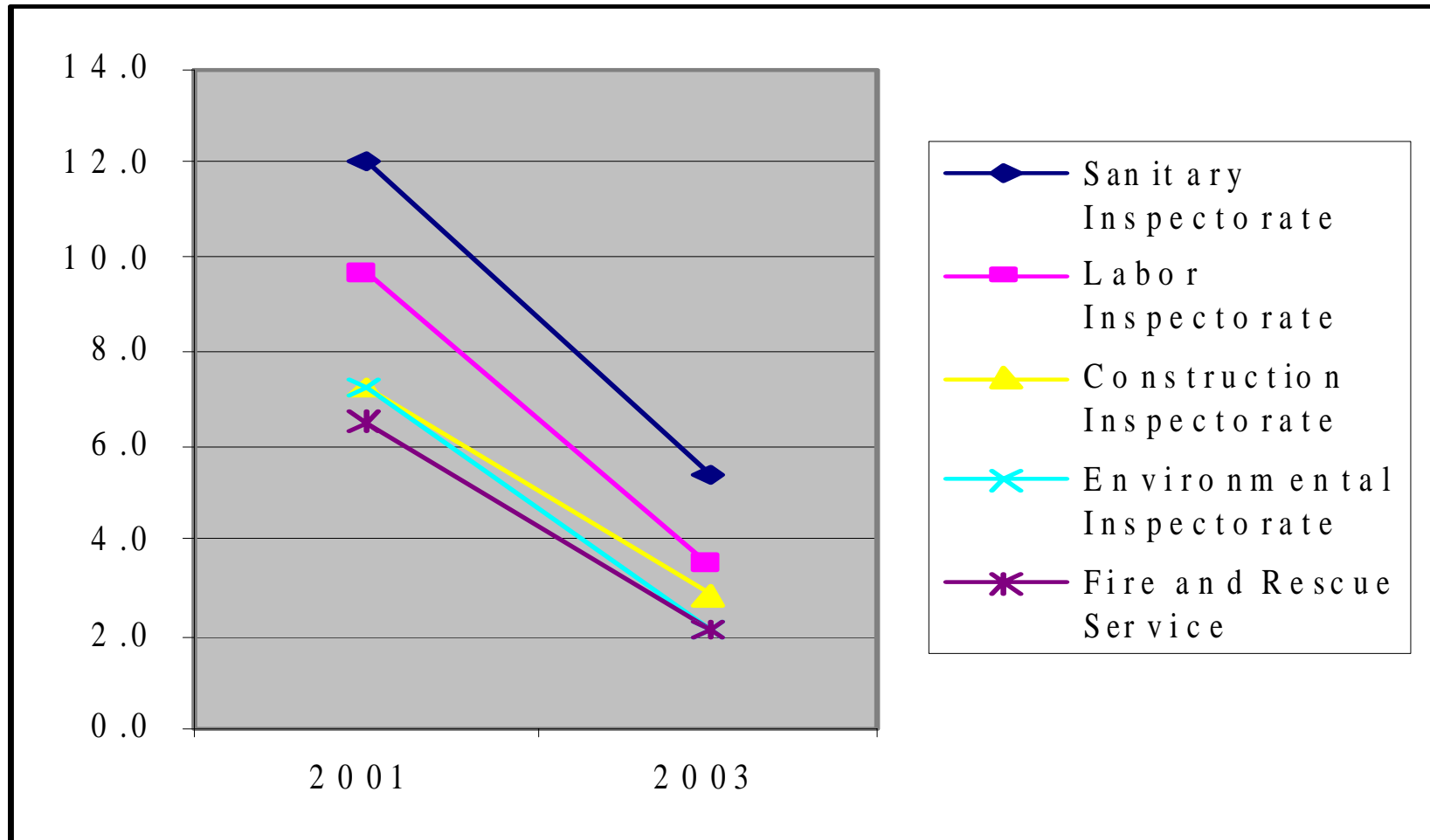
The biggest benefits are the hardest to evaluate

- **Example: Reform of Company Registration**
 - **Costs (easy):** project costs, counterpart inputs, hardware, software, training, etc.
 - **Benefits:**
 - Cost savings – firms that would have registered anyway (relatively easy to value)
 - **Reduced costs and risks (much harder to value):**
 - Entrepreneurs encouraged to start a new business
 - Firms encouraged to formalize and grow

- **We can start with things that are easy to value, e.g.:**
- **Reforms of inspections, tax simplification**
 - **Benefit existing firms with cost savings**
 - **Examples from Latvia, S. Africa, etc. using survey data**
- **Things that are harder to value, but may be estimated with conservative assumptions**
- **Other benefits (a work in progress)**

Latvia – Cost savings from inspections reform

FIGURE 2: Average duration of inspections in hours



Calculation of Value of Benefits from inspections reforms

- **Reduction in inspection burden on businesses from Labor safety, fire, and sanitary inspections:**
 - 50 hours per year per firm
 - One staff member @ \$2/ hour
 - ~40,000 active firms in 2001 subject to inspections
- **~\$4,000,000 for one year for one aspect of one area of reform**
- **About $\frac{3}{4}$ attributable to the reforms**

