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## Ease of doing business in India: A big ‘Unease’ for ‘Make in India’ programme

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### Abstract

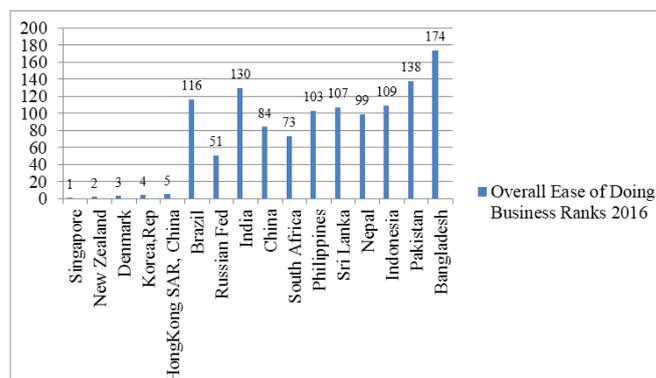
India is ranked 1<sup>st</sup> among the countries with promising prospects for business operations as per the JBIC Survey of Japan’s manufacturers (“Make in India: Opportunities and Challenges,” 2015, p. 3). The reason behind is the current size of its market and future growth potentials and also the low-cost labour availability. ‘Make in India’ campaign introduced in Sept. 2014 by Prime Minister Mr. Narendra Modi to uplift the performance of the manufacturing sector and to spur the job creation has also boosted the confidence of the domestic and the foreign investors. Several steps have been initiated by the government to attract the investment in India and to make it a manufacturing hub like easing the regulations, building the best infrastructure, reforming the labour laws and much more but, still India lags behind its competitors in ease of doing business with its 130<sup>th</sup> rank, out of 189 countries of the world as per World Bank’s Doing Business Report 2016. It is necessary to provide business-friendly environment to the investors. The present paper tries to identify the key issues that dampens the sentiments of the investors that need to be addressed to rebuild their confidence in India as a preferred destination for business and to make ‘Make in India’ programme a success.

**Keywords:** Manufacturing, Ease of Doing Business, World Bank, Labour, Make in India, Business-environment.

### 1. Introduction

A business-friendly environment is a pre-requisite for the growth of a nation. A favourable business environment makes a country a favourite business destination. It not only leads to employment generation but also help in the growth and development of an economy. But with 130<sup>th</sup> rank among 189 nations, there is a lot to be done to improve in order to attract the domestic and foreign investors. The efforts of the government to improve the unfriendly image of India have got strengthened with the launch of “Make in India” campaign. The Government has set the ambitious target of being in the first top 50 ranks in the next three years (“EY’s Attractiveness,” 2015, p. 43). In order to make India a manufacturing hub, it is highly imperative to improve the confidence of the investors regarding India. The elevated confidence demands ease in various factors affecting the business operations like ease in starting a business, dealing with construction permits, getting electricity, registering property, etc. These factors form a base for the World Bank’s rankings for ease of doing business. It is very disappointing that even after two decades of economic reforms, India is still lagging behind its competitors in BRICS countries.

**Table 1:** Overall Ease of doing business ranks of various countries (2016)



**Source:** (“Economy Rankings,” 2016, p. 1)

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The table shows Singapore getting the first rank in providing the perfect environment for the business followed by New Zealand and Denmark. It also shows India's comparison with other BRICS economies with Brazil at 116<sup>th</sup> rank, Russian Fed getting 51<sup>st</sup>, China at 84<sup>th</sup> and South Africa at 73<sup>rd</sup> rank and India being at the worst with 130<sup>th</sup> rank. India has a long way to go to provide the desirable business environment to the investors which is essential for the success of 'Make in India' campaign.

