

# **Tax Policy and Enterprise Development in South Asia**

## *Research Design Guidelines*

### **Introduction**

These Guidelines are intended to further organize and elaborate on the research design approved by the International Development Research Center (IDRC) as presented in the attached Integrated Research Proposal (Methodology Section, Pages 14-22). As such it defines in greater detail and brings together the requirements for the Literature Review, Key Informant Interviews, Enterprise Survey, Data Analysis and Policy Analysis components that need to be conducted for each Research Question pertaining to each Research Theme or Country Study. Therefore, for each Research Question, these Guidelines indicate the types of:

- secondary data (and sources) required for the literature review;
- stakeholders who will be respondents for Key Informant Interviews;
- parameters of enquiry that will be studied through the enterprise survey;
- data analysis methods employed; and most importantly;
- policy implications and recommendations expected to be developed.

The Country Study for each Theme is envisaged to include:

- Literature Review of relevant data and documents. This is planned to initiate after the signing of the Memorandum of Agreement between the Research Partner and GINI. It will constitute a desk study in this initial phase to inform the development of the Research Design, (Ref: 1.6, Annual Workplan, 2012).
- Conceptual and Theoretical Framework that defines key concepts and translates them into measurable constructs with hypothesized inter-relationships.
- An Analytical Framework that describes the approach and tools to be used for analyzing the data
- Data Collection Methodology that describes the techniques, protocols, instruments and limitations of data collection.
- Results that include the findings and conclusions emerging from data analysis, and most importantly, the policy implications and recommendations developed from relevant findings.

These Guidelines are expected to assist collaborating institutions to develop detailed Research Design Documents (Ref: Research Design Format), given their extensive experience, capacity and understanding of national context. For this reason, specific details (such as the definition of small enterprises or firms in terms of turnover or manpower) have not been stipulated at the regional level. These Guidelines ensure a minimum level of uniformity across Country Studies that will facilitate regional level meta-analysis toward the end of the project. Within this broad framework, collaborating institutions are welcome to adapt and contextualize the requirements for all components pertaining to each Theme.

The attendant logistical considerations in moving from the Research Questions to the Policy Implications are detailed in the Strategic Workplan as well as the Agreements between GINI and each collaborating institution. Broadly, research work will focus on developing the research design and reviewing the literature in Year 1, conducting Key Informant Interviews and the Survey in Year 2, and analyzing captured data in Year 3, in parallel for all themes. Therefore, each component must cover requirements for all 3 themes e.g. the Literature Review will process secondary data for Themes 1, 2 and 3, and the survey will gather primary data for all themes as well. This enhances the efficiency of research work.

## Integrated Research Process

Theme	Research Questions	Literature Review	Key Informants Interviews (KIIs)	Parameters of inquiry for survey of small enterprises (compliant and non-compliant)	Data analysis	Policy Analysis
<b>Theme 1: The Impact of Tax Exemptions and Concessions on Enterprise Development</b>	What is the extent to which small enterprises face biases in tax exemptions and incentives?	<ul style="list-style-type: none"> <li>• Tax expenditures calculated by government institutions, including official statements, methodology and raw data for sales tax and custom duties.</li> <li>• Research papers and reports by non-governmental institutes/ individuals that compute tax expenditures by national and sub-national governments for sales taxes and customs duties where applicable).</li> <li>• Laws and regulations which allow exemptions, allowances, credits, rate relief and deferrals for certain types of enterprises in relation to sales tax and customs duties.</li> </ul>	<ul style="list-style-type: none"> <li>• Serving and former civil servants (especially Customs &amp; Excise and Income Tax Groups including personnel from revenue administration authorities, relevant Ministries, and enterprise development authorities, trade and export control authorities, etc.)</li> <li>• Elected officials (especially relevant parliamentary committees).</li> </ul>	Essentially, the dependent variables will constitute the ability of small enterprises to grow, create productive jobs and to become compliant with prevailing tax regime (i.e. formalize). These will include: <ul style="list-style-type: none"> <li>• employment,</li> <li>• value added,</li> <li>• fixed assets,</li> <li>• wage bill,</li> <li>• access to credit,</li> <li>• expenditure on public goods and services,</li> <li>• willingness to formalize (for non-compliant firms)</li> <li>• willingness to emigrate</li> </ul>	<ul style="list-style-type: none"> <li>• Calculate tax expenditures available to small versus large enterprises (based either on secondary data where available and reliable, or calculated using the legal approach and foregone revenue method) for sales tax and customs duties</li> <li>• Map the political economy context of tax expenditures through KIIs with elected representatives to identify the special interest lobbies that support the introduction, extension, enlargement, and maintenance of tax expenditures.</li> </ul>	Policy recommendations will be made, considering the costs and benefits of these tax expenditures accruing to small enterprises, especially those managed/owned by women.
	What is the extent to which these biases disproportionately impact small enterprises operating in the undocumented economy and/or those owned/managed by women?	<ul style="list-style-type: none"> <li>• Enterprise statistics for micro-economic data (such as value added for small enterprises, earnings information for self-employed workers, etc.) from enterprise surveys and studies conducted by the World Bank, ILO, UNDP as well as government</li> </ul>			<ul style="list-style-type: none"> <li>• Determine the level of parity between the amount of tax expenditures afforded to compliant and non-compliant enterprises will be determined.</li> </ul>	

