

Ease of doing Business in India – Road Ahead

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ABSTRACT

This paper discusses the ranking of India in various indicators of measuring Ease of doing business and steps that India has taken to move up the ladder of Ease of doing business ranking. India's rank in the World Bank's Ease of Doing Business 2019 survey climbed 23 places to 77 among 190 countries surveyed, making it the only country to rank among the top 10 improvers for the second consecutive year. India has taken efforts to improve ease of doing business and simplified the process of starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, Enforcing contracts and resolving insolvency. But India needs to reform more in order to feature in top 50 ranking. India in order to improve economic growth and enter the "double digit" growth, must improve its business environment. An enterprise-friendly regulatory environment will allow easy entry and exit of enterprises, enable them to reach an optimal size and scale, and boost job creation in turn leading to faster economic growth.

Keywords: Ease of doing business, Department of Industrial Planning and promotion (DIPP), NITI Aayog.

INTRODUCTION:

India's rank in the World Bank's Ease of Doing Business 2019 survey climbed 23 places to 77 among 190 countries surveyed, making it the only country to rank among the top 10 improvers for the second consecutive year. According to World Bank, "The reforms in India included streamlining the process of obtaining a building permit and improved building quality controls. Starting a business was made easier through consolidation of multiple application forms and introduction of a goods and services tax (GST), while getting electricity was made faster and cheaper. Other reforms in India included strengthening access to credit as well as making it easier and faster to pay taxes and trade across borders. (Live mint 2018) Ease of doing business is considered to be an important indicator of country's growth and development. For far too long India paid insufficient attention to the centrality of the business environment for wealth creation, which is in turn critical to combating poverty. As a consequence, entrepreneurs, the engines of wealth creation, struggled to do business in the face of onerous policies and regulations that were designed to choke rather than enable business. The reforms of 1991 marked a clear change in direction as successive governments started paying attention to difficulties faced by businesses. Nonetheless, there remained far too many impediments. By and large, India remained a tough place to do business. India needs to create an environment that fosters globally competitive firms, capable of driving and sustaining economic growth. (NITI Aayog, 2017)

This paper discusses the ranking of India in various indicators of measuring ease of doing business and steps that India has taken to move up the ladder of Ease of doing business ranking.

LITERATURE REVIEW:

Singh Anjali, Jaiswal K. (2018) in their paper 'Ease of Doing Business in India: A Vision of Make in India' analyzes the indicators of ease of doing business ranking and the major improvements done to make them of

international level, it also tries to thrive on the key issues which dampens the trust of investors, various suggestions are offered which when implemented will be helpful in rebuilding the confidence of investors to invest in India and make it a preferred business destination. Overall, the study indicates that Make in India campaign will be able to achieve its objective of transforming India into a manufacturing hub.

Gaur Ashutosh D., Padiya Jasmin. (2017) in their paper 'Ease of Doing Business in India: Challenges & Road Ahead' focused on Ease of doing business and identify the factors for it. India is undergoing through various reform processes which will improve overall business environment which is vital pillar of Make in India which will boost manufacturing sector in India. This research is conceptual and review nature, the researcher has applied exploratory research design by using varied secondary data availed from the secondary data sources. Based on the secondary data and review, the researcher has reported on various emerging trends and issues and challenges in Ease of Doing Business. The researchers have analyse the India rank in Ease of Doing business index of World Bank and highlight the various reforms initiated by Government of India to improve business environment in India.

Jotwani, Dhiren. (2016) in their paper 'Ease of Doing Business in Selected Major Indian States: Does Bank Credit Lead to Productivity?' study the causality between "ease of doing business" and productivity. In this paper, productivity is used to study the patterns across major states of India, to judge the ease of doing business in these states. This study utilized forty years of macroeconomic data for selected Indian states, from 1972 to 2012, to analyse the causal relationship between bank credit and GDP growth. The results are diverse: for example, in Maharashtra and Haryana, there is unidirectional causality from total bank credit to economic growth; and from bank credit to industry to economic growth.