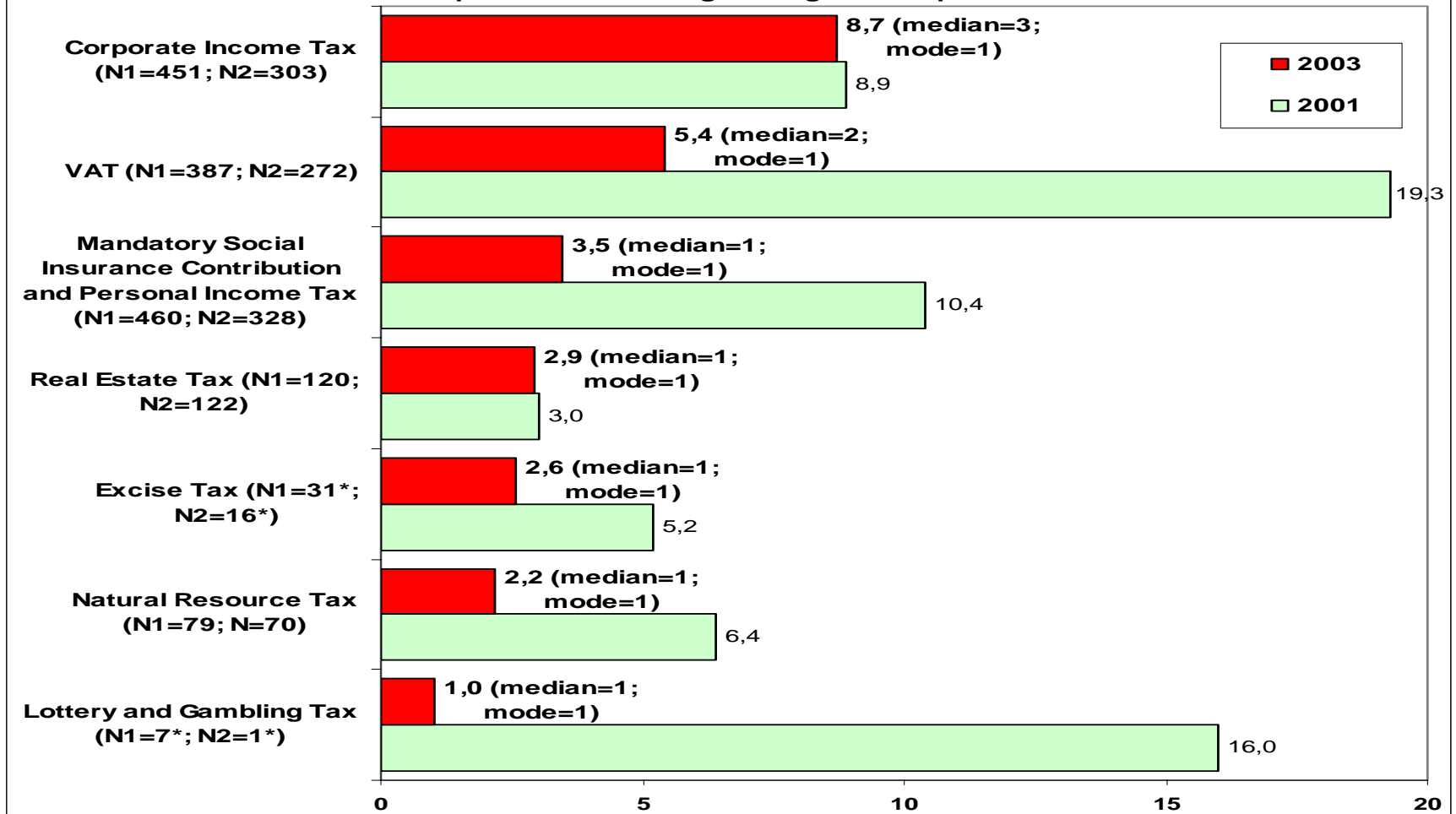
Latvia – Cost Savings from Tax reforms

Average number of person days for preparing respective declarations

(Base = enterprises, who submit those declarations;

