

What should Punjab do to be #1 on Ease of Doing Business in India?

Centre for Civil Society

Doing Business Report 2016 by the World Bank analyzes the performance of 189 economies on several parameters such as starting a business, getting electricity, registering property, paying taxes, trading across borders, etc. This report shows that the best performing economies on the ease of doing business indices have regulations that allow businesses and markets to function efficiently and transparently while simultaneously protecting public interest. Economies with high ease of doing business rankings also perform well on other international parameters such as Global Competitiveness Index and Transparency International's Corruption Perceptions Index.

The World Bank has placed India at rank 130 out of 189 economies in 2016. This is an improvement over 2015 when India was placed at rank 134. The Department of Industrial Policy and Promotion ("DIPP") in the government of India as well as international organizations such as the World Bank group have been conducting analysis of the performance of various Indian states on the ease of doing business parameters from time to time. Punjab's performance on these parameters is given below.

Punjab's earlier position on the ease of doing business indices

The World Bank and International Finance Corporation in the Doing Business in India 2009, Subnational Series report, compared 17 cities and 181 economies. Ludhiana was chosen from Punjab for the analysis and the following rankings were arrived at:

- Doing business was found to be the easiest in Ludhiana compared to 17 other cities in India such as Kochi (Kerala), Kolkata (West Bengal), and even Mumbai (Maharashtra).
- Number of tax payments to be made was only 59 in Ludhiana among other cities such as Mumbai and Bengaluru compared to a high 78 in Hyderabad. Overall rank 1 out of 17 in ease of paying taxes.
- Rank 2 out of 17 in ease of closing business
- Rank 4 out of 17 in ease of enforcing contract
- Rank 7 out of 17 in starting a business in Ludhiana and dealing with construction permits
- Number of procedures to register property was only 4, giving Ludhiana a rank of 11 out of 17 in ease of property registration
- Rank 12 out of 17 in ease of doing export/import transactions

Actions taken by the State government and best practices implemented

Accenture in its report in 2014 titled *Best practices to improve the business environment across India* identified the following positive features of the ease of doing business scenario in Punjab:

The single window clearance mechanism for registration under the Factories Act, 1948 followed in Punjab has been identified as a best practice. Under this system, all proposals are disposed of within 3-4 weeks by the Punjab Bureau of Investment Promotion headed by a Chief Executive Officer who is empowered by all departments to provide the requisite approvals. This Bureau processes applications received through the Invest Punjab website. Deemed approval is given to investors if the concerned departments do not give approval within the specified timeframe.

There is a single window online portal as well called “Udhyog Sahayak” which allows investors to track approvals. Clear cut timelines for each and every service are specified. A separate committee also looks after the entrepreneurs’ problems apart from the new proposals. A 24X7 toll free helpdesk number for investors has also been provided. Punjab has also been found to be the only state in which the single window system allows applications for all licenses.

The Assessment of State Implementation of Business Reforms, conducted by the World Bank in September 2015 (“State Assessment Report”)¹ ranked Punjab as the best performing state on the parameter of setting up a business with a score of 81.48% against national average of 31.91%. This is evident from the keenness of South Korean companies to invest in Punjab.²

Punjab’s performance on other parameters is outlined below:

- Complying with environment procedures: score 70.37% against national average of 31.61%. Punjab exempts green industries from pollution control board clearance

¹ This Report analyses the reform measures taken and best practices implemented by the states during the period between January 2015 and July 2015.

² “South Korea keen to invest in Punjab: Envoy”, NDTV news, Aug. 20, 2015, available at <http://www.ndtv.com/india-news/south-korea-keen-to-invest-in-punjab-envoy-1209310>.

prior to setting up of business. It also offers robust online solutions with downloadable and verifiable certificates for consent to establish and consent to operate under the Water Act. Detailed information on processes, documents and checklists for applications under the Air Act and Hazardous Waste authorizations is also made available online.

