

Tax Policy and Enterprise Development in South Asia
IPS, Sri Lanka Research Design Document

1. Institutional Information	
1.1. Name of institution	Institute of Policy Studies of Sri Lanka
1.2. Country of origin	Sri Lanka
1.3. Research theme	Theme 3: The Impact of Property Tax on Enterprise Development
1.4. Institution Focal Person / Member, Steering Committee	Dushni Weerakoon, PhD Deputy Director Institute of Policy Studies of Sri Lanka 100/20 Independence Avenue Colombo 7 Sri Lanka Tel: +94-11-2143100 dushni@ips.lk
1.5. Team Leader	Anushka Wijesinha Research Economist Institute of Policy Studies of Sri Lanka 100/20 Independence Avenue Colombo 7 Sri Lanka Tel: +94-11-2143100 ext 219 anushka@ips.lk
2. Literature Review	
2.1. Data sources	13 th Amendment to Constitution (Provincial List) – revenue sources available to devolved bodies Final Report of the Presidential Commission on Taxation 2009/10 <i>(literature review of international experience + international refereed journals pending)</i>

<p>2.2. Key knowledge gaps</p>	<p>No previous studies have been undertaken in relation to property taxation in Sri Lanka with regard to its impact on land markets as well as enterprise development No prior research on ‘informal land market’ in Sri Lanka Sri Lanka does not have an established, national definition of “small enterprise”, “Small and Medium Enterprise (SME)”. Different definitions/categorizations are employed by different institutions including banks, Central Bank, government agencies and other SME-mandated institutions.</p>
<p>3. Conceptual and Theoretical Framework</p>	
<p>3.1. Research Questions</p>	<p>What has been the revenue performance of property taxes vis a vis other taxes collected at the devolved levels of government?</p> <p>What is the status of revenue generation of local authorities and Provincial Councils vis-à-vis grants and transfers made by the Central Government?</p> <p>What are the key bottlenecks to enhancing local authority revenue, particularly property taxation, and what programmes are in place to address these?</p> <p>What weaknesses are present in the property taxation system (structure as well as administration) that limits expansion of property tax revenues?</p> <p>Do weaknesses in property tax administration lead to greater land informality among SMEs?</p> <p>Does land informality among SMEs affect their ability to grow and improve performance (e.g. through constrained access to finance)?</p>
<p>3.2. Definitions of key concepts and their translation into measurable parameters of enquiry</p>	<p>For the purpose of this study, SMEs will be defined as a firm employing 49 workers or less, while a larger enterprise will be defined as firm employing 50 workers or more</p> <p>SMEs that are not registered with either the Divisional Secretariat or incorporated with Company’s Registrar at the national level will be treated as firms operating in the informal economy (i.e. undocumented)</p>

	<p>Improvements in performance of an enterprise will be measured by increases in annual profits, expansion in employment, ease of/cheaper access to credit, proportion of retained profits reinvested in the enterprise, and willingness to formalize</p> <p>Performance of local revenue tax performance will be measured through total tax collection, specifically property tax collection, ratio of property tax to total revenue, 'cost of collection', etc</p>
3.3. Hypothesized relationships between parameters	<p>Inefficient administration of property taxation is leading to leakages in property tax collection</p> <p>Land informality is impacting SMEs access to finance/credit</p> <p>Land informality is impacting ability of local authorities to collect more property tax revenue from SMEs</p>
4. Analytical Framework	
4.1. Policy analysis framework (problem definition, policy alternatives, evaluation criteria for policy alternatives, and recommendation of alternative)	<p>The current devolved system of government is not delivering the desired revenue and weak property tax collection could be a key reason for this. A policy reform agenda would need to include a review of how property taxes are administered. Particularly, strengthening the link between local authorities that administer the tax and Survey Department which needs to ensure timely/periodic land valuation and subsequent revision of property taxes.</p> <p>A policy recommendation could be that, to streamline the above process, sample/general land valuations are done across local authorities, on which revised property taxes must be paid by the enterprises. If disputes by small enterprises on this valuation arise, they will be dealt with on a case-by-case basis.</p>
4.2. Level of analysis (national, sub-national, etc.)	Sub-national and national
4.3. Analytical approach and assumptions	
4.4. Analytical tools and techniques to be applied	<p>Regression analysis</p> <p>(Specific econometric methodology will be decided after completing thorough literature review of previous studies done of a similar nature)</p>

