



Ease of doing business facilitation in India: Issues, responses and proactivism

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Abstract

The destination decisions of the global investors are based on many factors. One of such factors is the ease of doing business in a particular nation. Potential investors examine a number of factors like inclusive quality of an economy, business environment, the financial system, size of market, law enforceability and the quality and efficiency of labour before investing in a country. Indices based reports give them good insight into the country's regulatory environment. These reports are about perception as well as about the ground realities. These also help them in keeping them informed of the investment attractiveness of the economy and the developing markets of any country. 'Ease of doing Business' is one of such important factors. In aiming to become an attractive destination for investment, India is also endeavoring to enhance facilitation for ease of doing business by responding proactively to the bottlenecks, if any, in the process. The paper aims at evaluating various parameters to assess ease of doing business in India. India's ranking vis-a-vis each parameter in a global scenario has also been highlighted. The paper ends with narrating the road map for improving the rankings of India in future by adopting a proactive approach.

Keywords: ease of doing business, investment, indices, ranking, parameters, responses

Introduction

Global indicators can shape the nation's behavior and form the attitude of investors and other groups. These indicators create social pressures by encouraging political leaders to believe that their standing is in danger and is in competition with other countries. The factors that motivate economies to make reforms can be political, economic or both. Economic advancements and reforms undertaken by neighboring countries can be other motivators. The political leadership of India and China has incorporated these indicators as essential elements of their reform strategies. Investments would come and flourish only when business-friendly laws are prevalent in the nation. One of the indices which measures the time, cost and process that can help the investors to decide about their investment destinations is ease of doing business ranking which is an index published by the World Bank and was launched in 2003. The index ranks the nations as per indicators which help in doing the business in a non-complex manner. It is an aggregate figure which consists of various parameters that express the ease of doing business in any country. It provides an evaluation of objective measures of business protocols and their applicability in 190 countries on 10 parameters across the life cycle of the business. It is an attempt to quantitatively recapture the regulations.

The countries are ranked on the basis of DTF (Distance to Frontier) score that highlights the gap of the performance of an economy with respect to the global best performance. DTF tries to capture the distance which the economy has to move to reach the frontier of best practice. The score is calculated for each indicator and then all the scores are aggregated which turn out to be the ease of doing business indicator. The countries are then ranked as per index. Each country's score and the rank helps facilitate inter country comparisons.

Literature Review

Alfaro et al. (2014) investigated the impact of "license Raj" in India over the size of the firm and allocation of resources. They found that with simple startup regulations, the quality of small firms increased. The productivity was also gained in these sectors, indicating a fall in resource allocation distortions. Goldstein et al. (2018) studied the advantage of strong land property rights in rural Benin. They found there was a shift towards long term investment. Moyo (2013) examined the effects of power outages on manufacturing productivity and found a negative relationship between them. Trade regulations and costs are also affected by regulations. Hornok et al. (2015) investigated the efforts of cost on volumes of trade in Spain taking exports from 2006- 12. They found that 50% cost reduction led to a reduction of 9% in tariffs. Judicial reforms also favor economic development. Gianfreda et al. (2017) examined the effect of court delays in settling labour disputes in Italy and pointed out that the delays increased the fixed cost and concluded credit information systems bring transparency in borrowers and lenders. Doblaz et al. (2013) revealed that contract defaults were reduced significantly when the information was shared. Muuls (2015) determined that sound credit rating can result in more exports and imports. Shareholders' rights are directly related to economic growth. Brown et al. (2013) analyzed 32 high and middle-income economies and reported that strengthening shareholders rights can result in more funding and investment in research and development from shareholders. The effects of tax regulations were studied by Waseem (2018) for a period of 2006-11 in Pakistan. It was found that the firms under-reported their profits when the tax was increased. Corcoran et al. (2015) found a strong association between ease of doing business ranking and FDI.

