An Analysis of the Reasons for India’s Low Rank in the Ease of Doing Business and Steps Being taken to Improve it

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Abstract: Ease of doing business is an index published by the World Bank and economies are ranked on their ease of doing business, from 1–190. Ever since the Modi government came into power in 2014, improving the ease of doing business in India has been a priority of the government and several steps such as bringing in the Companies (Amendment) Act 2015, liberalising FDI in various sectors, etc. have been taken in this regard. However, the 2017 EDB report saw very few improvements in the rankings with the overall ranking improving only by one place as compared to 2016 and the rankings in problematic areas such as dealing with construction permits, getting credit and resolving insolvency actually worsening. At present India’s overall EDB ranking is 130. This paper examines the reasons behind India still lagging in the EDB rankings while conducting a comparative analysis between India, the other developing nations and the leading countries in the different parameters. The primary objective is to understand the problematic areas better and to conceive solutions. It also describes the various steps taken by the government that are likely to improve the rankings and suggests changes that could help expedite the process.

Keywords: Ease of Doing Business, Business Environment, Government Regulations, Commerce, World Bank

1. Introduction

Ease of doing business rankings are published by the World Bank Group each year. The 2017 EDB rankings were published in the 14th annual report of the World Bank Group titled “Doing Business 2017: Equal Opportunity for All”. The report scrutinizes the regulations that determine the functioning of various business activities in 190 countries of the world thereby analysing if the regulations constrain the activities or enhance them. The organisation measures different areas and dimensions of laws and rules affecting the starting and working of a business. These are 11 in number. However not all of these are included in determining the ranking of a country and only ten are included. These are- “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” (“Doing Business 2017”, 2016). Various aspects of labour market regulation are also measured but are not used to determine the ranking of a country. It however, is an integral part of the report.

Initially, the Distance to frontier points are calculated for each economy under the different parameters mentioned above and the ease of doing business ranking of the nations is evaluated by sorting the average distance to frontier scores. The distance to frontier score is an absolute and it assists in understanding of the true level of performance over a certain period of time. The “frontier” serves as a measure of the best performance on each of the parameters throughout all the countries in the study’s sample since 2005. Distance of each country’s performance to this frontier is evaluated. As such, the distance or difference between the best performance and the given country’s performance can be seen at any point of time. This information can then be used to gauge the changes in the country’s performance and the business environment over time. In India, the organisation conducts the research in two cities- namely Mumbai and Delhi and then uses the information to measure the DTFs and later determining the ranking.

Every economy strives to have a business-friendly environment as it is crucial to the growth of the country. In this regard, the government of India has undertaken several steps to increase the ease of doing business in India. However, very little improvement was seen in the 2017 rankings as compared to the 2016 rankings.

<table>
<thead>
<tr>
<th>Area</th>
<th>2017 rankings</th>
<th>2016 rankings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>130</td>
<td>131</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>155</td>
<td>152</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>185</td>
<td>184</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>26</td>
<td>51</td>
</tr>
<tr>
<td>Registering Property</td>
<td>138</td>
<td>140</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>44</td>
<td>42</td>
</tr>
<tr>
<td>Protecting Minority Investors</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>172</td>
<td>172</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>143</td>
<td>144</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>172</td>
<td>178</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>136</td>
<td>135</td>
</tr>
</tbody>
</table>


It is evident from the table India’s overall ranking only improved by one place in 2017. India is currently ranked 130 out of 190 nations included in the study. This rank is far lower than the top 50 rank that Modi Government had envisioned for India. Although the government has been trying to take major steps to help improve this ranking- the data published by the World Bank

Volume 6 Issue 2, February 2017
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Group does not reflect many changes in India’s ranking since 2015. The parameters that are bringing down the ranking are enforcing contracts, paying taxes, dealing with construction permits and starting a business.