5. Data Collection Methodology	
5.1. Research Methods	
5.1.1. Key Informant Interviews	
5.1.1.1. List of intended respondent types with examples	<p>Surveyor General, Survey Department Assistant Surveyor General, Survey Department Commissioner General, Land Commissioner's Department Assistant Commissioner – Land, Land Commissioner's Department Assistant Commissioner – Treasury, Land Commissioner's Department</p> <p>CMC – Mayor of Colombo CMC - Chief Revenue Officer CMC – Municipal Tax Assessor's Department <i>(similar officials in the other two districts' local authorities)</i></p> <p>Local SME Associations and Trader Associations in the chosen districts</p>
5.1.1.2. Instrument (semi-structured interview outline)	<p>Semi-structured questionnaire Basic information on the Key Informant (type of organization, location, designation, etc) Sections examining particular areas of inquiry, with structured as well as open ended questions</p>
5.1.2. Survey Research	
5.1.2.1. Sample frame (including secondary sources tapped for developing it)	<p>Three districts in Western Province, Sri Lanka, i.e., Colombo, Gampaha, Kalutara Selected Grama Niladhari Divisions (GN Divisions) in each district</p> <p><i>Registered SMEs (50)</i> Population: Database of the district-level SME associations obtained from the National Chamber of Commerce of Sri Lanka (NCCSL) Sample: Randomized selection of enterprises</p> <p><i>Registered large enterprises (50)</i> Population: Board of Investment (BOI) database (including Section 16 and Section 17-registered enterprises)</p>

	<p>Sample: Randomized selection of enterprises</p> <p><i>Un-registered SMEs (50)</i></p> <p>Population: Snowballing operation to identify enterprises in each GN</p> <p>Sample: Randomized selection of enterprises</p>
5.1.2.2.Sampling design and rationale	<p>Western Province is selected as it is the largest contributor to national Gross Domestic Product (GDP) of over 45 per cent, and the three districts constituting it have the highest concentration of private enterprises in the country. Moreover, due to the proximity to the capital city, administering the survey (including arranging field-testing, monitoring, etc) and data collection is made easier, to fit in with the study's time and resource constraints.</p> <p>For registered SMEs, the NCCSL database will be used owing to its credibility and ease of access (IPS has existing links with NCCSL on ongoing SME research)</p> <p>For registered large enterprises, the BOI database owing to credibility and ease of access (IPS has existing links with BOI on previous taxation research)</p> <p>For unregistered SMEs, there is no clear database of enterprises. A snowballing exercise has to be conducted as an alternative to the ideal but highly cost-intensive listing operation)</p>
5.1.2.3.Survey instrument (including field pre-testing procedure)	<p>Questionnaire</p> <p>Pre-testing will be conducted on a representative sample of 6 enterprises (2 from each enterprise category above)</p>
5.1.2.4.Action Plan (primary sampling units and dates they are sampled)	<p>Primary sampling unit will be the GN Division (for unregistered SMEs) and the District level (for registered large enterprises and SMEs)</p> <p>Will be sampled in April 2013 onwards</p>
5.1.2.5.Data collection protocols (including field team training, organization, monitoring and reliability checks)	<p>Enumerators will be employed for questionnaire administration/data collection</p> <p>Training and briefing will be provided to enumerators by the study team</p> <p>Study team will accompany enumerators during the field pre-testing period</p> <p>Study team will participate in randomly selected surveys to conduct monitoring</p> <p>In the middle of the survey period the study team will revisit selected completed interviewed</p>

	enterprises to conduct simple verification/reliability checks.
5.1.2.6.Data entry and verification protocols	Data will be entered by data entry operators selected by the study team and be housed within the institute with close guidance from the study team For quality checking, data cleaning will be conducted by the study team (and enterprises re-visited if there appears to be mistakes)
6. Reporting Formats for Year 1, 2 and 3 deliverables	
7. Team Composition	
7.1. Names, designations, qualifications, experience, and responsibilities of Team Leader and other Team Members	<p>Team Leader: <i>Will take the lead in conducting the study and pull in the necessary research expertise required at different stages of the project. Along with the other team member, the team leader will prepare the literature review, refine the areas of inquiry, research questions, conduct KIIs, and other deliverables at each stage of the project. The team leader will ensure quality delivery of research outputs at each stage of the project.</i></p> <p>Anushka Wijesinha Anushka is currently a Research Economist at IPS, with significant experience in private sector development issues as well as policy advisory experience in industrial policy and SMEs (specifically SME financing) in several government ministries and taskforces. He was previously the Research Officer to the Presidential Commission on Taxation (2009/10). His research interests include industrial policy, innovation, FDI, taxation, governance, and international economics. Anushka holds a BSc in Economics from University College London and a MA in Economics and Development from University of Leeds.</p> <p>Team Members: <i>Will be responsible for initiating and conducting the literature review and refining the areas of inquiry. Along with the team leader, the team member will refine the areas of inquiry, research questions, conduct KIIs, administer the survey and the subsequent data analysis</i></p> <p>Raveen Ekanayake</p>

	<p>Raveen is currently a Research Assistant at IPS. Formerly employed in the financial services industry (with a focus on SMEs), Raveen has several years of private sector experience. He holds a Masters in Public Policy (with a specialization in Economic Policy) from Australian National University, Canberra. He holds a BSc in Accounting and Finance (University of London), and a Postgraduate Diploma in Economic Development (University of Colombo)</p> <p><i>(Additional research staff with specific expertise in, for example, survey design/administration and econometric analysis will be pulled in during selected periods of the project cycle.)</i></p>