



ENDOGENOUS BUSINESS ENVIRONMENT IN INDIA

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Abstract

Country with its consistent progression and adequate profoundly skilled manpower delivers outstanding prospects for investments. India is the most populous democracy and tenth most significant economy in the world. India is the 4th most extensive economy all over the world. When it comes to purchasing power parity this is brighter side of the coin and other side is very dark when it comes to business environment in India. According to International Finance Co-operations 2015 report, India stands 142 out of 189 countries. It shows that India needs to do a lot to improve the business environment and achieve sustainable development.

The situation of business environment in India has been changing since liberalization, privatization and globalization (1991). So all the businessmen and Government of India have to consider the global requirement and make Indian business environment more business friendly. Considering all these, I will compare the International Finance Corporation (IFC) report of (2014 and 2015) and will be discussed the ten indicators decided by (IFC) for ranking, India's status in each indicator will be discussed at length and solution to improve the business environment in India will be suggested accordingly.

Keywords: *Business Environment, International Finance Corporation, Sustainable Development.*

INTRODUCTION

Business environment plays an important role in economic development. So it is the duty of government and the citizen to make countries business environment more and more business friendly so that national and international businessmen get attracted towards our country and increase their investment and production. It will improve the national income, employment and standard of living of the people.

Businesses engagement with government is required for a wide range of services and permissions. Among the most important are operating licenses, construction permits, inspections, taxation, finance, and the provision of infrastructure and basic utilities.

OBJECTIVES

1. To study India's Business Environment.
2. Compare India's rank of Doing Business in 2014 and 2015.
3. Understand the problem of low ranking and suggest solutions.

Indian's Business environment (Based on Doing Business 2015 report)

India remains one of the most difficult places to do business in the world. India ranks 142 in 189 countries in starting a business, if we compare it with China, Pakistan, Nepal, Sri Lanka, and Bhutan etc. Where low cost involved in starting a business, we find that multinational companies prefer starting their business there.

We will see the summary of *Doing Business 2015* data of India. The first section presents the Ease of Doing Business rank (out of 189 economies) and the distance to frontier (DTF)** measure, overall and by topic. The second section summarizes the key indicators for each topic benchmarked against regional averages.

The International Finance Corporation (IFC)

The International Finance Corporation (IFC) has been publishing Doing Business Report since 2003. Report published in 2003 used 5 indicators set to measure Business regulation in 133 economies. The twelfth edition of the Report Doing Business 2015 covers 10 indicators set and 189 economies.

Table I, Overview of Indian Economy

Economy Overview

REGION	South Asia	DOING BUSINESS	DOING BUSINESS	CHANGE IN
		2015 RANK	2014 RANK	RANK
INCOME	Lower middle	142	140	- 2 ↓
CATEGORY	income			
			DOING BUSINESS	
		DOING BUSINESS	2014 DTF''	CHANGE IN
POPULATION	1,252,139,596	2015 DTF''	(% POINTS)	DTF'' (%)
		(% POINTS)		POINTS)
GNI PER CAPITA				
(US\$)	1,570			↑
			52.78	
		53.97		1.19
CITY COVERED	Mumbai, Delhi			

Source: The International Finance Corporation (IFC), Doing Business 2015.

According to the World Bank's *Doing Business 2015* report, (Table 1.) India has slipped to 142 from 140 (2014) out of 189 economies in the Ease of Doing Business rankings. Within South Asia, India has the third-lowest ranking, above Bangladesh and Afghanistan.

The 10 indicators set by **The International Finance Corporation (IFC)** are:

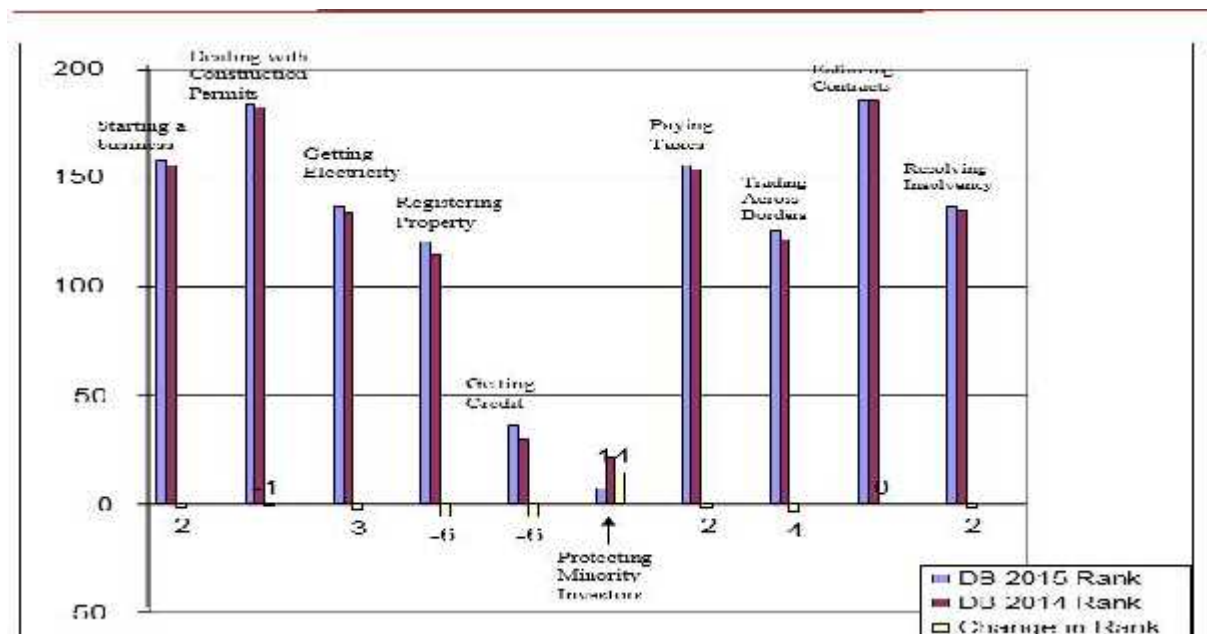
1. Starting a business
2. Dealing with construction permits
3. Getting electricity
4. Registering property
5. Getting credit
6. Protecting investors
7. Paying taxes
9. Trading across ders
10. Enforcing contract