2. Literature Review

The various annual Doing Business reports have highlighted the importance of maintaining a business friendly environment in the economy as entrepreneurs are deterred by an environment with too many regulations. Therefore, they are either demotivated to pursue their ideas or they find a business friendly environment to carry out their business. “The Government needs to take important steps to reform the business environment of the country and to place the country on an equal footing with countries having encouraging, flexible, liberalised and a transparent business climate” (“Ease of Doing Business in India,” 2014). The 2017 report acknowledges the commitment made by India in trying to improve its regulatory environment so as to promote business activities.

According to the Economy Profile of India published by the World Bank Group- when governments are trying to improve the rankings of their countries, they need to start by finding out just how much difference exists between the different parameters in their nations and other nations. This is the reason why a comparative analysis has been undertaken in this paper.

“With India at 130th rank amongst the 189 economies of the world, it seems very hard for the government to achieve its target of being in the first fifty ranks in the next three years” time.” (Kaur, 2016)

Reforms have been made at the state level and as a consequence it is now easier for businesses to get electricity and pay taxes via the internet. But states still have to rationalise the licences and clearances required at the state level to start, operate and exit a business. The government needs to relook at the state of affairs if it seriously intends to make India the manufacturing hub of the world (Paul, 2015).

It is challenging to fix a certain rank as a target that India must achieve in the near future. However, if the nation wants to be able to achieve a better ranking then it needs to take action and try to have reforms in areas in which it is the most week (Gupta, Kapoor & Asudani, 2015).

India has been constantly lagging behind when compared to the rankings of the BRIC nations. Russia, China and South Africa occupy places in top 100 in these rankings. Even Brazil is at a 123 position which is significantly better than India’s.

3. Research Methodology

The present paper uses secondary data from reports of government and private agencies, surveys, journals, books, magazines, and websites to achieve the objectives of the research. The data collected from these sources is then analysed by conducting a comparative analysis between India, the BRICS nations as well as the leading country according to the Ease of Doing Business Rankings in the different parameters that have been identified as problematic. The comparative analysis helps in identifying the extent of improvement required in India to compete with other nations globally and to improve its position in the EDB rankings.

Research Objectives
1) To understand the key parameters that adversely affects India’s Ease of Doing Business Ranking.
2) Conducting a comparative analysis between India and the other BRICS nations and also against the leading countries to understand the difference between them in terms of the key parameters, namely enforcing contracts, starting a business, paying taxes and dealing with construction permits.
3) Developing an understanding of the steps taken by the government to improve the EDB ranking and to make suggestions thereof.
The key problem areas for India have been identified as such:

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Current Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dealing with construction Permits</td>
<td>Rank 185</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>Rank 172</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>Rank 172</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>Rank 155</td>
</tr>
</tbody>
</table>

4. Results/Discussion

Enforcing Contracts

This parameter measures aspects such as the time required to resolve business related disputes and the cost associated with the procedures required. It also measures the quality of such processes and of the judiciary. India has been consistently performing very poorly in this parameter and its current ranking is 172 as far as this indicator is concerned. This poor performance is due to the fact that extraordinary delays, complex filing processes and corruption are the common features of the Indian judiciary.

A comparison of the 2017 rankings of the BRICS nation indicates that India is lagging behind all the BRICS nations in this parameter. The leading country in this aspect in the world is Korean, Rep and has 84.15 percentage point score in the distance to frontier. All the BRICS nations have a score of more than 50 points. However, India’s performance is abysmal in this area.

With regards to the time taken in enforcing a contract, it can be seen that majority of the time is spend in trial and judgement and enforcement of the judgement. The time required for filing and service in India is significantly less and is same as that required in the leading country i.e. Korea. Thus, the time required for trial and judgement is a problematic area and this needs to be reduced.

With regards to the cost associated, a major chunk of the cost comes in the form of attorney fees which is much higher when compared to other nations. The problem area with regards to the quality of judicial process is case management. In all the other aspects India’s performance is good but it scores only a 0.5 on a 6 point index when it comes to case management.