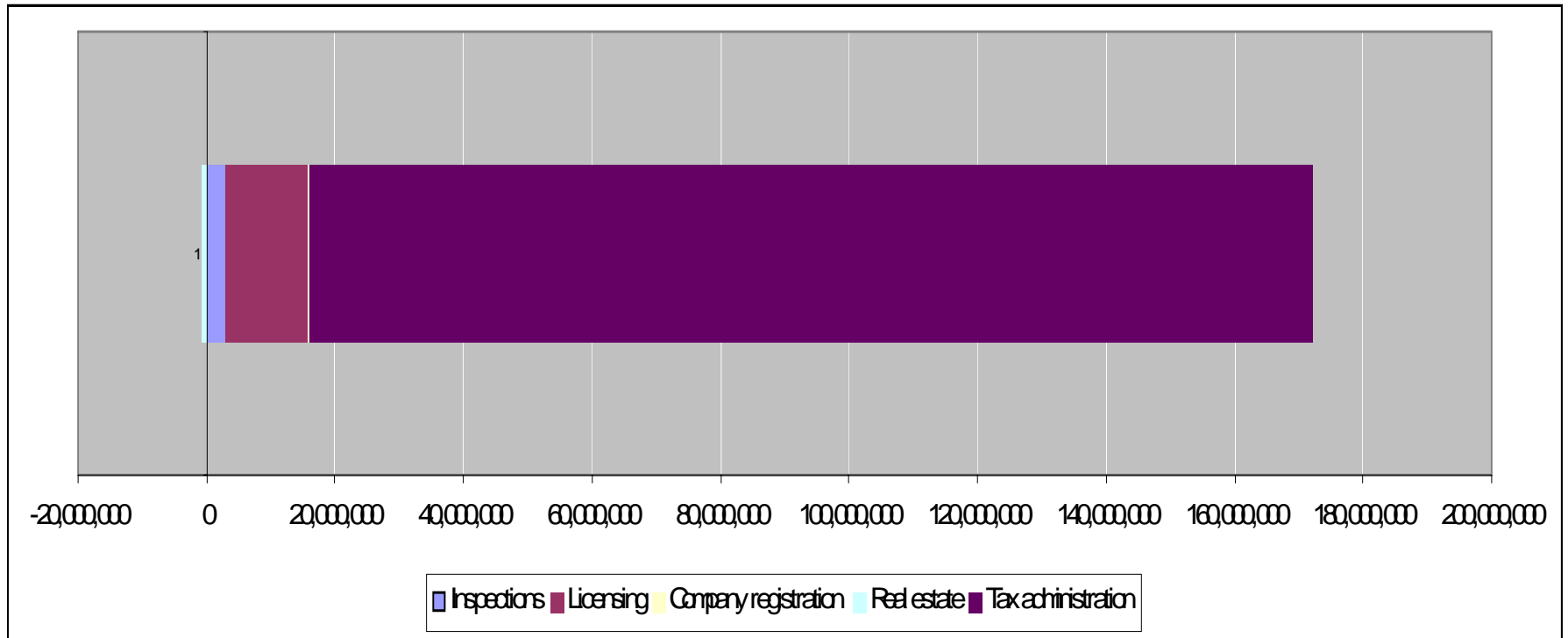
N1=base in 2003; N2= base in 2001)

* -the number of respondents is not large enough to interpret the obtained results