Table 2. Comparing India's rank of Doing Business report of 2014 & 2015

Topics	DB 2015 Rank	DB 2014 Rank	Change in Rank
Starting a Business	158	156	-2 ↓
Dealing with Construction Permits	184	183	-1 ↓
Getting Electricity	137	134	-3 ↓
Registering Property	121	115	-6 ↓
Getting Credit	36	30	-6 ↓
Protecting Minority Investors	7	21	14 ↑
Paying Taxes	156	154	-2 ↓
Trading Across Borders	126	122	-4 ↓
Enforcing Contracts	186	186	No Change
Resolving Insolvency	137	135	-2 ↓

Source: The International Finance Corporation (IFC), Doing Business 2015.

Graphical Presentation-Comparing India's rank of Doing Business report of 2014 & 2015



Intensive study of the report published by IFC this year indicates India's ranking has deteriorated on nine of the 10 parameters in 2015. The parameters on which the country's ranking are slipped are starting business (from 156 to 158), Dealing with construction permits (from 183 to 184), Getting electricity (from 134 to 137), Registering property (from 115 to 121), Getting credit (from 30 to 36), Paying taxes (from 154 to 156) on 122 to 126), Resolving insolvency (from 135 to 137). India however, managed to maintain the rank of enforcing contract (from 186 to 186) and managed to climb up in Protecting investors (from 21 to 7)

Problems Faced by Entrepreneurs in India

1) Bureaucracy 2) Corruption 3) Labour 4) Regional Sentiments 5) Grey Market and Counterfeit Goods 6) Social Capitals.

Not everybody will call the factors discussed here as problems but these can lead to problems if not managed properly. These are factors you have to take into account if you are operating in India. If managed correctly, these can be advantageous; otherwise these can lead to serious problems for the enterprise.

Bureaucracy

Indian bureaucracy is the worst in Asia with a 9.21 rating out of 10, according to a report by a prestigious consulting firm based in Singapore.

India fared worst than Vietnam (rated at 8.54), Indonesia (8.37), Philippines (7.57) and China (7.11), said the report. Singapore remained the best with a rating of 2.25, followed by Hong Kong (3.53), Thailand (5.25) Taiwan (5.57), Japan (5.77), South Korea (5.87) and Malaysia (5.89).

The report said India's inefficient bureaucracy was largely responsible for most of the biggest complaints that business executive have about the country.

The complaints included inadequate infrastructure and corruption, where officials were willing to accept under-the-table payments and companies were tempted to pay to overcome bureaucratic inertia and gain government favours, the report claimed.

The report also highlighted onerous and fickle tax, environmental and other regulations that could make business in India "so frustrating and expensive".

It said dealing with court system in India was an unattractive option for companies, and would be best to avoid it.

Corruption

In India corruption is a major issue that adversely affects Indian economy.

In 2014 India ranked 85th out of 175 countries in Transparency International's Corruption Perceptions Index, compared to its neighbours Bhutan (30th), Bangladesh (145th), Myanmar (156th), China (100th), Nepal (126th), Pakistan (126th) and Sri Lanka (85th).

This statistics highlights the *severances* of this problem

We have to make a collective effort to curb this social evil. As it hampers growth of the business, it is a challenge for budding entrepreneurs.

Corruption has also spawned a business of 'consultants' whose only activity is to mediate between the corrupt officials and those seeking favours from them. Some entrepreneurs use them to secure funding from banks, get approvals for constructions and for periodic submissions relating to labour laws, taxes, and industrial approvals.

Labour

Lack of manufacturing capability in India has been attributed to red tapism and corruption, but the low productivity of labour is also a big factor

Since India is a secular country, religious beliefs of every religion are respected. So, it has holidays on occasions such as Christmas, Good Friday, Holi, Diwali, Muharram, Id-ul-Zuha, Guru Nanak's Birthday, Buddha Jayanti, and Mahavir Jayanti. There are also holidays on occasions of national importance.



