Ease of Business Index for India and its States

by Dr Suraj Kumar

http://www.indiaincorporated.com/policy-india/item/4461-ease-of-business-index-for-india-and-its-states.html

An important factor in the national verdict for Narendra Modi was the public enthusiasm for the Gujarat model of governance – and 'ease of business' is certainly an important part of the Gujarat story.

While the case for reforms to ensure that business flourished has been made since the early 1990s, - this is the first time that the Government has adopted it as a war cry. Now that the NDA-II Government is in the saddle, it has taken up the 'ease of business' as a policy desideratum – reflected in public speeches and budget statements.

In view of the great public and political interest generated by the perception of the current regime as "execution-focused", it is useful to dwell upon the concept of the Ease of Business Index, assess the constraints and then apply the index within a federal framework – an ease of Business Index for India and its states,

The discussion around ranking countries with regard to "ease of doing business" began in 2004 when the World Bank and IFC (International Finance Corporation) first ranked 178 countries, assessing the regulatory and business environment over 10 dimensions. Since then, the Ease of doing Business Index has become almost as popular as rankings on GDP (Gross Domestic product) and the Human Development Index (HDI).

Rankings always arouse interest not least because one always likes to see one's rank vis-à-vis that of neighboring countries. The most recent World Bank report (2015) focuses on "Going Beyond Efficiency" and compares 189 countries with regard to business regulations for domestic firms. In the case of the Ease of Business, India's rank (142) is lower than all its neighbors except Bangladesh (173).

Before we get depressed about India's low rank, it is to be noted that the World Bank's rankings suffer from serious constraints –mostly due to the poor choice of indicators in its index. Firstly, the selected indicators are based on the simplistic assumption that less regulation is better – ignoring the point that it is difficult to tell whether the higher ranked countries have good and efficient regulations or simply inadequate or non-existent regulations and weak governments. The latter feature may explain why Nepal (108), Maldives (116) and Pakistan (128) rank higher than India. Moreover, the respondent base in each country is very narrow. The small number of informants limits the ability to generate confidence interval tests for individual indicator values, and reduces confidence in aggregate rankings. Also, changes in a country's ranking depend importantly on where it sits on the distribution of indicator values - small changes can produce large changes in rankings ratings jumps, and vice versa. Finally, like all world tables, the World Bank Business Index includes very small countries as well as significantly large countries with sizeable populations, area and economies. Therefore, it is more useful to be concerned about specific measures to improve India's performance along the range of dimensions included under the rubric of "ease of business".

Even as one can debate the merits of the World Bank-IFC methodology, it has to be granted that the Ease of Doing Business Reports have placed issues of business environment, investment climate and entrepreneur promotion squarely at the forefront of policy dialogue, globally and in India. Leaving asides the quibbles on rankings, it is indisputable that there is considerable room for improvement in India when it comes to fostering an overall business-friendly climate that can take India to double-digit growth and sustain our place and pride in the world community.

Prime Minister Modi has made a commitment to improve India's ranking in the global Ease of Business Index from 142 to 50. The task is surely complicated by the fact 91 countries ahead of India are not standing still - all are making efforts to improve ease of business in their respective jurisdictions. Therefore it may be unrealistic for India to attain the exact rank of 50 within the next few years. However, as improving performance on ease of business is vital to ensure greater contribution by domestic firms to GDP and employment growth, it is useful to set up an Ease of Business Index for India and its States, as an accountability and tracking mechanism.

The logic for having an index disaggregated at the state level is because India has a federal structure where state governments not only have different political parties in power, they also have the direct responsibility in areas such as land acquisition, labor laws, environmental and town planning clearances, power and roads. Moreover, given the wide variations in current levels of endowment with regard to population, geography, climate, natural resources, human capital and infrastructure, there cannot be a "one size fits all" strategy to improve the business environment across all states –Jammu & Kashmir, Arunachal Pradesh, Kerala and Gujarat, for instance, not only are remarkably diverse from each other, they are larger in population and size than many countries included in the World Bank-IFC Report.

Accordingly, the EBIS is more useful as a public policy instrument than mere calibration as a country benchmark. Such an exercise makes it more relevant for analysis, advocacy and action in India – and provide greater depth of understanding for a roadmap for greater ease of business.

The Government has taken up an exercise to monitor the states' performance on nine parameters of ease of business – setting up a business, environment clearances, labor laws, infrastructure related utilities, finance & taxation, inspections, contract enforcement and business exit/ insolvency. Taken together, these parameters cover the dimensions of entry, operation and exit for business – and there are 98 indicators under the parameters which enable quantification of the ease of business scorecard.

Going forward, any exercise for EBIS should address the following concerns:

Quality of Analysis – the credibility of any index construction depends upon the soundness of its methodology. Now that the Indian initiative has to go beyond the World Bank methodology, it would be important to have the methodology peer-reviewed by leading experts on index construction – and with Prof. Bibek Debroy in the NITI Ayog this would be a matter of course

Editorial Independence – in view of the understandable skepticism regarding government data and reports, it would be critical to ensure editorial autonomy in the computation and analysis of the Ease of Business Index. The EBIS is far too important to be seen as a litany of government self-appreciation or politically motivated critique of states with different parties in power. Therefore the exercise should include input from think tanks and credible academics, as also input from international partners and industry.

Pro-active involvement of States – within a framework of "cooperative federalism", it would be critical to involve state governments so that the data provided is vouchsafed by them and the national initiative is built upon a consensus (and healthy competition) among states that the Ease of Doing Business not only becomes a matter of accountability and rankings but also a device to identify specific areas for improving Ease of Business.

In all, a credible and practical EBIS exercise is the need of the hour – and would go a long way to engender debate and focused public action at all levels of governance.

***Dr Suraj Kumar is the chief mentor at Neeti Foundation. He has worked in the development sector since 1993 at progressively senior levels (nearly 15 years with the UN) in design and implementation of programmes on governance, women's leadership and human development, policy dialogue on rights-based development with governments, and UN coordination in India and South Asia. He holds a PhD in Sociology from State University of New York at Binghamton. He is also Visiting Fellow at Heras Institute, St. Xavier's College, Mumbai and Fellow at American Institute of Indian Studies from 1991 – 1992.***