Policy Brief

NITI Aayog - IDFC Institute Enterprise Survey
Ease of Doing Business: An Enterprise Survey of Indian States

An enterprise survey report on Indian manufacturing produced jointly by NITI Aayog, Government of India, and IDFC Institute (an independent Mumbai-based think tank) was released on 28 August 2017 at Vigyan Bhawan, New Delhi, India. The report, *Ease of Doing Business: An Enterprise Survey of Indian States* was launched by Ravi Shankar Prasad (Union Minister, Law & Justice and Ministry of Information Technology) and Nirmala Sitharaman (Union Minister, Defense; then Minister of State, Ministry of Commerce & Industry and Ministry of Ministry of Finance & Corporate Affairs). Other dignitaries at the event included Arvind Panagariya (Professor, Columbia University; then Vice Chairman, NITI Aayog), Amitabh Kant (CEO, NITI Aayog), Ramesh Abhishek (Secretary, Department of Industrial Policy and Promotion), and Rajiv Lall (MD & CEO, IDFC Bank).

This report presents the analysis and findings of a survey of 3,276 manufacturing firms across all states and union territories (barring Arunachal Pradesh, Mizoram, Andaman and Nicobar, and Lakshadweep) in India. It assesses the regulatory environment manufacturing firms face and their experience in doing business. Besides firms, the survey also documents responses for experts such as lawyers, chartered accountants, company secretaries, and industry associations in the 15 largest states, where relevant.

The report's approach, i.e. an enterprise survey, was chosen due to its focus on firms. The World Bank's Ease of Doing Business report assesses India's performance based on the numbers of procedures, details of procedures followed, time taken, and costs in different areas of doing business for Mumbai and Delhi. This data is provided by experts, including professionals and public officials. Additionally, it focuses on both manufacturing and service sectors. The World Bank report presents a ranking of countries based on ease of doing business. India ranked 77 according to the latest Doing Business report. The World Bank also has it's own enterprise surveys, they primarily focus on aspects of inclusion (for instance, whether management is female or male), infrastructure, and customs and trade. Moreover, the World Bank enterprise survey report shows findings only at the country level. Another measurement of doing business stems from the Department of Industrial Policy and Promotion (DIPP) implementation ranking, which provides details about the processes and process reforms that states have undertaken. The information is collected from state governments. While the World Bank's Doing Business Report and DIPP's state ranking offer valuable insights, they are only a part of the picture. Thus the NITI Aayog - IDFC Institute Enterprise Survey aims to complement previous metrics by offering the perspective of firms, with information at the process level, specifically relating to regulations and the implementation of regulations. Thus, this Survey could serve as a diagnostic tool, providing a de facto assessment of the business environment and a granular evidence base with which to design reforms.

Specifically, the NITI Aayog - IDFC Institute Enterprise Survey captures the experience of firms in doing business in terms of use of any online mechanisms or systems put in place by states, time taken to complete various compliances and regulatory processes, whether the costs they incurred were higher than prescribed fees, and in general the magnitude of obstacles they faced for different areas of doing business. The key areas of doing business that the report focuses on are: setting up a business, land allotment and construction related permits, environmental clearances, labour related compliances, infrastructure, taxes, access to finance, legal issues, and exiting a business.

The report compares the situation of doing business for young firms versus old firms, large firms versus small firms, firms in labour-intensive sectors versus capital-intensive sectors, firms in power-intensive versus non-power intensive sectors, and firms in high growth rate states versus low growth rate states. It also particularly focuses on the regulatory business environment faced by early stage manufacturing firms that started operations in or after 2014. Additionally, the report covers awareness of single window facility, access to finance, resolution of disputes and perceptions of obstacles to exiting a business.

The report finds that older firms seem to face more obstacles than their younger counterparts (which could suggest improvement over the years), larger firms face more hardships than smaller firms, firms in labour- and power-intensive sectors face more obstacles than firms in non-labour- and non-power-intensive industries (and are consequently behind in adopting various online processes), and firms in high-growth states face a better doing business environment than firms in low-growth states (which could suggest a positive correlation between economic growth and ease of doing business).

Overall, there appears to be a gap between the de jure and de facto experience of doing business. When it comes to the single window system, while 75% of states surveyed have implemented the process, only 20% of new firms and 41% of experts claim to use/know about it. The states with the highest share of new firms using single window systems for their business were Andhra Pradesh, Rajasthan, and Gujarat. This suggests a communication gap between the policies that state governments institute and firms' knowledge about them.

In terms of access to finance, 54% of firms reported taking loans from a financial institution and the average share of bank borrowings in overall finance is less than one-third. Retained earnings and personal savings account for more than 50%, and 46% of firms reported facing no obstacles in getting access to finance. The highest share of firms reporting that getting finance is not an obstacle were located in Gujarat, Telangana, and Maharashtra. Thus, access to finance remains a crucial area of reform.

Legal disputes is also an area in need of reform, with wide disparity between states. On average, it takes approximately two years to resolve disputes. 8% of firms had legal disputes taken to the civil court and 5% of them had legal disputes taken to the administrative tribunal. The states with the highest share of firms reporting legal disputes (over 20%) were in Delhi, Haryana, Kerala, and Rajasthan.

To conclude, the report provides seven key recommendations to improve the doing business environment: greater ease of doing business is positively correlated with faster growth, emphasising relaxed regulations to foster this virtuous cycle; enterprises need to be better informed about improvements in the environment so that they can take advantage of simplified processes; enhance flexibility of labour laws, which will consequently create larger economies of scale, generate productivity improvements, and facilitate job creation; accelerate power sector reforms to avoid undue delays or regulatory burdens; encourage firm entry and exit to cultivate a dynamic ecosystem; level the playing field for small and large firms to address the trend of small firms staying small and not growing larger; and finally, improving access to finance to improve the business environment.

The NITI Aayog - IDFC Institute Enterprise Survey reiterates the existing evidence supporting the presence of a virtuous circle between a favourable business environment and greater economic activity, higher productivity, and creation of high-wage jobs. Therefore, India needs to reform with alacrity because the ability to do business, create wealth as a consequence, and redistribute in a sensible, well-designed manner remains the best way to give millions of Indians a chance for a better life and to make their way out of poverty.