

DOES IMPROVED REGULATORY ENFORCEMENT REDUCE INDUSTRIAL POLLUTION?



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IN BRIEF

- » Industrial regulation in India has a history of heavy-handedness, with industrial licensing and labour regulations impeding economic growth
- » Study assesses how technology and market mechanisms can support environmental regulation policies that can minimise the social costs of energy consumption
- » The study found that reforms for auditor independence can impact real outcomes positively
- » The Gujarat State Pollution Control Board (GSPCB) officially issued new guidelines based on the findings of this project

The study represents a multi-year collaboration between the researchers and the GSPCB, the environmental regulator in India's second-most industrialised state, from the programme design stage all the way through to implementation. The research also gained the support of the national Ministry of Environment and Forests (MoEF) which is interested in applying the approaches tested here to other states.

The IGC India-Central country programme had funded a midline survey to measure the accuracy of auditors under two incentive schemes, the original one in place in Gujarat and the modified audit scheme introduced by this project. Under the original scheme, auditors are hired and paid for directly by the firm and can be fired at the end of one year. This creates an incentive problem, whereby the auditor's financial incentives are aligned with that of the firm rather than the regulator. Under the modified scheme, auditors are paid using a central pool of funds, and the GSPCB randomly assigns an auditor to the firm every year and back-checks on a random basis.

The study has three main findings: first, under the original scheme auditors falsify reports in a targeted fashion, reporting many plants as just meeting regulatory limits. Second, the reports of auditors assigned to plants under the new scheme are statistically equal to the truth. Third, on average, plants in the new scheme reduced pollution emissions relative to plants under the old auditing scheme. The results of this study confirm that reforms for auditor independence can impact real outcomes positively.

The recommendations from this project have now been formally adopted by the Government.