The 2017 Doing Business report acknowledges only one reform undertaken by India to improve the enforcement of contracts. This refers to the reform wherein separate divisions were created for the resolution of commercial cases. However the government is taking different steps to help improve this aspect of the ease of doing business. These are:

1) As of January 2017, The Department of Industrial Policy and Promotion (DIPP) asked the law ministry to bring an ordinance to allow the government to open fast-track commercial courts in Delhi and Mumbai to improve India’s record in enforcing contracts. The Commercial Courts, Commercial Division and Commercial Appellate Division of High Courts Act was enacted in December 2015 for speedy and time-bound disposal of commercial disputes. However, according to the law a commercial court couldn’t be set up in a territory where the high court had jurisdiction over the commercial matters such as in Delhi, Mumbai, Kolkata and Chennai, which were presidencies or special administrative divisions during the British rule. The department of industrial policy and promotion (DIPP) wants to introduce the ordinance to amend this provision so that district commercial courts could also be set up in Delhi and Mumbai, the two cities.

The table shows the list of parameters used by the World Bank Group in ranking countries in terms of “enforcing contracts”.

The cost associated with it in India is one of the highest and the quality of judicial process is one of the worst- as seen by a 9 point score on an 18 point index. The time required for enforcing contracts in India is also one of the highest and is almost 3.8 years.

The table shows the list of parameters used by the World Bank Group in ranking countries in terms of “enforcing contracts”.

![2017 DTF points (enforcing contracts)](image-url)
that are used as samples for ranking India under the World Bank’s Doing Business report.

2) The government has been taking legislative and administrative initiatives on arbitration with an aim of minimizing court intervention, bringing down costs and fixing time limits for expeditious disposal. Arbitration is a type of ADR (Alternate Dispute Resolution) and is an important factor in ensuring speedy enforcement without the involvement of Courts. In December 2016, high level committee was set up by the government to recommend methods to make it more effective. This committee headed by B N Srikrishna (retired Supreme Court judge) has been given 90 days to submit its report. The mandate of the panel will be to analyse and review effectiveness of present arbitration mechanism, the facilities, resources, funding and manpower of existing ADR (Alternate Dispute Resolution) institutions. The high level panel will suggest measures for institutionalization of arbitration mechanism so as to make India a hub of international commercial arbitration and identify amendments in other laws that are needed to encourage International Commercial Arbitration (ICA). The committee will also devise an action plan for implementation of the law to ensure speedier arbitrations, recommend revision in institutional rules and regulations and advice empannelment of national and international arbitrators for time bound arbitral proceedings.

5. Dealing with Construction Permits

This parameter measures the procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system. According to the Doing Business Report- In areas where following building directions turns out to be too expensive in time and cash, numerous developers quit and where compliance is basic, direct and cheap, it is in an ideal situation.

Various aspects regarding the construction permits are measured for this purpose. The procedures that need to be complied with in order to construct/build a warehouse are recorded. The time taken to do so and the cost associated with it them is also measured. The procedure of calculating the ranking of a country in this parameter is the same as any other- first, the Distance to Frontier scores are calculated by measuring the various parameters and then the averages of DTFs are sorted.

New Zealand is the leading country in dealing with construction permits with a DTF point score of 87.40. Once again, as it is evident from the chart- India is lagging behind all the other BRICS nations in this parameter. India’s current ranking in this indicator is 185 out of 190 countries. This is India’s lowest ranking among all the 10 indicators showing that this is one of the most problematic areas for the government.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Ind.</th>
<th>Brazil</th>
<th>Russia</th>
<th>China</th>
<th>SA</th>
<th>NZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedures (Number)</td>
<td>42</td>
<td>19</td>
<td>14</td>
<td>22</td>
<td>19</td>
<td>10</td>
</tr>
<tr>
<td>Time (days)</td>
<td>164</td>
<td>400</td>
<td>229.5</td>
<td>274</td>
<td>141</td>
<td>93</td>
</tr>
<tr>
<td>Cost (% of warehouse value)</td>
<td>25</td>
<td>0.4</td>
<td>1.5</td>
<td>7</td>
<td>0.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Building quality control index (0-15)</td>
<td>12</td>
<td>9</td>
<td>10</td>
<td>9</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>

