

Event Report
WEBINAR ON

BEYOND EASE OF DOING BUSINESS RANKINGS

16 JANUARY 2021

Saturday
12:20 - 01:20 PM (IST)

1. Background

- 1.1. The Government of India has wholeheartedly adopted the World Bank's approach to rank countries on its Ease of Doing Business (EoDB) indicators. It has aimed improvements on rankings with a single-minded pursuit.
- 1.2. The Government has even launched the Business Reform Action Plan to rank its states on business reforms they claim to have implemented.
- 1.3. Despite benefits and shortcomings of such rankings, it is becoming evident that climbing charts cannot become an end in itself and much more efforts are required on the ground to make life easier for entrepreneurs, both small and large, each facing their unique sets of challenges.¹
- 1.4. It has been observed that information regarding EoDB reforms is not effectively disseminated to the industries. The problem persists more in case of the MSMEs and women led enterprises which lack information regarding relevant policies and regulations that are in place and thus, resort to middlemen to fulfil simple procedures.
- 1.5. Additionally, enterprises of all types often are expected to do business in face of unpredictable, inconsistent, overlapping regulatory requirements which serve as one of the biggest challenges in establishing and running a business.
- 1.6. These challenges can be broadly categorised into stock and flow of regulatory requirements. The former relates to existing requirements, and their implementation, and the latter with the manner in which such requirements are changed.
- 1.7. There is thus a need to recognise that the precious state capacity and resources needs to be spent judiciously, to actually facilitate running of business, and not merely on papers.
- 1.8. Therefore, taking ease of doing business in India to the next level will require a comprehensive overhaul of regulatory framework. A systematic, transparent, consultative, and time-bound approach is required to review, simplify and streamline approvals and clearances for businesses.

¹ <https://www.livemint.com/opinion/online-views/don-t-submit-to-the-tyranny-of-doing-business-rankings-11601476687745.html>

19. Subjecting the existing requirements to a three-step test of legality, necessity, and proportionality, and the proposals to a cost-benefit analysis would be necessary to address such challenges. This will require institutionalising reforms such as regulatory impact assessment.
110. While advocating for regulatory reforms, CUTS International recently issued an appeal to the Prime Minister and Chief Ministers of all States and Union Territories of India on Reimagining the Nation’s Economic Regulatory Framework. Simultaneously, it also initiated a webinar series on Regulatory Reforms, in collaboration with SKOCH Foundation. This is the third webinar in the series which discussed possible mechanisms to improve EoDB reforms. Following questions were discussed:
- Is the government right in spending its precious resources and capacity on ease of doing business rankings, or such rankings should be discarded in favour of other result-oriented measures?
 - What reforms should government adopt to take its ease of doing business efforts to the next level, and is there something we can learn from other successful countries?
 - How to overcome bureaucratic preference to status-quoism and apathy to change, and what incentives are needed to ensure effective adoption and implementation of such new set of reforms?
111. This third webinar was organised for deliberating on short-term and long-term solutions to a better regulatory architecture aimed at facilitating ease of doing business reforms. The details of previous two webinars is available here (<https://cuts-ccier.org/cuts-skoch-webinar-reducing-unease-of-living/>), here [\(https://cuts-ccier.org/cuts-skoch-webinar-making-regulatory-reforms-inclusive-and-sustainable/\)](https://cuts-ccier.org/cuts-skoch-webinar-making-regulatory-reforms-inclusive-and-sustainable/) and appeal to the Prime Minister and Chief Ministers of all States and Union Territories of India on Reimagining the Nation’s Economic Regulatory Framework is available [here](#).

2. Speakers

- 2.1 Key speakers in the webinar were:
- Mr. Suresh Prabhu, Member, Rajya Sabha & G20 Sherpa
 - Mr. Pradeep S Mehta, Secretary General, CUTS International, (Moderator)
 - Mr. Sameer Kochhar, Chairman, SKOCH Group
 - Mr. Manish Sabharwal, Founder, Teamlease
 - Mr. Srinivas Rao, CEO, Global Alliance for Mass Entrepreneurship (GAME)
 - Ms. Reema Nanavaty, CEO, Self-Employed Women’s Association

- 2.2 The webinar was attended by close to 700 participants from diverse stakeholder groups, including policy influencers, experts, think tanks, academia, and media.² The other details of the webinar can be accessed here. (<https://cuts-ccier.org/webinar-on-beyond-ease-of-doing-business-rankings/>).