- Labour regulations: clear timelines, comprehensive list of all documents, downloadable and verifiable approval certificate are provided for registration under the Shops and Establishments Act.
- Infrastructure related utilities: Timelines for electricity, water and sewer connections are clearly defined. Automated processes of electricity department for new connection, extension of load, etc. are available. The system also automatically tabulates fees and charges and enables payment through various mechanisms. Punjab is also a power surplus state now with increase in capacity from 6,205 MW in 2007 to 11,664 MW in 2015.
- Pollution: Punjab has implemented an online consent management system with fee calculation and payment functionality.
- Connectivity: good road and air connectivity, 5 airports in the state, Punjab has tied up with Reliance Industries to position itself as India's first state to have 4G connectivity in every village and town by 2016.³

Persistent shortcomings

According to the State Assessment Report, Punjab has an overall implementation score of 36.73% on the 98-point action plan laid out by the DIPP,⁴ at rank 16 with a status of "acceleration required".⁵ The top ranking state Gujarat has an overall implementation score of 71.14%, nearly double than that of Punjab. Punjab's performance, hence, clearly needs a fast-paced improvement.

The following can be identified as areas of improvement, as Punjab does not have a top-5 rank in any of these:

³ "How Punjab is wooing investors at a time when the law and order situation has hit rock bottom", Economic Times, Nov. 1, 2015 available at <http://economictimes.indiatimes.com/news/politics-and-nation/how-punjab-is-wooing-investors-at-a-time-when-the-law-and-order-situation-has-hit-rock-bottom/articleshow/49609782.cms>

⁴ This plan was drawn up in February 2015 after consultations with chief secretaries of all states.

⁵ These are states with overall implementation status between 25% and 50%.

- allotment of land and obtaining construction permits
- lack of sufficient information on the procedure to obtain consent to establish under the Water Act.
- Complying with labour regulations
- Obtaining infrastructure related utilities
- Registering and complying with tax procedures
- Carrying out inspections such as minimum wages inspection, shops and establishment inspection, factories act inspection, building plan inspection
- Enforcing contracts and setting up e courts

Suggestions for being #1 on ease of doing business rankings

The DIPP has brought out the *Business Reform Action Plan 2016 for States/UTs: Implementation Guide for States*,⁶ in December 2015. Suggestions for improvement of Punjab can be extracted from this report as follows:

Area of reform	Reform measures to be taken
Land use and allotment	<ul style="list-style-type: none"> ✓ Punjab has created pre-cleared land banks for industrial use and investors can apply for them through the Invest Punjab website. To ensure more effective and targeted enquiry, investors must be allowed to filter the data on land banks according to the type of industry permitted to be established on the land. ✓ Punjab has a GIS system which is also used for land use/cover mapping, but no information is available on whether the GIS is being used to earmark land for industrial use and whether it provides information on road, water pipelines, etc. ✓ Establish dedicated conflict resolution mechanism for disputes relating to land allotment.
Property registration	<ul style="list-style-type: none"> ✓ Make available a format of model sale deed for property registration on the website of the state land department if not done already. ✓ Complete digitization of land records as is being supervised by the Punjab Land Records Society, make them available online

⁶ This guide has been issued for the purpose of further facilitating the states in implementation of the 98-point action plan issued by the DIPP.

	<p>and enable use of e-stamps. Integrate this land record database with judicial and mortgage databases to provide a full picture of encumbrances on the property.</p> <ul style="list-style-type: none"> ✓ Design and implement a system for online payment, registration, downloadable and verifiable certificate and seamless tracking of applications regarding property registration. <p>Best practices in this regard can be followed from the state of Gujarat where a land record management system called e-Dhara has been conceptualized to promptly provide computerized record of rights. The Gujarat Industrial Development Corporation (GIDC) is also empowered to negotiate with land providers with minimum direct governmental intervention.</p> <p>A PPP model is also followed in Gujarat. GIDC assists the industry in land acquisition and government, GIDC and private promoters contribute in developing critical infrastructural facilities on the land.⁷</p>
Construction permits	<ul style="list-style-type: none"> ✓ Use software such as AutoCAD for online verification of building plans to automatically scan these plans and monitor compliance with building bye-laws and building codes in force. ✓ For large buildings, integrate inspections by various government agencies into one single or joint inspection as being done in Madhya Pradesh, Maharashtra and West Bengal. ✓ The approval procedure of the building plan along with a comprehensive list of all documents must be made available on the website. Clear timelines must be provided for the approval. ✓ Online system for application and payment without the need of a physical touch point must be made available. The approval certificate must be issued online in a downloadable and verifiable format. All these best practices are followed in Andhra Pradesh and Madhya Pradesh.
Compliance with Environmental	<p>As mentioned earlier, Punjab has an implementation score of 70.37% on this parameter. Its consent management system offers online availability of a comprehensive list of all documents related to</p>

⁷ Report by CII and KPMG titled *Ease of Doing Business in Northern Region: A Survey*, 2014, available at <http://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/Survey-Ease-of-Doing-Business-in-Northern-Region.pdf>.