The problem areas in this parameter are the number of procedures required and the cost associated. The time required is less when compared to the majority of BRICS nations and India is doing well in the building quality control index as well (highest among the BRICS nations). However, the cost associated is extremely high when compared to the other nations. It stands at 25% of the warehouse value and the second highest figure is seen is China which is 7% and it is also significantly lesser than the cost in India. The number of procedures required is also almost twice the number of procedures in the other countries and more than four times the number of procedures in New Zealand. These two factors are responsible for India’s poor ranking in this parameter and they make dealing with construction permits difficult.

The Doing Business Report of 2017 acknowledged only one reform taken by the government in making dealing with construction permits easier. This is – “India reduced the time required to obtain a building permit by establishing strict time limits for preconstruction approvals.” The year of this reform was 2013 which only goes to show that during the time period between 2014 and 2017: the government hasn’t taken any serious steps with regards to this area.

In December 2016, the Government came up with an eight-point agenda to improve the ease of doing business ranking in India. One of the points on this agenda is related to improving the situation of dealing with construction permits. This point talks about government taking steps to reduce the number of procedures attached with obtaining construction permits and bringing it down to 8 procedures. If the government succeeds in achieving this number- it will lead to a significant jump in India’s ranking in dealing with construction permits. This will ultimately have a positive effect on the overall ranking of India.

Starting a business

This parameter measures the procedures, time, cost and the minimum paid up capital required in order to start a business (registration as a limited liability company). The report highlights the importance of making the process of starting a business easier by explaining that when the regulations relating to registration of a company are relaxed, more and more businesses come up in the formal sector. It
then explains the benefits of entrepreneurship to the economy by listing down points such as generation of employment and revenue.

As far as this parameter is concerned, India has a better ranking when compared to Brazil. However, it still lags behind the other BRICS nations. New Zealand is the leading country in starting a business. At present, India has a ranking of 155 out of 190 countries in terms of starting a business.

As it can be seen from the table, none of the countries under study have a paid-in capital requirement. This reform in India was only brought about in 2015 by the Companies (Amendment Act), 2015. Prior to this amendment the minimum requirements were Rs. 1,00,000 and Rs. 5,00,000 for a private limited company a public limited company.

The 8 point agenda that the government has come up with to improve India’s ranking in the Ease of Doing Business has two points related to improving the starting of business. These are:

1) An eBiz portal will be requisitioned for starting a business. The functions of the Ministry of Corporate Affairs (MCA) in relation with obtaining a Permanent Account Number (PAN), a Tax Deduction Account Number (TAN) and registration for Employee’s State Insurance Corporation (ESIC) and Employees Provident Fund Organisation (EPFO) will be included in this eBiz portal.

2) The ministry of corporate affairs, Central Bureau of Direct Taxes (CBDT), and the ministry of labour and employment will work and try to decrease the number of days to start a business and bring it down to a 4 (currently 26). They will also try to reduce the number of procedures required in order to start a business (currently 14).

Apart for these, the central government plans to reduce the number of days taken to start a business in Delhi or Mumbai and hopes to make it to just four, from the current average of 26 days. The department of industrial policy and promotion (DIPP) aims to do so via a combination of measures -- streamlining the application process, single-window clearance and more digitisation.

### Paying Taxes

This parameter measures the payments, time and total rate for an enterprise to comply with all tax laws and the post-filing processes. The information that is scrutinised in order to arrive at the ranking includes the taxes that a company in the country must pay in any particular year. The burden borne for payment of taxes and the postfiling process is also recorded. Data regarding the frequency of making the payments and information about the time required to adhere to the tax laws, the compliance of postfiling processes and the time spent in awaiting the completion of such processes is also recorded.

