

Ease of Doing Business Index of India: Paving the Road Ahead

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ARTICLE DETAILS

Article History

Published Online: 12 June 2019

Keywords

Ease of Doing Business Index, Economic Growth, Construction Permit, Registering Property, World Bank.

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ABSTRACT

Entrepreneurs are considered as national assets who are civilized, motivated and remunerated to a great extent. There is little doubt that entrepreneurs are changing the way that we work and live in modern times. Successful entrepreneurs are helping community to enhance their standards of living and also assist in adding and creating wealth with their entrepreneurial ventures. Numerous initiatives and policies have been undertaken by Government of India to foster a culture of innovation and entrepreneurship in the country. India is having a significant and unique demographic advantage that has enormous potential to innovate, motivate entrepreneurship and create jobs for the benefit of the society and nation. The Indian Government has also undertaken a number of measures to attract business investment from foreign countries by initiating policy reforms that have lead to a positive bearing on India's ranking in 'Ease of Doing Business' index of World Bank. The purpose of this research is to review India's performance on 'Ease of doing business' index of World Bank in the last few years. It further continues to look into various reasons due to which India is lagging behind in entrepreneurship and would also discuss various measures to be taken by government to improve India's ranking further.

1. Introduction

Entrepreneurship is becoming the main savior for the present economic predicament faced by developing economies. Globalization reshaping the international economic landscape and various technological changes are creating greater uncertainty in the global economy. Facing the challenges of a VUCA (volatility, uncertainty, complexity and ambiguity) environment, entrepreneurship is alleged to offer new ways to meet economic, socio-cultural and environmental challenges. Employment through job creation is one of the foremost challenges faced by India. Numerous initiatives and policies have been undertaken by Government of India to foster a culture of innovation and entrepreneurship in the country. India is having a significant and unique demographic advantage that has enormous potential to innovate, motivate entrepreneurship and create jobs for the benefit of the society and nation.

Entrepreneurs are considered as national assets who are civilized, motivated and remunerated to a great extent. There is little doubt that entrepreneurs are changing the way that we work and live in modern times. Successful entrepreneurs are helping community to enhance their standards of living and also assist in adding and creating wealth with their entrepreneurial ventures. Due to the innumerable advantages of entrepreneurship, many countries have made entrepreneurship an explicit policy priority. The entrepreneurship objectives and policies differ amongst countries, due to different backgrounds, perspectives and policy needs.

India has always been considered as an economic power, currently it is amongst the top five fastest increasing economies in the world. This pace of economic growth may have enhanced due to the various reforms launched by the government in the last few years. There has been a fundamental shift in the approach towards business

governance as the government has initiated large number of reforms aimed towards improving the business scenario in India. Recently, India ascended 23 points in World Bank's ease of doing business index to reach at 77th place, becoming the top ranked country in South Asia for the first time and third ranked amongst the BRICS nations.

An assessment of business regulation across 190 economies is reported in World Bank's Doing Business Report. Further, Now India ranks in top 25 counties in the world on main three indicators- getting electricity, protecting minority investors and getting credit. These results indicate that the efforts made to make India a manufacturing hub through the launch and promotion of 'Make in India' scheme is bearing fruits but still there are some challenges which needs to be dealt to help India to continue its glorious journey towards higher avenues.

2. Literature Review

For the growth of any nation, a favorable business environment is very essential. India's continuous endeavor to strengthen its position to be judged as a preferred place to conduct business can benefit the country's economic growth prospect in the long run. Bhatt (2015) focuses on the parameter related to paying taxes indicator of Ease of Doing Business of India & some other South Asian countries. He brought to limelight that India is far behind than many of its South Asian counterparts such as Bhutan, Nepal, Afghanistan and Maldives etc. in comparison on the indicator of paying taxes. These are comparatively very small economies in comparison to India but still they are performing better on this parameter than a large economy like India. In order to improve India's progress in this parameter and to make 'Make in India' initiative a success, it is crucial to recognize the important issues which dampens the sentiments of investors. The investors' needs should be addressed on priority basis in order to rebuild their confidence in India as a preferred destination