3. Summary of the Discussion

Underlying Issues and Problems

- 3.1 The discussion started with highlighting the need to strategically move from ease of doing business to please of doing business. Entrepreneurs take risks despite several externalities. They should be honoured for their contribution to the society and not subject to additional externalities in form of unwarranted and unnecessary intrusions by the state. The compliance burden on the enterprises has direct impact on the ease of living of citizens, particularly for consumers, low income citizens, micro-entrepreneurs and informal sectors.
- 3.2 It was also highlighted that ease of doing business efforts of the government fall short of inclusivity and representativeness. Climbing charts have become an end in itself and the state objective of making life easier for entrepreneurs appears to have taken a back seat. Transformational steps will be required to reap the full benefits of the “Ease of Doing Business Reforms”.
- First, there is a need to be cognisant of limitations of doing business rankings. It appears that a top-down approach has hitherto been adopted to design the indicators and review progress. The indicators have traditionally measured ease of starting of business, while most challenges faced by businesses are in their day-to-day functioning.
 - Consultation with industry during design of indicators is rare and insufficient. As a result, the focus is on whether the so-called reforms are ‘felt’, and not on challenges faced by businesses and measures required to address them.
 - There is a realisation that informal entrepreneurs, and micro, small and medium enterprises (MSMEs) and women entrepreneurs bear disproportionate burden of regulatory compliance. They are required to run from pillar to post to obtain necessary clearances and approvals.
- 3.3 Even after digitisation, owing to their limited capacity, MSMEs and women led enterprises often fall prey to intermediaries, and are required to pay incur significant cost in form of commission, to ensure compliance. Thus, dedicated efforts are

² The media coverage can be accessed at <https://www.pnnews.com/we-need-to-move-from-ease-of-doing-business-to-please-of-doing-business-suresh-prabhu/>, <https://www.apnnews.com/we-need-to-move-from-ease-of-doing-business-to-please-of-doing-business-suresh-prabhu/> & <https://pageoneasia.com/business/we-need-to-move-from-ease-of-doing-business-to-please-of-doing-business-suresh-prabhu>

required to make life easier for them. The EoDB reforms are meant to make life easier for 63 million entrepreneurs in India.

- 3.4 The credit worthiness of women is exemplary and it has been proven time and again that women pay their credit amount on time. There is a need to remove barriers which restricts women's access to financial resources. The women's access to financial resources has the huge potential in generating economic growth.
- 3.5 It was pointed out that there is need to realise the fact that freedom to entrepreneurs funds the welfare state. We need to overcome three types of deficits: execution deficit of government, trust deficit of industry, and scale deficit of non-profits. At present, there is a difference in how regulations are written, interpreted, practiced, and enforced, which creates substantial uncertainties.
- 3.6 It was stressed upon that additional hardships are faced by women entrepreneurs and MSMEs in general, particularly during a financial shock like that of COVID-19 pandemic. There are practical challenges like inability to access government benefits and difficulties in accessing finance, despite stellar repayment track record of women borrowers and potential of employment generation of the MSMEs respectively.
- 3.7 These points were further elaborated through highlighting the annual direct and indirect cost of compliance for a MSME, which fosters informality. This prevents MSMEs from scaling up. It was further highlighted that there is a need to pay equal emphasis on the ease of living and ease of doing business.

4. Way Forward

- 4.1 While highlighting the problems related to existing compliance burden on the different types of entrepreneurs, the panellists suggested some way forward which could help in achieving ease of doing business reforms. It was recommended that frameworks like Regulatory Guillotine and Regulatory Impact Assessment can be institutionalise to address the problem of stock and flow of unreasonable regulations, licenses, and compliances, with the objective of ensuring ease of living for micro, small, informal and women-led enterprises, and moving beyond rankings.

The regulatory guillotine framework provides such an opportunity.

- It reverses the burden of proof and requires every approval and clearance to go through the three step tests of legality, necessity, and proportionality/ market friendliness.
- The framework requires answering three questions in a sequential manner with respect to every approval/ clearance:
 - Does it originate from a primary law?
 - Does it achieve the intended objective?
 - And lastly, Does the costs it imposes on stakeholders outweigh the benefits realised?

- This process, in particular the cost-benefit analysis, would require adoption of a systematic, transparent and inclusive consultation process with stakeholders. Only those approvals that pass all three tests need to be retained and rest will need to be abolished or amended.
- 4.2 While stressing upon the fact that the EoDB reforms are not reaching the intended audience, it was recommended that there is need to pursue comprehensive civil service reforms including effectively using provisions of transfers and promotions to ensure accountability. In the immediate term, a Compliance Commission can be constituted with a mandate to rationalise, decriminalise, and digitise compliance.
 - 4.3 Due to the additional challenges faced by women entrepreneurs and MSMEs, there is need to create new kind of financing instrument in form of a relief fund, which can practically aid vulnerable entrepreneurs and make their lives easier.
 - 4.4 The focus of the government should exist in nurturing and strengthening the local supply chains. A new economic pathway has to be built, based on nurturance. New institutions have to be built which protects environment, provide decent jobs and upgrades local skills of the workers and entrepreneurs.
 - 4.5 In context of the high annual compliance cost for MSMEs which restricts MSMEs from scaling up, it was pointed out that a less complex compliance landscape can enable businesses embrace formality and scale up.
 - 4.6 While deliberating on the objective of the reforms, it was pointed out that an equal emphasis has to be paid on the EoDB reforms and Ease of living reforms as both compliment the success of each other.
 - 4.7 It was stressed upon that the focal point of EoDB reforms should be districts, in order for reforms to be efficient and effective.
 - 4.8 Furthermore, it was pointed out that is necessary to hear voices from the ground regarding opening and closing of businesses and hearing feedback from MSMEs. For this, appropriate channels of communications should be established and digital medium should not be considered the only silver bullet.