India is doing well as far as the time required for the procedure is concerned. However, improvements need to be made in the areas of the number of procedures required for registration and for the cost associated with it. Not only is New Zealand the world leader in this space but the table helps us develop an understanding of the extent to which the process of starting a business is streamlined and efficient. It just requires 1 procedure and less than 1 day to register a company. This serves as an important benchmark that the other nations must try to duplicate. Even the cost associated is very less.

The 2017 Doing Business Report covers 3 reforms undertaken by India to make starting of business easier. These are:

1) 2011- An online VAT enrolment framework was established the requirement to have a physical stamp was changed. An online one could be used in its place.

2) 2015- To ensure a more business- friendly environment, the registration fees was reduced. However, the requirement to file for a declaration prior to the starting of a business was introduced.

3) 2015- The minimum capital requirement and the requirement to obtain a certificate of commencement were removed.

### Paying Taxes

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Ind</th>
<th>Brazil</th>
<th>Russia</th>
<th>China</th>
<th>SANZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedures (Number)</td>
<td>14</td>
<td>11</td>
<td>4</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Time (days)</td>
<td>26</td>
<td>101.5</td>
<td>11</td>
<td>28</td>
<td>43</td>
</tr>
<tr>
<td>Cost (% of income per capita)</td>
<td>16.5</td>
<td>4.1</td>
<td>1</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Paid-in minimum capital</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

India performs better than Brazil in this parameter but still lags behind the other BRICS nations. Only India and Brazil have a score of less than 50 in the DTF points when compared to the other BRICS nations. The leading country is United Arab Emirates. Currently, India’s ranking in this indicator is 172 out of 190 countries.
The 2017 Doing Business recognises the following reforms undertaken by India to make the process of payments of taxes easier:
1) 2011- Fringe benefit tax was abolished. Electronic payment systems were also improved.
2) 2012- Payment of VAT and electronic filing was made compulsory.
3) 2017- A new electronic system was introduced for the payment of employee state insurance contributions.

These reforms have led to an improvement in this parameter and have made the process easier. The Central government has been working towards the implementation of GST in India and it is expected that the implementation of GST will smoothen the process of tax payment. The landmark regulation will remove a plethora of indirect taxes and establish India as a single unified market. It is expected to benefit the nation in many ways including making tax compliance easier. The true impact of GST, however, can only be assessed once the final tax rate is out.

6. Conclusion

A long road lies ahead of India in terms of improving on various aspects so as to be able to improve the Ease of Doing Business Ranking. Improvement in all aspects is required and needed, however- few areas that require immediate attention as summarised as follows:

<table>
<thead>
<tr>
<th>Broad Area</th>
<th>Fields to be improved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enforcing Contracts</td>
<td>Time taken for trial and judgement; Time taken for enforcement of judgement; Case management; Court Fees</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>Number of procedures to construct a warehouse; Cost to complete the procedure (% of warehouse value)</td>
</tr>
<tr>
<td>Starting a business</td>
<td>Number of procedures to start and manage a company; Cost required to complete each procedure (% of income per capital)</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>Number of payments per year; Postfiling index in terms of improving the time to comply with a VAT refund, refund’s receipt and adhering to corporate income tax.</td>
</tr>
</tbody>
</table>

Analysis of the table leads to the conclusion that there is need for improvement in the no. of required payments per year, total tax rate and the postfiling index. India has the most number of payments required to be made as compared to the other BRICS nations. The postfiling index is also the poorest for India suggesting that reforms regarding the time taken to adhere to a VAT refund, time required to receive the refund, time to observe a corporate income tax audit and to deal with subsequent audits need to be made and the time needs to be reduced significantly.

Although the government has expressed a strong desire to help India achieve a better ranking in the Ease of Doing Business Index and even declared it as a priority- it needs to take major steps to ensure reforms in these areas. Special attention needs to be payed to the “dealing with construction permits” parameter as the government hasn’t undertaken any major reforms in this area since 2013 and India has one of the worst rankings in this parameter (Rank 185).

The eight-point agenda put forth by the government for the purpose of improving the ranking needs to be implemented at a priority basis.

References


