Evaluation of Ease of Doing Business Parameter

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The first ever attempt to measure the aspect of ease of doing business with a government agency was done by Djankov et.al 2002. The paper presented data on the regulation of entry of new business ventures in 85 countries, covering procedures involving time and cost factors. The paper found that countries with greater regulations for entry have higher degree of corruption and larger unofficial economies. On the contrary, the countries with democratic governments having lesser regulations for entry, perform better (1).

This led to a wide spread recognition of the fact that higher regulations for starting a business can be beneficial to the politicians and bureaucrats without adding any significant value or additional protection to the private sector (2).

The World Bank has been publishing a comparative study of nearly 190 economies. (3) According to David R. Malpass, President, World Bank Group: "Doing business report acts as a valuable tool for governments to design sound regulatory policies. It helps in benchmarking progress and to facilitate policy debate through identification of good practices and lessons learned from various other economies. It also helps in bringing to light potential challenges." (3)

The parameters which measure the ease of doing business in any country depend upon a broad spectrum of activities beginning with opening a business, getting a suitable location, accessing finance, dealing with day-to-day operations and operating in a secure business environment. These aspects are carefully measured in the Doing Business Report 2020 (EODB) which collects systematic data relating to:

a. Starting a business
b. Employing workers
c. Dealing with construction permits
d. Getting electricity
e. Registering property
f. Getting credit
g. Protecting minority investors
h. Paying taxes
i. Trading across borders
j. Contracting with the government,
k. Enforcing contracts and
l. Resolving insolvency.

As each one of these aspects are to regulated and managed by the Governments, except the last two aspects of enforcing contracts and resolving insolvency (where the judicial processes and systems also play an important role along with government regulations), the parameters are actually indicating a nation's governance capabilities.

However, before we proceed further it is important to note that there are certain inherent weaknesses in these reports-

a. The parameters do not take into account the aspects such as country's business environment as a whole (For example for a huge country like India it takes into account situation only at Delhi and Mumbai and ignores the rest of the cities, towns and rural segment altogether). In other words, the report does not take into account the subnational studies.

b. It takes into account business regulatory environment pertaining to limited liability companies and neglects all other forms for enterprises like private individuals and partnership firms which have a huge presence in any economy.

c. Nation's competitiveness, macro-economic stability, market size and quality of labour force, poverty etc., are totally ignored and thus it fails to be a comprehensive investment guide.

d. It ignores the impact of the global and domestic financial system and situations, nor does it take into account other regulatory requirements such as financial market regulations, environmental regulations or regulations relating to intellectual property etc., (2)

e. The report also does not capture the aspects of bribery or rent seeking which flows from informality brought in when the laws are complex.

In spite of these weaknesses, Heckelman (4) found a causal relationship between economic freedom and gross domestic product (GDP) growth as freedom given to business with respect to wages, prices, property rights and licensing requirements etc., lead to economic development.

It is thus not surprising that most of the governments, including India, have taken conscious steps to improve their ranking in the Ease of Doing Business. The EODB Report, 2020 claims that governments have carried out more than 3,800 regulatory reforms since the beginning of the ranking system by World Bank. It is noticed that Since 2003-04, top 20 best performing economies alone have implemented more than 464 regulatory reforms. Further, the report also mentions that 178 countries have implemented 722 reforms to address the single most important indicator set of Starting Business by trying to reduce barriers to entry since 2003-04. (3)

One of the intended benefits of the Ease of Doing Business Report of the World Bank is to identify the best practices which can be emulated by other countries. It is noticed that the top 20 ranked economies have adopted wide spread use of electronic platforms, be it for facilitating online incorporation of businesses or e-filing of taxes. This has led to a very high degree of transparency. Due to such initiatives it was seen that an entrepreneur in low-income economy topically spends about 50% of the income per capita to launch a company where as it is just about 4.2% for an entrepreneur in a high income economy. (3)

Similarly, on the aspect of reliability of electricity studies by Andersen and Dalgaard (8) have shown that 1 percentage point increase in outages decreases long run GDP per capita by 3% and Cole and others(9) show how reducing average outage levels in Sub-Saharan Africa could increase overall sales of firms by 85% and increase in sales could be nearly 120% for the firms who do not have generators.

Amirapu and Gechter(10) find in their study that restrictive labour regulation in India can be associated to increase in the labour cost by 35%. Kawaguchi and Murao(11) find positive correlation between youth unemployment and labour market rigidity.

While analysing the aspect of judicial efficiency to ensure firm's productivity Ahsan (12) shows that the gains from higher productivity from a reduced tariff is highest in countries which has most efficient courts. Similarly, Gainfreda and Vallanti (13) depict that in Italy the delay in trails of labour disputes enhance labour firing costs.

