Ease of doing business in India

Nirupama Soundararajan considers the methodology the World Bank uses in the Ease of Doing Business reports, and looks at some of the limitations

Recently there was some controversy surrounding the World Bank's methodology of *Ease of Doing Business* (EoDB) indicators. The case of India was discussed as an example. It has been suggested that the World Bank changes its methodology of calculation to suit the narrative of a particular kind of political campaign/ideology.

To prove this argument, this article uses the 'old methodology' of computing India's rank instead of the new methodology to show that there is in fact no significant jump in the rankings. This argument is further corroborated by the fact that investments in India, despite a significant jump in rankings, has not shown any remarkable increase. The latter is indeed a profound truth, but to assume that the rankings are merely a number and not the reality, only because investments have not grown, is over simplification of a more complex issue.

In today's global order increasing protectionism and general state of global economy, not to mention many other domestic limitations beyond ease of doing business, play a significant role in determining private investment. This is not to say that the World Bank's approach is perfect; it certainly has its limitations.

For instance, the World Bank only considers a couple of cities in each country and it is on the basis of the performance of these cities that a rank to the country is attributed. In the case of India, the rankings are based on doing business in Mumbai, the financial capital of India, and New Delhi, the national capital of the country.

Mumbai is the largest recipient of inward foreign direct investment (FDI), but this has also been attributed to the 'Mumbai effect.' Most companies have their head offices in Mumbai. So any FDI that comes into the country, irrespective of where the money is actually invested, is attributed to Mumbai since the company's head office is in Mumbai.

On the one hand it makes intuitive sense to consider these two cities, especially Mumbai. Having said that, the performance of Mumbai does not necessarily reflect the performance of other cities within the same state of Maharashtra, much less rest of India. The Indian government has been cognisant of this limitation.

Every year since 2014, the Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce and Industry, in collaboration with the World Bank, has been releasing a comprehensive list of reform measures known as the Business Reform Action Plan (BRAP) for all state governments and union territories (UTs) to implement.

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The BRAP framework measures the state governments' and UTs' reform performance against a little over 400 recommendations on regulatory processes, policies, other practices and procedures spread across twelve broad reform areas.

These are labour regulation enablers, contract enforcement, property registration, inspection reform enablers, single window system, land availability and allotment, construction permit and environmental registration enablers, obtaining of utility permits, paying taxes, access to information, and transparency enablers.

The DIPP also conducts an input-based survey, seeking responses from state governments and UTs to assess the on-ground impact of any reform undertaken, and calculates the rankings of the states and UTs based on their implementation score.

Even though the state governments and UTs have been proactive in the implementation of these reforms, they have not necessarily led to any significant increase in either private and foreign investment or a growth in gross state domestic product (GSDP) of all states. In fact there is very little literature to suggest that an improvement in EoDB rankings for any country has led to any significant increase in investment or GDP.

The biggest drawback to even such an elaborate framework as DIPP's BRAP is that it approaches ease of doing business in a very unidimensional one-size-fits-all manner, when in fact, a more nuanced approach may actually lead to more visible outcomes.

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The socioeconomic landscape of each state is different from the other. Some states are agricultural states while some rely on manufacturing or the services sector to propel GSDP. A uniform approach to EoDB reforms will therefore have the desired effect only on few states, for the rest the reforms even if implemented completely may have little or no effect on their GSDP. For India as a whole it is almost a zero-sum game. To negate this, there are two alternative approaches to ease of doing business that India could adopt.

First, reform areas can be identified on the basis of a detailed cost benefit analysis for the state. An excellent example is the India Consensus Project for the Indian state of Rajasthan. The project was focussed on identifying interventions as part of the ease of doing business framework that would generate the most benefit for the state economy.

Pahle India Foundation's study identified improving land records, specifically, conducting fresh round of land surveys and subsequent digitisation of land records, as a two-part reform that could potentially create exponential positive externalities. Our study found that every INR (Indian Rupee) 1 spent on surveying and digitising cadastral maps, leads to an additional benefit of INR 12 for Rajasthan's economy.

This was found to be true for other states too. Every INR 1 spent led to a benefit of INR 14 for Bihar, INR 16 for Uttar Pradesh, INR 20 for Telangana, INR 23 for Maharashtra, and INR 31 for Tamil Nadu.

Amongst almost fifty other interventions for ease of doing business identified, digitisation of land records had the second highest benefit score. From an implementation point of view, this means that Rajasthan should ideally prioritise reforms in this area, in terms of both resource allocation and importance, for more visible growth in the state.

The second is to approach ease of doing business by sector and not by state. Each state would easily be able to identify three to five sectors that are of either economic or strategic importance to them. Under the current framework, even successfully implemented reforms typically affect a part of a whole chain of regulatory procedures. So while a couple of processes may have been 'eased,' other aspects of regulation remain as they were.

A classic example is that of a single window clearance system. In the BRAP framework, the single window clearance system has been given priority. Most states have in fact claimed to have implemented the same. However, a single window clearance has been implemented for most companies wanting to start a business, and that too only for those approvals that are required to register a company. Ideally a single window clearance system should be available for all regulatory approvals for every sector, irrespective of whether they are beginning operations, or they are businesses already present.

Approaching regulator procedures in silos also does not take into account the impact of lack of ease of doing business in one sector on the other. For instance, if the input sectors for any industry continue having trouble with their ease of doing business, the output sector in the same value chain will also face difficulties. Hence the second approach to EoDB has to be one that looks at integrated industry value chains.

The objective of easing doing business is to attract more private investment. Currently the Indian banking sector has been going through turbulent times and hence has affected growth of private investment. Foreign investment on the other hand has been coming in steadily in certain sectors like e-commerce.

Phase two to BRAP which should ideally be a combination of approach one and two. Developing economies are constantly trying to find the perfect balance between funding social welfare and economic development. A cost benefit analysis will help in prioritising.

The second approach will have more tangible benefits for industries that are already doing business and provide the necessary impetus to private investment. The initial phase of EoDB has been successful because the states have realised the importance of these rankings. It is now an ideal time to move to phase two for realising the real outcomes. ■

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