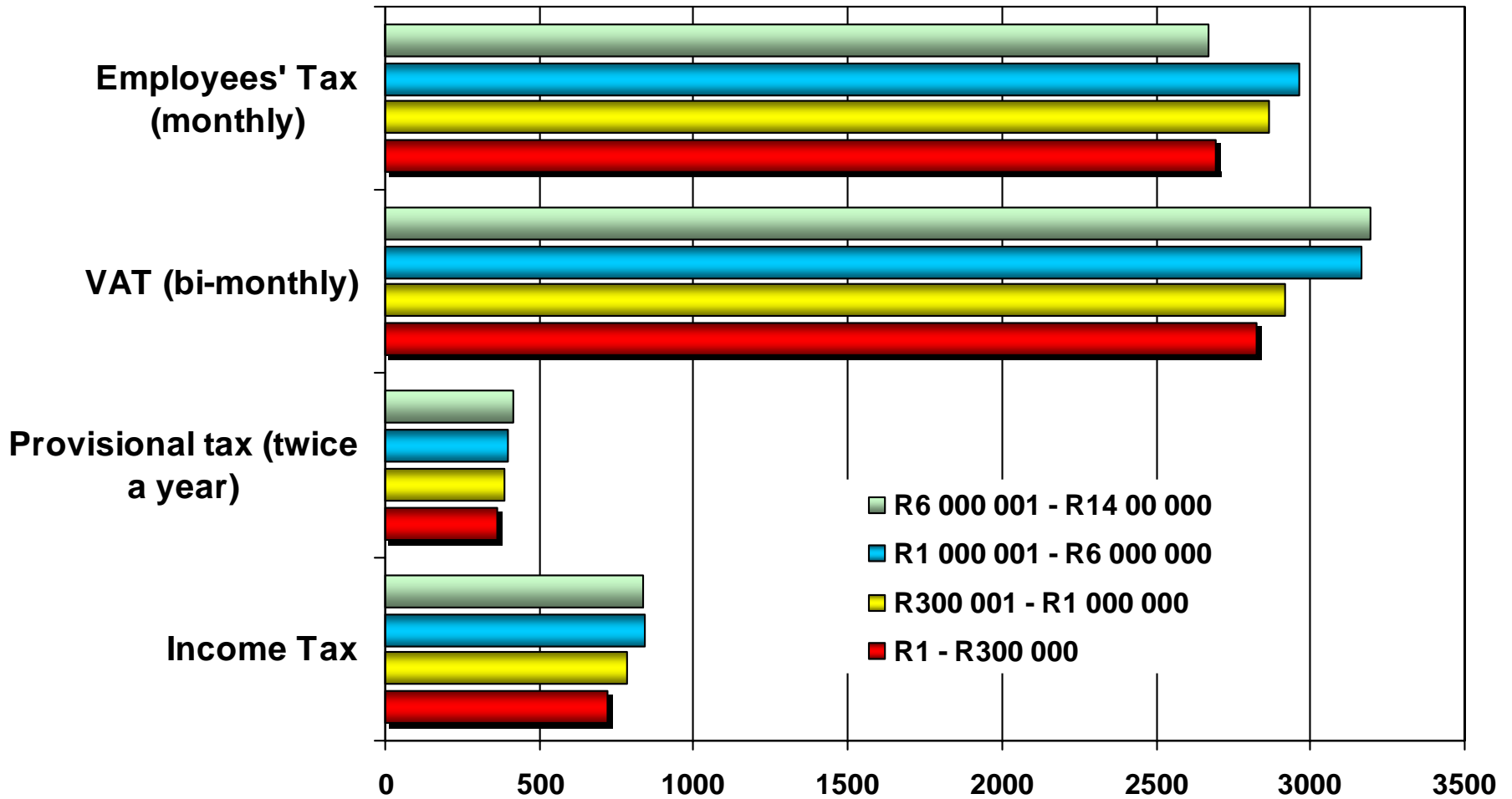


Good news: Benefits from aggregate cost savings alone are MUCH higher than costs of reforms!

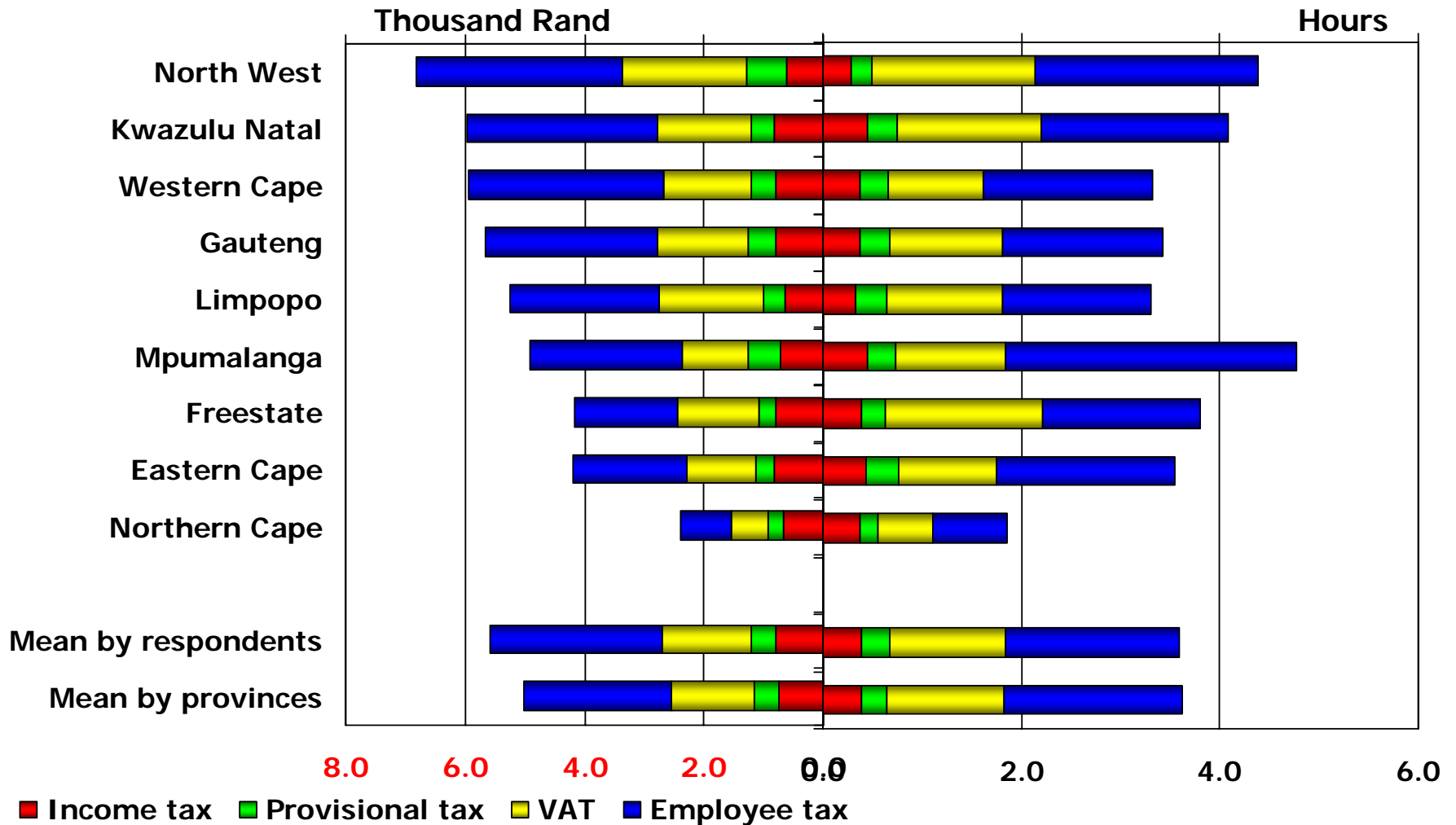
Latvia: Benefits of \$170 million/ costs of \$46 million



Cost to prepare tax returns in S. Africa (Rand/yr/firm) – aggregated cost \$100 mil.