As a result, the number of working days in a year is reduced. Furthermore, long breaks in work brought about by bandhs, regional unrest, and breakdown of supporting infrastructure in times of floods, earthquakes, and other natural calamities also disrupt the work.

Welfare measures that restrict long hours of work, protect women workers, and prohibit underage employees are desirable; but, misuse of these clauses to halt legitimate business practices is harmful for the growth of industry.

The Indian labour is cheap because of a comparatively low wage structure. But, the productivity of the cheap labour is not always satisfactory. Employers often need to keep a regular check on their employees.

The manufacturing sector is now beginning to take off, and there has been a spectacular growth in the services sector. There is a tremendous shortage of skilled and semi-skilled manpower. There are not enough institutions in India geared to train employable youth on skills that are in demand in the job market.

Regional Sentiments

Many businesses have failed because they failed to take into account the sentiments of the local population. Many successful businesses have managed to identify and respond to local sentiments.

Many outlets of international fast food chains such as Pizza Hut and McDonald's do not serve beef or pork as a sign of respect for local mores. On the other hand, scores of businesses suffer because of anti-social elements trying to score political points by going on a rampage.

The local community expects to gain from every business being set up in its vicinity. This is especially true when businesses come up in economically backward areas with very little industrialization. The local community expects employment in the firm and does not react favorably to employment of migrant workers.

Grey Market and Counterfeit Goods

The grey market refers to the flow of goods through a distribution channel not authorized or intended by the manufacturer. Usually, this happens when the price of a product in the domestic market is much higher than in other nearby markets.

Sometimes, this may be because of high local taxation. In India, the goods that are usually smuggled in are cell-phones, electronic goods, jewellery, and alcohol. Chen (2002) even suggests that grey marketing activities can develop a situation of fair competition in which social welfare increases. In India, the prices of cell-phones used to be very high but rampant smuggling has prompted a change in taxes and prices, greatly reducing the differential between India and Singapore or Dubai.

INDIA HAS TAKEN FOLLOWING MEASURES TO UPLIFT BUSINESS CONDITIONS OF INDIA

DB2015:

- **Starting a Business:**
India made starting a business easier by considerably reducing the registration fees, but also made it more difficult by introducing a requirement to file a declaration before the commencement of business operations. These changes apply to both Delhi and Mumbai.
- **Protecting Minority Investors:**
India strengthened minority investor protections by requiring greater disclosure of conflicts of interest by board members, increasing the remedies available in case of prejudicial related-party transactions and introducing additional safeguards for shareholders of privately held companies. This reform applies to both Delhi and Mumbai.
- **Getting Electricity:**
In India the utility in Mumbai made getting electricity less costly by reducing the security deposit for a new connection.

DB2013:

- **Dealing with Construction Permits:**
India reduced the time required to obtain a building permit by establishing strict time limits for preconstruction approvals.

DB2012:

- **Paying Taxes:**

India eased the administrative burden of paying taxes for firms by introducing mandatory electronic filing and payment for value added tax.

DB2011:Starting a Business:

- India eased business start-up by establishing an online VAT registration system and replacing the physical stamp previously required with an online version.
- **Paying Taxes:**
India reduced the administrative burden of paying taxes by abolishing the fringe benefit tax and improving electronic payment.

DB2010:

- **Resolving Insolvency:**

India made resolving insolvency easier by increasing the effectiveness of processes and thereby reducing the time required.

DB2009:

- **Trading Across Borders:**

India reduced the time for exporting by implementing an electronic data interchange system.

DB2008:

- **Getting Credit:**

India's private credit bureau started to provide credit information on firms. India also strengthened its secured transactions system by launching a unified and geographically centralized collateral registry that covers security interests granted by companies.

- **Trading Across Borders:**

India made trading across borders easier by introducing ICEGATE—an electronic data interchange system making it possible to lodge customs declarations through the internet and facilitating the operation of a risk management system, an electronic payment system and an electronic manifest system that allow shipping lines to submit their cargo manifest in advance.

CONCLUSION

In addressing some of these challenges, the government should start by digitizing most procedures necessary to start a business. This simple yet powerful measure has been previously suggested by many, but vested interests have stalled progress: middlemen and powerful lobbies have prevented the launch of online application systems for construction permits, electricity connections, property registration etc. At the same time, there is a dearth of skilled government staff designated to facilitating new businesses. The National Skill Development Corporation (NSDC) and similar institutions are yet to have a tangible impact by providing effective training and opportunities. State governments should also consider launching 'how to do business' manuals for those interested in investing in various sectors within the same state or region.

It is easy to speechify about the need for inclusive growth, but government officials now need to take actionable steps to encourage entrepreneurship and investment in India. Unfortunately, the perception of India as an emerging land of opportunities could fade unless the government pays better heed to India's doing business rankings and seriously work on the ten parameters set by IFC because it is shameful in India's part that small neighboring countries are in better position in IFC ranking than India. I agree that Indian government had taken certain measures to improve it but they are very limited. We hope that new government and we Indian will take up this challenge and improve our ranking.

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