Objectives of the study

The paper aims at analysing and evaluating the parameters for assessing ease of doing business in the context of India. As a corollary to this main objective, it also attempts to explore and underline the responses of India to address the issues emerging out of the main objective i.e. the evaluation of the parameters. The ranking of India resulting therefrom with respect to each parameter has also been highlighted.

Research Methodology

The study is descriptive and exploratory in nature. First of all, the parameters to assess the ease of doing business have been identified. The parameters so identified have been analysed in terms of world ranking given to India with respect to these parameters. The responses to improve upon

the rankings have been outlined with the special mention of the resultant change in the rankings. The areas still weak have then been highlighted.

Analysis

The table 1 below gives a bird’s-eye-view of India’s ranking in context of “ease of doing business” at the global level. These are overall rankings and have been awarded by the World Bank on the basis of certain parameters to assess ease of doing business. These parameters are *ten* in number. Parameter wise rankings for India have been tabulated in table 2.

These two tables form precursors to the analysis carried out later in the paper.

Table 1: World Bank Rankings for Ease of Doing Business.

Rank	2015	2016	2017	2018	2019	2020
1	Singapore	Singapore	New Zealand	New Zealand	New Zealand	New Zealand
2	New Zealand	New Zealand	Singapore	Singapore	Singapore	Singapore
3	Hong Kong SAR	Denmark	Denmark	Denmark	Denmark	Hong Kong SAR
4	Denmark	Korea REP	Hong Kong SAR	Korea REP	Hong Kong SAR	Denmark
5	Korea REP	Hong Kong SAR	Korea REP	Hong Kong SAR	Korea REP	Korea REP
6	Norway	U.K.	Norway	U.S.	Georgia	U.S.
7	U.S.	U.S.	U.K.	U.K.	Norway	Georgia
8	U.K.	Sweden	U.S.	Norway	U.S.	U.K.
9	Finland	Norway	Sweden	Georgia	U.K.	Norway
10	Australia	Finland	Macedonia, FYR	Sweden	Macedonia, FYR	Sweden
	2015 Rank	2016 Rank	2017 Rank	2018 Rank	2019 Rank	2020 Rank
India	142	130	130	100	77	63

Source: Ease of Doing Business Reports, Various Issues.

The top three countries where there is ease of doing business in 2020 were New Zealand, Singapore and Hong Kong. New Zealand was able to maintain its top position from 2017. India landed at 63rd position in 2020 as against 77th in 2019 which is an impressive 14-rank jump. India is one of the 10 improvers continuously for the third year with improvements in 6 out of 10 parameters in 2020. It is one of the 9 economies of the world and only one in the BRIC to be included in this list. According to the World Bank, the South Asia performance in enforcing contracts and registering property parameters is underscored. Pakistan implemented most of the reforms in the region of South Asia. Most of the top 20 ranking economies were using the electronic system extensively.

India's Ranking in Various Parameters

Regulations are the important tools for ensuring that markets work efficiently and confirms trust amongst the stakeholders. Regulatory burden has a significant impact on the performance of the companies. India has created a very business friendly environment by rationalizing the existing regulations eliminating the unnecessary ones. As a result of these efforts, India's rank in the rank of 190 countries has enhanced to 63rd position in 2020 from 142nd position in 2014. The World Bank's business report is based on the assessment of two states of India that are Mumbai and Delhi.

Table 2: India’s Rank in Various Parameters

Parameters	2015	2016	2017	2018	2019	2020
Overall Ranking	142	130	130	100	77	63
1. To start a business	158	155	155	156	137	136
2. To deal with construction permits	184	183	185	181	52	27
3. To get electricity	137	70	26	29	24	22
4. To register property	121	138	138	154	166	154
5. To get credit	36	42	44	29	22	25
6. To protect minority investors	7	8	13	4	7	13
7. To pay taxes	156	157	172	119	121	115
8. To trade across borders	126	133	143	146	80	68
9. To enforce contracts	186	178	172	164	163	163
10. To resolve Insolvency	137	136	136	103	108	52

Source: Ease of Doing Business Reports, Various Issues.