Tax returns: annual tax practitioners time and cost to clients



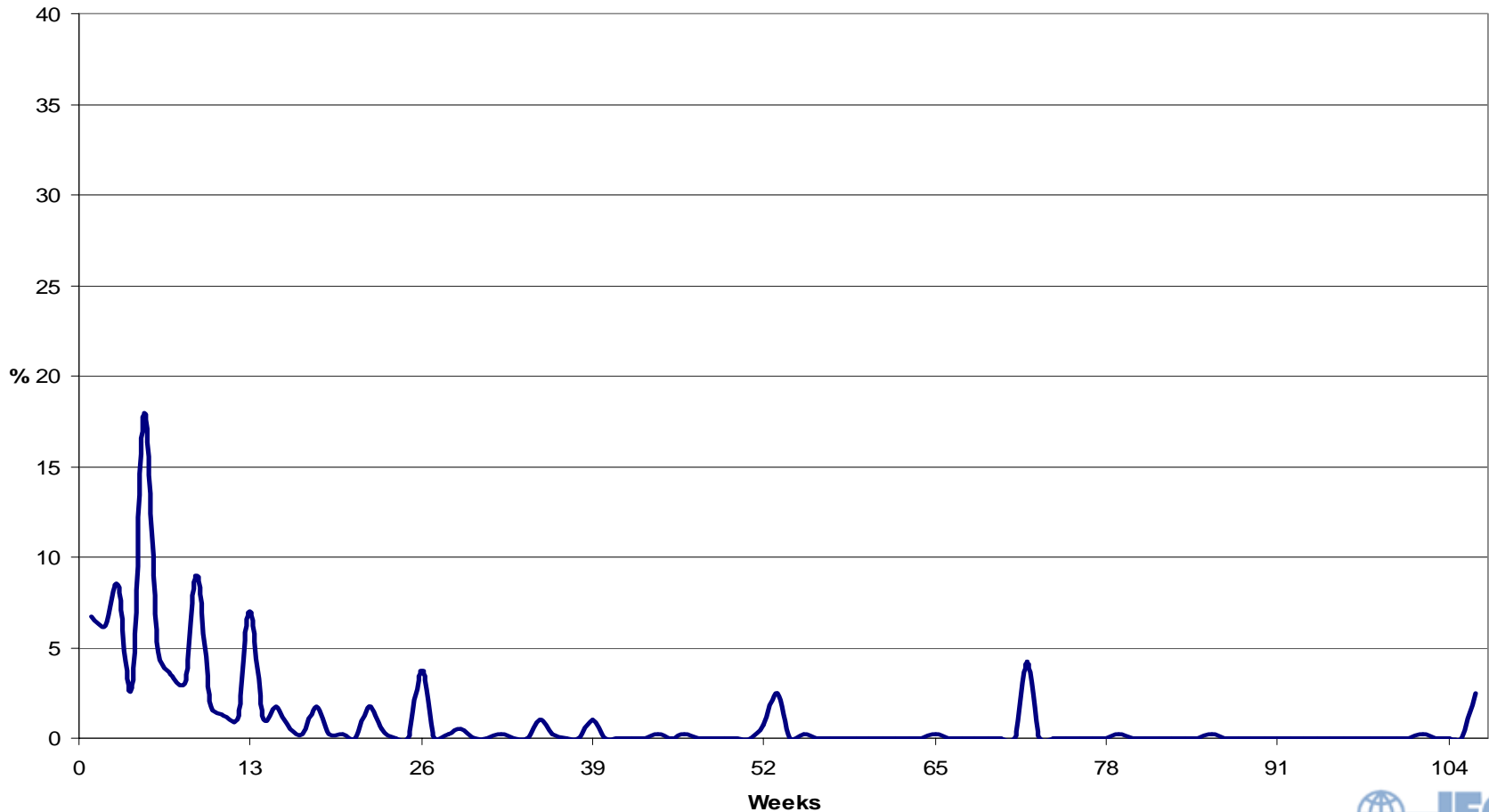
✓ Estimated for 2 PT submissions, 3 VAT submissions and 12 ET submissions per year

• Example: Reform of Company Registration

- Cost savings – firms that would have registered anyway
 - **(-7.77 / 1)**
- Entrepreneurs encouraged to start a new business
- Firms encouraged to formalize
- Conservative assumptions about:
 - failure rates of new firms
 - displacement rates of market share
 - no increase in profits for firms that formalize
- **(+2.7 / 1)**
- Slight increase in profits for firms that formalize
 - **(+3.75 / 1)**