NITI Aayog (2017) in their report 'Ease of doing business: An Enterprise survey of Indian States' analyses the experience and perceptions of manufacturing firms¹ on doing business in India. It focuses on how organised manufacturing firms, rather than experts or implementing agencies, view the business environment in their respective states. The present survey also covers all states and Union Territories (UTs), except Arunachal Pradesh, Mizoram, Andaman and Nicobar, and Lakshadweep. An important and surprising finding of the report is that the awareness among enterprises about single window systems, instituted by states, is low. On average only about 20% of start-ups, which are of recent origin, report using single window facilities introduced by state governments for setting up a business. Even among experts, only 41% have any knowledge of the existence of these facilities. An enterprise-friendly regulatory environment will allow easy entry and exit of enterprises, enable them to reach an optimal size and scale, and boost job creation. There is a strong correlation between a higher level of economic activity and doing better on a range of doing business indicators.

Moorthy, Vivek, Jason A. Arul. (2016) in their paper 'The Ease of Doing Business Rank: An Assessment of its Macroeconomic Relevance' This paper examines the macroeconomic impact of World Bank's Ease of Doing Business (EDB) rank, of increasing importance to policy makers, using simple but robust cross-country regressions. Its main findings are first that GDP per capita is negatively correlated with the EDB rank. Second, that average growth over a ten year period is negatively related to starting per capita income. It points to broad evidence linking these correlations to labour supply factors. Overall, it shows the EDB rank to have limited macroeconomic usefulness and relevance.

METHODOLOGY:

The study is based on secondary data. Information regarding ease of business and its various indicators is taken from various sources i.e. publications of Ministry of commerce, Niti Aayog and World Bank.

FINDINGS & DISCUSSION:

World Bank has used following indicators of an economy to rank Ease of doing business in a country:

1. Starting a business: Procedures, time, cost and paid-in minimum capital to start a limited liability company
2. Dealing with construction permits: Procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
3. Getting electricity: Procedures, time and cost to get connected to the electrical grid, and the reliability of the electricity supply and the transparency of tariffs
4. Registering property: Procedures, time and cost to transfer a property and the quality of the land administration system
5. Getting credit: Movable collateral laws and credit information systems

6. Protecting minority investors: Minority shareholders' rights in related-party transactions and in corporate governance
7. Paying taxes: Payments, time, total tax and contribution rate for a firm to comply with all tax regulations as well as post-filing processes.
8. Trading across borders: Time and cost to export the product of comparative advantage and import auto parts
9. Enforcing contracts: Time and cost to resolve a commercial dispute and the quality of judicial processes
10. Resolving insolvency: Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency.

The improvement in India's Ease of Business ranking has improved because India has taken various efforts in simplifying the process of starting and running a business.

Table 1: India's ranking in World Bank's doing business indicators

| Indicator | Ranking | | | |
|-----------------------------------|------------|------------|------------|-----------|
| | 2015 | 2016 | 2017 | 2018 |
| Overall Ranking | 134 | 130 | 100 | 77 |
| Starting a business | 164 | 155 | 156 | 137 |
| Dealing with Construction permits | 184 | 185 | 181 | 52 |
| Getting electricity | 99 | 26 | 29 | 24 |
| Registering property | 138 | 138 | 154 | 166 |
| Getting Credit | 36 | 44 | 29 | 22 |
| Protecting minority investors | 8 | 13 | 4 | 7 |
| Paying Taxes | 156 | 172 | 119 | 121 |
| Trading Across borders | 133 | 143 | 146 | 80 |
| Enforcing contracts | 178 | 172 | 164 | 163 |
| Resolving Insolvency | 136 | 136 | 103 | 108 |

Source: World Bank report on Doing Business India

It can be observed from the table that India's ranking has improved in most of the indicators. It has a dipped a little in few indicators. Improvement in ranking shows that the country is on right path in terms of actions taken for improvement. All these indicators are discussed below along with the measures that India has taken.

