

Ease of Doing Business Report (EoDBR)

➤ Introduction

- The EoDB is published annually by the World Bank. The index has been created to evaluate the impact of the economic policies/reforms implemented by the government in respective countries to promote and make it easier to do the business.
- The report is published after evaluating the performance of countries under eleven parameters (for this year's ranking, labour market parameter is not considered, hence this year's ranking is based on ten parameters). The data for the performance is collected through empirical research from government officials, lawyers, business consultants, accountants, other professionals. The parameters that are taken into consideration are
 - **Starting a business** - How easy are the procedures to start a new venture. The time, cost and minimum capital required are also considered
 - **Dealing with construction permits** - How easy is it to get permission to build a warehouse
 - **Getting electricity** - The ease of obtaining a permanent electricity connection for a newly constructed warehouse
 - **Registering property** - How easy and uncomplicated is the process of registering commercial real estate
 - **Getting credit** - The strength of legal rights index and depth of credit information index is studied
 - **Protecting investors** - Checks the various indices on the extent of disclosure and ease of shareholder suits
 - **Paying taxes** - Studies the number of taxes paid, hours per annum spent on filing tax returns and the total tax payable as share of gross profit
 - **Trading across borders** - How easy the process of export and import of products are in a country
 - **Enforcing contracts** - Studies the time, cost and effort required to enforce a debt contract
 - **Resolving insolvency** - Checks the time, cost and percentage recovery rate under bankruptcy proceeding
- Higher the score achieved by a country better will be its ranking
- The first report was published in 2003 (it was called as 'Doing Business' report, the ranking of countries started from 2006). Since its launch, more than 3500 reforms have been implemented across the countries. In this year alone (i.e. for 2017-18), there has been a peak of reforms with 314 reforms implemented across 128 economies. Indian government has implemented 37 reforms during this reference period

➤ Benefits of better ranking

- The image of the country in the global market improves. Govt has implemented as many as 37 reforms in the reference period and wants to evaluate the effectiveness of these reforms

- The government is taking steps to liberalise the business and these reforms are working
- It changes the image of the country in the eyes of global market into a favourable country to conduct business in
- The rankings are expected to act as a guide to investors to take/make decisions. Hence better the ranking in the report more the favourability
- The performance of GoI in terms of implementation of GST and will provide answer the question of how business friendly this reform is (GST was not considered for last year's ranking and this year's ranking too could not fully account for GST as the deadline for tax related reforms was 31st December and it had been just six months into the implementation of GST)
- The growth in industries has been averaging around 7% in 90s and increased to 7.4% in the last decade. At the end of it the manufacturing, export sector came under pressure because of global financial crisis. The government through better regulatory environment aims to attract the domestic and foreign investments into the manufacturing sector

➤ **India's and EoDB**

- India as per the latest report i.e. EoDB Report 2019, has jumped 23 places to be ranked at 77th position (last year it was ranked at 100th position), with a score of 67.23 (last year it was 60.76)
- The good run for India continued in the rankings as it has jumped from being ranked at 130th in EoDB 2015 to 77th in EoDB 2019 (out of 190 countries)
- India has performed very well under parameters such as - securing construction permits, trading across borders; and has had smaller improvements in in starting business and getting credit
 - For giving construction permits the time has come down from 144 days to 95 days in a span of a year also the cost associated with these has been slashed down from 23% to 5% of the building value. In case of Delhi, single window clearance has been started and in case of Mumbai a new online system has been launched
 - In case of cross border trading, the rank has improved from 146th to 80th. Last year importers spent around 264 hrs at the border which has been reduced to 97 hrs this year. In case of exporters the timeline shrunk from 106 to 66 hrs during the same time period. Apart from the above there has been an upgrade in port infrastructure, online documentation etc also have helped
 - In starting of business the rank improved from 156 to 137 as time taken to start the new company has come down from 30 days to 17 days, because of faster registrations on GST network and abolition of site inspections in Mumbai
- India has also on the other side not performed satisfactorily under some parameters
 - Its ranking in registering a property is 166th. It takes 69 days to register a property and costs about 8% of its value in India, whereas it costs half of this and taken just 20 days in case of OECD economies. New Zealand gets it done in a single day