for business (Harpreet Kaur, 2015). Singh P. G. (2015) in his study examines the relationship between foreign direct investment (FDI) and six essential variables (Starting a business cost, getting electricity cost, dealing with construction permits, paying taxes, registering property cost and enforcing contract cost). He inferred that there exist a long run relationship between FDI & six variables undertaken in the study. Rajat, Bhawna (2017) elucidate that government has played an imperative role in improving the ease of doing business in India by undertaking a variety of initiatives such as Make in India, GST and demonetization etc which has proved to be productive for the economic development of the country. Vivek Moorthy's (2016) study is related to the macroeconomic impact of ease of doing business rank on the decisions of policy makers. He has used vigorous cross country regressions and have concluded that the ease of doing business rank has quite limited macroeconomic relevance and usefulness.

Dhiren Jotwani (2016) studied the causality between productivity and ease of doing business in 14 Indian states by using econometrics model and concluded that many more structural and policy reforms are needed to enhance productivity for stronger and more inclusive growth. Geetha, R. (2016) laid emphasis on that India needs to meet the challenges for becoming a manufacturing hub and the possible solutions also have to be developed to deal with the same.

3. Ease of Doing Business (EODB) Index

Ease of Doing Business (EODB) refers to an environment that is conducive for the efficient running of a business enterprise and facilitates transparent, simple and time bound procedures and compliances. India has travelled a long way in improving its EODB measures, especially in terms of simplification of rules and procedures for the smooth flow of administrative processes and improving transparency.

The EODB study conducted by World Bank has captured the experiences of mid-sized and small companies in a country along with their regulators, by measuring the costs, time and red tape that they deal with. It had empanelled experts to collect data from the largest business cities in each country. In India, Mumbai and Delhi were surveyed. The experts have many rounds of interactions with professionals typically like business consultants, lawyers, freight forwarders, accountants,

government officials who can enumerate the experience of multiple businesses. Over 13,800 experts had participated in the 2019 study, from June 2, 2017 to May 1, 2018. After this, each country is assigned a rank out of 190. The rank is based on the total score that it has earned on 10 key aspects of doing business. The key indicators considered currently are: starting a business, securing electricity, getting construction permits, getting credit, registering property, protecting minority investors, enforcing contracts, cross-border trade, paying taxes and resolving insolvency.

In a nutshell, the World Bank's intention is to assess a country's progress on few 'doing business' indicators in enormous depth, without trying to be comprehensive about these indicators, or striving for statistically large sample size. The above facts obviously leads to various shortcomings in India. In India, taking a sample from only two cities like Mumbai and Delhi may not reflect the experience of proprietorship or partnership firms that dominate the small and medium business space, or those that are located in tier 2 or tier 3 cities. As the ten indicators measured by the study are well-known, it is quiet easy for any government to specifically target these particular areas for reforms. But still the EODB rankings serve as one of the most trusted ready-reckoner for foreign investors thinking to set up business in a country.

The index ranks all the 190 countries based on 10 indicators. These 10 indicators are assessed across the life-cycle of a business, thereby commencing from "starting a business" to "resolving insolvency." These 10 indicators are: Starting business, Getting electricity, Dealing with construction permits, Registering property, Protecting minority investors, Getting credit, Paying taxes, Enforcing contracts, Trading across borders and Resolving insolvency. Each indicator carries equal weightage. For this ranking, Delhi and Mumbai are the only two cities surveyed by World Bank in India.

4. India's performance on (EODB) 'Ease of Doing Business'

In the last two years India has climbed 53 notches up, a performance that has been matched by Bhutan only in the past. The details of this advancement were revealed in World Bank's Doing Business Reports of previous two years which is an assessment of business regulations across 190 countries.



Figure 1: Highlights of India's Improvement in 'Ease of Doing Business' Index of World Bank
Source: economictimes.indiatimes.com (November 1, 2018).

The World Bank has identified India as one of the top performer for the year 2018. Figure 1 depicts the milestones attained towards this journey of success. India had featured among the list of top 10 improvers in 2018 for the consecutive second year in a row. India is the one of only nine countries in the world and only one in BRICS nations that has featured in this list.