Access to long term debt has been shown to reduce the volatility of the firm's growth in a study by Demirgüç-Kunt and others (14) who argue that better credit information systems and contract enforcement mechanisms supporting credit markets improve firm's access to long term finance.

Bankruptcy costs also play a major role as found in a study by Ordoñez and others (15) who bring out that it has an impact on the lending rates, investments and outputs.

Chakraborty (16) finds that in India's poor judicial systems have a negative impact on the firm's performance in both domestic and export segments. They even provide a rough indicative benefit of 10% increase in judicial quality to improve the sales performance by 1-2%.

Stronger shareholders' rights mean more efficient operation of stock markets. Claessents, Ueda and Yafeh (17) state that a well-defined and well enforced shareholder's rights reduce the overall cost of capital, especially for expanding or distressed firms. They further bring out that weakened litigation rights for shareholders increase firms' implied cost of capital by approximately 5% above the simple median. Similar findings have been made by Brown and others (18) who bring out positive association between economic growth brought in by strong shareholder's rights and better access to financing and indicate that it can also lead to higher investment in research and development.

Higher tax regulation has always been associated with higher corruption and lesser incentive to doing business. Belitski, Chowdhury and Desai(19) through their investigative study of relationship between corruption and corporate income tax rates across 72 economies find that higher tax rates discourage entry. Taxes have impact on the flow of foreign direct investment particularly in non-OECD (Organisation for Economic Cooperation and Development) countries. (22)

The Ease of Doing Business report 2020 takes cognizance of the fact that trade reforms under taken in the year 2018-19 demonstrate the importance of cross-border cooperation in ensuring easy customs clearance procedures, harmonization of compliance rules, and border control efficiency. Economies across all regions reformed aspects of international trade logistics in 2018-19, with 25 making it easier to move goods across borders (23)

An area identified for incorporation in Ease of Business Report of 2021 is the aspect of contracting with the government. This indicator is going to capture the time and procedures involved in a standardized public procurement contract for road resurfacing. World Bank estimates that public procurement accounts for 10–25% of GDP on average, and cumulatively governments spend $10 trillion on public contracts every year(3). The United Nations on the other hand estimates that on an average 20% of the GDP of OECD members is due to public procurement (24). This shows the volume and importance of public procurement contracts in relation to ease of doing business. There are not many research studies in this area yet.

Ease of Doing Business in India:
Due to initiation of several measures by the Government of India, the country has jumped 65 positions upwards and now stands at 63rd among 190 countries. The Make in India initiatives taken by the government have yielded several positive results (29). The reforms have been IT driven and have been across all aspects measured by the ease of doing business by the World Bank. Information on ease of doing business measures implemented by various States in India is available at http://eodb.dipp.gov.in(30). Business Reforms Action Plan (BRAP)(31) developed by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India also provides a platform to improve the competitiveness among various State governments to initiate reform measures (32). BRAP 2017 also included two new sectors — healthcare and hospitality which were over and above the other parameters of EODB. The Hindu Business Line reports that the World Bank has suggested more reforms to improve the ease of doing business in States (33).

CONCLUSION:
The ease of doing business report encourages regulation that is efficient, transparent and easy to implement so that business can thrive in the economies taken up for scrutiny. Economies that facilitate ease of doing business reap the benefits of higher levels of entrepreneurial activity which in turn generates increased employment opportunities and consequently higher government tax revenues and improved personal incomes (2).

Similar rankings are also attempted through the Indices of Economic Freedom(25) by Heritage Foundation and The Wall Street Journal and the Global Competitiveness Report by the World Economic Forum which assess the business environment in various economies taking into account more subjective aspects of economic growth, inflation and infrastructure etc.,(26) the Ease of Doing Business Index, developed by the Asian Competitiveness Institute, National University of Singapore is yet another comparative ranking mechanism based mainly on three parameters viz., Attractiveness to Investors, Business Friendliness, and Competitiveness Policies (Giap et al) (34).

Some studies recommend that Sustainable Developments Goals (SDGs) must be pursued by the governments as they are more comprehensive than the EODB parameters and improving the SDG indicators will have spill over effects on the EDB ranking as well (35).

Even though various organisations have attempted to assess the impact of policies of the government towards facilitation of economic activity which can ultimately bring about overall prosperity and wellbeing of the mankind, there is no perfect parameter yet to assess all the aspects of sustainable development. By far the EODB parameters developed by the World Bank, in spite of its several weaknesses, seems to be the most widely publicised ranking which is driving policy initiatives and therefore the governments are continuously striving to improve their status and image through improvements in the EODB rankings.

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