## 2. Literature Review

Indian government wants India to be a preferred destination for the investors. But India is looked down over the world as a country where the entrepreneurs have to face painful red-tape, corruption and unfriendly behaviour of the bureaucrats (Gupta, Kapoor, & Asudani, 2015). The right business regulations are the breeding grounds for good ideas that lead to creation of jobs and to better lives. But where the business regulations hinder the growth of the business, good ideas may never see the light of the day and important opportunities may be missed. Young entrepreneurs daunted by cumbersome regulations may opt out of doing business altogether or if they have the resources, may take their ideas elsewhere ("Doing Business 2015," 2014). In India there is no uniformity in the economic conditions. Moreover, the lengthy processes of approvals followed by the delay in introduction of major reforms and other unnecessary bureaucratic hurdles worsen the business sentiment in India. The central government has to take into confidence all the state governments to implement the policies to improve the business climate in India and to provide the investors the best of facilities to make India a preferred destination in the world (Saha, 2014). To maintain the growth of business, India needs to be a relatively attractive investment destination across each of these parameters. 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). Chandrajit Banerjee, Director General, Confederation of Indian Industry (CII) underlines the role of the State governments in this area that have acted positively in undertaking reforms to improve their ease of doing business. At the state level, some of the key reforms undertaken have made it easier for businesses to electronically register and pay taxes, obtain electricity connections more easily and have a simpler regime for inspections by labour and pollution inspectors. 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).

## 3. Methodology

The present paper investigates the challenges that an investor has to face in doing business in India. Secondary data from reports of government and private agencies, surveys, journals, books, magazines, and websites have been taken to support the points. The objective is to identify the key issues in the present framework that shakes the confidence of the investors in doing business in India and discuss the steps initiated by the government so far to provide the ease to the investors for making India a favourite destination.

## 4. Ease of Doing Business

The 'Ease of Doing Business' is a ranking ranging from 1 to 189 published by the World Bank based on various factors representing the ease with which a business can start, operate and exit from a country. The ease of doing business ranking compares economies with one another and indicates how much the regulatory environment has changed relative to a parameter in other economies. The ranks are generally given taking into consideration the time taken and the cost incurred by a company to complete the various legal formalities for each factor. The countries following inefficient, lengthy, cumbersome and expensive procedures in the entire business cycle get higher ranks (high numerical value). The smaller the rank, the better is the business environment. The ranks tell the position of a particular country with respect to the others and help the policy makers to suggest various measures to improve it.

### 4.1 Components of Ease of Doing Business:

There are ten components of ease of doing business. These include starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

**Table 2:** Ranking of Components of Ease of doing business of India amongst 189 countries (2015 and 2016)

Ranks/Year	2015	2016
Ease of doing business	134	130
Starting a business	164	155
Dealing with construction permits	184	183
Getting Electricity	99	70
Registering Property	138	138
Getting Credit	36	42
Protecting Minority interest	8	8
Paying taxes	156	157
Trading across borders	133	133
Enforcing contracts	178	178
Resolving insolvency	136	136

**Source:** ("Ease of Doing Business in India," World Bank Group, 2016, para. 3)

The table shows that India's ranks in only some parameters have improved in the last one year. There are only two factors which score rank below 50. A lot of ease is required in the areas of starting a business, dealing with construction permits, paying taxes and enforcing contracts as these factors are ranked above 150.

### 4.1.1 Starting of a Business

Starting a business in India requires 12.90 procedures, takes 29.00 days, costs 13.50% of income per capita ("Doing Business 2016," 2016, p. 17). Although ranking for starting of a business has improved over the last year from 164 to 155 after eliminating the minimum capital requirement and the certificate of commencement of business in both Delhi and Mumbai (p. 20) but still it is above 150. The reason behind such a poor rank can be the failure of the government to provide a one stop shop for application, procurement and clearance of various licenses. For example, in order to start a business there is a need to procure a bundle of clearances and licenses such as industrial license, compulsory license, environmental clearance license, factory license, shops and establishment license, import license, export license and central exercise license, trade license and various other types

of licenses depending upon the nature of business etc. (Saha, 2014, para. 3). The number of procedures, time taken and the cost incurred for starting a business in India are very high as compared to the other major economies of the world (CII). The average number of procedures for initiating a business is 7 among South-Asian Economies and it is 12 for India ("Why is India," 2013, para. 3). So the attention of the government is further required to make the process simple for starting a business in India.