The six reforms that are recognized in this year's (2018) report are starting a business, dealing with construction permits, getting electricity, getting credit, trading across

borders and paying taxes. In the parameter related to dealing with construction permits, India has currently implemented an online single window system and has introduced deemed approvals that have reduced the cost for obtaining these permits. In the parameter related to electricity sector, the time taken for obtaining a new connection has also dropped tremendously. The corporate law and securities regulations of India have been recognized as highly advanced, they have placed India in 4th rank in global ranking on Protecting Minority Investors.

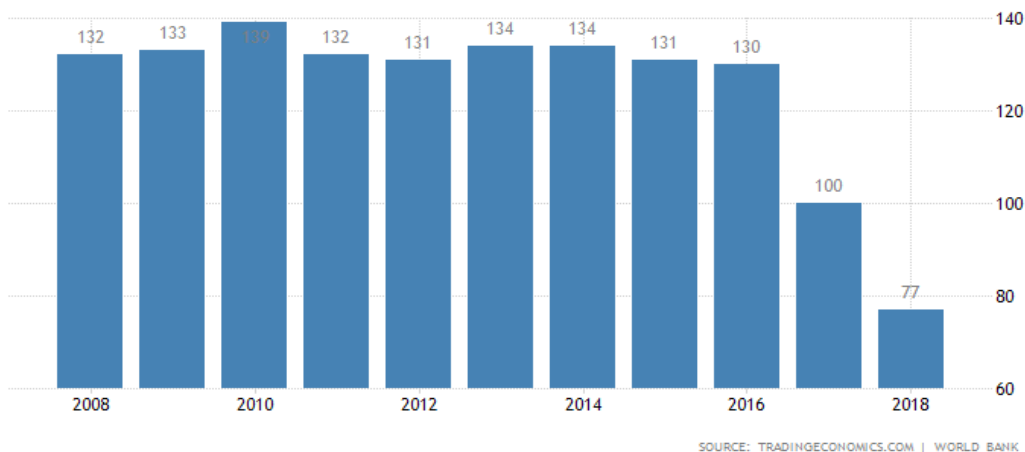


Figure 2: Behind India's Leap in Ease of Doing Business

Source: Aarati Krishnan, Behind India's Leap in Ease of Doing Business, The Hindu Newspaper, November 11, 2018.

In India, Ease of Doing Business had averaged at 124.82 from 2008 until 2018 as depicted in Figure 2, it reached at an all time high of 139 in 2010 and a dipped at a record low of 77 in 2018. India has been one of the biggest 'improvers' in 2019 study, with its rank increasing from 100 to 77, among the 190 countries surveyed. This is quite a big leap, as depicted by the fact that its rank rose from 142 to 100 in the four years from 2015 to 2018. Now India is considered to be an easier place to do business by The World Bank in comparison to its BRICs peers such as South Africa (82), Brazil (109) and West Asian economies such as Saudi Arabia (92) and Qatar (83). But it still has a long way to go to catch up with the U.S. (8), China (46), the Hong Kong Special Administrative Region is at 4), Singapore (a lofty 2) or New Zealand.

5. India's Improvements

India's leap in 2019 rankings have been attained mainly from very high scores on two 'doing business' indicators that are 'trading across the borders' and 'securing construction permits'. It also made minor improvements in getting credit and starting a business.

Table 1: India's Ranking on Key Indicators of EODB

S. NO.	INDICATOR	2018	2019
1	Starting Business	156	137
2	Construction permits	181	52
3	Getting electricity	29	24
4	Registering property	154	166
5	Getting credit	29	22

6	Protecting minority interests	4	7
7	Paying taxes	119	121
8	Trade	146	80
9	Enforcing contracts	164	163
10	Resolving insolvency	103	108
11	Overall rank	100	77

Source: www.doingbusiness.org.worldbank

- The World Bank 2019 Report findings indicated that India's top cities have managed to drastically reduced from 144 days last year to 95 days to give construction permits, while decreasing their costs from 23% of the building value to just 5%.
- The Single-window clearance required for obtaining building permits in Delhi and a new online system introduced in Mumbai has brought about quantum change. From 146 on cross-border trade, its rank has improved to 80.
- In 2017-18, importers had to spend 264 hours at the border complying with formalities, but now they only spent 97 hours this year.
- The timeline for exporters shrank from 106 to 66 hours, leading to big savings.
- Due to up-gradation in port infrastructure, facilities for exporters to seal their containers on their own and a move to online documentation also helped in improving overall ranking. India had also made specific incremental reforms in some other indicators.