The paragraphs below analyse each of these ten parameters of ease of doing business, the responses thereto by India to improve each one of these parameters thus leading to better ease of doing business. The analysis also highlights and includes the status of India's ranking with respect to each of these parameters over past years.

1. To Start a Business

This parameter relates to the production, cost, time and minimum capital to start a new business. Many steps have been taken over the years to reduce the procedures and the cost for the smooth functioning of the business. The registration fee was remarkably reduced and the minimum capital requirement along with certificates to commence the business were eliminated in 2014. Permanent Account Number (PAN), Tax Account Number (TAN) and Director Identification Number (DIN) were combined into a single form SPICe in 2016, which helped to speed up the process. Mumbai merged the application for Value Added Tax (VAT) and Profession Tax (PT) to make the process fast. In 2017, multiple application forms were integrated into a common and simple incorporation form. VAT (Value Added Tax) was replaced with GST (Goods and Services Tax). Under Shops and Establishment Act, Mumbai and Delhi abolished the practice of on-site inspection. Company seal requirement was eliminated by amending the Companies Act. In 2018, filing fees were abolished and an e-memorandum of association and articles of association was adopted for both Delhi and Mumbai. In 2019-20 starting of business was further simplified by abolishing filing fee for SPICe company and online registration for employee's ESIC (state Insurance Corporation) and EPFO (Employees Provident Fund Organization) was administered.

India ranks 136 in terms of starting a business. It takes 10 processes and 18 days to start the business in India whereas New Zealand has a unified process with a single window through one agency and it takes just half a day with single form to set up and start a new venture. Countries like China (rank 27) and Pakistan (rank 72) are ahead of India in this parameter.

2. To Deal with Construction Permits

This metric evaluates the time, cost and procedures like license and permits of building a warehouse. It also evaluates the quality control index and assesses the quality, safety and insurance mechanism of a building. Implementation of an online system and streamlining of processes in Delhi and Mumbai led to the reduction of time and number of procedures. In 2017, the process of getting business permits was streamlined and a faster and less costly process of obtaining construction permits was established. Single window clearance system was adopted in Delhi and by introducing decennial liability and insurance, the business quality control was improved.

India has remarkably improved in this parameter over the years. With a rank of 184 in 2015, it jumped to 27th rank in 2020.

The number of procedures were reduced to 19 in Mumbai and 11 in Delhi in 2020 from 33 in 2015, whereas the time was reduced from 180 hours in 2015 to 98 hours in 2020. The cost was reduced from 30 % in 2015 to 25.4% in 2020 which led to streamlining the process of getting the construction permits. This has now added to the strength of

doing business in India.

3. To Get Electricity

It deals with the time, procedure and cost required for a business concern to get a permanent electricity connection for a newly constructed warehouse. The reforms undertaken over the years include reducing the security amount for new connectivity in Mumbai making electricity cheaper. In 2014, Delhi made getting new electricity connection less cumbersome by abolishing the internal wiring inspection. By improving internal work and coordination, time for connection getting was reduced in Mumbai. In 2017, Delhi reduced charges for low voltage connections.

India has shown an impressive performance under this parameter. With a rank of 137 in 2015, it went to almost half in 2016, to 70th rank and now it stands at 22nd in 2020. Only 3 procedures are to be followed which is equal to the best regulatory performance, as compared to 7 in China and 5 in Pakistan. The cost has remarkably reduced from 219.6% in 2015 to 8.6% in 2020. The number of days has also been reduced to 72 days in 2020 from 116 days in 2015. Although China is behind India in terms of number of procedures but in ranking it is ahead of India with 12th rank. This counts as a strength of India's business environment.

4. To Register Property

This parameter measures the time, cost and procedures required for registering a property. It also evaluates the land administrative system including infrastructure reliability and transparency. Resolution of land disputes, and equal access to the right of property are also assessed. The processes are made investor friendly in India. Land records department has digitized all sub registration offices of Delhi and Mumbai as digitalization leads to transparency and access to the citizens. Property tax records in toto have been digitalized in Mumbai. Similarly land dispute records are available online in Mumbai and Delhi.

