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November 8, 2016 | Saurabh Chandra (<http://www.infracircle.in/author/saurabhchandra/>)

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Ease of doing business: Long haul ahead



Regulations have a significant role in shaping the perceptions of investors.

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he 14th edition of the World Bank's *Doing Business Report 2017* was released in the last week of October 2016. The report ranked the ease of doing business for 190 economies measured across 10 parameters—starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

Though this index is based on the state of implementation of a small sub-set of central and state regulations in the cities of Mumbai and New Delhi, it influences the flow of foreign investment to India.

This report was keenly awaited by the government of India. It was expected India's rank would significantly improve—especially in areas such as resolving insolvency, trading across borders, payment of taxes and enforcement of contracts—to reflect the effect of reforms undertaken after publication of the previous edition of the report.

Disappointment followed. Based on a comparison of business regulation for domestic firms across 190 economies, India was ranked 130 (an improvement of one position over last year), which practically dashed its aspiration of achieving the 50th rank by 2018.

Regulations cannot be wished away. They have a significant role in shaping the perceptions of investors. Every country sets boundaries within which enterprises have to function. These boundaries are determined by regulations. No regulation is written in stone, since there is no scientific way to determine boundary conditions. Regulations should, however, stand up to the test of efficiency, transparency and easy compliance. The success of the regulatory framework has to be measured by outcomes such as growth with distributive justice, productivity increases, a climate which nurtures innovation, and a large and growing formal sector.

The regulatory exercise is essentially political in nature and reflective of extant acceptable values. The moral values behind a regulation determine its legitimacy. An example will illustrate this. Though there is general acceptability of non-tariff barriers, free movement of labour is vehemently opposed by the strongest votaries of free trade and services.

Significantly, the objective which drove the World Bank to create this index in 2004—building pressure for improving the efficiency of government and lowering the regulatory burden for starting, running and closing a business—seems to have largely been achieved. However,

transforming the ground realities to build a level playing field for doing business over the life cycle of an enterprise would entail concerted and sustained action for comprehensive and pervasive reforms, far beyond what is measured and reported in the World Bank Report.

Realising the limitations of the World Bank exercise, in December 2014, the government of India got the states on board to implement a 98-point plan to improve the regulatory framework in their respective jurisdiction. The first report published in September 2015 assessed the progress of implementation by ranking states in order of merit. The second detailed report containing an assessment of implementation of 340-point business reform action plan spanning 10 areas is slated to be published in November 2016. However, ranking of states has been put out in the public domain. This exercise has generated considerable competitive interest, both in the executive (political and official) and the target group aimed at lowering the regulatory burden.

The September 2016 report measured the progress of implementation of reform measures across eight areas during January-June 2016. The second report goes further. Only three areas—obtaining electricity connections, construction permit enablers and commercial dispute resolution enablers—figure similarly in the World Bank report. The other seven areas are far more germane to reducing the regulatory burden in the Indian context. These being availability of land, environmental registration enablers, labour regulation enablers, online tax return filing, inspection reform enablers, access to information and transparency enablers, and single window. Though it is work in progress, the intense competition that has been generated among states indicates that the movement for improving the business climate has gained traction.

Reducing the regulatory burden is a prerequisite for doubling farmers' income by 2022, raising the annual manufacturing growth rate to double digits and realising the ambition of the national economy growing at 8-9% every year over the next two decades.

These measures are necessary, but not sufficient. They have to be complemented by factor reforms and policies assuring fiscal stability and certainty, availability of quality infrastructure, investment in education and health to build technological and innovation capabilities, and above all functioning inclusive institutions. Not to forget, the need for an early resolution to the problems in credit availability posed by bank's non-performing assets. Perceptions regarding the security environment and level of corruption make or mar investment decisions, regardless of a high score on the Doing Business index.

The government of India has displayed its intent to modify the regulatory set-up for creating an enabling environment for attracting investment and smooth functioning of enterprises and markets. More importantly, based on a broad political consensus, states, where the action is, have been brought on board.

As the World Bank's *Doing Business Report* indicates, progress is likely to be slow. Resistance to change has not changed much over time as written by Italian political theorist Niccolò Machiavelli in chapter VI of *The Prince* (1532):

"And it ought to be remembered that there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies in all those who have done well under the old conditions and lukewarm defenders in all those who may do well under the new. The coolness arises partly from fear of the opponents who have the laws on their side, and partly from the incredulity of men, who do not readily believe in new things until they have had a long experience of them."

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