- On the parameter of starting up a business, India's rank improved from 156 to 137. The time taken to start a new company had shrunk from 30 days to 17 days, the main contributors towards this improvement were quicker GST registrations and the abolition of site inspections in Mumbai city.
- Administrative measures to simplify corporate income tax regulations and online payments to Employee Provident Fund led India to rise 53 places from 172 to 119 on 'paying tax' parameter.
- The enactment of Insolvency and Bankruptcy Code (IBC) and prompt action under the Act helped India leap up from 136 rank to 103 rank on the 'resolving insolvency' parameter.

Overall, India's rank has improved in 6 out of 10 parameters, while it has moved closer to global best practices in 9 parameters.

6. Where India Needs to Improve

While India had attained significant changes in some indicators, there were some other indicators where its scores barely budged. Its score remained dismal at rank 166 on registering property. In India it takes 69 days to register a property and costs about 8% of its value, the general norm for this in OECD countries is just 20 days and at half that cost. In New Zealand, this gets done in a single day.

The other dismal business aspect that can be readily identified is 'paying taxes'. Regardless of the advent of GST, India has retained a low rank of 121 in this aspect. A typical Mumbai-based firm has to make 13 tax payments in a year, spend 278 hours and coughs up 52% of its profits on this task. But in Hong Kong, businessmen make just three payments a year, in Singapore they spend just 49 hours paying taxes. The average tax rate among global economies is less than half of the Indian tax rate. At rank 163, India also fares poorly on enforcing contracts. Enforcing a claim through courts in Mumbai takes 1,445 days and costs 31% of claim value, whereas in OECD nations this feat is managed in 582 days at a cost of 21%.

As per the latest report released in November, 2018, India has leaped 23 places to the 77th position in the World Bank's 'ease of doing business' ranking. But still there are some parameters in which India is lagging. So here is the analysis of those parameters where India needs to do better to improve its ease of doing business ranking.

India's rank is below 100 on five parameters:

- "Starting a business" (137)
- "Enforcing contracts" (163)
- "Registering property" (166)
- "Paying taxes" (121) and
- "Resolving insolvency" (108)

Through the amendment in the Commercial Courts Act, the government has facilitated the establishment of commercial courts in 250 districts of India. If these courts would dispose of cases at a faster rate, India may rank higher on this parameter next year. To make an improvement on the other parameters,

ownership and titles need to be online. This initiative comes under the local governments.

Among 190 nations, India was ranked at the 142nd position when the Modi government came into power in 2014. It has risen to 100th spot in the last ranking from 131st rank in the previous year. New Zealand has topped the list of 190 countries in ease of doing business, it is followed by Singapore, Denmark, and Hong Kong. The United States has been ranked eight and China has been ranked 46th. India's neighboring country Pakistan is placed at 136. World Bank has put India among the top 10 economies that are assumed to make the most improvements.

7. Government Initiatives on Ease of Doing Business

India now aspires to be among the top 50 attractive destinations for doing business and the Government has been undertaking a large variety of reforms in recent times to improve the overall regulatory environment and the business climate of the country. Led by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, the EODB effort represents a mission-mode approach involving all ministries and departments as well as state governments.