#### 4.1.2 Dealing with Construction Permits

Dealing with construction permits is one of the major obstacles in starting a business in India. India has scored the poorest rank in this factor. In order to get the permit for the construction of a building, time and the lengthy process present a biggest constraint due to the presence of multiple departments and the processes of inspections, etc. Regulation of the construction sector is critical for the protection of the public. But too many constraints can lead to the payment of bribes not for getting green signals from inspections only but also to avoid the excessive costs for compliance to regulations giving way to hazardous constructions that put public safety at risk (Bhagowaty, n.d., p. 4).

**Table 3:** Dealing with construction permits-Comparison across BRICS Countries

Parameter	India	Brazil	Russian Fed	China	South Africa
Rank	184	174	156	179	32
Procedure (numbers)	25.4	18.2	19.8	22	16
Time (days)	185.9	426.1	238.4	244.3	48
Cost (% of warehouse value)	28.2	0.4	1.9	7.6	0.9

**Source:** (Gupta, Kapoor, & Asudani, 2015, p. 12)

The table shows the poor rank of India in BRICS nations indicating high unease in dealing with construction permits. There are around 26 procedures required to be followed and the cost is significantly higher as compared to the others.

#### 4.1.3. Property Registration

Registration of property is a tedious job in India. Huge portion of the value of property is charged in form of stamp duty by the government and then the charges made by the Sub-Registrar of Assurances bother the investors; not to talk of the lawyer charges and the fees of Land & Survey Office ("Top 10 Challenges," n.d., para. 8). Efforts have been made by the government towards reduction of the time consumed in the process to register a property, by moving towards an online system and 'anywhere registration'(KAVERI) in Karnataka, Computer Aided Registration of Deeds (CARD) in Andhra Pradesh and standardization of property documents in Rajasthan (Sarathi project). This process helps in the speedy registration with authenticity and security of the property as the records can be accessed online from anywhere through National Land Records Modernization Programme (NLRMP) ("Ease of Doing Business," CII, 2015, p. 2). Though some states have made initiatives towards the simplification of the process, yet there is room for further improvements.

#### 4.1.4 Getting Electricity

Every business needs dependable and affordable electricity. But in India there is a nationwide scarcity in terms of power generation. Here around 47% of the firms suffer from power cuts for more than 5 hours a week and about 60% of the firms are willing to pay more for continuous and reliable supply (Joumard, 2015, p. 26). The cost of getting electricity is relatively cheap in comparison to the rest of South Asia, but the number of procedures involved can discourage the investors. On an average, it takes more than one week to get an external site inspection and around three weeks to get externally connected and get the meter and installation inspections done ("Top 10 Challenges," n.d., para. 6). Although the government has reduced the number of procedures from 7 to 5 and days from 105 to 90, but still it is very far from Korea's with 18 days and there are 14 economies that have only 3 procedures ("Doing Business 2016," 2016, p. 12).

#### 4.1.5 Getting Credit

This is one of the two parameters that is ranked within first 50s. Getting credit in India is ranked at 42 in the year 2016. The credit has become cheaper with the lowering of the interest rates on larger loans. RBI Governor, Raghuram Rajan declaring the RBI's bi-monthly policy, cut repo rate by 50 basis points which made the nationalised banks to cut down the lending rates thereby making the loans cheaper (Nidhi, 2015, para. 9). Regarding the issue of getting credit in India, the World Bank report states:

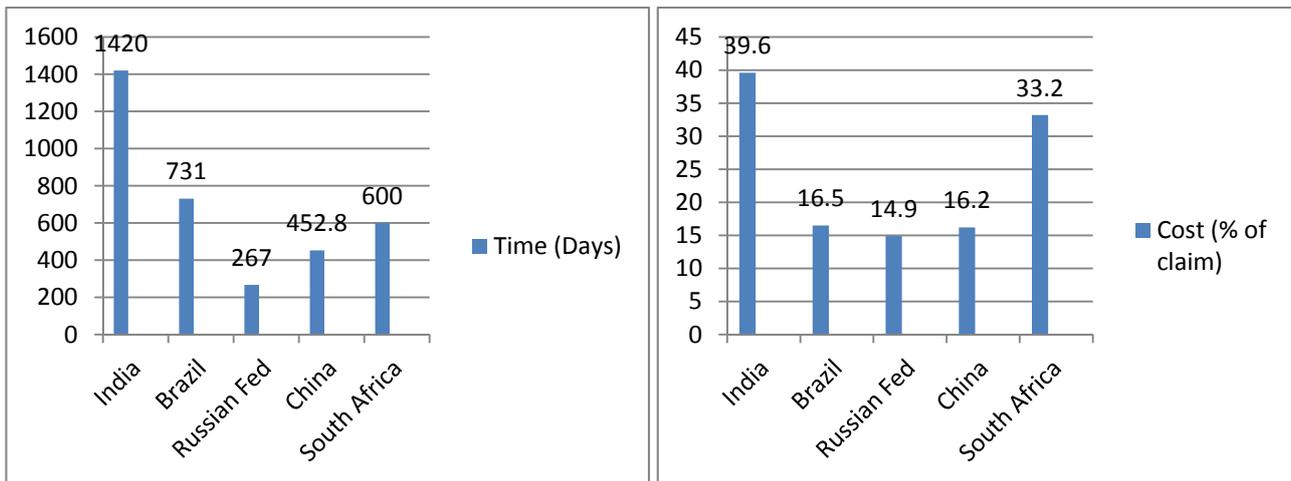
... In India a little over a decade ago, an entrepreneur seeking a loan to grow his business would have had little luck because financial institutions lacked access to information systems to assess creditworthiness. Today, thanks to the creation and expansion of a national credit bureau offering credit scores and coverage on par with those in some high-income economies, a small business in India with a good financial history is more likely to get credit and hire more workers ("India Fares Better," 2014, para. 5).

So getting credit is not a big deal in India and therefore provides a great ease to the investors.

#### 4.1.6. Contract Enforcement

This parameter scores very poor with 178<sup>th</sup> rank out of 189 economies of the world indicating the uneasiness in enforcing the contracts in India. Extraordinary delays, complex filing processes and corruption are the common features of the Indian judiciary. India's legal system has the largest backlog of pending cases in the world – as many as 30 million pending cases questioning the adequacy of the legal system (Gupta, Kapoor, & Asudani, 2015, p. 4). It takes 1,420 days to resolve a contract dispute. 39.6 % of the contract value is lost out of which 30% is paid out as fees to lawyers. Even after getting a judgment in your favour, it takes 305 days to enforce the judgment ("Enforcement of Contracts in India," 2013, para. 6). If a lawsuit aims at seeking damages, it may take almost 15 years to reach resolution ("Ease of Doing Business," CII-KPMG, 2014, p. 38).

**Table 4 and 5:** Showing time and cost of contract enforcement in India in comparison with other economies



Source: (Gupta, 2015, p.6)

The above table shows that the time required for the contract enforcement in India is almost double than in Brazil and about 7 times the time taken in Russian Fed. Also the cost of contract enforcement is the highest in India in comparison with other BRICS nations.

**4.1.7. Investor Protection**

Investor protection is the only parameter where India ranks in the first ten economies out of 189 economies indicating the best protection given to the investors. A report titled 'Doing Business 2015: Going Beyond Efficiency' states: "India strengthened minority investor protections by requiring greater disclosure of conflicts of interest by board members, increasing the remedies available in case of prejudicial related party transactions and introducing

additional safeguards for shareholders of privately held companies" ("India Fares Better," 2014, para. 4).

**4.1.8. Payment of Taxes**

Taxpaying in India is a tiresome businesses as companies in India have to make 33 tax payments a year, which consumes on an average 243 hours' worth of attention. The corporation tax rate in India is 30%, but companies have to pay indirect taxes in the form of central sales tax, dividend tax, property tax, fuel tax, vehicle tax, VAT and excise duty ("Top 10 Challenges," n.d., para. 11).India is rated poorly on the 'Doing Business 2014' paying taxes indicators; total tax rate, the time to comply and the number of payments. Of the 189 countries studied, India ranks 158 in terms of overall ease in tax payment ("Ease of Doing Business in India," CII-KPMG, 2014, p.2).