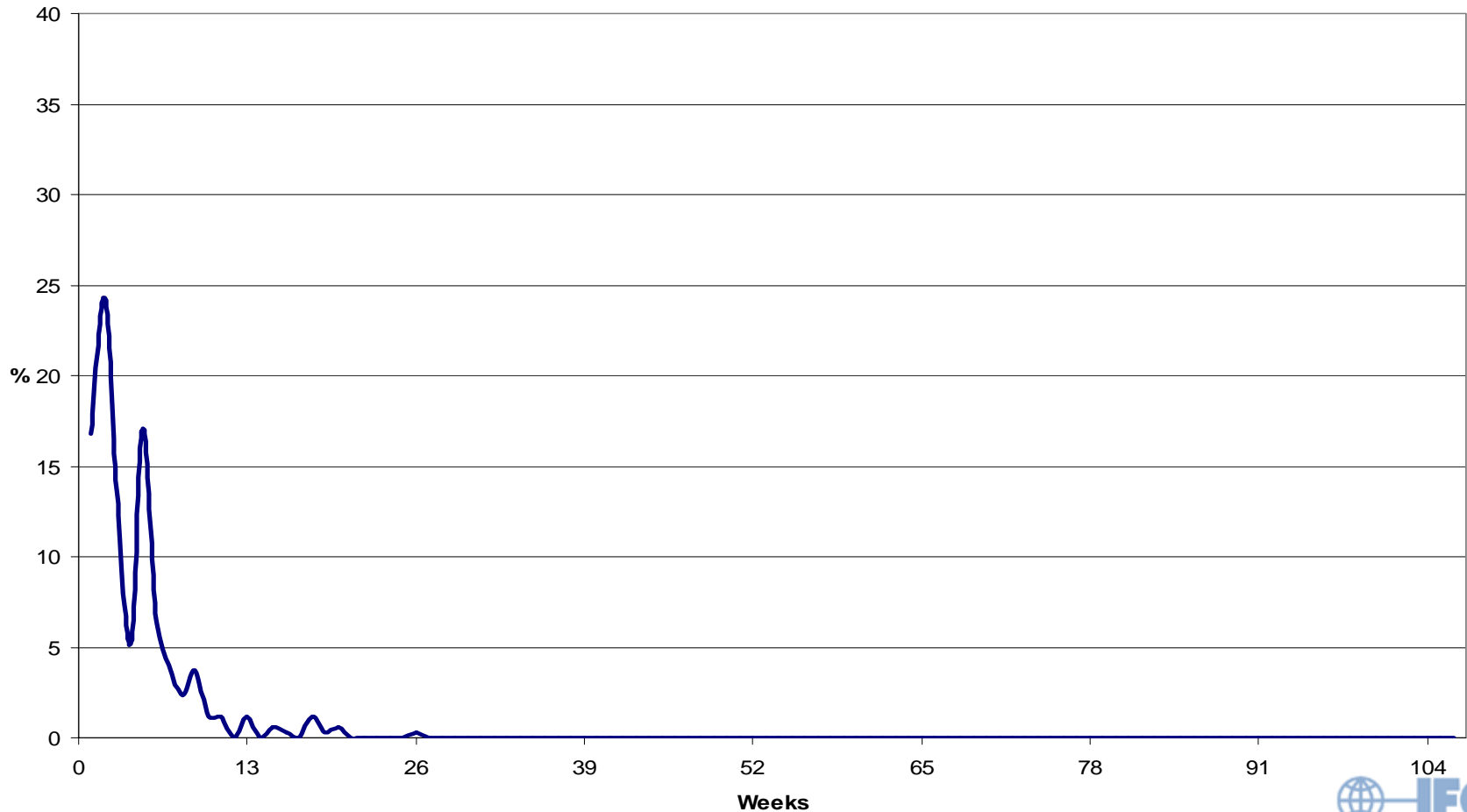
Other benefits – reduced risk of severe delays

Registration time - Croatia 2002 (weeks)



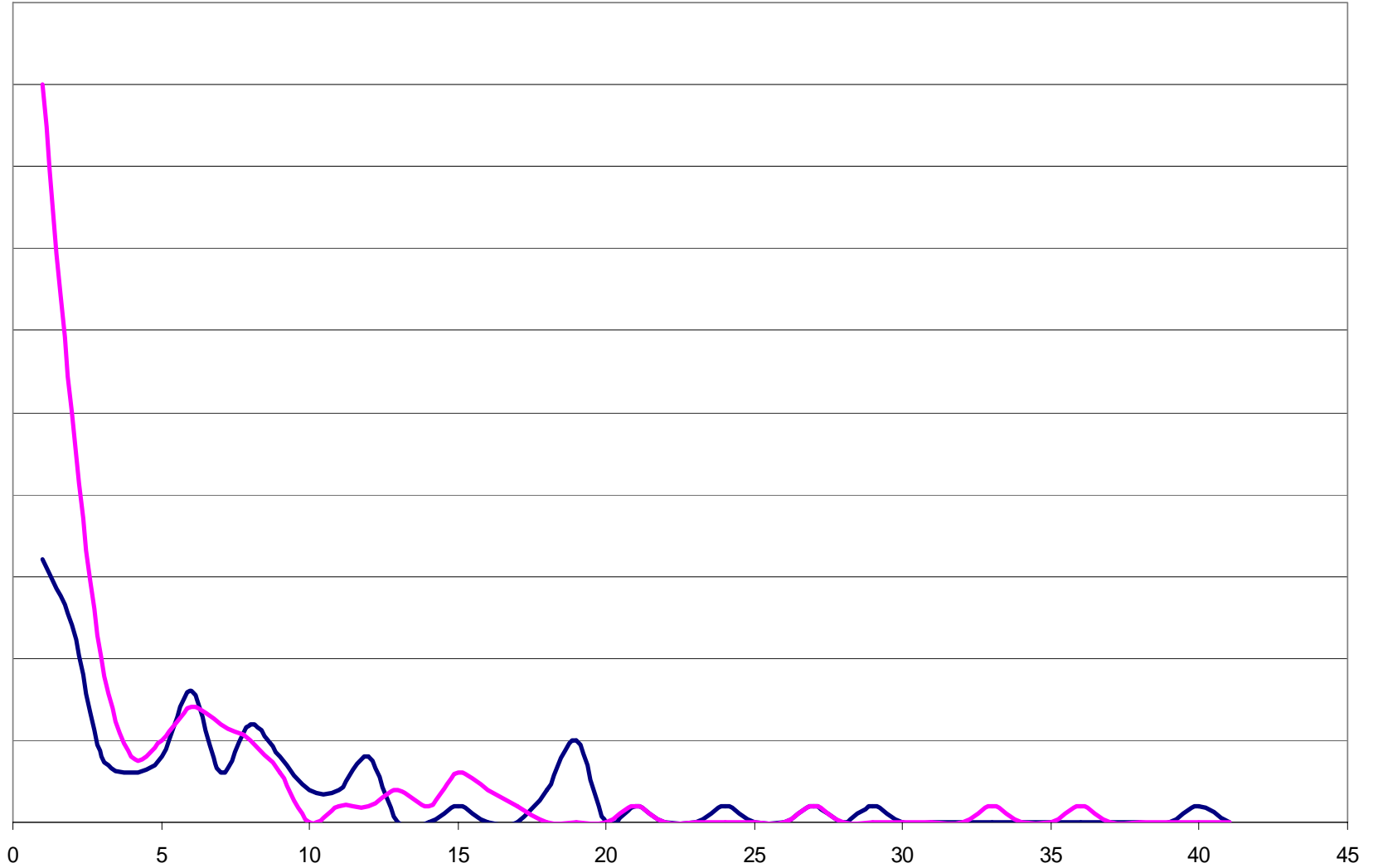
Other benefits – reduced risk of severe delays