The overall mission includes measures such as greater digitization, single applications, introduction of SPICe forms (Simplified Proforma for Incorporating Company Electronically), segregation of outdated laws and regulations and simplification of processes, among many others that are contributing to making business procedures faster and simpler. Some other initiatives are:

- Trading across borders has been a major focus in the last few years, which occupied a low rank of 146 in the World Bank rankings. The initiatives that were implemented under the National Trade Facilitation Action Plan 2017-2020 have improved cross-border trading and decreased the time taken to meet compliance requirements.
- Single Window Interface for Facilitating Trade (SWIFT), reduction in paperwork and a shift to a paperless compliance system, improvement in custom clearances under the integrated Risk Management system, enhancing Direct Port Delivery and coming up with an efficient Port Community System are some of the recent initiatives that have been undertaken in this area.
- Additionally, India has signed the WTO Trade Facilitation Agreement (TFA) which has further encouraged reforms. These measures would help to bring down the transaction costs involved in exports and imports and are expected to reflect a better ranking next year.
- Registering property in India takes 8 procedures and 53 days compared to only 2 days in New Zealand. The Government has proactively taken up several reforms, particularly at the state level to remove procedural delays and speed up processes in this area. By defining clear timelines for the processing of land allotment applications, introducing a model sale deed format for the registration of property,

improvement in the efficiency of land banks and digitization of land records are some of the crucial initiatives that have been undertaken in recent times. Delhi and Maharashtra, along with many other states are introducing Geographical Information Systems (GIS) which would help greatly in accelerating the process.

- Due to the lack of a well-defined dispute resolution system, many bottlenecks are faced in the area of enforcing contracts. Recent reforms introduced by the central government such as the National Judicial Data Grid which is a monitoring tool to identify, manage and reduce pending legal cases; at the district level the establishment of dedicated Commercial Courts by several states for facilitating fast resolution of commercial dispute cases as well as implementation of e-courts, e-payments, e-filings, e-summons etc. would greatly increase the efficiency of enforcing contracts.
- Significant improvements have been brought about in Paying Taxes as well with reforms such as electronic payment of tax and easing of compliances with corporate income taxes playing an important role in the latest improved rankings. With the introduction of the transformational Goods and Services Tax (GST), the rankings are expected to improve further with GST placing all taxpayers and authorities on a single online platform.
- Resolving insolvency has also seen many improvements with the simplification of insolvency proceedings and speedy tracking of processes that took place after the implementation of Insolvency and Bankruptcy Code (IBC), 2016. The issue of bad loans and Non- Performing Assets (NPAs) have also been effectively addressed since IBC's implementation.
- The process of Dealing with Construction, currently ranked 181, also witnessed positive developments wherein states have directed efforts to reduce time and cost for obtaining permits and have also introduced the provision of deemed approval. Inspections are being integrated and are risk-based to expedite the approval process.

While India's remarkable performance in the Doing Business Rankings is an outcome of these rigorous infrastructural, legislative and administrative reforms undertaken by the Central Government, it is important to note that the states have also proactively undertaken measures to improve their business climate.

Going beyond Delhi and Mumbai, the Indian Government under the Business Reforms Action Plan (BRAP) has included all Indian states in the EODB mission. Currently, there are 7 states, namely Haryana, Chhattisgarh, Madhya Pradesh, Andhra Pradesh, West Bengal, Jharkhand and Telangana that have achieved 100% success. As many as 18 states have achieved over 90% success in addressing the procedures identified by the DIPP (Department of Industrial Policy and Promotion). The efforts of both the central and state Governments in improving the business climate in the country are indeed commendable and it can be expected to gain further momentum going forward.

8. Conclusion

In 2017 India has reached the 100th rank, and 77th rank in 2019, which indicates an improvement of 23 ranks a result of the improvement made by the government in its policies. The hopes are high with the backing of the government India will be able to enter the top 50 rank in the ease of doing business rank.

Although various steps have been taken by government to improve the EODB rankings, the government needs to concentrate more on weak areas such as starting a business, enforcing contracts, registering property, paying taxes, resolving insolvency etc. These are some indicators which needs special attention because these are the main reasons India is lagging behind in the World Bank ranking. Therefore, it is crucial to make sure that it is not the job of one department but for everyone concerned with the regulatory process. India needs to move faster to further improve its ranking. Through sheer hard work, perseverance and foresight, India can achieve its target of top 50 in ease of doing business rank in next few years.

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