<p>procedures</p>	<p>environmental approvals and provision for online application and payment without the need for physical touch point. Approval certificate is also issued online in a downloadable and verifiable format.</p> <p>To have an implementation score of 100% as is the case in Gujarat, the following steps must be taken:</p> <ul style="list-style-type: none"> ✓ Allow auto renewal for both consent to establish and consent to operate licenses based on self or third-party certification. ✓ Offer extended validity of minimum 5 years as done by states like Gujarat, Rajasthan and Odisha.
<p>Compliance with Labour regulations</p>	<ul style="list-style-type: none"> ✓ Mandate submission of a single integrated return for all labour laws. Ensure information on the procedure and comprehensive list of all documents under various labor laws such as the Factories Act, 1948, the Indian Boilers Act, 1923, the Contract Labour (Regulation and Abolition) Act, 1970, the Building and other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996, etc. is available on the website. ✓ Define clear timelines through legislation for approval of completed application. Allow third parties to easily verify approval certificates in the public domain. ✓ Introduce provision for issuing factory license and subsequent renewals with validity of 10 years or more. <p>Best practices in this regard can be followed from Maharashtra which has created a one-stop shop for implementation and integration of all labour laws. E-services to businesses are provided through maintenance of electronic records and creation of labour database. Dedicated online complaint window for businesses as well as labourers for grievance redressal has also been set up.</p>
<p>Registering and complying with Tax procedures</p>	<ul style="list-style-type: none"> ✓ Punjab allows filing of online returns for VAT and CST. This facility needs to be extended to other taxes such as entry tax, luxury tax, entertainment tax and professional tax. ✓ The final signed approval certificate should be downloadable online and verifiable by third parties in the public domain. ✓ VAT refund payments must directly come into the organization's account within 60 days as is the practice in Andhra Pradesh, Madhya Pradesh and Rajasthan. ✓ Implement a system whereby business entities are issued a single ID for all state taxes such as VAT, CST, entertainment tax, luxury tax, etc.

	<ul style="list-style-type: none"> ✓ Tax certifications such as VAT registration certification and final professional tax registration certification must be mandated to be issued within 1 working day from the date of submission of the application form. ✓ Introduce a system of advance ruling on state level taxes similar to the procedure under the Income Tax Act. <p>Best practice from Karnataka can be followed in this regard. Karnataka has undertaken comprehensive automation and process re-engineering in taxation procedures through initiatives such as e-registration, e-way bill, e-payment and e-returns. All services such as registration for various taxes, filing returns, payment, receiving registration certificates, etc. are made available through the electronic mode.</p>
Carrying out inspections	<ul style="list-style-type: none"> ✓ Inspection requirements should be differentiated based on the risk profile of all industries under various labour laws. ✓ Low risk industries with a history of satisfactory compliance should either be exempted from inspection or self certification should be accepted. ✓ For medium risk industries, instead of departmental inspections, allow third party certifications under all labour and environment/pollution laws. ✓ Synchronized/joint inspection must be allowed under all the 10 labour laws including the Factories Act, 1948, the Maternity Benefit Act, 1961, the Minimum Wages Act, 1948, etc. as is being done in Gujarat, Haryana and Madhya Pradesh. <p>Best practices in this regard are being followed by Gujarat and Jharkhand. These states carry out unified inspection which helps businesses in complying with inspection requirements in a user friendly manner and saves time and cost. Several checklists on various inspections have been introduced to bring in transparency. These states have also introduced online systems of allocations of inspectors to increase effectiveness and efficiency of inspections.</p>
Dispute resolution for commercial contracts	<ul style="list-style-type: none"> ✓ Set up a specialized division for hearing such disputes at the high court and district court level. Fill up vacancies of judges and other court staff. ✓ Publish model templates for commercial contracts and agreements.

	<p>✓ Use techniques such as pre-trial conferences for case management. Clear timelines for examining witnesses is needed. Court-appointed expert should be used in commercial cases.</p>
Paperless/e-courts	<p>Design and implement a system to allow e-filing, e-summons and e-payment of court fee and process fee in the cases of commercial disputes at the high court/district court level. This system must also allow digitally signed court orders to be issued online.</p> <p>Best practices in this regard can be followed from Maharashtra which allows online payment of court fees and Sikkim which has introduced digitally signed court orders.</p>