Registration time - Latvia 2001 (weeks)

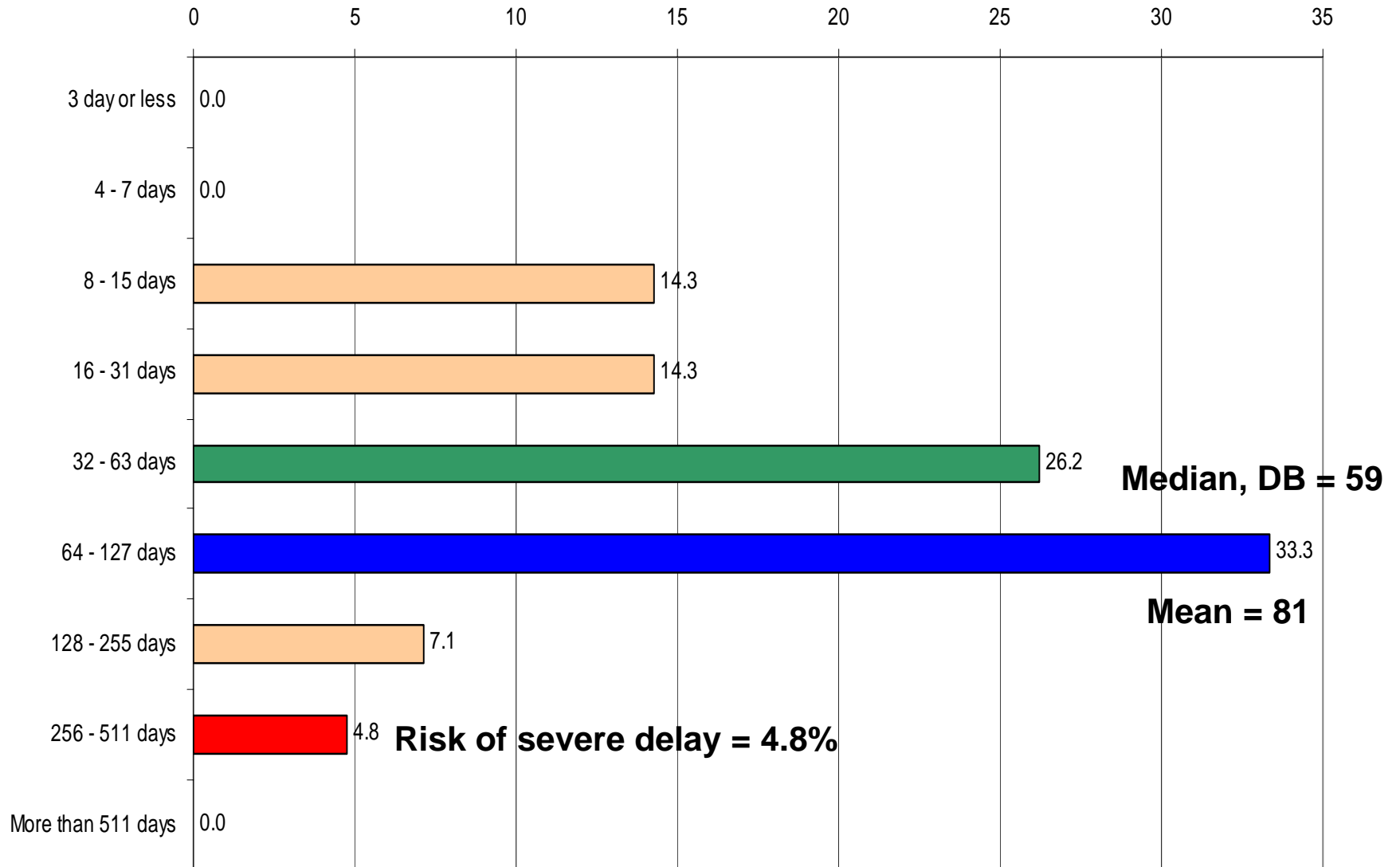


IFC Regional Director approval time (days)

