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| Ease Of Doing Business in India The user’s Perspective | |
| Centre for Civil Society  *By Mayank Kumar, Student, Delhi University* |  | |

EXECUTIVE SUMMARY

The literal meaning of Ease of Doing Business is the ease with which an entity, can start and run and exit from a business. Every year the World Bank Group comes up with Doing Business rankings. Doing Business focuses on regulation that affects small and medium-size enterprises, operating in the largest business city of an economy, across 11 areas[[1]](#footnote-2).

The Doing Business project provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional level. It measures the ease of starting, operations and exit of a business by recording procedures officially required by an entrepreneur to start up and operate and close a business. Higher rankings (a low numeric value) indicates better usually simpler regulations for businesses.

Improving EODB rankings has been one of the primary focus of the current govt. in the country. Since 2014, the Government of India launched an ambitious program of regulatory reform aimed at making it easier to do business in India[[2]](#footnote-3) and has implemented several reforms in order to improve rankings. It aims to get into the top 50 rankings by improving regulations.

“Business” is the single most important factor for an economy. Businesses provide jobs, pay taxes to the government, contribute to GDP of the country and thus economic growth. India continues to rank low at 130th position in terms of ease of doing business, with the country seeing little or no improvement in dealing with construction permits, getting credit and other parameters.Out of the 10 parameters India has slipped in 5 of themThis by and large affects a large part of the society as it displays the inefficiency in central and the state government’s processes in other domains too.

Difficulty in doing and conducting business makes a direct impact in the economic growth and development of the country. In the past year, the Government of India has taken steps towards creating non-adversarial, business-friendly and more governance-oriented financial and economic environment in India. But the question that still rests is how these major effects have actually been able to make at the ground level. One of the primary reasons for this is because of the Central Vs State model. Ease in doing business in the government structure is a complicated matter. A lot of it doesn’t have much to do with the central government. A lot of discretionary powers at local levels, makes it difficult for businesses to navigate.[[3]](#footnote-4)

By and large being at 131st position in 2017 from 132nd position in 2009 also shows the low level of growth in EODB rankings. There have been several reforms initiated from the central government and some of them are working in the most effective manner but there are areas which need an immediate restructure to make the business environment more positive.

This Paper analyzes the actual state of ease in doing business from the entrepreneurs’ perspective. It focuses more on ‘the qualitative nature of the problems faced’ from the entrepreneurs point of view.

11 Areas:

1. Starting a business.
2. Dealing with construction permits.
3. Getting Electricity.
4. Registering property.
5. Getting Credit.
6. Protecting minority interest.
7. Paying taxes.
8. Trading across borders.
9. Enforcing contracts.
10. Resolving Insolvency.
11. Labour market regulation.

EODB rankings and score of INDIA over the years

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| --- | --- | --- |
| Year | Score | Rank |
| 2017 | 55.27 | 130 |
| 2016 | 53.93 | 131 |
| 2015 | 52.87 | 134 |
| 2014 | 50.34 | 134 |
| 2013 | 52.74 | 131 |
| 2012 | 52.41 | 132 |
| 2011 | 50.09 | 139 |
| 2010 | 48.77 | 133 |

RESEARCH QUESTION

The Paper aims to find out the actual state of the ease in doing business in the country from the stakeholder’s point of view. It tries to find out has the life of a businessman in regard of doing business become easy?

So the paper discusses the actual performance of the state mechanism in correspondence to processes that determine the state of ease in doing business in the country Also it tries to find out the efficacy of the government in the current sate with regard of EODB in India.

HYPOTHESIS

To know if there is actuallya large difference between what the government is trying to achieve by implementing reforms and what the actual state of EODB in India is. Also testing whether reforms in EODB have improved the environment of doing business in the country.

OBJECTIVES

* Cross verifying the change in business environment.
* Finding out if the current state has actually become easy for business.
* Documenting Experiences of entrepreneurs with regard to easiness or difficulty in running business.
* Finding specific areas of difficulty with regard to ‘Setting up and running a business based on Entrepreneur’s insight’ and coming up with recommendations accordingly.

RESEARCH METHODOLOGY: Stakeholders’ analysis for the research, method and collection of data

The research methodology requires gathering relevant data from the stakeholders and compiling them in order to analyze the state and arrive at a more complete understanding of the current state of ease in doing business in the country.

Primary Data: The data has been collected through questionnaires filled via Centre for Civil Society’s Ease of doing Business website.