For registering property, the cost on an average is 7.4 % of the property value. India's rank is at 154 which is lower than China with 28 rank and Pakistan with 151 rank. India needs to work on this parameter especially in the quality of the land administration where India's score on a scale of 0 to 30 is only 8.

5. To Get Credit

Sharing of credit information and establishment of a new credit information system has a positive impact within the economy. This particular metric deals with the areas of credit reporting systems, bankruptcy laws and the power of legal right index. Strong reforms have been undertaken in this field. In 2016, India strengthened the credit system by implementing a new law related to insolvency which gave a time bound limit and clear grounds for relief, and the automatic stay for the secured creditors at the time of reorganization. In 2017, secured creditors were given priority over other claims. Moreover, under the Fast-Track Corporate Insolvency Resolution process (CIRP), the process of insolvency has to be completed within 90 days.

India always had a conducive environment for the investors in obtaining credit which can be visualised by a rank of 36 in 2015. It has further moved to 25 in 2020. The strength of the legal rights index also depicts this fact. On the scale of 0-12, it has the score of 9 which is higher as compared to the score of China which is 4 and that of Pakistan which is

2.

6. To Protect Minority Investors

This parameter measures the strength of the protection given to minority shareholders. It also looks into the extent of directors' liability and the level of disclosure. India protected the minority investors by demanding greater degree of disclosure of conflicts of interest on the part of the members of board, obviating the probabilities of prejudicial or favoured related-party transactions and giving more safeguards to the shareholders of closely held companies.

India has a comfortable position in this parameter, The rank was 7th in 2015 which fell down to 13th in 2017, again moved up in the subsequent year, but came again to 13th in 2020. India still holds a strong position in this parameter in the world rankings.

7. To Pay Taxes

This metric measures the taxes and the compulsory contribution made by the company in the past year. It also evaluates the administrative system of paying taxes and procedures such as VAT refund and tax amount. In 2015, India made ESIC payments electronically and online in 2016. It has also incorporated relaxed administrative measures for easy compliance. In 2017, an important change was introduced which was replacing the payment of a lot of indirect taxes under a single tax, Goods and Services Tax (GST), for the whole country. Corporate income tax was also introduced to make it less costly. Moreover, an e-verification system and online return filing system were also introduced.

This is again a cause of concern for India. The rank under this parameter was as low as 157th in 2015 which further went down to 172th rank in 2017, made very little improvement and reached 115th rank in 2020. The total time taken is 250 hours as compared to 49 hours for the best regulatory practices. China is ahead in this parameter also with 105th rank. India needs to take some strong measures under this parameter.

8. To Trade across Borders

This parameter evaluates the time, cost and logistics of export and import of goods with the help of compliance of documents of border and domestic transport. Indian Customs Single Window Projects' have been introduced for electronically custom clearance of documents at single window. An online system of filing documents, 'e- Sanchi' enabled a risk management system for greater transparency. Electric self-sealing at factories for risk-based management was another initiative. In 2016, Indian Customs Electronic Commerce Gateway (ICEGATE) portal was launched for simplification of procedures. In 2017, infrastructure was improved at Nahawa, Seva port, Mumbai to reduce import export border compliance. National facilitation Action Plan (NFAP) was adopted to improve cross-border trade and allowed the submission of documents with digital signatures.

Trading across the borders was very difficult till 2015 in India which explains its 126th rank. In fact, it increased to 146th rank in 2018 showing the compliance rigidity. But in 2019, due to government policies and improvement steps, the rank bounced to 68th.

The cost of exports related to border compliance and documentary compliance have reduced to USD 231 in 2020

from USD 413 in 2015 and to USD 50 in 2020 from USD 102 in 2015. Further, the cost of imports related to border compliance and documentary compliance have reduced to USD 273 in 2020 from USD 574 in 2015 and to USD 100 in 2020 from USD 145 in 2015.