- In case of paying taxes, the ranking is 121st in spite of implementation of GST
- India fares badly in enforcing the contracts at 163rd rank. It takes 1445 days and a cost of 31% of the claim to enforce a contract in India whereas in OECD economies it takes 582 days and a cost of 21%

➤ **Where India needs to improve**

- Though India has jumped 19 positions to reach 137th rank but it still takes 17 days to start a business, whereas it takes just 12 days in OECD
- IBC no doubt a very needed reform but it is still in the process of evolving. As of now there have been certain issues with its efficiency
 - The time period taken for resolution process has been more than what has been allowed under the code
 - Lack of supporting infrastructure
 - The dissenting financial and operational creditors have been approaching NCLT/NCLAT which has become a hurdle
 - The judiciary has been involved in interpreting many of the provisions of the law
 - Recovery of the debt still is on lower side
- Stabilisation of GST (the time taken to file tax returns has increased from 214 hrs to 275.4 hrs. There is a need to reduce this)
- Though government has brought into force an act for commercial courts, the report notes that the judicial system is very slow and it takes more than 4 years to enforce a contract
- In order resolve the issues related to enforcing contracts, the Govt has amended the commercial courts act and facilitated setting up of commercial courts in 250 districts. This may further improve the rankings in the coming year
- Acquiring land has become one of the biggest difficulties for the corporates in India because of lack a consolidated land acquisition framework
- India needs to improve the logistics infrastructure to ensure cost effective and efficient logistics. It will help in success of Make in India campaign
- The Global Manufacturing Index (by World Economic Forum) has ranked India at 30th place and has flagged human capital and sustainable energy as two challenges that India faces. In the aforementioned report, India has been ranked at much lower position compared to its competitors such as China, Thailand etc

➤ **Are the rankings effective? (under this Issues/Criticism/concerns have been discussed)**

- It covers only experience of small and mid-sized companies. It doesn't cover the proprietary and partnership firms
- Ranking just show comparison between the countries. A country's ranking might not exactly be reflecting the reforms it has implemented if
 - Reforms implemented by other countries are comparatively better
 - Improved performance may not always be reflected in the ranking. In the report of EoDB 2019, India's performance/score in all the 10

parameters has increased but its ranking has improved only in 6 parameters

- The reforms are not covered under these ten parameters
- Reforms are taken beyond the cut-off date
- The index considers only two cities in India - New Delhi and Mumbai. These do not represent the ground level situation
- The methodology for the calculation keeps on changing. So comparing the rankings over a period may not make much sense (methodological changes have been incorporated in 2019 report)
- More ease of doing business means more withdrawals of regulations. Does it mean that we are promoting a race to the bottom
- The investors take into consideration various other issues before making a decision to invest in any market such as potential growth of global trade, stability of the government, black swan events etc. the World Bank itself has stated that “While Doing Business is a powerful tool for catalysing reforms in business regulation the indicators are not used by policy makers as the only source in structuring reform programs,”
 - For the first time China has been ranked below 50 (i.e. at 46th rank) but has been one of the countries to consistently attract a huge FDI. here China is just one of the examples as there seem to be hardly any relationship between the ranking and inflow of investments
- The ranking does not reflect any kind of connection with the respective country’s economic growth. This disconnect between the ranking creates a dichotomy - should the investments be made to improve the ranking or long lasting reforms which will not only promote growth as well as improve the ranking in the long term. The experts are of the opinion that the government should focus on long lasting reforms rather than those will improve the rankings i.e. these must be the by-product rather than the target of public policy. The World Bank in its report has stated that countries that have done better on the rankings are not the ones who started out with the aim to improve their rankings but the ones which had larger reforms and economic competitiveness on agenda
- The rankings do not capture the real cost of doing business in the countries with large unorganized sectors (such as India), and the cost of production are different from larger formal companies
- Rather than the rankings in the index, the better measure of a country’s performance is the marks scored by it in “distance to frontier”
- The index fails at measuring the difficulties the businesses face in terms of raising liquidity, controls on internal trade, skilling/employability issues etc