The questionnaire aimed to find out the first hand experiences of people that they encountered while they were in different stages in their businesses. The data has been collected in order to figure out the present strata of the Business environment in Indian context.

Secondary Sources:

Articles on the concerned area collected through various reliable websites and journals.

LIMITATIONS

The complete project has been based in accordance with the entrepreneur’s experience that has been received from the filled questionnaires. No expert input is included in the data. The data is the first hand experience of the entrepreneur’s that they have encountered while they were at different stages of their businesses. Also the sample size taken is small (73) which may be inadequate in order to reflect the truest picture of the business environment. The data also does not take consideration of all the states and UTs but only 12 states. The size of the businesses is also one of the things that has not been considered while evaluation. They represent different sectors that mostly constitute small businesses. CHARTS ABOUT EXPERIENCES

Data at a Glance

The data below contains independent experiences of (73) people that they have encountered at entry, operational and exit stages while doing their businesses. The response primarily reflects that whether these people found it Easy to do businesses or not. Majorly it covers the response of people broadly on 4 POINTS namely (i) Response time of officials, (ii) Number of documents submitted, (iii) Availability of the Information about the process and finally the (iv) Overall Rating of the process.

The data collected includes responses from 22 cities from 12 different states. Out of which the majority constitutes from New Delhi (20- 27.4%) and Mumbai (15- 20.5%). The data shows that more than 3/4th (76.7%) of the respondents felt that it was not easy for them to do business (or they did not find the business environment conducive). The data contains responses from varied industries ranging from construction to education and media to manufacturing.

RESPONSES RECEIVED FROM THE QUESTIONNAIRE

Out of the total respondents (73), only 23.3%(16) of them felt it was easy to do business in India. 76.7% (57) of the respondents felt that it was not easy for them to do business.

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More than 85% (63) of the respondents felt that the response time of the officials was average or below average[[4]](#footnote-5) out of which more than 50% (37) felt it was bad or very bad. Only 13.6% (10) respondents felt that the Response time was good or very good.

More than 56% of the respondents rated (the no of documents to be submitted) it below average and only 7.7% of the respondents felt it was good or very good.

This is where the mechanism performs at its worst. Only 1 respondent out of 73 felt that the availability of information about the process was very good. More than 50% of the respondents felt that the availability of information was Very Bad. Less than 10% of the respondents felt that it was above average.

Overall not even a single respondent gave the best rating to the process. 20.5% felt that it was very bad. 41% of the respondents felt that it was bad, 31.5% felt that it was average and 6.8% of the people felt that it was good or above average.

The data received from the questionnaire contains respondents from 36 different industries. Out of the total the leading number of respondents are from industries such as Hospitality, IT, Education and Media.

MAJOR INITIATIVES BY THE CENTRAL GOVERNMENT[[5]](#footnote-6)

• Single Window Systems: Various States have created a dedicated bureau as a one-stop system for State level regulatory and fiscal incentive approvals. The online single window system has a provision for filing applications, payment, status tracking, online scrutiny and approval of applications. The officials of the Bureau have also been given powers to grant approvals.

• Tax reforms: States have made good progress in tax reforms. These include mandating e-registration for Value Added Tax (VAT), Central Sales Tax (CST), Professional Tax, Entry tax, etc. allowing online payment and return filing; providing e-filing support through service centers and helpline and risk-based tax compliance inspections.

• Construction permits: Many States have allowed applicants to apply online and upload building plans for automated construction permit approval. In addition, several states have developed AutoCAD-based systems that automatically scan building plans and monitor compliance with the building bye-laws and building codes in force.

• Environment and labour reforms: States have also implemented advanced automated solutions to deal with environmental and pollution related applications and approvals. These solutions provides hassle free, 24 X 7 e-access to businesses to apply online, track applications, file returns and statements and get online permissions under various Acts and regulations.

• Inspection Reforms: A number of inspection reforms with regard to labour, tax and environment related compliances have been introduced across the States to help businesses comply with inspection requirements in a user-friendly manner. To bring in transparency, the states have also published comprehensive procedures and checklist for various inspections and haveimplemented online systems for allocation of inspectors to increase efficiency and effectiveness of the procedure.

