



# Part 4



## 4.2 Policy brief 8

### Developing a Strategic Policy Framework (SPF) using the 17 Sustainable Enterprises Policy Pillars

## ENABLING LEGAL AND REGULATORY ENVIRONMENT

- ❑ Good economic governance in areas such as taxation, regulations, and business licensing is a fundamental pillar for the creation of a favourable business environment. Effective regulations address market failures that inhibit productive investment, and reconcile private and public interests.
- ❑ Regulatory frameworks that support innovation and promote competition are key components in stimulating economic growth, creating sustainable enterprises, and productive employment.
- ❑ Regulatory frameworks that are transparent, understandable, unbureaucratic and provide legal certainty, particularly with respect to property rights (and the equal application to women), are essential to foster and sustain business creation and expansion that may otherwise be discouraged by excessive administrative burdens and costs.
- ❑ Facilitating new market entry by removing disincentives and barriers to investment through optimal regulatory frameworks provides for more innovative capacity and productivity improvements to the economy as a whole.
- ❑ The legal and regulatory environment is a constraint on business when the number of permits and approvals, along with other bureaucratic steps that businesses need to obtain, and the time it takes to obtain them, are expensive and time consuming - this applies to any area impacting on business.
- ❑ Oversight procedures, transparency, and systematic reviews and amendments to regulatory frameworks are vital.
- ❑ The size of the tax burden on businesses matters for investment and growth. Where taxes are high and corresponding gains seem low, the incentives for businesses to opt out of the formal sector increase.
- ❑ Experience shows that economies that make paying taxes easy tend to focus on lower tax rates accompanied by a wider tax base, simpler and more efficient tax administration, and one tax per tax base. They also tend to provide electronic filing and payment systems, all of which reduce the tax burden for firms while lightening their administrative requirements.<sup>1</sup>

<sup>1</sup> Doing Business: *Paying taxes*, 2010.

- ❑ Besides the taxes paid, there are the costs of complying with tax laws. Worldwide, on average, a standard small to medium-size business still spends three working days a month complying with tax obligations. Where tax compliance imposes heavy burdens of cost and time, it can create a disincentive to investment and encourage informality.<sup>2</sup>
- ❑ Poor standards of safety and health can cost lives and can cost money. If and when something goes wrong the resources that businesses have to use to deal with the fallout are considerable. Insurance may be more difficult and more costly to obtain. Poor standards of safety and health can ruin businesses' reputations, threaten a position in the business community, and the ability to recruit staff.
- ❑ An effective labour administration system provides for a stable business climate, as it is a key market-supporting institution that encourages national and foreign direct investment. Investors are not attracted by a weak labour administration system. In today's world market, a poor record of compliance with national legislation – as well as non-compliance with international core labour standards - can generate consumer concerns. A strong labour administration which guarantees compliance with national laws by national and international companies can be an attractive feature for national and international businesses.<sup>3</sup>
- ❑ Regulations that hinder competition and the market should be removed; but those regulations that are required for the preservation of the environment, public safety, or health should be modified, if necessary, to achieve their goals in the most efficient way possible.
- ❑ Regulatory reform is fruitless unless the results of the reform are clearly communicated to society.
- ❑ Regulatory reform needs to be a permanent process.

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<sup>2</sup> Everest-Phillips and Sandall, 2009; de Mooij and Nicodème, 2008.

<sup>3</sup> IOE: "Labour Administration", Information Paper, 2005.