**Table 6:** Paying Taxes-comparison among different countries

	Payment (no. Per year)	Time (Hours per year)	Profit Tax (%)	Labour Tax and Contribution %	Other tax (%)	Total tax rate (% profit)
UAE	4	12	0	14.1	0.8	14.9
Qatar	4	41	0	11.3	0	11.33
HongKong	3	78	17.5	5.3	0.1	22.9
China	7	318	6.2	49.6	7.9	63.7
<b>India</b>	<b>33</b>	<b>243</b>	<b>24.4</b>	<b>20.7</b>	<b>17.8</b>	<b>62.8</b>
Brazil	9	2600	24.9	39.6	3.8	68.3

Source: ("Ease of Doing Business in India," CII-KPMG, 2014, p. 30)

The table illustrates that in India one needs to make around 33 payments in a year which is much higher as compared to below 10 in others. Again profit tax is around 24.4% which is very high as compared to just 6.2% in China. Though some measures have been taken by the government to reduce the formalities and reducing the administrative burden of paying taxes by abolishing the fringe benefit tax and by introducing mandatory electronic filing and payment for value added tax ("Doing Business 2016," 2016, p.104) but still a lot is required to ease the process. India has a bad name in indirect tax regime which is highly complicated as several taxes are charged such as sales tax, VAT, service tax, central excise duty etc. Moreover, there is no uniformity across the different states adding to the complexity and complications (Bedi, & Kharbanda, 2014, p. 681).

**4.1.9. Trading across Borders**

India ranks at 133<sup>rd</sup> place in its ease in trading across borders. Although it's new trade policy has not only abolished the export and import taxes on small volume of goods but also introduced various incentives for Export-Oriented Units (EOUs) and Export Processing Zones (EPZs) ("EY's Attractiveness," 2015, p. 16). But there are several formalities that have to be done and bureaucracy hampers the speedy completion of the process. Moreover, there are layers beyond layers of clearances that a company has to take involving a long list of papers that need to be filed ("Top 10 Challenges," n.d., para. 12). In the contemporary era of globalisation, the trade between the countries is becoming easier. So hampering the process by excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all add up to the extra costs and delays in exporters and importers, bringing

down the stifling trade potential (“Doing Business 2016,” 2016, p.109).

#### 4.1.10 Resolving Insolvency

India has a bad reputation in this matter as it is ranked 136 for resolving insolvency matters. It takes an average of 4.3 years in India against the average of 2.6 years in other South Asian countries. Speedy resolution to the matters of insolvencies helps in fast and increased returns to the creditors. But the situation in India is pathetic as it costs 9% of the debtor’s estate. The average recovery rate in India is 25.7 cents on the dollar (“Doing Business 2016,” 2016, p. 125).

#### 5. Conclusion

With India at 130<sup>th</sup> 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. This target gets fuelled after the launch of ‘Make in India’ campaign. The campaign has the targets of making India a manufacturing hub, raising the contribution of manufacturing sector’s share to GDP to 25% and creating more than 100 million jobs by the year 2022. This huge target is highly dependent on the foreign and domestic investments. But for attracting the investments, there is an urgent need of the business-friendly environment. Although, various steps have been taken by the government to improve the ease of doing business in India like simplification of regulatory compliance like getting online approvals for environment and obtaining licenses, removal of minimum paid-up capital requirement and introducing the single-step incorporation of the companies, etc. but these reforms are not sufficient to reach its target in the next three years. Also, the parameters scoring very poor ranks like starting a business, dealing with construction permits, paying taxes and enforcing contracts demand immediate attention. The government is required to follow the practices of the countries scoring good ranks in order to achieve the objectives of Make in India’ programme and become globally competitive.

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