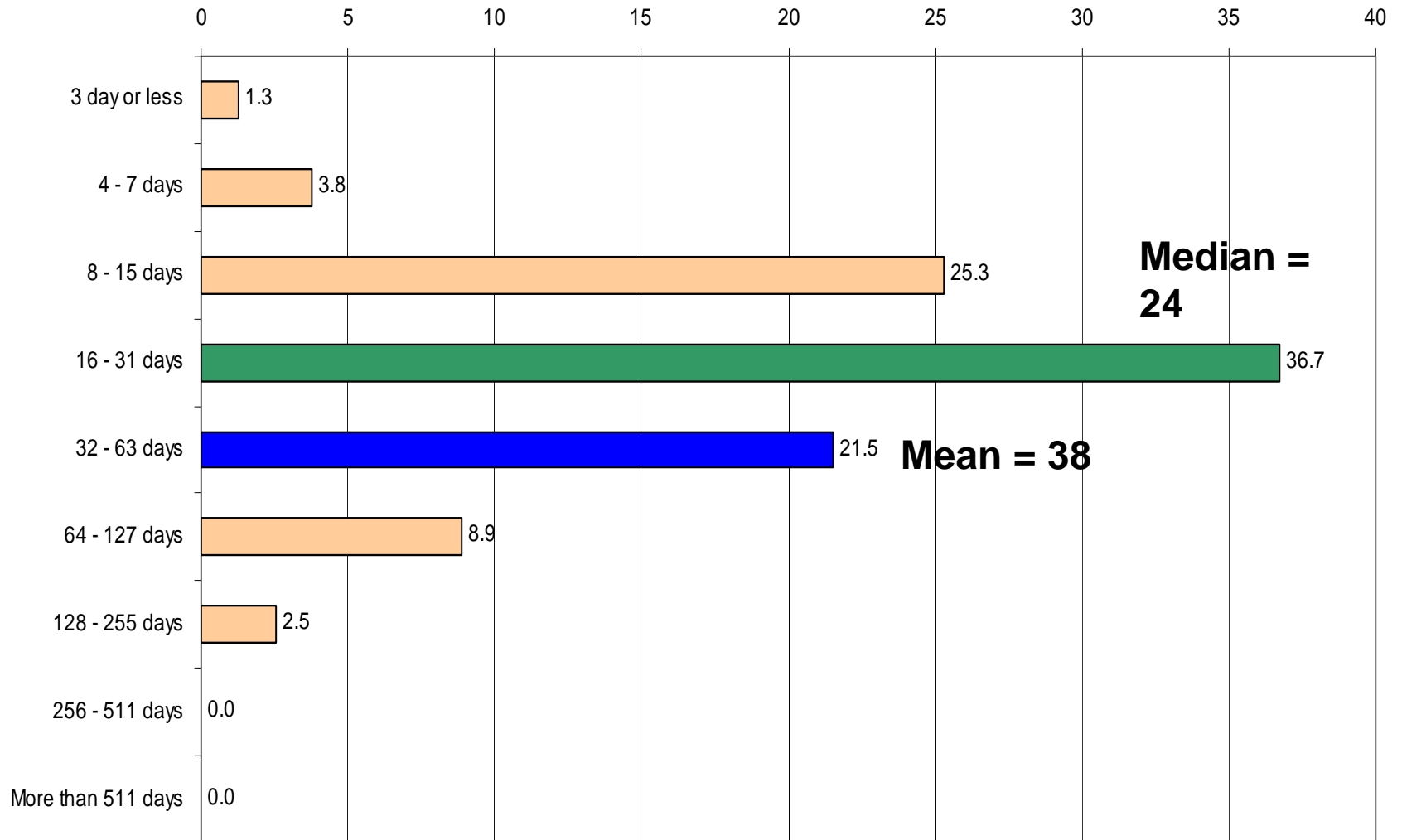
— TAAS - PDS Early Review (98) — TAAS - PDS Approval (154)



Registration time total (Bosnia&Herzegovina 2002, N = 42, DB(2003) = 59)



Registration time total (Bosnia&Herzegovina 2005, N = 79, DB(2005) = 38)



Bottom line: B/C ratios for BEE are VERY high, EVEN... Private sector development

- **When we use only hard data**
 - e.g., aggregate cost savings for existing firms, using survey data
- **When we make VERY conservative assumptions**
 - e.g., encouragement of new start-ups, even assuming high failure rates, high displacement rates, and even without assuming increased profits from formalization
- **Other benefits can be quantified, even if they can't be directly evaluated**
 - e.g., decreased risk of severe delays
- **Similar calculations: Rose-Ackerman, Kaufmann, DB**