

Ease of Doing Business: An Analysis of What Went Well for India in 'Doing Business 2018 Report'



Recently, the World Bank Group released its most popular 'Doing Business 2018 report'. India jumped its ranking from 130 to 100 showing significant improvement. This is for the first time the country has surged to this spot. It has brought much cheer to the reform process undertaken by the government with Prime Minister claiming it as a 'historic jump'. Let's have a look at this report, its methodologies, rankings, comparison and other factors. Read on to know more...

Introduction

'Doing Business 2018' is a World Bank Group flagship publication and is the 15th in a series of annual reports measuring the regulations that enhance business activity and those that constrain it. Doing Business presents quantitative indicators on business regulations and the protection of property rights that can be compared across 190 economies - right from Afghanistan to Zimbabwe. The Doing Business project provides objective measures of business regulations for local firms in 190 economies and selected cities at the sub national level. Economies are ranked on their ease of doing business, from 1-190. A high ease of doing business ranking means the regulatory environment is more conducive to the inception and operation of a local firm.



CA. Hemraj S. Joshi* and Shakuntala Pareek**

(*The author is a member of the Institute. **The author is a commerce faculty. They can be reached at cahemraj@gmail.com.)

Methodology

Doing Business measures regulations affecting 11 areas of the life of a business which are as follows:

Sr. No.	Indicators	Coverage
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, 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.

Sr. No.	Indicators	Coverage
7	Paying taxes	Payments, time and total tax 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.
11	Labour market regulations	Flexibility in employment regulations and aspects of job quality.

Ten of these areas are included in this year's ranking on the ease of doing business. The rankings take into consideration the scores on these 10 topics, each consisting of several indicators, giving equal weight to each topic. Doing Business also measures labour market regulations (Point 11), which is not included in this year's ranking.

Data in Doing Business 2018 are current as of June 1, 2017. The indicators are used to analyse economic outcomes and identify what reforms of business regulation have worked, where and why. Generally, the survey is done on one city per country. However, for big economies, the survey is carried out for two cities of that country. For India, the ranking is based on two cities – Delhi and Mumbai. The results are based on various scores provided by expert respondents across all the economies.

Peer Comparison

New Zealand is first on ease of doing business for the second consecutive year.

Let's also have look at the ranking of some other countries

Country	2018 Ranking	2017 Ranking	Country	2018 Ranking	2017 Ranking
Singapore	2	2	Bhutan	75	73
Denmark	3	3	China	78	78
United States	6	8	Nepal	105	107
United Kingdom	7	7	Sri Lanka	111	110
U.A.E.	21	26	Pakistan	147	144
Japan	34	34	Bangladesh	177	176
Italy	46	50	Afghanistan	183	183

What Went Well?

India was amongst top 5 most improved economies. During the past year, 264 reforms have been carried out in 119 economies. 3,188 reforms implemented in 15 years since the inception of Doing Business.

The previous report stated that *“the current government of India was elected in 2014 on a platform of increasing job creation, mostly through encouraging investment in the manufacturing sector. Soon after the elections policy makers realised that for this to occur substantial improvements would need to be made to the country's overall business regulatory environment. The Doing Business indicators have been employed as one of the main measures to monitor improvements in India's business climate. As a result of the election platform-driven reform agenda, over the past two years the Doing Business report has served as an effective tool to design and implement business regulatory reforms. The data presented by the Doing Business indicators have led to a clear realisation that India is in need of transformative reforms. The country has embarked on a fast-paced reform path, and the Doing Business 2017 report acknowledges a number of substantial improvements.”*

India's ranking improved significantly due to the following reforms it undertook during this period.

Starting a Business: India made ‘Starting a Business’ faster by merging the applications for the Permanent Account Number (PAN) and the Tax Account Number (TAN), and by improving the online application system. Mumbai also made starting a business faster by merging the applications for the value-added tax and the professional tax.

Dealing with Construction Permits: India made dealing with construction permits less cumbersome by implementing an online system that has streamlined the process at the Municipality of New Delhi and Municipality of Greater Mumbai. The online system has streamlined the process of obtaining a building permit, thereby reducing the number of procedures and time required to obtain a building permit in India.

Getting Credit: India strengthened access to credit by amending the rules on priority of secured creditors outside reorganisation proceedings and by adopting a new law on insolvency that provides a time limit and clear grounds for relief

to the automatic stay for secured creditors during reorganisation proceedings.

Protecting Minority Investors: There is positive relationship between greater protection of minority shareholders on the one hand and capital market development and access to equity finance on the other.

India strengthened minority investor protections by increasing the remedies available in cases of prejudicial transactions between interested parties.

Paying Taxes: India made paying taxes easier by making payment of employee provident fund (EPF) mandatory electronically and introducing a set of administrative measures easing compliance with corporate income tax.

Trading Across Borders: India reduced import border compliance time in Mumbai by improving infrastructure at the Nhava Sheva Port. Export and import border compliance costs were also reduced in both Delhi and Mumbai by eliminating merchant overtime fees and through the increased use of electronic and mobile platforms.

The earlier report stated that *“the economies that perform well on the trading across borders indicators also tend to have lower levels of corruption”*.

Enforcing Contracts: India made enforcing contracts easier by introducing the National Judicial Data Grid, which makes it possible to generate case measurement reports on local courts.