• Commercial disputes and paper-less courts: There has been significant progress this year in the area of judicial reforms compared to last year, particularly due to the passage of the Commercial Courts, Commercial Divisions and Commercial Appellate Divisions Act. To address the concern of time and costs associated with various legal processes, District Courts in various states have also made the provision of making online payments, e-filing and e-summons. Few States have also filled up vacancies in District Courts/commercial courts to ensure availability of adequate capacity for dealing with various cases

Conclusion

As the reports and data shows, it's still hard to set up businesses in India, to get construction permits, to register property and so on. In terms of rule of law, India is still saddled with corruption, poor order and security, poor record of fundamental rights, and opaque governance. It has been at this ignoble position for a long time, except that it moves up or down a few points, because the inherent weakness of the country does not seem to go away. As per now it stands below all the BRICS countries in rankings. Bright side with the is rankings that India has performed substantially in getting electricity for businesses and somewhat in enforcing contracts but out of all the parameters India has slipped in 5 of them and in three more there is status quo. The major issue persists with finding the actual problem at the ground level from the entrepreneur’s view and then finding solutions for them.

One of the main reasons for lack of improvement in business environment in the country is the availability of information available to people. Even from the sample space more than 90% of people felt that the availability of information was average or below average irrespective of them finding it easy or not easy to do business in the country. Most of the people who want to run a registered business have to move to a CA or a legal consultant just to get a knowhow of how to register the business and start with the initial process. Then again the cost that comes with this is a special add-on. With every license fee, registration fee and other fees that one has to pay there is an extra burden of the consultancy fee that has to be pais to these firms.

One of the other vital reasons for the slow improvement at ground level is the rampant corruption and the unprofessional attitude shown by the officials. The first hand experiences of the entrepreneurs show the story where the unprofessional attitude of these ‘sarkari babus’ is very clearly visible, even if they are just barely doing their jobs, most behavior emulates that they are doing a favor on the applicant. Corrupt nations tend to make business more difficult and complex and on the contrary transparent countries tend to make things easier for foreign or local investors[[6]](#footnote-7).There is a lot of lack of clarity in the process and also it is complicated and confusing for a normal businessman which again reflects why there is a lagging growth in the business environment. A CREDAI report says on an average it takes 2-3 years to start a project after land is acquired[[7]](#footnote-8) ; by this time cost of land rises by 24-30% due to hefty interest payments and this cost ultimately gets passed on to the consumer. Transparent, accountable processes and time-bound clearances can alone improve situations like these.

In spite of the reforms in the commercial disputes section there is a large impact that is yet to be seen in the ground. India still ranks at 172 out of 190 countries in enforcing contracts and is at 136th position in resolving insolvency. Insolvency law is in place but it will have to be looked that the system works efficiently. Bankruptcy laws are also on the good side but again it will have to be seen that it is in a user friendly structure. We have very good judgments but not good justice. The problem persists not with the acts but the efficiency of the judicial processes.

SOME DOCUMENTED RESPONSES

EASY TO DO BUSINESS

1. “The process itself was pretty straightforward - I wasn't made to run around. Not much, anyway - except the odd extra copies of my electricity bill. I did have a little issue with how the whole process is carried out. We could certainly do with a paperless process. It's also quite amazing how incoherent the government functions. On one hand, our Prime Minister wants to take things online and go digital, and try to get everyone to use online transactions. On the other hand, these government offices have rather weak internet connections, and really outdated software- Windows 98! These offices also did not have an option to pay by card - how do we conduct business, then? Everyone seemed a little fed up with the whole ordeal, frankly. Thankfully, the officials in McLeodganj were quite helpful, and didn't make me run around. They tried to get everything done by their own deadlines, and in two weeks, I had my own restaurant up and running. A big part went to the fact that these officials wanted to see business flourish in their small town. In fact, they had come for lunch just last week! It feels good to know that among all the experiences I've heard of (and read on the Ease of Doing Business website), there still are some wheels in the system who want the car to run.”
2. “The overall process of getting the registration and acquiring land for setting up a small unit that manufactures stationary was quite simple. I did not have to pay any bribe, though the waiting time was a little more than required. The office in Meerut was filled with people filing registration requests for the textile industry. Since I filed under a different department, my process was a little more smooth and streamlined. It took me a week to get my registration completed, and a another week and a half to get the land clearances completed. The location already had electricity and water connection, so we didn't apply for new connections. The officials, however, behaved as if they were doing us a big favour. They were just doing their job, but still had a bit of an ego about it. I did not appreciate that.”
3. “I own a digital marketing agency and run a small cafe in Hyderabad. We offer premium web services, branding, content creation (including promo videos, blogs, etc) and PPC management for e-commerce clients and product companies who want a premium look and feel. This is my primary business. Starting the business wasn't an issue at all. Andhra Pradesh is very conducive when it comes to start-ups, so I didn't have too much of an issue, though I did hire a CA to look after the process. Overall, didn't really have any problems.”
4. “I have a transport company of my own, and has been successfully running for nearly two years now. The setting-up took a bit of time, especially since the Himachal Pradesh police is a little prudent about your permits and such documents. But once I got it, it was a smooth sailing. I would say having someone who has the knowledge of the field is necessary and important- it helps to have someone who has established their business in the field. In my case, I had an uncle in the same transport business, so that helped me out immensely.”