Starting a Business:

India has taken efforts to improve ease of doing business and simplified the process of starting a business. The topic measures the minimum paid up capital requirements, no of procedures involved and cost for a small-to-medium-sized limited liability company to start up and formally operate in the economy's largest business city. India's ranking has improved from 164 to 137 in past 3 years. Some of the initiatives (as discussed in Ease of Doing business report, DIPP) are:

- Procedure of obtaining Director Identification number (DIN) from the Ministry of Corporate Affairs portal" is merged with procedure of incorporating a company. Henceforth there is no separate procedure for obtaining DIN for a director of a new company.
- The process of name reservation and application for company incorporation under SPICe (Simplified Proforma for Incorporating a Company electronically) are treated as a single procedure, reducing the time and effort.
- Submission of Permanent Account Number (PAN) and card and a Tax deduction and collection Account Number (TAN)" have collectively subsumed into one procedure i.e. procedure 4 "Pay stamp duties, file the SPICe form and obtain the certificate of incorporation."
- A company seal is no longer a legal requirement reducing associated time (1 day) and cost (INR 350-500)
- "Register for Value-Added Tax (VAT)" is replaced by GST registration which is online. This has resulted in reduction of time (i.e. 7-10 days in Mumbai & 9 days in Delhi) to 3 days.
- Earlier there were two separate procedures for registration under Employees Provident Fund Organization (EPFO) and Employee State Insurance Corporation (ESIC). Now, registrations on EPFO & ESIC websites have been done away with, and it is available on "Shram Suvidha Portal" only where common registration facility is available.
- For EPFO registration,

- a. Bank account details / Scanned copy of cancelled cheque are not mandatory
- b. Scanned copy of PAN card is not required
- c. No physical document submission is required
- Earlier companies had to pay for SPICe (INR 500), e-Memorandum of Association (INR 4,800) and e-Articles of Association (INR 400). Now, above mentioned fees are not applicable for incorporation of companies with authorized capital up to INR 1 million.

Dealing with construction permits:

This indicator is concerned with recording procedures which are required for a business in the construction industry in order to build a warehouse along with the time and cost to complete each procedure. It is also concerned with studying quality control indices, evaluating the quality of building evaluation, insurance regimes, safety mechanism and certified professional requirements. (Singh Anjali, Jaiswal K. 2018) India's ranking has significantly improved from 184 to 52. Various improvements have taken place in the procedures and improved the quality. Some of the initiatives (as discussed in Ease of Doing business report, DIPP) are as follows:

- A notification for Latent Defect Liability and Decennial Insurance has been issued holding the following professionals liable for any defects in buildings on plot area more than 750 sq mts - 1. Architects, 2. Structural Engineers, 3. Site Supervisor/ Site Engineer and 4. Construction Company including contractor and sub-contractor. The above mentioned professionals and the construction company, including the contractor/sub-contractor shall take decennial liability insurance to cover for such liability.
- Joint Site Inspections'- Before issuing Occupancy cum Completion Certificate (OCC), site inspection by concerned departments is necessary. A provision has been made for all departments to conduct a Joint Site Inspection. Online system generated intimation regarding date and time of inspection is issued in advance to the concerned officials of the departments involved in issuing OCC and to the applicant. Multiple site visits for getting No Objection Certificates from different agencies for completion are totally eliminated resulting in reduction in time and procedures.
- With the introduction of Online Building Permission System (OBPS) the applicant is required to apply for all NoCs through Common Application Form (CAF) only. Therefore, now no separate application is required for NoCs and applicant has to indicate at the time of applying for building permit, which NoCs are applicable.
- To provide for water and sewer connection, the charges for Road Cutting and Restoration, collected by Delhi Jal Board (DJB) are restricted to connection length up to 5 meters. The cost for Procedure has been reduced from INR 12,20,680 to INR 1,09,800
- 'Very low risk' buildings with areas less than 105 sq mts are covered under the 'Saral' scheme. For such buildings the plan, as submitted by the architect, is sanctioned online instantly without any scrutiny.
- For building permits, digitally signed sanction letter is issued online through the OPBS reducing time from 27 days to 01 day
- All departments concerned with issuing Construction Permit have been integrated with a single window clearance system. Building proponents are required to apply using the Common Application Form (CAF).
- Municipal Corporations of Delhi have replaced requirement of uploading signed undertakings by e-undertakings for obtaining construction permits. The e-undertaking forms part of the application form and no scanned/ physical documents are required. Further there is no requirement of notarizing

Getting Electricity:

This indicator considers the procedural requirement in getting permanent electricity connection by a business house. India's rank has improved from 99 to 24 indicating significant improvements. One of the major improvement is that the time taken to obtain electricity connection has reduced from 45 days to 15 days.