Resolving Insolvency: India made resolving insolvency easier by adopting a new insolvency and bankruptcy code, 2016 that introduced a reorganisation procedure for corporate debtors and facilitated continuation of the debtor’s business during insolvency proceedings.

While it requires almost 30 man days to start private limited company in India, similar procedure in New Zealand takes only half a day. A person needs to undertake 12 different procedures in India for starting a business, while there is a single integrated process in New Zealand facilitating the starting of a business.

Labour Market Regulations: Regulation is essential for the efficient functioning of labour markets and worker protection. Labour market rules can also potentially have an impact on economic outcomes. The collected data show that rigid employment regulation is associated with higher levels of informality. By contrast, weak labour market rules can result in discrimination and poor treatment of workers.

India increased the mandatory length of paid maternity.

Comparative Study

India’s score on each of these 10 parameters are as follows:

Sr. No.	Topic	India Ranking	1 st Rank Country
1	Starting a Business	156	New Zealand
2	Dealing with Construction Permits	181	Denmark
3	Getting Electricity	29	United Arab Emirates
4	Registering Property	154	New Zealand
5	Getting Credit	29	New Zealand
6	Protecting Minority Investors	4	Kazakhstan
7	Paying Taxes	119	United Arab Emirates
8	Trading across Borders	146	Denmark
9	Enforcing Contracts	164	Korea, Rep.
10	Resolving Insolvency	103	Japan

There are some interesting aspects we should note while doing a comparative study:

- While it requires almost 30 man days to start private limited company in India, similar procedure in New Zealand takes only half a day. A person needs to undertake 12 different procedures in India for starting a business, while there is a single integrated process in New Zealand facilitating the starting of a business.
- It takes more than 128 man days for dealing with construction permits in India while it involves around 28 days in Korea to get the same done. The number of procedures required for construction permit in India are 37 while in the best performer country Denmark, these are only 7.
- The report claims that it takes around 47 days to get electricity in Mumbai (45 days in Delhi) while it is just 10 days effort to get the same in United Arab Emirates.

- While it takes 53 man days in registering the property in India, the other 3 competitive economies do it in a day.
- When it comes to protecting the minority investors, the extent of shareholder governance index stands at 8.7 for India (on relative scale of 0 to 10) while the best performer Kazakhstan scores 9. India's score is relatively higher compared to that of South Asian countries having score of 5.3.
- Total tax and contribution rate as a percentage of profit is more than 55% in India compared to just 18.47% in other 33 best economies.
- The judicial process index helpful in measuring enforcing contracts indicator stands as 10 compared to Australia topping the chart with 15.50 having maximum score as 18.
- The recovery rate useful to measure ability of resolving insolvency is just 26.4 as compared to that of 93.1 of Norway (cent on the dollars).

The earlier Doing Business Report also appreciated the various continued efforts of Indian government in improving the ranking and it stated that *"the experience of implementing reforms based on Doing Business data has demonstrated to the government the significance of establishing clear stakeholder feedback mechanisms to close the gaps between policy formulation and implementation. Finally, the government has also acknowledged the need to implement reforms across the country—not just in Mumbai and Delhi, which are the cities covered by Doing Business. Lawmakers have recommended the implementation of a large number of reforms across all states, going beyond the scope of Doing Business."*

This report was based on a period before implementation of big bang reform of GST. Therefore, the next report should show further improvement in ranking. The initiative taken on implementation of Goods and Services Tax (GST) is not considered in above ranking considering the due date of this report which was just before its implementation. Further, the various other initiatives (like fixed term employment) that are moved regularly will have positive impact on the ranking going forward.

Inter Cities Comparison

In line with country comparison, 'Doing Business in India 2009' compared business regulations across 17

Indian cities. The report focused on local regulations that affect 7 stages in the life of a small or medium-size domestic enterprise –

- Starting a Business,
- Dealing with Construction Permits,
- Registering Property,
- Paying Taxes,
- Trading across Borders,
- Enforcing Contracts and
- Closing a Business.

This report was the first sub national report fully dedicated to India by World Bank Group. The city wise ranking for ease of doing business was as follows:

City	Rank	City	Rank
Ludhiana, Punjab	1	Mumbai, Maharashtra	10
Hyderabad, Telangana	2	Indore, M.P.	11
Bhubaneshwar, Orissa	3	Noida, U.P.	12
Gurgaon, Haryana	4	Bengaluru, Karnataka	13
Ahmedabad, Gujarat	5	Patna, Bihar	14
New Delhi	6	Chennai, Tamil Nadu	15
Jaipur, Rajasthan	7	Kochi, Kerala	16
Guwahati, Assam	8	Kolkata, W.B.	17
Ranchi, Jharkhand	9		

Though the report is dated, it does highlight the fact that differences in city and state-level regulations as well as the implementation of national-level regulations can enhance or constrain local business activity. There are major gaps in various national, state level laws which result in businessmen favouring one part of the country than other. The various states getting involved in arranging 'Investors Summit' in their states and boosting the confidence of investor community will add to this ranking.

Way Forward

It seems that India has a long way to travel in above rankings so that it becomes favourite destination for doing business. With a strong political stability in India for the time being, we do expect that the reforms will happen at greater speed than done previously and will improve the sentiments and actual business environment.

Government of the day deserves congratulations for improvement in ranking. Every achievement calls for celebration. But, we shouldn't rest on our laurels till we break into top 50. ■