NOT EASY TO DO BUSINESS

1. “Government offices are a massive, massive pain to deal with. Even a bigger pain is dealing with the officials. Huge lines, obscure offices, forms that sometimes exist and sometimes don't, always angry and lethargic staff. My co-founder and I spent an entire day collecting random forms, but in the end gave up and paid 5k to a clerk who got the job done within an hour.”
2. ”1) Bribe to complete registration of proprietorship. Didn't have to give bribe for registration of private limited company thankfully. 2) No clarity on taxes. For example, when you pay someone for a service, you have to cut 10% TDS. Now, if that person is Amazon and they are a MNC with offices in India and you pay them for their servers - do you deduct TDS? Amazon wants full payment. I talked to a dozen CAs and even a friend of mine in Indian Revenue Service, all of them had no clue. But they suggested me to pay the TDS just to be safe. So I had to pay Amazon the full amount and then 10% on top of that to Dear Govt of India. 100s of scenarios like this with no clarity. 3) Investment laws are a mess. Angel investments go straight into books of account as income and are taxed. God help you if you ever receive a FDI, I finally returned the money to the investor (it was 5 lakhs), as the amount of running around I had to do was not worth it for that small amount. 4) Terrible legal system- it's effectively a joke. An acquisition for one of my products fell through because the acquirer didn't want to make disputes subject to Indian jurisdiction in the contract because, in his own words, "the Indian legal system isn't held in very high regard here (Australia)" 5) High cost of doing businesses. My gateway charges a 5% premium (so 3%+5%) for Indian businesses, because of the increased costs of operation. So, while an American company can charge only 3%, I have to settle for 8%. So many other small little things - it's like death by a thousand cuts.”
3. “Information about all the procedures should be available online and should also be displayed on boards in the government offices. The government officials are rude, sometimes confused themselves and not very approachable. You have to bear the brunt. Government officials should be polite, have the required knowledge about the processes and should be helpful. Carry all the possible documents and hire someone who is well aware of the government procedures.”
4. “Bureaucrats are more often insensitive than not, and do not have the mentality of helping citizens. Rather, they have the mentality of making things as difficult as possible - they think their job is to make things more difficult for citizens. A lot of markets are controlled by guilds and associations of existing businessmen. They place a high cost of entry for new entrants, especially someone without connections in the business community. I experienced extortionate behavior by local working class people, goons, thugs and small time politicians/crooks. Bribes on the preface of "donations" for 100 different religious festivals a year are taken. There is a total lack of rule of the law and lawlessness. It is a utter failure on the part of the police and judiciary since they do not have the capacity to dispose cases in a timely manner. One needs to be careful and look out for extortionate,fraudulent and deceiving behavior by lawyers and some Charted Accountants.”

1. DB Report 2017 [↑](#footnote-ref-2)
2. <http://www.makeinindia.com/eodb> [↑](#footnote-ref-3)
3. Sri Rajan, Chairman, Bain &Co said <http://www.business-standard.com/article/economy-policy/corruption-contract-enforcement-major-hurdles-for-ease-of-business-116100600879_1.html> [↑](#footnote-ref-4)
4. 1- Very bad, 2- Bad, 3- Average, 4- Good, 5- Very Good [↑](#footnote-ref-5)
5. Lu786.pdf [↑](#footnote-ref-6)
6. <https://www.researchgate.net/profile/Jorge_Mongay/publication/269576870_Are_corruption_and_the_ease_of_doing_business_correlated_An_analysis_of_172_nations/links/548fac1e0cf2d1800d862975.pdf> [↑](#footnote-ref-7)
7. <http://www.rednewswire.com/ease-of-doing-business-real-estate-strangled-by-bureaucracy-and-corruption/> [↑](#footnote-ref-8)