9. To Enforce Contract

This parameter measures the time and cost involved in resolving the commercial disputes through courts. The practices which can evaluate the efficiency and quality of the judicial system are judged.

India has taken many strong steps in this regard. The National Judicial Data Grid (NJDG) was established for generation of case management reports. Commercial courts and appellate divisions of high courts were also started in Delhi and Mumbai. A method of random distribution of cases to the judges along with e filing at the district courts was also adopted. There has also been the development of case management tools for various functions of the court which is a step towards transparency.

The parameter of enforcing contracts remains India's weakest spot with no change in the rank of 163rd from 2019 to 2020. India takes 1445 days to resolve a dispute whereas New Zealand takes one-seventh of it, that is, 216 days and China takes 496 days. The major sub parameter where India needs to work and can improve its ranking, is the case management. On the scale of 0-6, India is at 1.5 and China is at 5.5. Recently, a case management tool with multiple functionalities has been developed to enhance this area.

10. To Resolve Insolvency

Introducing and implementing effective reorganization procedures to resolve insolvency prevents liquidation of insolvent but viable businesses. World over about 33% of economies do not have any reorganization procedures. This parameter investigates into the time, cost and outcome of the insolvency process and the reorganization systems. Outcome refers to whether the business continues or the assets are sold.

India made this process easier by encouraging reorganization proceedings and not by permitting dissenting creditors to receive same amount under reorganization as allowed in liquidation. India has introduced insolvency and bankruptcy code (IBC) which resulted in the resolution of Non-Performing Assets (NPA). This is India's first detailed legislation on corporate insolvency.

India has worked quite hard in improving the rank under this parameter. The rank was 137 in 2015, improved slowly and came to 108th rank in 2019 but in 2020 due to the drastic steps taken by the government the rank leaped to 52nd which is seen as an achievement for India. Rate under the insolvency has impressively enhanced to 71.6% from 26.5%. The time span taken for resolving insolvency issues has drastically come down to 1.6 years from 4.3 years.

India's Proactivism: Road Map for Future

Many important changes have been undertaken by India which has led to the improvement in its rank. A trade facilitation mobile app has been launched to provide information and tracking it. The objective is to shift towards paperless, non-manual and automated processing systems. Simpler procedures for traders and trade players, availability of information and data online and digital payments have impacted the calculation of rank in the index. India's focus

is now on the reduction of the compliance burden by using technology. 6000 cumbersome compliances both at the center and states have been identified and will be reduced systematically in two phases. Single window system for applications and immediate clearance for the promising investments will be carried forward.

Improvements in parameters will have a positive impact on the business ecosystem. Atma Nirbhar Bharat vision will turn into reality through the next generation reforms. Minimum regulatory compliance burden along with e-governance, transparent and time bound interactions of government, corporates and citizens will be encouraged. Intensive use of new age digital technology such as usage of blockchain in land regulation, analytics for sentiment analysis, artificial intelligence for detection of frauds, digilocker data repository, single business entity, decriminalization of regulation which describes imprisonment for minor civil offences and removal of redundant regulations will be adopted.

Conclusion

With the mission to move towards a 5 trillion economy by 2024-25, India has to judicially work for the successful implementation of programs like "Make in India" for attracting more FDI and create a healthy work culture to enhance ease of doing business. Reducing unnecessary compliances and regulations can help the businesses to focus more on their competitiveness. Minimum compliance should be the benchmark so as to reduce the time and cost which can be utilized for the development of the business. Important steps in this direction have already been taken by the policy makers and they have certain specific plans for the future also. It can be clearly visualized that a reformative drive has been initiated by India to improve its landscape of doing business. Reforms in almost all the parameters have supported the ease of doing business in India. Consistent progress across the parameters can bring India's ranking in the bracket of top 50 countries in the coming years.

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