<i>Theme</i>	<i>Research Questions</i>	<i>Literature Review</i>	<i>Key Informants Interviews (KIIs)</i>	<i>Parameters of inquiry for survey of small enterprises (compliant and non-compliant)</i>	<i>Data analysis</i>	<i>Policy Analysis</i>
	<p>What are the impacts of tax exemptions and concessions on entrepreneurs and SMEs in terms of enterprise performance and productivity, (including any disproportionate impacts on women informal entrepreneurs)?</p> <p>What are the impacts of biased tax regimes on emigration of entrepreneurs and skilled labor, the extent to which this contributes to 'brain drain' in South Asian countries?</p>	<p>institutes will include those mandated to promote the development of small enterprises in Pakistan (e.g. the Small and Medium Enterprise Development Authority), India (e.g. National Commission for Enterprises in the Unorganized Sector &amp; National Institute of Micro, Small and Medium Enterprises), Sri Lanka (Ministry of Enterprise Development and Investment Promotion), and Bangladesh (SME Cell in the Ministry of Industries and the Small and Cottage Industries Corporation), and Nepal (Industrial Promotional Board).</p>			<ul style="list-style-type: none"> <li>• Conduct econometric analysis to determine the degree to which lack of parity between tax expenditures for large firms versus small firms, emerges as a strong predictor of labor productivity, and the ability of small enterprises to grow and formalize (as measured by dependent variables).</li> <li>• Conduct econometric analysis to determine the degree to which lack of parity between tax expenditures for large firms versus small firms, emerges as a strong predictor of the willingness of entrepreneurs to emigrate.</li> </ul>	

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<b>Theme 2: The Impact of the Value-Added-Tax (VAT) on Enterprise Development</b>	What are the progressivity impacts of VAT burden on small enterprises (particularly those operating in the undocumented economy) and how do they affect enterprise performance and productivity?	<ul style="list-style-type: none"> <li>The constitutional, legal, and regulatory injunctions that govern VAT in each country</li> <li>Periodic Reports by revenue administration authorities such as the Federal Board of Revenue in Pakistan, the National Board of Revenue in Bangladesh and the Inland Revenue Department in Sri Lanka on VAT revenue target setting and achievement</li> <li>Consumption patterns and input-output tables from surveys and statistical data compilation authorities of the government, e.g. the Federal Bureau of Statistics in Pakistan</li> </ul>	<ul style="list-style-type: none"> <li>Serving and former civil servants</li> <li>Non-state actors including farmers /traders / professional associations, associations of home-based workers, Chambers of Commerce and Industry, Associations of Accountant Firms, NGOs active in this area, and scholars who have written on this issue.</li> <li>Representatives of the international donor community who have supported (and are supporting) VAT reforms in the country</li> </ul>	<p>Dependent variables remain the same as for Theme 1 (mentioned above), with the same parameters (except willingness to emigrate).</p>	<ul style="list-style-type: none"> <li>Conduct a tax incidence analysis of VAT on small compliant and non-compliant enterprises, utilizing consumption patterns and input-output tables from the literature review, for measuring progressivity.</li> <li>Conduct econometric analysis to test the degree to which VAT burden is a significant determinant of the ability of small enterprises to grow and create productive jobs.</li> </ul>	Policy implications and ensuing recommendations will be made for VAT design and administration to achieve greater equity and compliance, and to reduce disincentives for non-compliant firms to join the documented economy.
	How are entrepreneurs (particularly those owning/managing small enterprises in the undocumented economy, especially women entrepreneurs) treated by VAT administration systems, against indicators of compliance costs and taxpayer friendliness, and how does this treatment affect enterprise performance and productivity?			<ul style="list-style-type: none"> <li>Compliance costs in terms of monetized time value (opportunity cost), human resource cost (special consultants hired), and transaction cost (including bribery)</li> <li>Perceptions and experience of behavior of tax authorities and officials toward small enterprises</li> </ul>	<ul style="list-style-type: none"> <li>Conduct econometric analysis to test the degree to which tax compliance costs and behavior of tax authorities/officials are significant determinants of the ability of small enterprises to grow and create productive jobs.</li> </ul>	

<b>Theme</b>	<b>Research Questions</b>	<b>Literature Review</b>	<b>Key Informants Interviews (KIIs)</b>	<b>Parameters of inquiry for survey of small enterprises (compliant and non-compliant)</b>	<b>Data analysis</b>	<b>Policy Analysis</b>
<b>Theme 3: The Impact of Property Tax on Enterprise Development</b>	What are the weaknesses in property tax systems that create and/or sustain informal land markets at the local levels, (including weaknesses in policy, administration, capacity and resources)?	<ul style="list-style-type: none"> <li>• The constitutional, legal, and regulatory injunctions that govern property taxation including urban property, agricultural income, and land/property transfer taxes in each country</li> <li>• Research studies conducted on property tax systems by government and non-governmental sources</li> </ul>	<ul style="list-style-type: none"> <li>• Government officials involved in assessments and evaluations of tax bases, setting and revising of rates, and administering property taxes at the local (and/or higher) levels</li> <li>• Government officials involved in land administration, governing aspects such as land registration and record-keeping, tenure, use, rights, markets, etc. at the local (and/or higher) levels</li> <li>• Non-state stakeholders of land markets, including real-estate agencies, banks and lending institutions, NGOs advocating for land rights, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Land acquisition</li> <li>• Land ownership</li> <li>• Land use and control</li> </ul>	Analysis will focus on the information gathered through the literature review, KIIs and survey.  This will include: <ul style="list-style-type: none"> <li>• Revenue performance of taxes (yield and growth)</li> <li>• Revenue assignment (de jure and de facto) among tiers of government</li> <li>• Revenue collection (in policy and administration)</li> <li>• Patterns of land acquisition, ownership and control.</li> </ul>	Policy recommendations that address weaknesses in property tax systems which cause or worsen informal land development and the associated anomalies in informal land markets at the local levels.
	What is the nature and magnitude of impacts of land informality on entrepreneurs (owning/managing small enterprises) and workers (employed by small enterprises) operating in the undocumented economy (especially women)?					