Registering Property:

India's ranking has decreased from 138 to 166 in past 3 years indicating that significant improvement is required. In terms of procedures, following improvements have taken place:

- Buyer can conduct a search in office of the Registrar of Companies to verify for any charges on the property in 0.5 days as compared to earlier 1-2 days.
- On Reliability of Infrastructure index, Doing Business 2018 records that majority of maps of land plots kept in Delhi are in paper format.
- No. of days require for preparing the final sale deed with the purchaser's lawyer and paying Stamp duty on the final Sale Deed through e-stamp paper at the designated bank has been reduced to 3 days and 0.5 days respectively.

Getting Credit:

This indicator is basically concerned with measuring the legal rights of borrowers and lenders concerned with secured transactions and the reporting of credit information. The rank has improved from 36 to 22 in past 3 years. The reforms are: Priority is given to secured creditors over government dues for recovery of their dues and there has been increased coverage of security interest registration under SAFAESI Act. (Singh Anjali, Jaiswal K, 2018)

Protecting Minority Investors:

This indicator discusses Minority shareholders' rights in related-party transactions and in corporate governance. India's position has decreased 3 ranks from 4 in 2017 to 7 in 2018. It indicates that improvements in this aspect is possible.

Paying Taxes:

This indicator considers payments, time, total tax and contribution rate for a firm to comply with all tax regulations as well as post-filing processes. India's rank has improved from 156 in 2015 to 121 in 2018 but decreased from 119 in 2017. There has been significant change in the processes with the introduction of GST. Introduction of GST as one nation one tax has following significant impacts: Common procedures for registration, return filing and payment of taxes, Seamless flow of credit from manufacturers/ supplier to user/ retailer, thereby eliminating cascading effect of taxes. One of the major benefits of GST is that now all indirect tax compliances are centralised thereby reducing time taken to comply with GST return. Corporate tax rate has also been cut down from 30% to 25% for mid-sized companies since April 2017.

Trading Across Borders:

This indicator reflects time and cost to export the product of comparative advantage and import auto parts. India's rank has significantly improved from 146 in 2017 to 80 in 2018. Following improvements have taken place:

- Central Board of Indirect Taxes and Customs has provided a facility of filing of Advance Bill of Entry (Advance Import Declaration) and started imposing late charges for delayed filing of Bill of Entry. The overall reduction in time to import for border compliance on account of advance filing of import declaration
- Enhanced facilitation through Risk Management System (Facilitated Bill of Entry) by simplification of Risk Management System inspection process resulting in reduced time taken for clearance.
- Reduction in (i) Time to import (Documentary Compliance) (ii) Cost to import (Documentary Compliance) (iii) Time to export (Documentary Compliance) (iv) Cost to export (Documentary Compliance) through paperless processing application i.e. e-SANCHIT.

Enforcing Contracts:

It considers time and cost to resolve a commercial dispute and the quality of judicial processes. India's rank has improved from 178 to 163 in past 3 years. Following improvements have taken place:

- Assignment of New Cases to Judges randomly through an automated system.
- Electronic case filing has been introduced in District Courts of Delhi & Mumbai.

Resolving Insolvency:

This indicator contemplates time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency. India's rank has improved from 136 to 108. One of the significant improvement is introduction of Fast Track Corporate Insolvency Resolution Process ('CIRP') for mid-sized companies. By reducing time for which the money remains tied up in insolvency proceedings, the reform will substantially improve the recovery rate.

CONCLUSION:

India has come a long way in improving ease of doing business ranking. But it has a long way to go. It will take many more reforms and transparency for India to feature in top 50 ranking. Improvements must be made and reforms must be brought in the areas where ranking has dipped i.e. Registering property and protecting minority investors. India in order to improve economic growth and enter the "double digit" growth, must improve its business environment. An enterprise-friendly regulatory environment will allow easy entry and exit of

enterprises, enable them to reach an optimal size and scale, and boost job creation in turn leading to faster economic growth. (NITI Aayog)

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